

# Profitability And Asset impact on Share Value: The mediating role of Liquid Assets in Banking Industry of Pakistan

<sup>1</sup>Syed Sibbat E Hassan Naqvi & <sup>2</sup>Anila Devi

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## Abstract

The research explores impact of assets and profitability on share value, over liquid assets examined as a mediating factor in context of banking sector of Pakistan. Banks show a vital role in economic development, and their presentation is closely tied to investor assurance and financial market constancy. Drawing on Theory of Agency, this study investigates whether assets and profitability directly affect share value or whether their influence is channeled through liquidity. Applying secondary data from United Bank Ltd and Habib Bank Ltd. from 2013–2024, this research applies correlation and regression methods through SPSS and structural modeling to test relations. The results reveal that assets significantly improve liquid assets, which in turn completely influence share value. However, profitability expressions an inconsistent and often negative direct consequence on share value, suggestive of that strong profits alone may not assurance investor trust without enough liquidity. Liquid resources emerge as a crucial mediator, emphasizing their role in signaling stability, payment-paying capacity, and forthcoming cash flows. The study provides insights for policymakers, banking managers, and investors in developing approaches that balance asset growth, cost-effectiveness, and liquidity to strengthen stake performance in unstable economic situations.

**Keywords:** Asset, profitability, share value, Mediation effect, liquid asset

## 1. Introduction

### 1.1 Background of the study

An economy's lifeblood is regarded as its banks. According to Levine (1997), the banking sector functions as an engine for the economy, fostering financial development and supporting general economic expansion. A sophisticated and profitable banking sector makes it easier to get credit at affordable rates, which fuels economic expansion (Petria et al., 2015 and Ahmad et al., 2024). It is vital to monitor the performance of the banks as they play a crucial role in the growth of the financial sector and add significantly to the financial development of a country.

Pakistan's banking sector has a bigger impact on the country's financial and economic development. The banking industry in Pakistan has undergone a number of reforms aimed at improving financial performance. To guarantee expansion and sustainability in the banking performance, the government declared the decentralization of banks in 1990 (Shair et al., 2019). The banking industry had witnessed a significant growth during the post-privatization periods. Banking reforms attracted the attention of private and foreign banks in order to elevate the standard

1. Research Scholar, Benazir School of Business, Benazir Bhutto Shaheed University Lyari Karachi, Pakistan.

Email: [sibbaehassan@gmail.com](mailto:sibbaehassan@gmail.com)

2. Assistant Professor, Benazir School of Business, Benazir Bhutto Shaheed University Lyari Karachi, Pakistan.

Email: [anilalakhani7@gmail.com](mailto:anilalakhani7@gmail.com)

of the banking products and services. To protect the access to credit of middle-class consumers, it enhanced the competition within the banking sector, which, in turn, promoted the internal efficiency and lowered the cost of loans. Better performance is necessary to sustain and compete in the financial institution industry given its progressive nature (Abbas et al., 2019).

The economies all over the world are fighting to survive. Both the external loans and circular debt are a heavy burden on Pakistan which has the 44th largest economy in the world. Improved prices are however putting an extreme strain on the economy. The decline of all higher classes, as the middle goes to the lower middle and the upper-middle to the centre, is increasingly taking place. CPEC has begun to favor the road transport and electricity industries in an effort to turn around the economic crisis at hand. The macroeconomic indicators are on the increase. The analysis of the bank performance has also become all the more important, as the relevant financial and economic crisis affects the banking sphere in Pakistan and other countries of the world highly. The foundation for developing strategies to raise and improve commercial banks' profitability is understanding their key elements and performance metrics. In this way, researchers, investors, bank management, and financial markets have all become interested in the banking profitability indicators (ABBAS, 2019; Fadahunsi & Barake, 2018). Consequently, the goal of the current study is to determine how internal and macroeconomic parameters affect commercial banks' profitability.

According to some recent literatures on Profitability, assets found to be more significant towards Share value. Four decades have passed since the groundbreaking DEA efficiency evaluation technique study was released, providing enough opportunity for research projects across several fields. According to a review of the literature, assets are typically taken into account when evaluating the efficiency of the share value (Joo et al., 2011; Shankar & Rishi, 2020), but this is surprisingly uncommon when evaluating the efficiency of manufacturing or production (Kumar & Debnath, 2018). In addition, these two studies' results differed from the remainder of the study Jatuphatwarodom et al. (2018) inventory costs, delivery time, and turnover rate; Dev et al., 2014: fill rate).

