



## Effect of Liquidity And Company Size on Profitability And Company Value in Industry Banking In Indonesia Stock Exchange

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**ABSTRACT:** The purpose of this research is to analyze the effect of Liquidity, Firm Size on Profitability and Corporate Value in the Banking Industry listed on the Indonesia Stock Exchange. The study was conducted on companies listed in the Indonesia Stock Exchange. was 40 companies. Data were analyzed by using SEM (Structural Equation Modeling) with the program of Analysis Moment Structure (AMOS) version 22. Results of the study showed that (1) liquidity had a positive and significant effect on profitability, but liquidity had a negative and insignificant effect on value company; (2) company size has a positive and not significant effect on profitability and firm value; (3) profitability has a positive and significant effect on firm value; and (4) Liquidity has a positive and significant effect on the value of the company through profitability, but the size of the company has a positive and not significant effect on corporate value through profitability.

**Keywords:** Liquidity, company size, profitability, company's value

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### I. INTRODUCTION

In general, the company's goal is to maximize company profits that have an impact on increasing stock market prices, the company always wants a profit growth for the company, on the other hand investors want sufficient dividend payments, but both are always conflicting, companies are more interested in holding back profits company rather than distributing in the form of dividend.

To obtain the growth rate of corporate earnings in the form of increasing profitability, while measuring and knowing the company's financial performance running its operations, this can be seen from Return on Assets (ROA), Return on Equity (ROE), and Nett Interest Margin (NIM), third this is an important measure for assessing whether or not a company can influence investors to make profits from their desire to invest in a company, the higher the profitability produced by a company means the higher the performance achieved by the company. If the profitability achieved by a high company means that the return on stock returns will increase.

Return On Asset shows the measurement of how much net income is obtained from the existing asset value in the company, and Return On Equity shows the testing of the income achieved for the company owner, while Nett Interest Margin shows the measurement of the bank's ability to generate net income from its operational activities.

The measure of profitability in the Banking Industry that is used, in general, is Return On Equity (ROE), Return On Assets (ROA) focuses on the company's ability to obtain earnings in its operations, while Return On Equity (ROE) only measures returns obtained from investment in company the business (Siamat 2002).

In addition to the above, companies need to also pay attention to the size of the company, whether it affects the profitability and value of the company. From the results of Moh.Rifai's research, Rina Arifati and Maria Magdalena (2014), showed that there was a significant effect between company size on profitability partially. The existence of a significant and positive influence indicates that the greater the size of the company can explain and predict an increase in profitability. Conversely, the lower the size of the company can explain and predict a decline in profitability, the findings indicate that the greater the size of the company followed by increased profitability.

No less important is the company's liquidity consisting of Capital AQuacy Ratio, Loan to Deposit Ratio and even Non Performance Ratio even in Indonesia regulated in the Financial Services Authority Act number 21 of 2011, this is a result of the economic crisis that occurred in 1998 which had a negative impact on the sacrificial industrial business, in Indonesia, this impact on banks was to reduce the capital of a bank as a result

of increasing Non Performance Loans (NPL), so that many bank banks had to be closed because they did not comply with the bank soundness level minimum required.

Internationally the indicator used to measure the condition of a bank in closing risk is the capital adequacy ratio, capital is one of the important factors for the bank. In order to develop the business and accommodate the risk of loss, the resilience of bank capital is needed to support all risks faced. In addition to fulfilling the operational function of bank capital, which is to support operational activities, it is also intended to fulfill protection, safeguarding and regulating functions, so that banks are required to comply with the Capital Adequacy Ratio as stipulated by Bank Indonesia.

Internationally, the regulation on the calculation of CAR based on Basel II issued by the Base Committee on Banking Supervision in 1996 requires banks to establish a 12% CAR by accommodating weaknesses which are considered in the previous CAR calculation. According to the Standard International for Settlements (BIS) each country can make adjustments in the application of capital calculation principles by taking into account the banking conditions of each country.

The capital adequacy ratio is one component of financial performance in assessing the soundness of banks in Indonesia, so that with the implementation of a new capital charge based on market risk calculations, it will affect the amount of CAR in a bank. Changes in the size of the CAR will affect the value of the component of bank credit and overall will affect the credit value and all components of the bank's health assessment.

Based on this, it appears that the capital improvement requirements are the main program because with a strong capital the bank will be able to manage the business and risks faced, banks are possible to have a strong information technology base so that it can operate efficiently and be able to improve its business and have a strong internal and external shocks. The banking industry is one type of industry that is full of risks, so as a bank intermediary institution, it is required to conduct business activities in accordance with the principles of prudence. faced, the bank is possible to have a strong information technology base so that it can operate efficiently and be able to improve its business and has strong resistance to internal and external shocks. The banking industry is one type of industry that is full of risks, so as an intermediary institution banks are required to conduct business activities in accordance with the principle of prudence.

