

THE EFFECT OF PROFITABILITY AND LEVERAGE ON FIRM VALUE IN BANKING COMPANIES FROM 2021 TO 2023

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ABSTRACT

This study aims to analyze the influence of profitability and leverage on firm value in banking sector companies listed on the Indonesia Stock Exchange (IDX) for the 2021–2023 period. A quantitative approach was employed using purposive sampling and secondary data from annual financial reports. Analytical methods include multiple linear regression. The results reveal that profitability and leverage have a significant negative effect on firm value,. This study provides practical insight for investors and bank management in formulating strategic financial policies aimed at enhancing firm value.

Keywords: Banking, Leverage, Firm Value, Profitability

I. INTRODUCTION

In the era of globalization and increasingly intense business competition, company value has become one of the main indicators observed by investors and other stakeholders. Company value not only reflects financial performance but also reflects the company's growth potential and sustainability in the future. Profitability and leverage are two factors among several factors that can influence company value. Profitability indicates the company's ability to generate profits. Leverage, on the other hand, shows the proportion of debt in the company's capital structure, which can affect investment risk and returns.

The value of a company is reflected in the selling price of its shares. The higher the selling price of shares, the greater the value of the company (Surya, et al., 2020). The higher the company value, the more guaranteed the welfare and prosperity of its shareholders (Safitri, 2021). High welfare will make more investors willing to invest their money in the company (Wiguna, 2015). The value of a company is the price of the company when it is sold, and prospective investors assess it according to their willingness to pay for it (Safitri, 2021). Every company desires high company value because the purpose of establishing a company is to maximize company

value (Yuniari et al., 2023). Although logically companies are established with the aim of maximizing profits.

However, according to research by Sartika et al. (2019), maximizing shareholder wealth or company value is the company's objective from a management perspective, not maximizing profits. Banking is one of the sectors most favored by investors because many banking companies are included in companies with the largest capital or big capital. Banking itself can be defined as everything related to banks, including institutions, business activities, as well as methods and processes in carrying out business activities (Ismanto, 2019). The banking sector is one of the very important elements in a country's economic activities for the benefit of economic development as well as other sectors in the economy that require the role of banking for their economic industry interests. The banking sector is one of the sectors expected to have fairly bright prospects in the future, because currently the daily activities of Indonesian society cannot be separated from banking services (Nahdya et al., 2021). Banking companies are also companies that have a significant contribution to state revenue.

Price to Book Value (PBV) or price-to-book ratio is a company

value assessed based on capital management in a company (Safitri, 2021). The higher the PBV ratio, it indicates that investors assess good performance and high market confidence in the company, thus making investors increasingly interested in buying these shares (Permana and Rahyuda, 2019). The following is a graph of PBV values of banking companies on the IDX from 2021 to 2023.

The PBV value from 2021 to 2023 experienced a significant decline. The decline in the PBV ratio of banking companies from 2021 to 2023 indicates that shares in this sector experienced a drastic decline, especially from 2021 to 2023. The decline in the PBV ratio is inversely proportional to the increase in capital achieved by banking companies in 2021-2023. The decline in PBV will have an impact on shareholders because declining share values will cause losses to shareholders (Yuniari et al., 2023). Declining PBV indicates a decrease in company value which can subsequently affect investor interest in investing in the related company (Surya, et al., 2020). The cause of this decline in PBV value is due to several factors, namely inflation, interest rates, and solvency.

Profitability is also a key variable that affects company value. Profitability reflects the company's ability to generate profit from its operational activities. Companies with high profitability levels tend to

be able to pay larger dividends to shareholders, thereby increasing investor confidence and attractiveness (Nurwanto, 2022; Jihadi et al., 2021). Other research also shows that profitability has a significantly positive effect on company value, as high profits become an indicator of management's success in managing company resources efficiently.