Apart from assets, another variable shown impact on share value in recent studies, which is Liquid Asset. Big businesses, such as banking firms generally, will draw investors if they have a sufficient advantage over the long run and a liquid asset for the near term. According to Tora and Nyang'au (2023), a business's profitability is a crucial component in deciding its cash flow management. A company's poor profitability performance would undoubtedly have a negative impact on payout. Therefore, a firm has to be profitable. A situation like this will undoubtedly discourage a prospective investor from investing. Another metric that shows whether or not a business can pay dividends to investors as a liability is liquid asset. A company's high net cash position will be interpreted favorably by investors as an indication of future cash flow and increased investor confidence. This is inextricably linked to the functions of profitability and assets that support a business's operations, raising the possibility that liquid assets may play a role in mediating the relationship among these two factors and influencing stock value, which in turn influences interest in purchasing or disposing of related banking firm's shares.

This study looks at the profitability of commercial banks in Pakistan using macroeconomic variables like GDP, interest rate, inflation rate, and exchange rate as well as internal factors like "Assets, Profitability and Liquid Assets" on a variety of performance measures like Share Value. Both internal and external factors influence how profitable a financial institution performs (Gul et al., 2011; Rahman, 2021).

## **1.2 Problem Statement**

The liquid assets have a mediating role in the relationship among share value and profitability and assets in the banking sector of Pakistan. According to Elmi and Muturi (2016), a firm must be

successful in order to pay out dividends since this factor has a significant impact on payment, and a company's inability to sustain profitability would surely have a negative effect on payout. A requirement such as this will surely deter a prospective investor from investing.

According to Damayanty and Djadang (2020), a business's worth will increase if it can expand its assets, which may be completed via raising profitability. Growing profitability will have an impact on how adequate a liquid asset becomes. Liquid asset is another indicator of a company's capacity to pay investors dividends as a liability. When a firm has a strong net cash flow, investors will feel more confident about investing in it and will be inclined to make larger contributions in the future. This has an immediate effect on the profitability and operational support functions of a business, suggesting that liquid assets could be a moderating factor in the relationship among these two variables and impact stock value, which in turn affects interest in buying or selling related company shares.

This paper aims at testing the relationship among asset, which is expressed in terms of total assets, and profitability, which is expressed in terms of net profit margin, and share value, which is expressed in terms of stock closing price, using the variable liquid asset as a mediating variable. As a guarantee that the company can pay the dividend, liquidity is crucial to the business. As Yoo and Kim (2015) note, several Asian enterprises had a liquidity issue and ultimately filed for bankruptcy among 1997 and 1998.

This research is in contrast with the one conducted by Ghauri (2014), who found that assets have a great impact on the share value, and AL-Shubiri (2014), who found out that there is a strong positive correlation among net asset value and share price. In the other study (MUJIATUN & Sitorus, 2021), impact of mediation by company on stock value and profitability was considered. The authors of this research are trying to suggest one of the variables of liquid assets to seal the difference in the study on correlation among asset and profitability and share value.

### **1.3 Research Objective**

This study has following research objectives:

RO1: To examine the impact of Asset on Share Value.

RO2: To examine the impact of Profitability on Share Value.

RO3: To examine the impact of Asset on Liquid Asset.

RO4: To examine the impact of Profitability on Liquid Asset.

RO5: To examine the mediation effect of Liquid Asset among Asset and Share Value.

RO6: To examine the mediation effect of Liquid Asset among Profitability and Share Value.

### **1.4 Significance of the study**

This study investigates how Assets, Profitability, and Liquid Asset on Share value in Karachi, Pakistan. According to the researcher, no such study has examined the connection among Assets, Profitability, and Liquid Asset on Share value within a single framework. This Research study may be beneficial and important for the development of financial performance of banking industry in the South Asia region in general and particularly in Pakistan as very limited study has been made in this topic. Additionally, this Research study may be helpful for the management of Banking Industry to make needful sustainable and profitable policies and to create awareness among the employees of an organization. This research study will also help the assets management managers in better understanding the importance of providing best policies and services. This research will also be beneficial for C.F.O to get better understanding of increasing financial performance.

## 1.5 Scope of the Research

The scope of the study is to identify the factors that influence banking users' behavioral intention with the help of the sustainable model. Today, internet banking has become the most essential thing for consumers. With the help of internet banking, users can perform banking activities by even sitting at home or any other place in the world. Therefore, this research will help in analyzing user's behavioral intention by using sustainable four major factors which are; performance expectancy, trust, social needs, risk, and effort expectancy. However, due to limited budget and time constrain, participant of this study will be from Karachi, Pakistan. That is why the results can differ in other parts of the world. Moreover, a limited number of variables are used in this study.