In addition to the need for a bank to maintain CAR according to the policies determined by each country, a bank must also maintain its operational costs and operating income because this is a measure of the operational efficiency of a bank.

In addition to the above, the concern of bank management must also be a concern, how much the amount of bank funds channeled in the form of credit is better known as the Loan to Deposit Ratio (LDR) because this LDR is one measure for calculating bank liquidity, according to the provisions Bank Indonesia concerning the Loan to Deposit Ratio (LDR) is between 80 % to 110 %, the higher the LDR, the bank profits increase with the assumption that the bank is able to effectively channel credit, with increasing bank profits the bank's performance will also increase, the size of the loan to deposit ratio of a bank will affect the performance of a bank.

To enlarge the Loan to Deposit Ratio which results in an increase in bank bank profits, then of course bank funds must also be sufficiently available in a bank so that the bank can channel bank loans, sources of bank funds sourced from Third Party funds in the form of demand deposits, savings deposits, deposits and similar third party funds, the better the level of public trust in a bank, the higher the Third Party Funds collected by the bank itself, including reducing the level of Non Performance Loans because the greater the Non Performance Loan this means the bank's ability to create profitability or to earn profits including Net Interest Margin (NIM) will decrease.

The purpose of the company to register shares in the capital market is to increase the value of the company as reflected in its stock price (Fama and French, 1998 in Abd.Rasyid (2015; 4) stock prices are used as proxy for company value, because stock prices are prices willing to be paid by prospective buyers if investors want to have proof of ownership of a company also reflected in Earning Per Share, Price Earning Ratio and Price to Book Value. The higher the value of the company describes the more prosperous owner, optimization of company value which is the company's goals can be achieved through implementation financial management function, where one financial decision taken will influence other decisions and affect the value of the company.

Based on the description in the form of phenomena, theories and studies of previous conflicting studies supported by data are the basis for researchers to conduct research on the phenomenon in question. Based on this background, the formulation of the problems in this discussion are as follows:

H1 Does Liquidity affect the profitability of companies in banking industry companies listed on the Indonesia stock exchange

H2 Does the Company's size affect the profitability of the company in the banking industry companies listed on the Indonesian stock exchange.

H3 Does the Company's Liquidity affect the value of the company in the banking industry companies listed on the Indonesian stock exchange.

H4 Does the size of the company affect the value of the company in the banking industry companies listed on the Indonesia stock exchange.

H5 Does profitability affect the value of the company in banking industry companies listed on the Indonesian stock exchange.

H6 Does Company Liquidity affect company value through Profitability in banking industry companies listed on the Indonesia stock exchange.

H7 Does the size of the company affect the value of the company through profitability in the banking industry companies listed on the Indonesian stock exchange.

## **II. LITERATURE REVIEW**

### **A. Liquidity**

The concept of liquidity can be interpreted as the company's ability to pay off a number of short-term debt, generally less than one year (Harmono 2014: 106), also stated that the dimensions of the concept of liquidity include the current ratio, Quick ratio, cash ratio, and net working capital to total assets ratio. The dimensions of the liquidity concept reflect the measures of management performance in terms of the extent to which management is able to manage working capital funded from current debt and the company's cash balance. The liquidity ratio explains the company's ability to pay off short-term debt, the high level of liquidity indicates the ability to pay off short-term debt is also higher. Current ratio can be measured using current assets divided by current debt. Current debts include trade payables, notes payable, salary debt, tax payable, long-term bonds payable that are due. In understanding the concept of liquidity between the components of current assets and current debt cannot be separated, because it is needed not only the current ratio, also other liquidity ratios are needed.

The discussion of liquidity ratios cannot be partially analyzed between one ratio to another, detecting the condition of working capital based on the current ratio alone is not enough to show the level of liquidity of the company. Analysis of working capital should associate between financial ratios that can detect the composition of elements of current assets or company working capital optimally, which are analyzed through working capital turnover starting from the composition of cash, then buying inventory, processed or sold on credit to generate receivables, until billed to make money back, and so on. If cash flow in working capital reflects optimal working capital activity, it can be said that the condition of the level of liquidity of the company is in good condition. To determine the composition of the elements of optimal working capital can be carried out a thorough analysis using all the liquidity ratio tools, can even be combined with the ratio of company activity.

