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FINANCE

Financial Determinants and Firm Value Dynamics in JII70 Firms: Earnings Quality Mediation and Investment Opportunity Set Moderation

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ABSTRACT

Purpose: This study examines the effects of dividend policy, profitability, and liquidity on firm value, using Tobin's Q as the primary proxy and price-to-book value (PBV) as a robustness check. It further investigates the mediating role of earnings quality and the moderating role of the investment opportunity set (IOS) in both the short run and long run.

Method: The population comprises 160 firms listed on the JII70 index during 2018–2024. Through purposive sampling, 16 firms met the selection criteria, producing 112 firm-year observations. The data were analyzed using panel data regression, a Moderated Mediation Model (MMM), and a Partial Adjustment Model (PAM) with STATA 16.

Result: The findings show that IOS is the most consistent determinant of firm value across both time horizons. Profitability significantly increases firm value in the long run, while liquidity has a negative interaction with earnings quality when growth opportunities are high. Earnings quality does not significantly mediate the relationship, suggesting that JII70 firm value is driven more directly by growth signals and firm performance than by accounting quality.

Practical Implications for Economic Growth and Development: This study implies that managers of Sharia-compliant firms should prioritize investment opportunities and long-term profitability to enhance firm value. Strong growth prospects may provide positive market signals and support sustainable value creation.

Originality/Value: This study integrates a Moderated Mediation Model within a dynamic Partial Adjustment Model framework to examine how investment opportunities shape financial determinants of firm value in the Sharia-compliant context.

Keywords: *Financial Determinants, Firm Value, JII70, Investment Opportunity Set, Earnings Quality*

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INTRODUCTION

Firm value is widely conceptualized as an indicator of a company's financial health, market performance, and long-term viability (Rahat & Nguyen, 2024). For investors and shareholders, firm value reflects not only expected future profitability but also the firm's capacity to support strategic business decisions and sustain competitive advantage. Accordingly, maximizing firm value has become a central objective for companies operating in competitive markets, where financial determinants may directly or indirectly influence market valuation (Amimakmur et al., 2024).

The global Islamic finance industry has experienced substantial growth over the past decade, driven by increasing demand for Shariah-compliant financial instruments. According to the London Stock Exchange Group (LSEG, 2025), total Islamic finance assets increased from approximately USD 2.5 trillion in 2018 to USD 5.9 trillion in 2024, indicating a strong upward trajectory. This growth is projected to continue, with total assets expected to reach USD 9.7 trillion by 2029, reflecting an average annual growth rate of 21 percent over the period. These developments highlight the growing relevance of Islamic finance within the global financial system.

Indonesia, as one of the largest emerging market economies with a rapidly developing capital market, has also demonstrated a positive trend. The market capitalization of the Indonesia Stock Exchange (IDX) increased from IDR 7,265.02 trillion in 2019 to IDR 12,263.62 trillion in 2024, despite a temporary decline to IDR 6,970.01 trillion in 2020, which reflects the resilience of the Indonesian capital market (Otoritas Jasa Keuangan, 2024a). Within the Shariah-compliant equity market, the JII70 index has similarly shown a strong recovery following the COVID-19 period. Its market capitalization increased from IDR 2,715 trillion in 2018, declined to IDR 2,527 trillion in 2020, and gradually recovered to IDR 3,328 trillion in 2024 (Otoritas Jasa Keuangan, 2024b). This trend demonstrates the future viability and sustainable growth potential of the Islamic capital market in line with the expansion of global Islamic financial assets (Supriani et al., 2026).

The JII70 index represents a group of leading Shariah-compliant stocks in Indonesia. In accordance with Shariah principles, firms included in this index must avoid prohibited elements such as riba, gharar, and maysir. They are also required to comply with specific financial screening criteria, including an interest-bearing debt-to-assets ratio below 45 percent and non-compliant income-to-revenue ratio below 10 percent (Taufik & Handayani, 2024). Maintaining a balance between ethical considerations and financial performance is therefore essential in strengthening investor confidence and supporting investment commitment in Shariah-compliant firms (Sakuntala et al., 2025). In this context, the factors influencing firm value are particularly important because they not only reflect a company's market position but also shape investor perceptions and decision-making (Nguyen & Phan, 2026).