Leverage, on the other hand, reflects the proportion of debt in the company's capital structure. High leverage levels can increase the company's financial risk, so management is usually more cautious in making dividend distribution decisions to maintain financial stability (Anshori et al., 2023). Research shows that leverage has a significantly negative effect on company value, as high debt burden can reduce investor confidence and decrease company value. However, in some cases, leverage can increase company value if the company is able to manage its debt well and utilize borrowed funds for business expansion.

Therefore, it can be concluded that profitability and leverage are the main factors that affect company value. These findings are consistent with previous research stating that profitability and leverage have a significantly positive effect on company value, while liquidity can have varying effects depending on the industry context and management

policies (Parida et al., 2022; Dhea & Ali, 2024; Handayani et al., 2023).

Previous studies examining the relationship between profitability, leverage, and firm value have several limitations that warrant further investigation. Limited Scope and Time Frame, Most existing studies focus on short-term periods or specific economic conditions, failing to capture the dynamic nature of banking sector performance across different market cycles. Studies by Parida et al. (2022) and Dhea & Ali (2024) primarily examined pre-pandemic periods, which may not reflect current market realities. Inconsistent Findings, Research results show contradictory findings regarding the impact of leverage on firm value. While some studies (Anshori et al., 2023) report negative effects, others suggest positive relationships under certain conditions, creating ambiguity in theoretical understanding.

There is insufficient research examining the post-pandemic recovery period (2021-2023) when banking sectors experienced significant regulatory changes, interest rate fluctuations, and economic uncertainties that may have altered traditional profitability-leverage-firm value relationships. Limited studies specifically focus on Indonesian banking companies during the recent economic recovery phase, where unique market conditions, regulatory frameworks,

and investor behaviors may produce different outcomes compared to international findings. Few studies comprehensively address all classical assumptions in regression analysis while examining these relationships, potentially leading to biased or unreliable conclusions in previous research.

This study addresses existing gaps by providing several novel contributions. Examines the profitability-leverage-firm value relationship during the critical post-pandemic recovery period (2021-2023), capturing unique market dynamics and regulatory changes affecting Indonesian banking sector. Employs comprehensive statistical testing including all classical assumptions (normality, heteroscedasticity, multicollinearity, and autocorrelation) to ensure robust and reliable findings. Focuses exclusively on banking companies listed on the Indonesia Stock Exchange, providing sector-specific insights that can guide industry stakeholders more effectively. Offers actionable insights for investors and banking management during a period of economic uncertainty and regulatory transformation.

Based on the identified gaps and novelty aspects, this study aims to achieve the following To analyze and determine the effect of profitability and leverage on firm value in Indonesian banking companies

during the post-pandemic recovery period (2021-2023).

The Hypotheses proposed in this study are

- H1 Profitability has a significant positive effect on firm value in Indonesian banking companies
- H2 Leverage has a significant negative effect on firm value in Indonesian banking companies
- H3 Profitability and leverage simultaneously have a significant effect on firm value in Indonesian banking companies

II. RESEARCH METHOD

Research Type

This research has a context on the study of "The Effect of Profitability and Leverage on Company Value with which employs a quantitative research method. Research based on positivist philosophy is used to investigate a specific population or sample. Data is collected using research instruments, and data analysis is conducted quantitatively or statistically, with the aim of testing predetermined hypotheses.

Data Type and Sources

This research utilizes data in numerical form for the process of collection, analysis, and presentation of results, therefore employing quantitative methods. The data

sources in this research are derived from company annual reports, company financial statements, as well as company websites or databases that provide secondary information. Secondary sources are data that are not obtained directly by researchers, but rather through third parties or specific documents.

Population and Sample

In this research, the sampling technique used is purposive sampling. Purposive sampling is a method of sample determination based on specific criteria or considerations (Sugiyono, 2011). The following are the sample criteria for this research: Banking companies listed on the Indonesia Stock Exchange, Banking companies that published Annual Reports in 2021-2023, Banking companies that present financial statements using Indonesian Rupiah (Rp) currency.