For example the current 200% ratio that can be interpreted as a comparison of current assets versus current debt is 2: 1, meaning Rp. 2 current assets to guarantee Rp. 1 current debt. This condition can not necessarily be used as the basis to conclude that the liquidity of the company is in a liquid state if one component of the working capital element accumulates or is not balanced. For example, accumulate debt, inventory or accumulate in cash, which can disrupt the working capital activities. The interrelationship between elements of financial statements can be referred to as vertical analysis, both relating to the elements of the financial statement balance sheet only as well as relating to the elements between financial statements profit and loss, changes in equity, and financial statements of cash flows.

Each of these liquidity ratios reflects a different time perspective in measuring a company's ability to fulfill short-term obligations. The current ratio is used to measure a company's ability to meet short-term obligations, assuming that all current assets are converted into cash. Quick ratio is used to measure the same thing in a shorter time perspective, while the absolute liquidity ratio measures the company's ability in the shortest time because only liquid assets are taken into account.

Besides that (Kasmir 2012: 128), states that the company's inability to pay its obligations, especially short-term debt (which has matured) is caused by various factors (1). because indeed the company is not having any funds at all, (2). It may be possible for the company to have funds, but at maturity the company does not have funds (insufficient) in cash so it must wait for a certain amount of time, to withdraw other assets such as collecting receivables, selling securities, or selling inventory or other assets.

In practice, not infrequently the company experiences the opposite, namely excess funds. This means that the amount of cash and funds that can immediately be disbursed is abundant. This incident for the company is also not good because there are activities that are not carried out optimally. Management is less able to carry out the company's operational activities, especially in terms of using funds owned, of course this will affect the effort to achieve profits as desired.

The main cause of the shortage and the inability of the company to pay for the obligation is actually due to negligence of the company management in running its business, then another reason is before the company management does not calculate the financial ratios so that it does not know that the condition of the company is inadequate due the debt is higher than the smooth assets, if the company has analyzed the ratio associated with it, the company can easily know the condition and position of the company, then the company

can try to find a solution. Financial analysis related to the ability of a company to repay debt or its obligations known as liquidity ratio analysis.

Fred Weston in Kasmir (2012: 129), states that the liquidity ratio (liquidity ratio) is a ratio that describes the company's ability to meet short-term obligations (debt). This means that if the company is billed, the company will be able to fulfill the debt, especially debt that has matured. In other words, the liquidity ratio serves to show or measure the company's ability to fulfill its obligations that have matured, both obligations to parties outside the company (business entity liquidity) and within the company (company liquidity). Thus, it can be said that the usefulness of this ratio is to find out the company's ability to finance and fulfill obligations (debt) when billed.

Not much different from the opinion above, James O.Gill mentions liquidity ratios measuring the amount of cash or the amount of investment that can be converted or converted into cash to pay expenses, bills, and all other obligations that have matured. The liquidity ratio or often also called the working capital ratio is the ratio used to measure how liquid a company is. The trick is to compare the components on the balance sheet, namely the total current assets with current passive (short-term debt). Assessment can be done for several periods so that the development of company liquidity can be seen from time to time, there are two results of assessment of measurement of liquidity ratios, that is, if the company is able to fulfill its obligations, the company is in a liquid condition. illiquid state.

Calculation of liquidity ratios provides quite a lot of benefits for various parties with an interest in the company. The most interested parties are company owners and company management to assess their own abilities. Then outside companies also have interests, such as creditors or fund providers for companies, or also distributors or suppliers who channel or sell goods that are paid in installments to the company. Therefore, the calculation of the liquidity ratio is not only useful for companies, but also for parties outside the company. In practice there are many benefits or objectives of the liquidity ratio analysis for the company, both for the owner of the company, the management of the company, and those who have relationships with companies such as creditors and distributors or suppliers.

The objectives and benefits that can be drawn from the results of the liquidity ratio:

1. To measure the ability of a company to pay obligations or debts that are immediately due when billed,
2. To measure the company's ability to pay its short-term liabilities with overall current assets.
3. To measure the ability of a company to pay short-term liabilities with current assets without taking into account inventory or receivables, in this case current assets are reduced inventories and debt which is considered lower liquidity.
4. To measure or compare the amount of available inventory with the company's working capital.
5. To measure how much cash is available to pay off debt.
6. As a planning tool for the future, especially relating to cash and debt planning.
7. To see the condition and position of the company's liquidity from time to time by comparing for several periods.
8. To see weaknesses owned by the company, from each component in current assets and current debt.
9. Become a trigger for management to improve performance, by looking at the current liquidity ratio.