Financial determinants provide relevant information for investors in assessing firm valuation, transparency, and future growth prospects (Collins & Kothari, 1989). Dividend policy and profitability are strongly associated with shareholder satisfaction and expectations of future growth (Arhinful et al., 2025), while liquidity and firm size serve as indicators of operational stability and market strength (T. H. P. Nguyen et al., 2025). Higher profitability may increase firm value and influence dividend decisions, as financially stronger firms are better positioned to distribute dividends without compromising growth strategies (Arhinful et al., 2024). Liquidity, which reflects a firm's ability to meet short-term obligations, is also an important indicator in assessing firm value (Estelles-Miguel et al., 2026). In addition, firm size, commonly measured through total assets or market capitalization, may affect a firm's capacity to exploit growth opportunities, achieve competitive advantages, and withstand economic fluctuations (Yadav et al., 2022). Larger firms are generally better positioned to benefit from economies of scale and adapt more effectively to market changes than smaller firms (Alinasab et al., 2026).

However, previous studies on JII70 have largely examined these financial determinants as direct predictors of firm value, while the simultaneous role of earnings quality as a mediating variable and the investment opportunity set as a moderating variable remains underexplored.

In particular, firm value may not immediately reflect the effect of financial determinants, as valuation changes often occur gradually and may exhibit delayed responses over time. Cross-sectional analysis at a single point in time may therefore be insufficient to capture both temporary fluctuations and long-term valuation dynamics within the JII70 index.

This study addresses that gap by integrating a moderated mediation model with a partial adjustment model to examine firm value across different time horizons. This approach enables the analysis of both short-term and long-term parameters and allows for the assessment of delayed adjustment effects through lagged estimation. By considering the dynamic influence of financial determinants, the mediating role of earnings quality, and the moderating effect of the investment opportunity set, this study provides a more comprehensive understanding of firm value formation among JII70 firms during the 2018–2024 period.

Hypotheses Development

Dividend Policy and Firm Value

Dividend policy refers to the strategic decision made by management regarding whether a company's net earnings should be distributed to shareholders as dividends or retained for reinvestment in the business. From the perspective of signaling theory, dividend policy may serve as a signal to reduce information asymmetry between management and investors concerning the firm's performance and future prospects (Spence, 1973). Consistent with Bhattacharya (1979), dividend payments can convey positive information to the market, as investors may interpret dividend distributions as an indication of financial strength and management confidence. Furthermore, dividend policy may help reduce agency problems by limiting the amount of free cash flow available for managerial discretion. In Islamic finance, profit distribution reflects the principles of fairness, transparency, and proportional reward based on capital contribution (Al-Daihani et al., 2025). In the context of Shariah-compliant dividends, dividend distribution is consistent with the principle of sharing returns rather than guaranteeing fixed interest, thereby incorporating both risk and reward (Juhro et al., 2025a). This practice aligns with the Islamic principles of justice (*al-'adl*) and mutual benefit (*maslahah*). Therefore, dividend policy is expected to have a positive effect on firm value.

H1a: Dividend policy has a significant positive effect on firm value.

Profitability and Firm Value

Profitability refers to a financial metric that evaluates a company's ability to generate earnings from its operational activities (Wu et al., 2026). From the perspective of signaling theory, profitability represents valuable information disclosed by a company to signal its financial performance and prospects to investors (Spence, 1973; Zamani et al., 2025). Higher profitability indicates stronger managerial efficiency and business performance, which may attract greater investor interest. As investor demand increases, the company's stock price may rise, thereby enhancing firm value. In this regard, a company's ability to generate higher profits is generally associated with higher profitability and, consequently, greater firm value (Ainun, 2016). In the context of Islamic finance, profitability that complies with Shariah principles is not only an indicator of long-term financial success but also reflects the achievement of *Maqasid al-Shariah*, particularly the preservation of wealth (*hifz al-mal*) and the provision of benefits to society (Rabiu et al., 2025). Therefore, profitability is expected to have a positive effect on firm value.

H1b: Profitability has a significant positive effect on firm value.

Liquidity and Firm Value

Liquidity refers to a financial ratio used to measure and evaluate a firm's ability to meet its short-term obligations (Kasmir, 2018). A company with strong liquidity demonstrates its capacity to fulfill current liabilities, which may send a positive signal to investors. This signal can encourage investment interest and potentially increase the company's stock price (Arhinful et al., 2025). Therefore, firms with higher liquidity are generally better positioned to avoid the risk of default on short-term financial commitments (Agustin et al., 2025). From an Islamic perspective, liquidity is closely related to the obligation to record, manage, and settle debts fairly and transparently, as reflected in QS. Al-Baqarah verse 283. This principle emphasizes the importance of fulfilling financial obligations and maintaining trust (*amanah*) toward creditors. In the context of Shariah-compliant business practices, the ability to meet obligations reflects ethical responsibility, financial discipline, and the preservation of business stability, all of which are important values in Islamic business ethics (Ibrahim & Mohd Sapian, 2023). Therefore, liquidity is expected to have a positive effect on firm value.