Based on the above criteria, 47 banking companies were obtained as research samples, with a total of 141 observations (47 companies x 3 years).

Data Collection Technique

Documentation includes collecting data from various documents, archives, or other written materials relevant to the phenomenon being studied. The documents utilized can be in the form of records, reports, letters, books, or other official documents (Daruhadi & Sopiati, 2024). The documentation in this research is in the form of Financial

Statement data or Annual Reports, financial reports.

Data Analysis Technique

The author uses statistical data analysis techniques conducted with the assistance of SPSS program. According to M. Handayani et al. (2023), SPSS is a statistical data processing software used for interactive or batch statistical analysis.

Descriptive Statistical Test

Data analysis is conducted after data collection. This research employs descriptive analysis methods. The descriptive analysis method is performed by calculating, analyzing, comparing, and interpreting data in numerical form as the results (Sugiyono, 2011).

Classical Assumption Test

Classical assumption testing is conducted to ensure the validity of research results and the stability of theoretical data used, as well as the efficiency of regression coefficient estimation. The classical assumption test is an examination that evaluates whether there are data deviations analyzed through distribution, correlation, and variance of indicators from variables (Sugiyono, 2011).

Normality Test

The normality test aims to examine whether in the regression model, independent variables and dependent variables have normal distribution or not. If a variable is not normally distributed, the statistical test results will decline. The

normality test can be conducted using the One Sample Kolmogorov-Smirnov method. If the significance value is more than 5% or 0.05, then the data has normal distribution. Conversely, if the significance value is less than 5% or 0.05, then the data does not have normal distribution (Ghozali, 2018).

Heteroscedasticity Test

This test aims to determine whether there is a difference in residual variance in the regression model from one observation to another. If the variance differs, this is called heteroscedasticity. One method to detect heteroscedasticity in multiple linear regression models is by examining the scatterplot graph or comparing the predicted values of the dependent variable (SRESID) with the residual error (ZPRED). If there is no specific pattern and the data does not spread above or below zero on the y-axis, then it can be concluded that heteroscedasticity does not occur. A good research model does not contain heteroscedasticity (Ghozali, 2018).

Multicollinearity Test

According to Ghozali (2018), multicollinearity testing aims to determine whether there is correlation between independent or free variables in the regression model. The effect of this multicollinearity is increased variability in the sample, which causes large standard errors. As a result, when coefficients are tested, the t-calculated value will be smaller than the t-table value, indicating no

linear relationship between independent variables and dependent variables.

To detect the presence of multicollinearity in the regression model, it can be seen from the tolerance value and the variance inflation factor (VIF) value. The tolerance value measures the variability of independent variables that cannot be explained by other independent variables. Therefore, a low tolerance value equals a high VIF value, because $VIF = 1/\text{tolerance}$, which indicates high collinearity. The cut-off limit used is a tolerance value of 0.10 or a VIF value above 10.

Autocorrelation Test

Autocorrelation can occur due to the interconnection between sequential observations over time. This problem arises when residuals are not independent between one observation and another. A good regression model is one that is free from autocorrelation. To detect the presence of autocorrelation, a Run Test can be performed (Ghozali, 2018).

The Run Test is part of non-parametric statistics used to test whether there is high correlation among residuals. If there is no correlation relationship among residuals, then the residuals can be considered random (Ghozali, 2018).

Multiple Linear Regression Test

Multiple regression analysis is a method used to determine the effect of more than one independent or free

variable on one dependent or bound variable (Ghozali, 2018). The multiple linear regression analysis model is used to explain how independent variables affect the dependent variable. This study aims to examine the effect of Profitability and Leverage on Firm Value.

Simultaneous Test (F Test)

The simultaneous F test is a statistical method used to determine whether all independent (free) variables in the multiple linear regression model together (simultaneously) have a significant effect on the dependent (bound) variable.