For parties outside the company, such as funders, investors, distributors and the wider community, liquidity ratios are useful to assess the company's ability to pay obligations to third parties. This is illustrated by the ratio it has. The ability to pay will provide a guarantee for the creditors to provide further loans, then for the distributor there is the ability to pay to make it easier to give a decision to approve the sale of merchandise in installments, meaning that there is a guarantee that the loan will be able to be paid on time. But the liquidity ratio is not the only way or condition to approve a loan or sale of goods on credit.

## **B. Company Size**

Company size is a proxy for operational volatility and inventory controllability that should be on an economical scale the size of the company shows the achievement of current operations and inventory control. Company size is the average net sales for the year up to several years. In this case sales are greater than variable costs and fixed costs, then the amount of income before tax will be obtained. Conversely, if sales are smaller than variable costs and fixed costs, the company will suffer losses (Bringham and Houston 2001). Whereas according to Ferry and Jones (2001), the size of the company describes the size of a company indicated by total assets, total sales, average total sales and average total capital. So the size of the company is the size or size of assets owned by the company.

The desired condition by the company is the acquisition of net income after tax because it is to increase its own capital. This operating profit can be obtained if the number of sales is greater than the number of variable costs and fixed costs. In order for the net profit to be obtained to have the desired amount, the management will carry out the sales planning carefully, and carry out the appropriate controls, in order to achieve the desired amount of sales.

The benefits of management control are to ensure that the organization has implemented its business strategy effectively and efficiently. In the final aspect, sales can be seen from the planning side and the realization side measured in rupiah units. In terms of planning, sales are reflected in the form of targets that are expected to be realized by the company. Companies that are in high sales growth need support for organizational resources (capital) which are getting bigger, and vice versa, in companies with low sales growth the need for organizational resources (capital) is also getting smaller. Therefore the concept of the level of sales growth has a positive relationship, but these implications can have a different effect on the capital structure, namely in determining the type of capital to be used.

If the company is faced with increasing funding requirements due to sales growth, and all funds from the international sources have been used, then there is no other choice for companies to use funds originating from outside the company, both debt and issuing new shares.

According to Riyanto (2010: 53), a large company whose shares are very wide spread, each expansion of share capital will only have a small influence on the possibility of loss or displacement of control from the dominant party to the company concerned. Conversely, a small company, where the shares are spread only in small environments, the addition of the number of shares, will have a large influence on the possibility of loss of dominant party control over the company concerned. Thus, large companies will be more willing to issue new shares in meeting the need to finance sales growth compared to small companies.

Companies with larger sizes have greater access to sources of funding from various sources, so getting loans from creditors will be easier because large-sized companies have a greater probability of winning competition or staying in business. On the other hand, small-scale companies are more flexible in the face of uncertainty, because small companies react faster to sudden changes. Therefore, it is possible for large companies to leverage more than small companies.

Thus based on the above explanation it can be concluded that the size (size) of the company will affect the capital structure based on the fact that the greater the company has a high sales growth rate so that the company will be more willing to issue new shares and the tendency to use the loan amount also getting bigger too. From the research conducted by experts who stated that the size of the company has a positive influence, which means that the increase in company size will be followed by an increase in capital structure is the research conducted by Sekar, Saidi, Harjudi, Agustinus, and Janny.

Francis (1986), Grubber and Elton (1995) and Fama and French (1995) in Panjaitan, et al (2004: 42) argue that companies that have small-scale values tend to be less profitable than large-scale companies. Small companies only have supporting factors to produce limited quantities of goods. Therefore, small-scale companies have greater risks than large companies. Companies that have large risks usually offer large returns to attract investors.

Miswanto and Husnan (1999) in their study of the effect of company size on business risk found that the size of the company influences business risk. From his research, empirical evidence is obtained that small companies have a higher risk and return than large companies.

### **C. Profitability**

The concept of profitability is often used as a fundamental performance indicator of the company representing management performance (Harmono 2014: 110), according to the development of research in financial management, generally the dimensions of profitability have a causality relationship to firm value. While the value of the company in concept can be explained by the value determined by the price of shares traded in the capital market. This causality relationship shows the dimensions of profitability and good conditions, it will have a positive impact on investor decisions in the capital market, as well as will have an impact on creditor decisions in relation to corporate funding through debt. Therefore conceptually it can be concluded that the fundamental performance of the company that is proxied through the company's profitability dimension has a causal relationship to firm value through stock price indicators and the company's capital structure with regard to the size of the company's debt composition.