H1c: Liquidity has a significant positive effect on firm value.

Mediating Role of Earnings Quality

Based on the information asymmetry perspective (Akerlof, 1970), financial determinants such as leverage, liquidity, and profitability may influence firm value through earnings quality. Firms with stronger financial positions are generally expected to produce more persistent and reliable earnings, thereby reducing investor uncertainty and narrowing the information gap between managers and stakeholders. High earnings quality, reflected in the quality of accruals and earnings persistence, provides more credible financial information to the market and may contribute to higher firm valuation (Dechow & Dichev, 2002). Therefore, this study posits that earnings quality mediates the relationship between financial determinants and firm value.

H2: Earnings quality mediates the relationship between financial determinants and firm value.

Moderating Role of Investment Opportunity Set

Investment opportunities represent valuable future growth options available to the firm (Myers, 1977). Firms with high IOS are generally perceived as having greater growth prospects, and their financial condition may strengthen the extent to which financial determinants contribute to firm value (Berk et al., 1999). Therefore, IOS is expected to moderate the relationship between financial determinants and firm value. In addition, within the conditional value-relevance framework, the informational value of earnings may vary depending on a firm's growth opportunities (Collins & Kothari, 1989). Earnings quality is likely to provide greater informational relevance for high-IOS firms because investors face higher uncertainty and rely more heavily on credible earnings signals to assess future cash flow potential (Biddle & Hilary, 2006). Accordingly, IOS is expected to strengthen the relationship between earnings quality and firm value.

H3: Investment opportunity set moderates the relationship between financial determinants and firm value.

H3a: Investment opportunity set moderates the relationship between earnings quality and firm value.

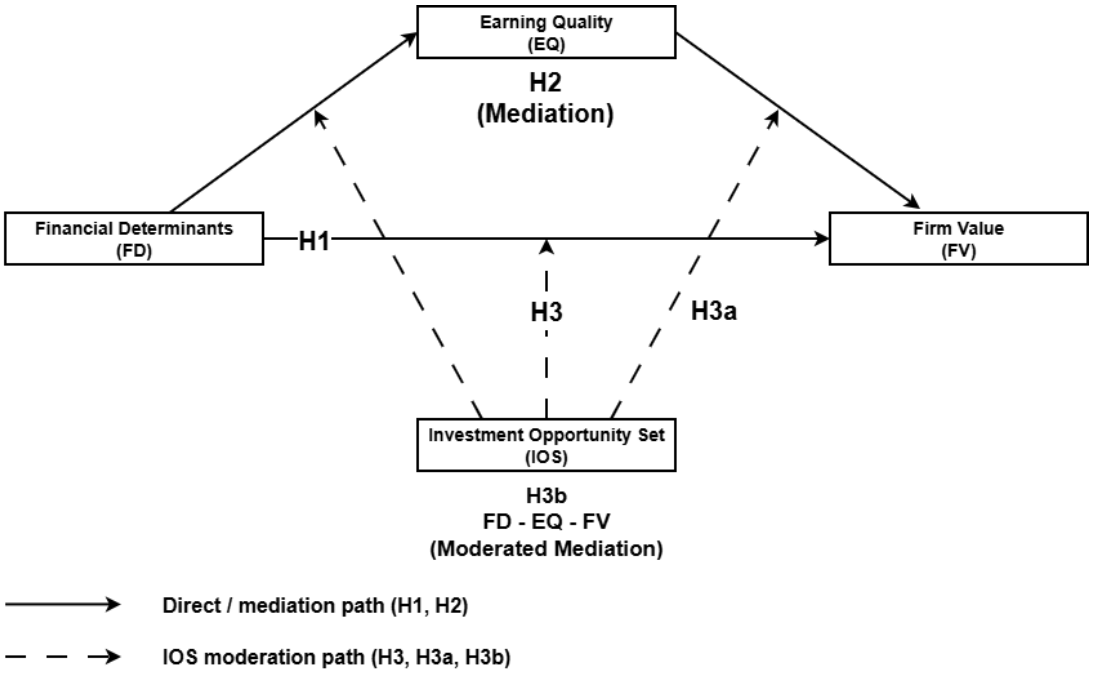
Moderated Mediation Role of Investment Opportunity Set