## 2. LITERATURE REVIEW

### 2.1 Banking Sector and Share Value

British bank branches dominated the banking industry in Pakistan before to the country's 1947 division. Following partition in 1948, Pakistan's central bank, the State Bank of Pakistan, was established. It took over the State Bank of India's monetary policy and supervision responsibilities. From four in 1948 to five in 1955, the number of banks in Pakistan grew throughout time. These banks' overall branch count increased dramatically. The 1960s are regarded as Pakistan's "golden era" of financial and economic progress. During that time, the banking industry also saw notable growth and provided the government with significant assistance in achieving the nation's fast economic expansion. The 1990s saw the rise of privatization and downsizing as solutions to the public sector's inefficiencies, which included NCBs. In the year 2000, the privatization trend picked up speed. Nationalized banks are reportedly being privatized at the quickest rate in the developing nations. This is demonstrated by the fact that by 2003, nationalized commercial banks' share in the banking industry had dropped from about 100% in 1991 to 20%. Currently, Pakistan is home to 11 foreign banks, 6 development financial institutions, 4 microfinance banks, 2 nationalized commercial banks, 2 provisional banks, 3 specialized banks, 17 private commercial banks, and 4 privatized commercial banks.

Higher financial leverage raises the manager's financial commitment and has a beneficial impact on the share value, according to research by Csermely and Vincze (2000). According to Kossev (2008), businesses with higher levels of leverage often exhibit more volatility in their stock returns than businesses with lower levels of leverage. Increased leverage significantly lessens disagreements over investment decisions among managers and shareholders (Myers, 1977); fosters a culture of risk acceptance (Aremu et al., 2013); and eases the liquidation process (Stulz, 1990). When the two parties' concerns are similar, there is less disagreement, which lowers agency costs. Our observations indicate that because banks in Pakistan have access to confidential customer data, their liquidity costs are greater than those of other non-financial businesses. Furthermore, commercial banks are required by central bank laws to maintain minimum equity capital and refrain from taking on excessive risk.

Banks and other financial institutions play a crucial role in the economy of Pakistan as monetary policy players. By working in tandem with the real sector of the economy, these institutions are accountable for the stability of the economy. Nevertheless, agency costs make the transmission of monetary policy opaque and inadvertently include other costs in the process. The primary means of directing the economy's savings is through banks. The prices of loans and credits are under pressure due to the banks' suboptimal asset values. For this reason, pursuing the optimization goal has significant economic ramifications.

## 2.2 Agency Theory

The present study is based on Agency Theory. The idea of Agency theory was introduced by Jensen & Meckling in 1976, which defines as asserts that management may utilize debt to restrain the excessive use of free cash flow and prevent wasteful investment. Because using debt might raise the danger of bankruptcy, it also requires management to exercise greater caution (Jensen, 1986). Furthermore, the idea contends that a significant amount of debt should be included in a company's capital structure as a check on managers' propensity to act opportunistically. As a result, Jensen's arguments on the agency theory of capital structure demonstrate that using debt in conjunction with the prudential principle may raise business value.

Jensen and Meckling (1976) provided this concept, which consists of three parts. The first is that a principal and an agent have a contract in place. A service is rendered in the second instance. Delegating decision-making authority is the third. The goal of agency theory, according to Gupta and Pathak (2018), is to create a contract that minimizes the cost of services rendered to the principal by the agent. There are restrictions that the agent must follow when working for the principal. When the agent must consent to work for the principal, the first restriction is referred to as the participation constraint. The second is the incentive constraint, which occurs when an agent must put in a lot of effort for the principal even while the job is not beneficial to the agent. The principal assumes all liability for the delegation to the agent, as well as any associated costs and benefits.

The purpose of agency theory is to pinpoint potential issues with an agency partnership and provide the principal with choices that will enable them to cut agency expenses. These are the issues that Kelembagaan and Eisenhardt (1989) listed as potential issues in an agency partnership. The principal's and the agent's goals are at odds first. According to Eisenhardt (1989), the principal has three challenges in monitoring and evaluating the agent's behavior: first, it is expensive; second, it is challenging. (Machado & Gartner, 2014) have recognized these agency concerns in the literature as problems of horizon, effort differential risk preference, and use of assets.

## 2.3 Hypothesis Development

### 2.3.1 Assets

Resources that are owned by businesses or business organizations are referred to as assets by (Dupree, 2019). These resources may be financial or material. Non-Current assets and current assets make up the two categories of assets (Kieso et al., 2013).

Dyckman, Davis, and Dukes (2001) classify current assets as cash and other assets that are expected to be used, sold, or converted to cash within a year of the date of balance sheet (one of the longer of them) or the operating cycle of a normal business. Cash, short-term investments, notes receivable, accruals receivable, inventories, and prepayment of expenses are all included in current assets.

Businesses must be able to make wise financial investments. Businesses with strong asset management typically have higher levels of efficiency. A profitable business is one that is capable of effectively managing its resources. Prempeh (2016) 's research demonstrates that raw material inventory management might affect Ghanaian manufacturing enterprises' profitability. Research by Handoko and Haryanto (2019) and Khan (2022) demonstrates the beneficial impact of asset management on business success. The study's hypotheses, which are based on the findings of earlier research, are:

**H1:** *There is a significant relationship among Assets and Share Value.*

### 2.3.2 Profitability

The capacity of a business to turn a profit within a specific time frame is known as profitability. The financial reports, which comprise balance sheet and company income statements, serve as the foundation for evaluating profitability. These two financial statements will be the basis for determining the findings of the study of several ratios, which are subsequently utilized to evaluate various facets of the business's operations. The capacity of a business to turn a profit and gauge how efficiently its assets are being used are known as profitability. Profitability is a measure of how well the management of the business is performing.