Besides that Profitability is also the end result of a number of company management policies and decisions (Brigham and Houston, 2009: 95), this means that company profitability is the company's ability to generate net income from activities carried out in the accounting period. Companies with high rates of return on company investments that earn large profits. can be said to be successful or have a good performance, on the contrary if the profit obtained by the company is relatively small or decreases from the previous period, it can be said that the company is less successful or has poor performance, profit that is a measure of company performance must be evaluated from one period to the next and how actual earnings are compared to planned profits. Managers' success can be measured by increasing sales with unchanged costs so profits must increase from the previous period.

Companies that have a high level of profitability every year have a tendency to use their own capital rather than using debt (Kusuma, 2011), another assumption states that high Return On Assets, which means that

the company's net income is high. Therefore, if the company uses a large debt, it will not affect the capital structure, because the company's ability to pay interest also remains high.

By gaining maximum profit as targeted, companies can do much for the welfare of owners, employees, and improve product quality and make new investments. Therefore, the company's management in its practices is required to be able to meet the set targets, meaning that the amount of profit must be achieved with the expected, to measure the profitability of a company, used profit ratios or profitability ratios also known as profitability ratios. Profitability ratio is a ratio to assess a company's ability to seek profits (Kasmir, 2012: 196), this ratio also provides a measure of the effectiveness of a company's management. This is intended by profits generated from sales and investment income, the point is that the use of this ratio shows the efficiency of the comp

The use of profitability ratios can be done by using comparisons between various components that exist in financial statements, especially the financial statements of the balance sheet and income statement. Measurements can be made for several periods of operation, the purpose of which is to see the development of the company within a certain period of time, both decrease and increase, while looking for the causes of these changes.

The measurement results can be used as an evaluation tool for management performance so far whether it has been implemented effectively or not, if successfully achieving the predetermined targets it is said to have succeeded, but conversely if it fails to achieve the predetermined targets, it will be a lesson for management for the future period. Success or failure can be used as a reference for future profit planning, as well as the possibility to replace new management, especially after the old management has failed. Therefore this profitability ratio is often referred to as one measure of management performance. Based on the results of research conducted by Shinta D. Manurung et al (2014) and Abd Rasyid (2015), it shows that profitability has a positive and significant effect on Company Value.

#### D. Company Value

The main objective of the company according to the theory of the firm is to maximize the value of the firm (Salvatore, 2005: 48, in Abdul Rasyid 2015: 25), maximizing the value of the company is very important for a company, because by maximizing the value the company also means maximizing shareholder prosperity which is the company's main goal. According to Husna (2008; 64) the value of the company is the price that the prospective buyer is willing to pay if the company is sold. Whereas according to Keown (2004; 103) company value is the market value of outstanding debt and equity securities of the company.

Company value is an investor's perception of the level of success of the company that is often associated with stock prices. High stock prices make company value too high, high corporate value will make the market believe not only in the company's current performance but also in the company's prospects in the future. The value of the firm is reflected in the bargaining power of shares. If the company is estimated as a company having prospects in the future, then the value of its shares will be high. Conversely, if the company is considered to lack prospects, the stock price will be low. Company value can be measured by the market value ratio, which is a ratio that shows the relationship between the company's stock price and profits and the book value of the company, where through this ratio, management can find out how investors respond to the company's performance and prospects.

Company value is a certain condition that has been achieved by a company as a picture of public trust in the company after going through an activity process for several years, that is, since the company was established until now. Increasing the value of the company is an achievement in accordance with the wishes of its owners, because with the increase in the value of the company, the welfare of the owners will also increase.

The value of the company is very important because the high value of the company will be followed by the high prosperity of shareholders (Bringham and Gapenski, 1996: 91), the higher the stock price, the higher the value of the company. High corporate value is the desire of the owners of the company, because with high value shows the prosperity of shareholders is also high. The wealth of shareholders and companies is presented by the market price of shares which is a reflection of investment decisions, funding (financing), and asset management.

Company value is an investor's perception of the company which is often associated with stock prices. High stock prices make the value of the company also high. According to Bringham and Houston (2001) there are several approaches to ratio analysis in market value assessment consisting of the approach of price earnings ratio (PER), Price Book Value Ratio (PBVR), market book ratio (MBR), dividend yield, and dividend payout ratio (DPR ) The company's value is commonly indicated by price to book value. High price to book value will make the market believe in the company's future prospects. The ratio of stock prices to the book value of the company or price book value (PBV), shows the level of the ability of the company to create relative value to the amount of capital invested. A high PBV reflects a high share price compared to the value of a share. The higher the stock price, the more successful the company creates value for shareholders. The success of the company in creating this value certainly gives hope to shareholders in the form of greater profits, this is also what the

owners of the company want, because the high value of the company indicates the prosperity of shareholders is also high.