Agency theory suggests that the separation between ownership and control may create agency conflicts, particularly when managers possess greater discretion over corporate resources and investment decisions (Jensen & Meckling, 1976). In high-IOS firms, managerial

discretion may be more pronounced because these firms have greater growth opportunities and investment flexibility. Under such conditions, earnings quality plays an important disciplining and informational role by providing more reliable financial information to investors and reducing agency-related uncertainty. From this perspective, the indirect effect of financial determinants on firm value through earnings quality may depend on the level of investment opportunity set. In other words, IOS may strengthen or weaken the extent to which financial determinants influence firm value indirectly through earnings quality. This indicates the presence of a moderated mediation relationship. Furthermore, from the perspective of Islamic principles, *amanah* (trustworthiness) and *al-'adl* (justice) emphasize the importance of transparent, faithful, and accountable reporting to stakeholders (Hassan et al., 2022). These principles reinforce the expectation that firms should maintain earnings integrity as part of ethical and Shariah-compliant business practices.

H3b: Investment opportunity set moderates the indirect relationship between financial determinants and firm value through earnings quality.

Figure 1. Research Framework



Source: Developed by the authors (2026)

METHOD

This quantitative study employs secondary data to examine the influence of financial determinants on firm value. The sample consists of companies listed in the Jakarta Islamic Index 70 (JII70) on the Indonesia Stock Exchange (IDX). Data were collected from the financial statements of JII70-listed companies available on the IDX and the respective companies' official websites for the period 2018–2024. Panel data and autoregressive estimation techniques were employed using STATA 16.

Using purposive sampling, 16 companies were selected based on two criteria: consecutive inclusion in the JII70 index and continuous dividend payments during the observation period. This resulted in 112 firm-year observations over seven years.

Table 1. Sampling Criteria

Sampling Criteria	Total
Initial population of companies included in JII70 during 2018–2024	160
Firms not consecutively listed in JII70 during the observation period	(137)
Firms without consecutive dividend payments during the observation period	(7)
Final number of sample firms	16
Total firm-year observations: 16 firms × 7 years	112

Source: Developed by the authors (2026)

Following Khan and Shoaib (2024), this study applies a moderated mediation model (MMM) to examine the long-run and short-run relationships between financial determinants and firm value. Models 1 and 2 specify the mediation and moderation relationships, respectively. Subsequently, Models 3 and 4 represent the partial adjustment model (PAM), which incorporates λ as the adjustment coefficient. This adjustment factor is then applied in the empirical specifications presented in Equations 5 and 6. To ensure the validity and reliability of the estimation results, several diagnostic tests were conducted, including the Hausman test, Pesaran cross-sectional dependence test, Wooldridge autocorrelation test, and Wald heteroskedasticity test. Based on the diagnostic results, robust standard errors were applied to correct for heteroskedasticity and autocorrelation.

Descriptive statistics are used to summarize the distribution of data through measures such as the mean, standard deviation, minimum, and maximum values (Baffoe-Djan & Smith, 2019). In this study, descriptive analysis is employed to provide an overview of the characteristics and distribution of the sample data for all research variables, including dividend payout ratio (DPR), return on assets (ROA), current ratio (CR), firm size (SIZE), financial risk (RISK), earnings quality (EQ), investment opportunity set (IOS), and firm value (FV). Descriptive statistics enable the researcher to understand the general patterns, variability, and range of the data before proceeding to further empirical analysis.

The empirical models are specified as follows:

Mediation model

$$EQ_{it} = \beta_1 + \beta_2 DPR_{it} + \beta_3 ROA_{it} + \beta_4 CR_{it} + \beta_5 (IOS)_{it} + \beta_6 DPR_{it}(IOS)_{it} + \beta_7 ROA_{it}(IOS)_{it} + \beta_8 CR_{it}(IOS)_{it} + \varepsilon_{it} \quad (1)$$

Moderated mediation model

$$FV_{it} = \beta_9 + \beta_{10} DPR_{it} + \beta_{11} ROA_{it} + \beta_{12} CR_{it} + \beta_{13} EQ_{it} + \beta_{14} EQ_{it}(IOS)_{it} + \beta_{15}(IOS)_{it} + \beta_{16} DPR_{it}(IOS)_{it} + \beta_{17} ROA(IOS)_{it} + \beta_{18} CR_{it}(IOS)_{it} + \beta_{19}(SIZE)_{it} + \beta_{20}(RISK)_{it} + \varepsilon_{it} \quad (2)$$