A number of measures, including operational profit, net profit, return on equity for owners' equity, asset return, investment return, and return on profit, can be used to quantify profitability. or income received from an investment made in a business (Hermuningsih, 2013, page 131). According to Naceur (2003), fluctuations in how a company's profitability is determined become critical factors that management must monitor. because they are impacted by outside variables that might have an impact on the company's financial success. Consequently, the factors affecting profitability can be determined in order to create rules that increase a company's profitability.

Profitability, according to Wihandoko et al. (2022) , may be evaluated using a variety of performance measures, but it is still important to include pertinent dimensions like Return on Asset (ROA) and Return on Investment (ROI), that are connected to profit and the investment and asset utilized to generate it. The profitability ratio is made from: Two ratios exist: Return on Equity (ROE) and Return on Assets (ROA) that demonstrate the profitability concerning investment, and gross profit margin and net profit margin that demonstrate profitability concerning sales. Additionally, the researcher said that a company's capacity to pay dividends to its shareholders will be impacted by its profitability; this will have a favorable effect on the company's value, which is demonstrated by high tock value (Muturi & Elmi, 2016). The study's hypotheses, which are based on the findings of earlier research, are:

**H2:** *There is a significant relationship among Profitability and Share Value*

### 2.3.3 Liquid Assets

According to Stice, Stice and Skousen (2009), profit is the payback by the owners. It also dictates the extent in which an organisation is able to retain its current wealth. They went ahead to say that cash is most liquid recent asset and that it comprises of elements that can both be means of exchange and basis of accounting calculations. In turn, Sitorus (2017) claims that profit is considered a reward that the company has made to the work of producing goods and services. Also, according to Abebe Zelalem and Ali Abebe (2022), the after deductions income report can be utilized as a gauge of financial competence of the business, which is represented by the rate of return, the performance of the business, control over how its economic resources are allocated, and the structure of bonuses and compensation within the business.

However, cash also plays a role in motivating management to oversee the business and, crucially, forms the foundation for dividend payments. Distribution to stockholders who purchase shares in a connected firm. Investments containing cash and cash equivalents are observed to be extremely liquid and short-term since they may be utilized as cash right away in specific amounts without running the danger of experiencing large value fluctuations (Mulya & Arisudhana, 2019). According to Skousen et al. (2009) , cash equivalents are highly liquid short-term assets that are convertible into cash. The study's hypotheses, which are based on the findings of earlier research, are:

**H3:** *There is a significant relationship among Liquid Assets and Share Value.*

### 2.3.4 Liquid Assets and Share Value

The market value ratio, according to Brigham and Houston (2010), is a collection of measures that connect the stock price of the company to its cash flow, earnings, and book value per share. In the meantime, the stock prices are manipulated to reflect the value of shareholders with the aim of maximizing the stock prices of the firm. The anticipated future cash flow that will accrue to the average investor in the incident that the investor purchases the shares have a significant influence on the stock price at that particular point in time.

According to Brigham and Houston (2010), market value ratio is a set of values that relate the stock price of a company with its cash flow, profitability and book value per share. Adjusting stock prices leads to the increase of the stock price of the firm as a reflection of shareholder value. The predicted future cash flow received by the company at any given time has a substantial impact on the stock price at that particular "average" investor should the investor decide to buy the shares. Because ordinary shareholders receive their dividends after preferred stock payments are paid, ordinary shares are the ones with the most risk. Preferred Stock, also known as Preferred Shares, are sometimes called privileged shares. due to the fact that preferred stock has priority rights in the dividend distribution and dividend on ordinary shares. In the event that the business is liquidated, preferred shareholder furthermore get first dibs on corporate assets following bondholder obligations and Priorities are given to other creditors above any claims made by regular stockholders.