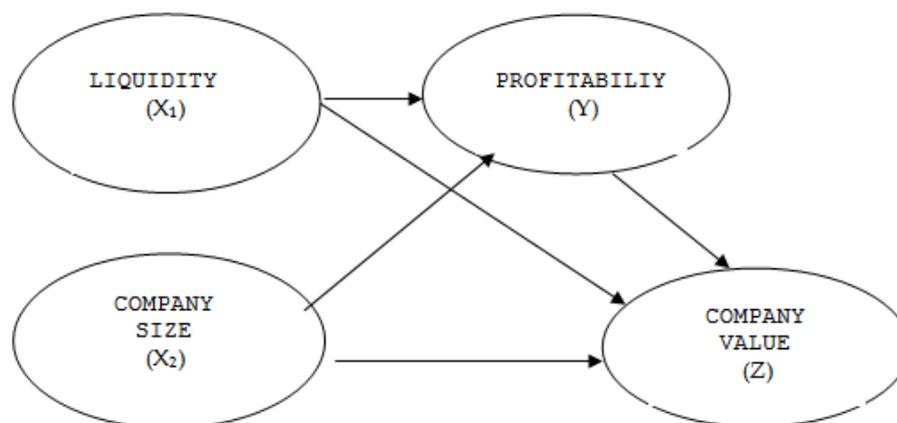
Stock prices in the capital market are influenced by various factors, both by internal and external factors of the company. Fluctuations in the value of shares are usually determined by changes in company profits reflected in the company's financial performance. This causes the intricate value of the company to be a very important measure for investors to make decisions in buying a company's stock as an investment choice in the capital market.

Company value can describe the condition of the company valuation of the value of the company's shares currently carried out by investors to be able to predict and calculate the stock price in the future, whether the shares purchased will provide benefits in the form of capital gains and dividends distributed or will make investors lose because the value of the shares will be lower than when purchased. The better the value of the company, the company will be considered good by prospective investors.

### III. CONCEPTUAL FRAMEWORK

The rationale for the need for a conceptual framework of this research begins to examine the various variables that cause changes in the value of banking service companies listed on the Indonesia Stock Exchange, this study includes variables Firm size and liquidity and profitability as variables that are thought to influence the value of the company.

This study uses 5 (five) variables, namely 3 (three) independent variables, 1 (one) intermediate variable and 1 (one) dependent variable, Independent Variables consist of 3 (three) components namely intellectual capital, company size and bank liquidity, while the intermediate variable is profitability and the dependent variable is the value of the company.



**Figure 1.** Research Conceptual Framework

### IV. RESEARCH METHODS

This study uses two approaches, namely descriptive approach (descriptive research) and explanatory research. This research will be conducted on financial services companies listed on the IDX. The data used in this study are secondary data. The population and sample in this study are all industries. The analytical method used in an effort to explain the problem in this study is descriptive analysis techniques and inferential statistical analysis. The population in this study are all Banking industry companies listed on the IDX. The number of charge companies listed on the IDX is 40 companies.

The analytical method used is in an effort to explain the problem in this study are inferential analysis techniques and inferential statistical analysis. To analyze the data used The Structure Equation Modeling (SEM). Model structural equation SEM is a set of statistical techniques that allow a series of relatively "complicated" relationships simultaneously. To facilitate the analysis process, a statistical application program is used, AMOS which is a package in the SEM (Structural Equation Modeling) program. Based on the conceptual framework and research model, then to see the effect of independent variables on the dependent variable, the equation is as follows:

a. Liquidity measurement, company size to profitability, as for the equation;

$$Y = \alpha + \beta_1.X_1 + \beta_2.X_2 + \beta_3.X_3 + \epsilon$$

b. Effect of Liquidity, Company Size on company value, the equation:

$$Z = \alpha + \beta_1.X_1 + \beta_2.X_2 + \beta_3.Y + \epsilon$$

**V. RESEARCH RESULTS AND DISCUSSION**

To find out variables that can be used as indicators of Intellectual capital, company size and liquidity can be observed from the value of loading factors or lambda coefficients ( $\lambda$ ) and their significance levels, which reflect each variable as an indicator of liquidity and firm size shown in the following table.