Partial adjustment model

$$y^*_{it} = \alpha_0 + \alpha_1 x_t + \varepsilon_{it}$$
$$y_t - y_{t-1} = \lambda(y^*_t - y_{t-1}) \quad (3)$$

$$y_{it} - y_{t-1} = \lambda(y^*_t - y_{t-1}) + \varepsilon_{it} \quad (4)$$

$$EQ_{it} = \lambda\beta_1 + \lambda\beta_2 DPR_{it} + \lambda\beta_3 ROA_{it} + \lambda\beta_4 CR_{it} + \lambda\beta_5 (IOS)_{it} + \lambda\beta_6 DPR_{it}(IOS)_{it} + \lambda\beta_7 ROA_{it}(IOS)_{it} + \lambda\beta_8 CR_{it}(IOS)_{it} + \varepsilon_{it} \quad (5)$$

$$FV_{it} = \lambda\beta_9 + \lambda\beta_{10} DPR_{it} + \lambda\beta_{11} ROA_{it} + \lambda\beta_{12} CR_{it} + \lambda\beta_{13} EQ_{it} + \lambda\beta_{14} EQ_{it}(IOS)_{it} + \lambda\beta_{15}(IOS)_{it} + \lambda\beta_{16} DPR_{it}(IOS)_{it} + \lambda\beta_{17} ROA(IOS)_{it} + \lambda\beta_{18} CR_{it}(IOS)_{it} + \lambda\beta_{19}(SIZE)_{it} + \lambda\beta_{20}(RISK)_{it} + \varepsilon_{it} \quad (6)$$

Where:
FV = Firm Value

DPR = Dividend Payout Ratio
ROA = Return on Assets
CR = Current Ratio
SIZE = Firm Size (Natural Logarithm of Total Assets)
RISK = Financial Risk (Debt to Equity Ratio)
EQ = Earning Quality
IOS = Investment Opportunity Set
β = Regression Coefficients
λ = Adjustment
ε = Error term
i,t = Unit Cross Section i, at time period t

Table 2. Research Variables

Variable	Symbol	Measurement	Reference
Dependent Variable			
Firm Value	FV	Tobin's Q = (Market Capitalization + Total Liabilities) / Total Assets	Kholid & Rahmawati (2023)
Main Variables			
Dividend Policy	DPR	Dividend Payout Ratio = Dividend / Net Income	Barros et al. (2022)
Profitability	ROA	Return on Assets = Net Income / Total Assets	Jihadi et al. (2021)
Liquidity	CR	Current Ratio = Current Assets / Current Liabilities	Erawati et al. (2023)
Control Variables			
Firm Size	SIZE	Firm Size = Natural Logarithm of Total Assets	Wirama et al. (2024)
Financial Risk	RISK	Debt-to-Equity Ratio = Total Liabilities / Equity	Roy & Bandopadhyay (2022)
Mediating Variable			
Earnings Quality	EQ	EQ = Cash Flow from Operations / Net Income	Rahmawati & Dewi (2026)
Moderating Variable			
Investment Opportunity Set	IOS	IOS = (Total Assets – Total Equity + Market Capitalization) / Total Assets	Ningrum & Khomsiyah (2023)

Source: Compiled by the authors (2026)

RESULT AND DISCUSSION

Descriptive Statistics

Table 3 presents the descriptive statistics for companies listed on the Jakarta Islamic Index 70 (JII70) during the 2018–2024 period. The minimum values of EQ and IOS are −0.631 and −0.082, respectively. These negative values may reflect firm-specific financial conditions and the broader economic disruptions experienced during the COVID-19 pandemic. Nevertheless, the mean values of EQ and IOS remain positive at 1.572 and 1.759, respectively, suggesting that JII70-listed firms generally maintained favourable equity conditions and growth prospects throughout the observation period. Furthermore, FV, EQ, and RSK exhibit relatively high skewness and kurtosis values, indicating the possible presence of outliers. To address potential distortion arising from these extreme observations, PBV is employed as an alternative proxy in the robustness test presented in Table 6. The results remain consistent with the main findings, confirming the stability of the empirical model.

Table 3. Descriptive Statistics

Variable	Mean	Std. Dev.	P25	Median	P75	Min.	Max.	Skewness	Kurtosis
FV	2.426	2.826	1.079	1.406	2.479	0.765	17.678	3.595	17.079
DPR	0.521	0.440	0.208	0.424	0.725	0.029	2.248	1.470	5.371
ROA	0.110	0.085	0.055	0.088	0.128	0.006	0.455	1.933	7.045
CR	5.144	2.354	3.687	4.540	5.888	1.356	11.537	0.941	3.594
EQ	1.572	1.093	1.002	1.409	1.941	−0.631	8.428	2.758	16.387
IOS	1.759	2.917	0.207	0.619	1.409	−0.082	9.723	2.082	5.661
SIZE	31.386	0.926	30.846	31.162	32.250	29.303	33.334	0.308	2.585
RISK	0.964	0.892	0.390	0.750	1.292	0.184	6.466	3.008	16.109

Source: Processed data (2026)

Statistical Tests

Table 4 shows that the variance inflation factor (VIF) values are relatively low, with a mean VIF of 1.33. This value is well below the commonly accepted thresholds of 5 and 10, indicating that the model does not exhibit a multicollinearity problem among the independent variables.