If profitability ratios are strong, they may entice investors to purchase shares on the capital market (Brigham & Houston, 2009: 70). The demand for firm shares will increase in direct proportion to investor interest in investing their cash, which will drive up the price of the stock. In light of the theory's justification, the following is the study's hypothesis:

**H4:** *Liquid Asset mediates the relationship among Asset and Share Value*

**H5:** *Liquid Asset mediates the relationship among Profitability and Share Value.*

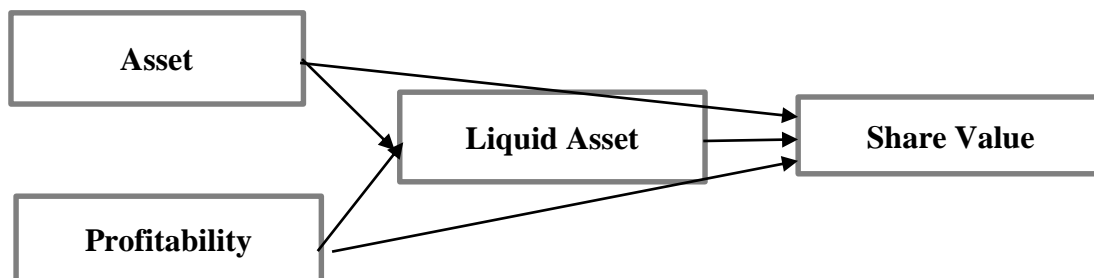
## 2.4 Summary of Literature Review

**Table 1 Summary of Literature Review**

| Construct     | Definitions   | Resource                        |
|---------------|---|---------------------------------|
| Agency Theory | The idea of Agency theory define as asserts that management may utilize debt to restrain the excessive use of free cash flow and prevent wasteful investment. Because using debt might raise the danger of bankruptcy, it also requires management to exercise greater caution. | (Jensen & Meckling, 1976)       |
| Asset         | Resources that are owned by businesses or business organizations are referred to as assets.   | (Warren, Reeve, and Fess, 2005) |
| Liquid Assets | Profit, according to Stice, is the owners' return on investment. It gauges the extent to which an entity can continue to afford to be as wealthy as it was in its initial position.   | (Stice, and Skousen, 2009)      |
| Profitability | The capacity of a business to turn a profit within a specific time frame is known as profitability.   | (Hermuningsih, 2013)            |
| Share Value   | The market value ratio, is a collection of measures that connect the stock price of the company to its cash flow, earnings, and book value per share  | (Brigham and Houston, 2010)     |

## 2.5 Conceptual Model

Figure 1. Proposed Framework of the study



## 3. METHODOLOGY

This section is based on the design and methods used for attaining research objectives. It begins with an overview of the research strategy, which discusses how the study was done and which data gathering and analytic techniques were employed. The section also explains different sampling techniques whereas an appropriate technique is chosen with the selected target audience. Moreover, this section comprises the research design, sampling design (e.g. population, procedure of sampling, sample framework), unit of analysis, and method of data collection, research measurement and instrument, data analysis techniques along with questionnaire adoption.

### 3.1 Research Purpose

Generally, research purpose is divided into three types namely, descriptive, exploratory and explanatory. This research is undertaken when a phenomenon is at a preliminary stage and answers question like how, why and what (Clark & Bryman, 2019).

This study used explanatory research as the research purpose was to examine relationship among variables for instance it tested whether positive relationship exist or not among other variables besides that it uses theory to formulate hypothesis to test them and was literature exist on the is variables but this study created a model that collectively examine the relationship among variables followed in the research.

### 3.2 Research Approach

For business research or social science research there are generally theory approaches that can be used consists of quantitative qualitative and pragmatic research.

Research objective of the study used a quantitative approach where the aim was to examine the relationship among independent variable along with dependent variable while testing the hypothesis. Furthermore, the data collected was analyzed by applying different statistical tool. For the study numeric data was required this is why the quantitative approach was selected. Additionally deductive approach was applied because in quantitative research, a theory is tested by formulating hypothesis and in the and either accept or reject according to the findings (Bell & Waters, 2018).

### **3.3 Research Design**

This research followed correlational research design, which used to check the link among variables. According to Samuel and Okey (2015) Correlation research design is used to identify the relationship among two or more variables. Correlational research design examines the cause and effect among variables to accomplish the best outcomes.

### **3.4 Research Population**

The Target population for this study was consist of financial data of 10 years consists from the year 2013 to 2024 years and two banks will be used to contain data for analysis one is Habib Bank Pvt. Ltd and United Bank Pvt. Ltd from Karachi, Pakistan.

### **3.5 Sample Size & Sampling Technique**

The size of sample selected for this study would be 384 as this an average sample size for conducting a study. As per the study of (Chuan, & Penyelidikan, 2006) if the size of research population is more than 1 million then the average sample size must consist of 384 participants. Moreover, this study uses convenience sampling technique. According to Etikan et al. (2016), the convenient sampling technique is used to gain more chances to deliver such as to contributors who are easily available and reachable to the researcher. This is a convenience sample non-probability sample strategy used to choose samples from a population audience who are easily accessible and acquire data by physically dispersing the questionnaire or purchasing it online in order to achieve authentic results in the entire research.

### **3.6 Data Collection**

To conduct this study, secondary method of data collection will be used. This method will help in collecting used data from the financials of HBL and UBL; also secondary data collection method allows to collect used and synchronized data for the study.