**Table 1.** Loading Factor and Critical Indicator Ratio Variable liquidity and firm size.

Indikator Variabel	Loading Factor ( $\lambda$ )	Critical Ratio	Probability (p)	Informasi
<b>Likuiditas</b>				
CAR	CAR	CAR	CAR	CAR
LDR	LDR	LDR	LDR	LDR
NPL	NPL	NPL	NPL	NPL
<b>Ukuran Perusahaan</b>				
T P	1000	-	-	Fix
T M	0,823	12,786	0,000	Signifikan
T AS	0,987	122,420	0,000	Signifikan

**TABLE 2.** EVALUATION OF GOODNESS CRITERIA OF FIT PROFITABILITY AND COMPANY VALUE

Goodness of fit index	Cut-off Value	Model Results	Information
Chi-square	Expected to be small	10,317	Good
Probability	$\geq 0.05$	0,112	Good
CMIN/DF	$\leq 2.00$	1,719	Good
RMSEA	$\leq 008$	0,078	Good
GFI	$\geq 0.90$	0,973	Good
AGFI	$\geq 0.90$	0,905	Marginal
TLI	$\geq 0.95$	0,967	Good
CFI	$\geq 0.95$	0,987	Good

**Hypothesis testing**

Based on the empirical model proposed in this study, testing of the hypothesis proposed through testing the path coefficients of structural equation models can be tested. Is a hypothesis testing by looking at the value of p value, if the value of p value is smaller than 0.05 then the relationship between the variables is significant. The test results are presented in the following table:

**Table 3.** Hypothesis Testing Results

HIP	Variabel Independen	Variabel Dependen	Direct Effect			Information
			Standardize	CR	p-value	
H1	Liquidity	Profitability	0,592	3,063	0,002	Significant
H2	Company Size	Profitability	0,104	0,776	0,438	Not significant
H3	Liquidity	The value of the company	-0,294	-1,931	0,053	Not significant
H4	Company Size	The value of the company	0,655	7,666	0,000	Significant
H5	Profitability	The value of the company	0,342	3,409	0,000	Significant
<b>Indirect Effect</b>						
Variabel Independen	variabel Dependen	Variabel Intervening	Standardize	P-Value	Keterangan	
Liquidity	The value of the company	Profitability	0,202	0,024	Significant	
Company Size	The value of the company	Profitability	0,036	0,449	Not significant	

**Effect of Liquidity on profitability.**

Answering the formulation of the third problem and hypothesis can be observed from the results of analysis showing that liquidity has a positive and significant effect on profitability, this means that liquidity consisting of current assets and current debt is the company's working capital used for corporate activity activities so that the company can create profits Therefore, liquidity has a positive and significant effect on the

profitability of the company. This review is in line with research; Harmono (2014; 106), who argues that the dimension of the concept of liquidity reflects measures of management performance in terms of the extent to which management is able to manage working capital funded from current debt and the company's cash balance. Managing performance is intended to be corporate earnings as measured by company profitability.

#### **Effect of company size on profitability**

Answering the formulation of problems and hypotheses, namely the influence of company size on profitability can be observed from the results of analysis that show company size has a positive but not significant effect on profitability, this means that the size of the company does not affect the company's ability to earn profit or profitability, because profitability is assessed with the percentage while the size of the company uses a number or nominal value such as the number of sales, the number of assets and the amount of capital all use nominal numbers so that profitability is not significantly affected by the size of the company but is strongly influenced by the efficiency or not the company does its activities. Corporate earnings are if sales are greater than variable costs and fixed costs, whereas if sales are smaller than variable costs and fixed costs, the company will suffer losses (Bringham and Houston 2001). This study contradicts the research conducted by Panjaitan, et al (2004: 42) that companies that have small scale tend to be less profitable compared to large-scale companies, besides, according to Miswanto and Husnan's (1999) research, the influence of firm size on business risk finds that the size of the company affects business risk. This research also contradicts the research presented by Weston and Copeland (2010: 100), Companies that have large companies will be easier to enter the capital market so that with this opportunity the company pays large dividends to shareholders, meaning a high level of profitability.

#### **Effect of Liquidity on Company Values**

Answering the formulation of the problem and the hypothesis of the influence of liquidity on firm value can be observed from the results of analysis which shows that liquidity has a negative and not significant effect on firm value. This means that liquidity consists of current assets and current debt or the so-called current ratio. significant to firm value, the negative effect is because if current assets are getting higher this means more and more bank funds are unemployed which are not channeled in activities in the form of interest-bearing loans, which in turn affects the bank's reduction in profit and if the bank decreases to obtain profit then this shareholder's prosperity level does not increase in other words Earning Per Share, Price Earning Ratio and Price to book value do not increase.