Table 4. Collinearity Diagnostics

Variable	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	VIF
FV	1.000								
DPR	0.187**	1.000							1.18
ROA	0.655***	0.166*	1.000						1.60
CR	−0.257***	−0.006	−0.189**	1.000					1.31
EQ	−0.166*	0.161*	−0.297***	0.012	1.000				1.24
IOS	0.011	0.290***	0.381***	0.118	0.030	1.000			1.42
SIZE	−0.257***	−0.075	−0.188**	−0.039	0.292***	−0.030	1.000		1.18
RISK	0.459***	0.082	0.241**	−0.452***	0.007	−0.132	0.069	1.000	1.38
Mean VIF									**1.33**

*Note: * p<0.10, ** p<0.05, *** p<0.01*

Source: Processed data (2026)

Table 5 presents the diagnostic test results. For Model 2, which uses FV as the dependent variable, the Hausman test yields a *p*-value of 0.000, indicating that the fixed-effects model is more appropriate than the random-effects model. The Wooldridge and modified Wald tests also produce *p*-values of 0.000, confirming the presence of autocorrelation and heteroscedasticity. Therefore, cluster-robust standard errors are employed to obtain more reliable statistical inference. For Model 1, which uses EQ as the dependent variable, the results indicate no evidence of autocorrelation or cross-sectional dependence. However, the modified Wald test yields a *p*-value of 0.000, indicating the presence of heteroscedasticity. Accordingly, robust standard errors are applied to improve the reliability of the estimated standard errors.

Table 5. Panel Data Model Selection and Diagnostic Test Results

Test	Model	Dependent Variable	Test Statistic	*p*-Value	Decision on H_0	Interpretation
Hausman test	Model 1	EQ	2.220	0.946	Fail to reject H_0	Random-effects model
	Model 2	FV	75.570	< 0.001	Reject H_0	Fixed-effects model

Test	Model	Dependent Variable	Test Statistic	*p*-Value	Decision on H_0	Interpretation
Pesaran CD test	Model 1	EQ	1.143	0.253	Fail to reject H_0	No cross-sectional dependence
	Model 2	FV	1.908	0.056	Fail to reject H_0	No cross-sectional dependence at the 5% level
Wooldridge test	Model 1	EQ	0.741	0.402	Fail to reject H_0	No autocorrelation
	Model 2	FV	184.738	< 0.001	Reject H_0	Autocorrelation is present
Modified Wald test	Model 1	EQ	1,466.750	< 0.001	Reject H_0	Heteroscedasticity is present
	Model 2	FV	1,293.510	< 0.001	Reject H_0	Heteroscedasticity is present

Source: Processed data (2026)

Table 6 presents the robustness test results using price-to-book value (PBV) as an alternative proxy for firm value. The findings remain consistent with those of the main model. In the short run, IOS is positively and significantly associated with firm value (β = 6.268, $p < 0.05$), suggesting that investors in JII70-listed firms value companies with stronger growth prospects regardless of the proxy used to measure firm value. Consistent with the baseline results, RISK is negatively and significantly associated with firm value in the short run (β = −2.262, $p < 0.05$). Furthermore, the interaction between CR and IOS has a negative and significant relationship with EQ in both the short run (β = −0.025, $p < 0.05$) and the long run (β = −0.051, $p < 0.05$). Overall, these results confirm that the estimated relationships are robust and do not depend on a single proxy for firm value.

Table 6. Robustness Test Results Using PBV

Variables	Short Run: EQ Model 1	Short Run: FV Model 2	Long Run: EQ Model 1	Long Run: FV Model 2
Constant	1.810** (5.070)	−100.415 (−1.835)	0.038 (0.457)	−0.038 (−0.218)
DPR	0.370 (0.526)	−0.170 (−0.290)	0.925 (0.686)	0.003 (0.009)
ROA	−6.372 (−1.837)	−7.137 (−1.736)	−8.497 (−0.956)	−7.098 (−0.791)
CR	0.024 (0.601)	0.014 (0.113)	0.113 (1.598)	0.151 (0.973)
EQ	-	0.031 (0.245)	-	0.023 (0.356)
IOS	0.159* (2.461)	6.268** (3.580)	0.534 (0.659)	7.256 (2.094)
DPR × IOS	0.023 (0.264)	0.032 (0.229)	0.038 (0.237)	0.211 (1.034)
ROA × IOS	0.153 (0.365)	−0.419 (−0.816)	0.455 (0.511)	−0.244 (−0.415)
CR × IOS	−0.025** (−3.162)	−0.034 (−0.742)	−0.051** (−4.076)	−0.097 (−1.149)
EQ × IOS	-	0.001 (0.021)	-	−0.084 (−1.342)
SIZE	-	3.118 (1.867)	-	1.736 (1.143)