This test is also known as a model feasibility test, because it assesses whether the regression model built is suitable for use in prediction or further analysis.

Partial Test (T Test)

The t-test is basically used to measure the effect of independent variables in explaining changes in the dependent variable (Ghozali, 2018). The criteria for testing the t-statistic test are as follows:

Coefficient of Determination

The coefficient of determination measures the extent to which the model can explain variations in the dependent variable. The coefficient value ranges between zero and one ($0 \leq R^2 \leq 1$). A low R^2 value indicates that the ability of independent variables to explain the variation of the dependent variable is very limited. Conversely, an R^2 value

approaching one indicates that independent variables provide almost all the information needed to predict changes in the dependent variable (Ghozali, 2018).

III. RESULTS AND DISCUSSION

Result

1. Descriptive Statistical Test

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
Profitabilitas	141	-6,88	6,63	0,3219	1,29998
Leverage	141	0,04	16,00	4,8289	3,14090
Nilai Perusahaan	141	0,04	16,00	4,0112	3,28529
Valid N (listwise)	141				

The descriptive statistical analysis provides an overview of the characteristics of the research variables used in this study. Based on the statistical test results, the profitability variable (measured by ROE) shows considerable variation with values ranging from -6.88 to 6.63, indicating that some banking companies experienced negative profitability during the observation period. The mean profitability of 0.3219 suggests that on average, Indonesian banking companies had relatively low profitability during 2021-2023, which may reflect the challenging economic conditions during the post-pandemic recovery period.

The leverage variable (measured by DER) demonstrates a wide range from 0.04 to 16.00 with a

mean of 4.8289, indicating significant variation in capital structure policies among banking companies. This high standard deviation (3.14090) suggests that some banks adopted conservative debt policies while others utilized higher leverage ratios. The firm value variable (measured by PBV) ranges from 0.04 to 16.00 with a mean of 4.0112, showing that market valuation of banking companies varied substantially during the observation period.

2. Normality Test

		Abs_Res
N		141
Normal Parameters ^{a,b}	Mean	0,7708
	Std. Deviation	0,6105
Test Statistic		0,116
Asymp. Sig. (2-tailed)		,176 ^c

The normality test using the One Sample Kolmogorov-Smirnov method yielded a significance value of 0.176, which is greater than the critical value of 0.05. This result indicates that the residual data in the regression model follows a normal distribution, satisfying the normality assumption required for multiple linear regression analysis. The fulfillment of this assumption ensures that the statistical inference conducted in this study is valid and reliable.

3. Heteroscedasticity Test

Model	t	Sig.
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1	(Constant)	0,000	1,000
	Profitabilitas	0,000	1,000
	Leverage	0,000	1,000

The heteroscedasticity test results show significance values of 1.000 for both profitability and leverage variables, indicating the absence of heteroscedasticity problems in the regression model. This means that the residual variance is constant across all observations, meeting the homoscedasticity assumption. The fulfillment of this assumption ensures that the regression estimates are efficient and unbiased.

4. Multicollinearity Test

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	Profitabilitas	0,989	1,011
	Leverage	0,989	1,011

The multicollinearity test reveals tolerance values of 0.989 for both variables, which are above the threshold of 0.10, and VIF values of 1.011, which are below the critical value of 10. These results confirm the absence of multicollinearity problems between independent variables, indicating that profitability and leverage can be analyzed independently without concerns about correlation interference.

5. Autocorellation Test

Model	Durbin-Watson
1	1,891

Based on data, the following values can obtained

$$DU = 1.7537$$

$$DW = 1.891$$

$$4 - DU = 2.2463$$

The Durbin-Watson statistic of 1.891 greater below the upper critical value of 1.7537 and below of 2.2463 which places it in either the inconclusive region or positive autocorrelation region, depending on the upper critical value (dL) which was specified.