#### **Effect of Company Size on Company value.**

Answering the formulation of the problem and the fifth hypothesis, namely the Effect of Firm Size on Firm Value, from the results of the study found that the size of the company has a positive and significant effect on firm value, this means that the larger the size of the company will increase the value of the company.

The size of the company is considered capable of influencing the value of the company, there are many factors that can determine the value of the company, the greater the size of the company, the easier the company to obtain funding sources both internal and external.

In terms of company size seen from the total assets owned by the company can be used for company activity activities, if the company has large assets, the company can freely use existing assets in the company, large companies certainly easily access capital requirements in the capital market, with such convenience, this means that the company has the ease of obtaining capital and with the capital can be operated on company activities, which in the end can create greater profitability, and obtain large profits means can increase Earning Per Share, Price Earning Ratio and price to Book value that has an impact on increasing stock prices, with the increase in the company's stock price, the public trust in the company will increase and ultimately will increase the company's value to investors. The results of this study are in line with the research conducted by Shinta D. Manurung (2014) and Abd Rasyid (2015), showing that profitability has a significant and positive influence on firm value.

#### **Effect of Profitability on Company Values.**

Answering the formulation of the problem and the seventh hypothesis can previously be observed from the results of the analysis which shows that profitability has a positive and significant effect on firm value, this means that the value of the company will increase if profitability increases. The concept of profitability is often used as a fundamental performance indicator of a company representing management performance (Harmoko 2014; 110). While the notion of profitability shows the company's ability to generate profits and measure the level of operational efficiency and efficiency in using its assets.

The theory underlying the relationship between profitability and company value is Weston and Copeland 2010 in Abdul Rasyid (2015: 171), financial statements and disclosures are important and meaningful

to management as a means of communicating corporate governance and performance to stakeholders, high profitability reflects the company's ability in generate high profits for shareholders. This research is in line with the research of AA Ngurah Dharma Adi Putra and Putu Vivi Lestari (2015), that profitability has a positive and significant effect on firm value. This means that high profitability can show better prospects for the company to investors so investors will be attracted to companies that have high profitability.

### **Research Findings**

Based on the results of the tests stated earlier, the findings of this study are as follows:

1. Liquidity: consisting of Capital Aquacy Ratio, Loan to Deposit Ratio and Non Performance Loans have a positive and significant effect on profitability, this means that current assets and current debt that are part of company liquidity are components of working capital that can encourage activities company to create company profits (profitability).
2. Company Size: Company size consisting of total sales, total capital and total assets has a positive effect on profitability but not significantly this means that the size of the company still has an influence on the company's profit or profitability but the size of the company does not contribute significantly for company profitability, while company size from the results of this study shows that company size has a positive and significant influence on company value, this means that the size of the size of the company can provide a considerable perception for investors who want to invest in banking companies.
3. Liquidity has a negative and insignificant effect on firm value. This means that the higher the company's liquidity, the greater the bank's idle funds, so that the opportunity to make a profit or profit becomes small and if the bank's profit or profitability decreases the desire investors buy bank shares to decrease.

## **VI.CONCLUSIONS AND SUGGESTIONS**

### **A. Conclusion**

Based on the results of the previous analysis and discussion, this research can be summarized as follows;

1. Liquidity consisting of capital adequacy ratios, loan to deposit ratios and non performance loans has a positive and significant effect on the profitability of companies in banking industry companies listed on the Indonesia Stock Exchange.
2. Company size consisting of total sales, total assets and total capital has a positive but not significant effect on the profitability of companies in banking industry companies listed on the Indonesia Stock Exchange.
3. Liquidity consisting of capital adequacy ratios, loan to deposit ratios and non performance loans has a negative and not significant effect on the value of the company in the banking industry companies listed on the Indonesia Stock Exchange.
4. Company size consisting of sales, total assets and total capital has a positive and significant effect on the value of the company in the banking industry companies listed on the Indonesia Stock Exchange.
5. Profitability consisting of return to assets, return to equity, net interest margin, has a positive and significant effect on the firm's value in the banking industry companies listed on the Indonesia Stock Exchange

### **B. Suggestions**

Noting the conclusions stated earlier, it is suggested as follows;

1. Companies listed on the Indonesia Stock Exchange should, as far as possible, continue to increase investor confidence in banking companies by presenting financial statements that continuously pay attention to intangible values derived from intellectual capital.
2. Banking companies should be able to utilize company size consisting of Total Sales, Total Assets and total capital to increase bank profits, which in turn can encourage an increase in shareholders through dividend payments.

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