### **3.7 Data Analyses Method**

For the examination of collected data, regression analysis will be used. Software Statistical Package for the Social Sciences (PLS) is selected for the analysis. With the help of E-Views closed-ended questions and quantitative information can be interpreted easily. To study, the relationship among the variables correlation analysis will be used. Lastly, reliability test will be used to check how reliable the test in determining the characteristic is.

## **4. ANALYSIS OF DATA**

This section, address findings of data analysis by path modelling and SPSS. It also included the initial study and the preliminary data screening which includes the normalcy test, multi-collinearity analysis, missed value analysis, outlier analysis, and overall the bias/variance testing process. Also, the outcomes of descriptive statistics have been provided. The real findings of the research were then discussed under three sections. To evaluate the validity of the data used in this research, the descriptive statistics were evaluated in the first part by using SPSS. The model of measurement was calculated in Section two to evaluate the reliability of the individual object, internal reliability of accuracy, Validity of convergent and validity of discriminant.

#### 4.1 Descriptive Statistics

The descriptive marking was obtained using statistical descriptive analysis which evaluates the highest and lowest scores, standard deviation, and mean of all the variables. A five-point Likert scale, which ranged among 1 = strongly disagree to 5 = strongly agree, was utilized as discussed before in section three. The statistical descriptive analysis involves high and low points, significance of standard deviation and mean of all the variables which are measured by statistical analysis using SPSS.

**Table 2. Descriptive Statistics**

| Variables | N  | Minimum    | Maximum    | Mean          | Std. Deviation |
|-----------|----|------------|------------|---------------|----------------|
| AS        | 20 | 1009738651 | 5574997502 | 2619183557.73 | 1253759803.560 |
| PF        | 20 | 7730547    | 56855995   | 27226364.64   | 11805636.287   |
| LA        | 20 | 100913997  | 333779408  | 187846766.95  | 53868434.380   |
| SV        | 20 | 85         | 234        | 152.86        | 40.872         |

Note: AS = Assets; PF=Profitability; LA = Liquid Assets; and SV= Share Value

#### 4.2 Correlations

According to Riduwan & Kuncoro, (2012), The direction of correlation is shown by correlation coefficient's sign: a positive correlation means that as one variable rises, the other increases as well; a negative correlation means that as one variable increases, the other falls. The subsequent numerical number indicates strength of relationship: A connection among the variables is excellent when the value is 1, and it is nonexistent when it is 0.

**Table 3: Correlations**

|               | Liquid Asset | Profitability | Assets |
|---------------|--------------|---------------|--------|
| Liquid Asset  | 1.000        | -.272         | -.882  |
| Profitability | -.272        | 1.000         | -.060  |
| Assets        | -.882        | -.060         | 1.000  |

a. Dependent Variable: Share Value

#### 4.3 Model Testing

B.M. Byrne (2010) says that the Goodness of Fit Test Model can be applied in cases where not all models or criteria have attained the cut-off number. As such, the study may move to the next analysis. It is further supported by Jackson de Carvalho and Chima (2014) who made similar remarks on their study where they calculated or determined the fit model in a structural equation modelling study.

Given that four conditions have been met, it is evident in Goodness of Fit Test Model (table 4) that the data fits into the model. The covariance matrices of the selected model do not have a significant difference among them which validates the major hypothesis of the SEM analysis in this research. This demonstrates that the relationship among the endogenous and external factors can be described with the help of two structural equations that were generated by the fit model of the research. The amount of influence that each of the independent variables has on the dependent variable will be statistically tested to determine the significant independent variables and the overall effect of the independent variable on dependent variable.

**Table 4: Goodness of Fit Model**

| No. | Goodness of Fit Index   | Cut off Value | Result | Remarks  |
|-----|-------------------------|---------------|--------|----------|
| 1   | DF                      | >0            | 21     | Good Fit |
| 2   | Chi Square              | <0            | 0      | Good Fit |
| 3   | Probability             | >0.05         | 0.91   | Good Fit |
| 4   | Assumption Significance | >0.00         | 1.000  | Good Fit |

#### 4.4 R<sup>2</sup> of the Constructs

SPSS (Bootstrapping and structural model) was used to examine the situation (Chin, 2010). The coefficient of determination was used to examine the structural model's initial basis prediction capacity (R<sup>2</sup> values) (Chin, 2010; Falk & Miller, 1992; Hair et al.; Henseler et al., 2012);. suggest an R<sup>2</sup> value of 0.10 as a minimum acceptable level. The R<sup>2</sup> values assessment criteria proposed by Lambert et al. (1998) were 0.19 as weak, 0.33 as moderate, and 0.67 as considerable. In table 5, R<sup>2</sup> of both variables are in substantial range.