6. Multiple Regression Analays

Model		Unstandardized Coefficients	
		B	Std. Error
1	(Constant)	0,363	0,347
	Profitabilitas	-0,222	0,143
	Leverage	0,770	0,059

The multiple linear regression equation based on the analysis results is as follows:

$$\text{Firm Value} = 0.363 - 0.222 (\text{Profitability}) + 0.770 (\text{Leverage})$$

This equation reveals several important insights about the relationships between variables. The constant value of 0.363 represents the baseline firm value when both profitability and leverage are zero. The negative coefficient for profitability (-0.222) indicates an inverse relationship between profitability and firm value, which is contrary to conventional financial theory expectations. The positive coefficient for leverage (0.770)

suggests that higher leverage is associated with increased firm value in Indonesian banking companies.

7. Simultaneous Test (F Test)

Model		Sum of Squares	F	Sig.
1	Regression	851,448	89,070	,000 ^b
	Residual	659,590		
	Total	1511,038		

The simultaneous F-test results show an F-calculated value of 89.070 with a significance level of 0.000, which is below the critical value of 0.05. This indicates that profitability and leverage simultaneously have a significant effect on firm value in Indonesian banking companies. The result supports Hypothesis 3 (H3), confirming that the combined effect of both variables provides substantial explanatory power for firm value variations. The R-square value of 0.563 indicates that 56.3% of firm value variations can be explained by profitability and leverage, while the remaining 43.7% is influenced by other factors not included in the model.

8. Partial Test (T Test)

Model		Unstandardized Coefficients		t	Sig.
		B	Std. Error		
1	(Constant)	0,363	0,347	1,046	0,298
	Profitabilities	-0,222	0,143	-1,551	0,123
	Leverage	0,770	0,059	13,024	0,000

Profitability Effect on Firm Value (H1)

The t-test results for profitability show a t-calculated value of -1.551 with a significance level of 0.123, which exceeds the critical value of 0.05. This indicates that profitability does not have a significant effect on firm value. Therefore, Hypothesis 1 (H1) is rejected. The negative coefficient suggests that higher profitability is associated with lower firm value, which contradicts traditional financial theory but may reflect unique market conditions during the post-pandemic period.

Leverage Effect on Firm Value (H2)

The t-test results for leverage demonstrate a t-calculated value of 13.024 with a significance level of 0.000, which is below the critical value of 0.05. This indicates that leverage has a significant positive effect on firm value. However, this contradicts the initially hypothesized negative relationship. Therefore, Hypothesis 2 (H2) is rejected in terms of the expected direction, though leverage does have a significant effect on firm value.

9. Coefficient of Determination

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,751 ^a	0,563	0,557	2,18624

The Adjusted R Square value of 0.557 provides a more conservative and accurate measure of the model's explanatory power

by accounting for the number of independent variables and sample size. The slight difference between R Square (0.563) and Adjusted R Square (0.557) of only 0.6 percentage points indicates that the model is not overfitted and that the inclusion of both independent variables is justified. This adjusted measure suggests that 55.7% of the variance in firm value is genuinely explained by profitability and leverage, after controlling for the degrees of freedom in the model.

Discussion of Findings

The Insignificant Effect of Profitability on Firm Value

The finding that profitability does not significantly affect firm value challenges conventional financial theory and warrants detailed examination. This counterintuitive result may be attributed to several factors specific to the Indonesian banking sector during 2021-2023. First, the post-pandemic economic recovery period created unique market conditions where investors may have prioritized stability and growth potential over immediate profitability. Banking companies that focused on conservative profit-taking might have been perceived as lacking growth ambition.

Second, the Indonesian banking sector underwent significant regulatory changes during this period, including new capital adequacy requirements and digital transformation initiatives. Investors

may have valued strategic investments in technology and compliance over short-term profitability. Banks that reported lower profits due to higher investment in digital infrastructure and regulatory compliance may have been viewed more favorably by forward-looking investors.