Variables	Short Run: EQ Model 1	Short Run: FV Model 2	Long Run: EQ Model 1	Long Run: FV Model 2
RISK	-	−2.262** (−7.843)	-	0.823 (1.939)
Observations	112	112	96	96
Adjusted R^2	0.152	0.514	0.255	0.252
F Value	0.000	0.000	0.000	0.000

*Note: * p<0.10, ** p<0.05, *** p<0.01*

Source: Processed data (2026)

Hypotheses Testing

Model 1 is employed to examine the determinants of EQ as the mediating variable, whereas Model 2 explains FV by incorporating EQ and the remaining explanatory variables. The study applies mean regression to capture the average relationship among the variables and median regression to assess whether the results remain robust in the presence of potential outliers. The number of observations differs between the short-run and long-run estimations, decreasing from 112 to 96 observations because the long-run analysis incorporates lagged variables. The coefficient of determination indicates that the model explains 80.6% of the variation in FV. In addition, the *p*-values of the F-tests are below 0.001 across all estimations, indicating that the explanatory variables are jointly significant in explaining the dependent variables.

Table 7. Short-run Mediation and Moderated Mediation Model

Variables	EQ Model 1: Mean Regression	EQ Model 1: Median Regression	FV Model 2: Mean Regression	FV Model 2: Median Regression
Constant	1.810*** (5.070)	1.451*** (3.887)	−33.417* (−2.046)	8.572*** (2.820)
DPR	0.370 (0.526)	0.080 (0.236)	−0.002 (−0.010)	0.213 (0.333)
ROA	−6.372* (−1.837)	−2.251 (−0.986)	2.257 (0.707)	32.454*** (6.287)
CR	0.024 (0.601)	0.013 (0.221)	0.005 (0.095)	0.068 (1.409)
EQ	-	-	0.045 (0.827)	0.165 (1.024)
IOS	0.159** (2.461)	0.171 (0.416)	2.939*** (6.757)	0.281*** (3.326)
DPR × IOS	0.023 (0.264)	0.047 (0.232)	−0.025 (−0.435)	−0.024 (−0.333)
ROA × IOS	0.153 (0.365)	−0.092 (−0.250)	−0.686* (−1.860)	−3.262*** (−6.103)
CR × IOS	−0.025*** (−3.162)	−0.025 (−0.324)	−0.009 (−0.448)	−0.013 (−1.274)
EQ × IOS	-	-	0.003 (0.187)	−0.014 (−0.694)
SIZE	-	-	1.024* (2.042)	−0.327*** (−3.508)
RISK	-	-	−1.558*** (−7.147)	0.492** (2.338)
Observations	112	112	112	112
Adjusted R^2	0.152	0.123	0.806	0.649

Variables	EQ Model 1: Mean Regression	EQ Model 1: Median Regression	FV Model 2: Mean Regression	FV Model 2: Median Regression
F Value	0.000		0.000	

*Note: * p<0.10, ** p<0.05, *** p<0.01*

Source: Processed data (2026)

Compared with the short-run estimation, the long-run model includes 96 observations because lagged variables are incorporated to capture longer-term effects. The adjusted R^2 value indicates that the model explains 64.5% of the variation in firm value. Although this explanatory power is slightly lower than that of the short-run model, the *p*-value of the F-test remains below 0.001. This result indicates that the explanatory variables are jointly significant in explaining firm value over the longer term.