**Table 5. R<sup>2</sup> of Endogenous Latent Constructs**

| Construct     | R Square | Result      |
|---------------|----------|-------------|
| Share Value   | 0.242    | Moderate    |
| Liquid Assets | 0.885    | Substantial |

#### 4.5 Hypothesis Testing

When consider the direct correlation that exists among the independent variables and the mediator or the dependent variable we dismiss the influence of the mediator. Table 4.5 shows the implications of path coefficients of direct impacts.

Table 6: Hypotheses testing

|               |                   | Beta  | S.E.  | T Value | P     | Decision      |
|---------------|-------------------|-------|-------|---------|-------|---------------|
| Asset         | → Value of Shares | 2.57  | 0.001 | 0.136   | 0.893 | Not Supported |
| Liquid Asset  | → Value of Shares | 1.91  | 0.001 | 1.941   | 0.084 | Supported     |
| Profitability | → Value of Shares | -3.99 | 0.001 | -0.870  | 0.396 | Not Supported |
| Profitability | → Liquid Asset    | 0.585 | 0.475 | 1.232   | 0.233 | Not Supported |
| Asset         | → Liquid Asset    | 0.370 | 0.004 | 8.177   | 0.000 | Supported     |

In table 6 the direct connections among independent variables and the mediating variable (Liquid Assets). And for the direct correlations among independent variables and the dependent variable (Share Value) are illustrated in table 6.

Three hypotheses that have direct connections with Share Value and Two hypotheses that indicate similar connections with Liquid Assets. To confirm these hypotheses, the Structural equation model test was conducted and out of 5 these 2 hypotheses proved.

## 5. DISCUSSION, CONCLUSION AND RECOMMENDATION

### 5.1 Discussion

#### H1: The effect of Asset on Share Value

Table 6 indicates that the test's determination of the asset variable's effect on share value yielded a p-value of 0.893 (\*\*\*) , more than 0.05, indicating the acceptance of  $H_0$ . A beta coefficient of 2.570 indicates a substantial positive effect of the asset on the stock's value. The asset is pointing in direction of variable level of share value after the beta coefficient is positive. This implies that the share value will grow by 2.570 if each asset variable suffers a one-unit increase. The study's findings show that the asset significantly but negatively affects the share value. This clarifies how an asset might affect a share's value growth or reduction. One of the key elements influencing stock value, asset quality, may influence an investor's decision to make a corporate investment. A business with significant assets is thought to be able to reward investors in the future by paying dividends.

The study by Ghauri (2014), which showed that asset has a major impact on share value, supports this conclusion. F.N. Al-Shubiri (2010) stated in another statement on page 137 that there is a statistically significant positive correlation among net asset value and stock price.

#### H2: The effect of Asset on Liquid Asset

Table 6 indicates that the p-value for the effect of the asset variable on the liquid asset variable is 0.084 (\*\*\*) , less than 0.05, indicating the acceptance of  $H_2$ . With a beta coefficient of 1.910, it indicates that the asset has a substantially positive impact on the liquid asset as the asset variable is pointing in the direction of the liquid asset's variable level when the beta coefficient has a positive sign. This implies that the liquid asset will rise by 1.910 for every unit increase in each

asset variable. This conclusion is corroborated by Soelaiman's (2007) thesis, which held that the company's properties cash, inventories, fixed assets, and other items that are involved in its activities are its assets, both current and fixed. According to Gill and Mathur (2011), business size and the liquidity ratio have an impact on corporate liquidity holding.

The study's findings show that an asset significantly and favorably influences a liquid asset. This is corroborated by Munawir's (2004) proposal that a company's liquid asset is inextricably linked to the impact of its owned assets, which states that a company's liquid asset increases with each growth in its asset. It might be argued that a company's liquid assets, which are represented by its assets, are the source of all of its operations. The study's findings also indicate that a one-unit rise in any asset causes a 0.401 percent increase in liquid assets.

### **H3: The effect of Profitability on Share Value**

Table 6 demonstrates that the relationship among profit and stock value has a p-value of 0.396 (\*\*\*), which is more than 0.05, indicating that  $H_0$  is accepted. With a beta coefficient of -3.990, it shows that profit has a considerably negative impact on share value. A negative beta coefficient suggests that the profit variable is not linearly correlated with the share value level. This outcome indicates that a one-unit rise in each profit variable will result in a -3.990 decrease in share value. The study's findings show that share value is negatively and significantly impacted by profitability. This means that businesses, particularly those in the banking sector that are the focus of this study, ought to raise their short- and long-term investments. The study's findings are consistent with earlier research by Zulia Hanum (2009), which shown that profitability significantly affects how share value fluctuates. Yang, Lee, Gu, and Lee (2010) and Sitorus (2016), who had the similar notion, also bolster this evidence.