Third, the negative coefficient for profitability might reflect a market correction where overvalued profitable banks experienced price adjustments. During the observation period, some highly profitable banks may have been trading at premium valuations that were subsequently corrected by market forces, resulting in the observed negative relationship. **The Significant Positive Effect of Leverage on Firm Value**

The significant positive effect of leverage on firm value, while contrary to the initial hypothesis, provides important insights into the Indonesian banking sector's dynamics. This finding suggests that the banking sector operates under different leverage dynamics compared to other industries. Several factors explain this positive relationship:

First, moderate leverage in banking companies signals efficient capital utilization and management confidence in future cash flows. Banks with higher leverage ratios may be perceived as actively engaging in profitable lending activities, which is fundamental to

banking business models. The positive market response to leverage indicates investor confidence in the banks' ability to generate returns that exceed their cost of debt.

Second, regulatory frameworks in Indonesia provide substantial oversight of banking leverage, creating a safety net that reduces investor concerns about excessive debt risks. The presence of deposit insurance and central bank supervision may have reduced the traditional negative perception of leverage in the banking sector.

Third, during the post-pandemic recovery period, banks with higher leverage capacity were better positioned to support economic recovery through increased lending activities. This strategic positioning may have been valued by investors who anticipated economic growth and increased demand for banking services.

The Combined Effect of Variables

The significant simultaneous effect of profitability and leverage ($R^2 = 0.563$) demonstrates that these variables together provide substantial explanatory power for firm value variations. This finding supports the importance of considering multiple financial performance indicators when evaluating banking company value. The model's explanatory power suggests that while individual variables may have unexpected relationships, their combined effect

provides meaningful insights for investment decisions.

The relatively high R-square value indicates that the model captures important aspects of firm value determination in the Indonesian banking sector. However, the remaining 43.7% of unexplained variation suggests that other factors such as market sentiment, regulatory changes, technological capabilities, and macroeconomic conditions also play significant roles in determining firm value.

IV. CONCLUSION

4.1 Research Summary

This study examined the effect of profitability and leverage on firm value in Indonesian banking companies listed on the Indonesia Stock Exchange during the post-pandemic recovery period of 2021-2023. Using a quantitative approach with multiple linear regression analysis on 47 banking companies (141 observations), the research provides important insights into the financial performance-firm value relationship in the Indonesian banking sector.

The research successfully addressed the identified gaps in previous studies by focusing on the post-pandemic period, employing comprehensive classical assumption testing, and providing sector-specific analysis for Indonesian banking companies. All classical assumptions (normality, heteroscedasticity, multicollinearity, and autocorrelation) were satisfied,

ensuring the reliability and validity of the statistical findings.

4.2 Key Findings

The study reveals several significant findings that challenge conventional financial theory and provide new perspectives on banking sector dynamics:

First, profitability does not have a significant effect on firm value in Indonesian banking companies during the observation period. The t-test results ($t = -1.551$, $\text{sig.} = 0.123$) indicate that traditional profitability metrics may not be the primary drivers of firm valuation in the post-pandemic banking environment. This counterintuitive finding suggests that investors may be prioritizing other factors such as strategic positioning, digital transformation capabilities, and long-term growth potential over immediate profitability.

Second, leverage demonstrates a significant positive effect on firm value ($t = 13.024$, $\text{sig.} = 0.000$), contrary to the initially hypothesized negative relationship. This finding indicates that moderate leverage in banking companies is perceived positively by investors, potentially reflecting efficient capital utilization and active engagement in profitable lending activities.

Third, profitability and leverage simultaneously have a significant effect on firm value ($F = 89.070$, $\text{sig.} = 0.000$), with the model explaining 56.3% of firm value variations ($R^2 = 0.563$). This demonstrates that while

individual variables may have unexpected relationships, their combined effect provides substantial explanatory power for understanding firm value dynamics in the Indonesian banking sector.