### **H4: The effect of Profitability on Liquid Asset**

As per Table 6, the liquid asset and the profit variable are related with p-value of 0.233, which is higher than 0.05 and the  $H_0$  is accepted. The beta value of 0.585 depicts that profit does have a significant negative effect on the liquid asset since a positive value in the beta coefficient means that the profit variable is moving in the same direction as the variable level of the liquid asset. This means that a 0.585 movement in the liquid assets will be the increase that accompanies one unit move in the profit variable. This goes along with the argument advanced by Agus Sartono (2010) who asserted that profitability is the ability of the business to generate money as compared to sales and that this does not differ with monies obtained in form of liquid assets. Kasmir (2012) proceeded to mention that the level of profitability is employed to determine the extent to which corporate assets are utilized in an attempt to generate profits which culminate into liquid assets that can be utilized by the business.

The study's findings show that profitability has a large and detrimental impact. Based on these findings, it can be said that not all profitable businesses will always have highly liquid assets. As a result, it is important to take into account high levels of profitability and liquid assets since investors who want to engage in a firm will demand dividend in the form of liquid assets or cash.

### **H5: The effect of Liquid Asset on Share Value (Hypotheses 5/H5)**

Table 6 indicates that the test's findings about the relationship among liquid asset value and share value reveal a p-value of 0.000 (\*\*\*), which is less than 0.05, indicating that  $H_5$  is accepted. With a beta coefficient of 0.370, it implies that liquid assets have a substantially positive impact on stock value. A positive beta coefficient indicates that the variable pertaining to the liquid assets is moving

in the direction of the variable level of share value. This implies that a one-unit rise in the liquid asset variable will result in a 0.370 increase in the share value.

The study's findings show that the value of a share is positively and significantly impacted by liquid asset as an intervening variable. It has been demonstrated that the influence of liquid assets on share value is greater than the direct effect of profitability, indicating the critical role that liquid assets play in a company's ability to manage the quantity of assets and profitability that management targets in order to meet the organization's financial goals. These findings are corroborated by earlier study by Utomo (2011), which revealed that earnings and cash flow had an impact on a company's stock performance. This is in line with the claim made by Yocelyn and Christiawan (2012) that earnings and cash flow have a big impact on a company's stock value.

## **5.2 Conclusion**

Some conclusions may be drawn and summarized as follows based on the study findings and discussion: 1). A substantial favorable impact on the share value is provided by the asset. A positive beta coefficient indicates that the value of the share will rise in response to an increase in asset value. These findings demonstrate the impact of assets on share price growth. Specifically, shareholders use a company's large asset holdings as a benchmark to determine the company's capacity to distribute dividends to shareholders. 2). The asset has a major impact on the liquid asset, and as the availability of the liquid asset increases with a rise in asset value, the beta coefficient is positive. 3. There is a notable positive correlation among profitability and share value. Consequently, a positive beta coefficient indicates that the profit variable and the share value variable are moving in the same direction. This implies that the value of the stock will rise in tandem with an increase in the profit variable. 4. A positively skewed beta coefficient indicates that the profitability variable is moving in the direction of the liquid asset variable, which is why profitability has a notably positive impact on the liquid asset. This implies that there will be more liquid assets available as the profitability variable rises. 5. The value of the stock is significantly positively impacted by the liquid asset. The relationship among the liquid asset variable and the stock value variable is unidirectional when the beta coefficient is positive. This implies that the value of the stock will rise if the liquid asset variable rises. Because liquid asset has a larger impact on share value than the direct effects of asset and profitability factors, it is evident that liquid asset functions as a mediator variable in this study.

## **5.3 Managerial Implications**

The findings of this study should help close the knowledge gap in earlier research regarding the relationship among profitability and share value by Sitorus (2016) and Yang et al. (2010) and among asset variable and share value by Ghauri (2014) and Ruslinda (2013), as well as demonstrate the potential role of liquid asset as a mediating variable. Consequently, it is suggested that liquid asset be used as the mediating variable in future research because, based on the findings of this study, liquid asset can raise the impact of profitability and asset value on share value.

The practical implications of this research for mining companies include the need to maintain asset safety, profitability metrics like ROA and ROE, and net income in order to sustain the availability of liquid assets like net cash flow. This is especially important for liquid assets that are obtained from these metrics.

## **5.4 Future Recommendations**

In future, studies should emphasize the importance of considering share value as an efficient technique for increasing profitability and assets value. Secondly, in future researchers can use

more variable to test different aspects and dimension of share value such as financial performance and capital working and it can also test with shareholder's equity. Further, share value has been evolving towards whole industry so it can be also test on different industries like FMCG, Textile and retail industries. Moreover, another factor which can affect outcome is time. Current research has been conducted while consider time into account with certain limitation, so for future researcher it can recommended to use extensive time for more detailed outcome. Observations in this research are still restricted, from 2013 towards 2024, and the samples consist solely of banking sector. These are some of limitations of this research that should be taken into consideration for future research. There was no classification of the duration of a company's existence in this investigation. It is possible to do more research by varying the study period, the samples, and the classification of the duration of the firms' existence.

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