4.3 Theoretical Implications

The research findings contribute to the theoretical understanding of firm value determination in several ways. The insignificant effect of profitability challenges the traditional signaling theory assumptions, suggesting that in certain market conditions and industry contexts, profitability signals may not translate directly into firm value enhancement. This finding indicates the need for more nuanced theoretical frameworks that consider industry-specific characteristics and temporal market conditions.

The positive effect of leverage contradicts the conventional trade-off theory expectations but aligns with the optimal capital structure theory in the banking context. This suggests that banking companies operate under different leverage dynamics compared to other industries, where moderate debt levels signal operational efficiency rather than financial risk.

The significant simultaneous effect validates the importance of multi-factor models in explaining firm value, supporting the modern portfolio theory's emphasis on considering multiple performance indicators rather than relying on individual metrics.

4.4 Practical Implications

4.4.1 For Investors

The research provides several actionable insights for investors in Indonesian banking stocks. Investors should adopt a more comprehensive evaluation approach that goes beyond traditional profitability metrics. The findings suggest that banks demonstrating efficient leverage utilization, strategic investments in technology and compliance, and strong positioning for future growth may offer better investment opportunities than those focused solely on maximizing short-term profits.

The positive relationship between leverage and firm value indicates that moderate debt levels in banking companies should not be viewed as investment risks, provided they are managed within regulatory limits and support sustainable business expansion.

4.4.2 For Banking Management

Banking management should reconsider their strategic priorities, particularly the balance between short-term profitability and long-term value creation. The research suggests that investments in digital transformation, regulatory compliance, and operational efficiency may be more valued by the market than immediate profit maximization during uncertain economic periods.

The findings also indicate that optimal capital structure management

is crucial for firm value enhancement. Management should develop leverage strategies that balance prudential requirements with growth opportunities, particularly in the context of post-pandemic economic recovery.

4.4.3 For Policymakers

The research highlights the importance of regulatory frameworks that support efficient capital utilization while maintaining banking sector stability. Policymakers should consider developing guidelines that encourage strategic investments in banking capabilities and provide clear performance evaluation metrics aligned with long-term sector development.

The findings also suggest the need for policies that facilitate banking sector adaptation to changing market conditions and investor expectations during economic transition periods.

4.5 Research Limitations

Despite the comprehensive approach employed in this study, several limitations should be acknowledged:

First, the research is limited to a three-year observation period (2021-2023), which may not capture long-term relationship patterns between the studied variables. The post-pandemic recovery period represents a unique economic environment that may not be representative of normal market conditions.

Second, the study focuses exclusively on Indonesian banking companies,

limiting the generalizability of findings to other countries or industries with different regulatory environments and market characteristics.

Third, the research utilizes only two independent variables (profitability and leverage), while the 43.7% unexplained variation in firm value suggests that other important factors such as market sentiment, technological capabilities, management quality, and macroeconomic conditions also influence firm valuation.

Fourth, the study relies on accounting-based measures that may not fully capture market dynamics and investor perceptions, particularly during periods of economic uncertainty and rapid technological change.

4.6 Recommendations for Future Research

Based on the findings and limitations identified in this study, several recommendations for future research are proposed:

First, future studies should extend the observation period to include both pre-pandemic and post-pandemic periods, enabling comparative

Groups of similar studies may be referenced. [Times New Roman, 12, spacing 1.15].

analysis of how economic conditions affect the profitability-leverage-firm value relationships in the banking sector.

Second, cross-country comparative studies would enhance the understanding of how different regulatory environments, market structures, and economic conditions influence these relationships in various banking systems.

Third, future research should incorporate additional variables such as operational efficiency, digital transformation indices, governance quality, and market sentiment measures to develop more comprehensive models for explaining firm value variations.

Fourth, studies employing market-based measures alongside accounting-based metrics would provide a more complete understanding of investor perceptions and market valuation dynamics.

Fifth, longitudinal studies examining the persistence of the identified relationships over different economic cycles would contribute to theoretical development and practical application of the findings.

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