Table 8. Long-run Mediation and Moderated Mediation Model

Variables	EQ Model 1: Mean Regression	EQ Model 1: Median Regression	FV Model 2: Mean Regression	FV Model 2: Median Regression
Constant	0.038 (0.457)	0.001 (0.007)	−0.110** (−2.666)	−0.118*** (−3.377)
DPR	0.925 (0.686)	−0.225 (−0.563)	0.021 (0.321)	−0.024 (−0.322)
ROA	−8.497 (−0.956)	−6.854 (−1.101)	−0.145 (−0.157)	−0.721 (−0.657)
CR	0.113 (1.598)	0.063 (0.964)	−0.006 (−0.185)	−0.031* (−1.712)
EQ	-	-	0.018 (1.441)	0.014 (0.567)
IOS	0.534 (0.659)	0.862 (0.743)	2.606*** (4.768)	1.931*** (4.533)
DPR × IOS	0.038 (0.237)	0.205** (2.269)	0.029 (1.138)	−0.009 (−0.684)
ROA × IOS	0.455 (0.511)	0.245 (0.375)	−0.252** (−2.323)	−0.151 (−0.712)
CR × IOS	−0.051*** (−4.076)	−0.056** (−2.083)	−0.016 (−1.388)	0.002 (0.334)
EQ × IOS	-	-	−0.021** (−2.500)	−0.008 (−0.789)
SIZE	-	-	0.348 (1.371)	0.809** (2.548)
RISK	-	-	−0.339*** (−4.098)	−0.947*** (−11.525)
Observations	96	96	96	96
Adjusted R^2	0.255	0.117	0.632	0.645
F Value	0.000		0.000	

*Note: * p<0.10, ** p<0.05, *** p<0.01*

Source: Processed data (2026)

Table 9 presents the results of the short-run mediation and moderated mediation analyses. The indirect effects of DPR, ROA, and CR on FV through EQ are statistically insignificant because the corresponding confidence intervals include zero. Therefore, H2 is not supported.

For example, the indirect effect of ROA on FV through EQ is −0.752, with a confidence interval ranging from −2.472 to 0.966. Since the lower-level confidence interval (LLCI) and upper-level confidence interval (ULCI) encompass zero, EQ does not significantly mediate the relationship between ROA and FV in the short run.

Table 9. Short-run Direct and Indirect Effects on Firm Value

Relationship	Direct Effect	LLCI	ULCI	Decision	Indirect Effect	LLCI	ULCI	Decision
DPR → FV	0.045	−0.375	0.283	Insignificant	0.064	−0.091	0.220	Insignificant
ROA → FV	1.050	−4.068	6.169	Insignificant	−0.752	−2.472	0.966	Insignificant
CR → FV	−0.011	−0.113	0.090	Insignificant	−0.005	−0.023	0.011	Insignificant

*Note: * p<0.10, ** p<0.05, *** p<0.01. Relevant t values are reported in parenthesis. LLCI = Lower-Level Confidence Interval; ULCI = Upper-Level Confidence Interval.*

Source: Processed data (2026)

Table 10 reveals a notable shift in the relationship between profitability and firm value in the long run. Unlike the short-run results, the direct effect of ROA on FV is positive and statistically significant (β = 19.120, $p < 0.01$), with a confidence interval ranging from 14.111 to 24.129. Since the confidence interval does not include zero, the findings indicate that profitability is positively associated with firm value among JII70-listed companies in the long run. However, consistent with the short-run findings, all indirect effects remain statistically insignificant because their respective confidence intervals include zero. Therefore, EQ does not significantly mediate the relationships between the explanatory variables and FV in the long run.

Table 10. Long-run Direct and Indirect Effects on Firm Value

Relationship	Direct Effect	LLCI	ULCI	Decision	Indirect Effect	LLCI	ULCI	Decision
DPR → FV	0.293	−0.433	1.019	Insignificant	−0.028	−0.119	0.062	Insignificant
ROA → FV	19.120***	14.111	24.129	Significant	−0.523	−1.746	0.698	Insignificant
CR → FV	−0.050	−0.210	0.109	Insignificant	−0.006	−0.027	0.013	Insignificant

*Note: * p<0.10, ** p<0.05, *** p<0.01. Relevant t values are reported in parenthesis. LLCI = Lower-Level Confidence Interval; ULCI = Upper-Level Confidence Interval.*

Source: Processed data (2026)

Discussion

To determine the short-run and long-run relationships, this study integrates a moderated mediation model with an autoregressive model. Based on the results, IOS is the most significant driver of FV, with positive and statistically significant coefficients in both the mean model (2.939, $p < 0.01$) and the median model (0.281, $p < 0.01$). This finding indicates that firms with greater growth opportunities tend to have higher market valuations due to their investment potential, as explained by real options theory (Myers, 1977). It also establishes that, for Shariah-compliant firms, the market places considerable value on future growth potential. This is consistent with the argument that growth opportunities increase the relevance of financial information in determining firm value (Collins & Kothari, 1989).

H1a is rejected in both periods, with coefficients of -0.002 in the short run and 0.0021 in the long run. These results indicate that DPR does not provide a strong signal to investors in JII70 firms, offering limited support for signaling theory (Spence, 1973). This suggests that investors in Shariah-compliant firms prioritize long-term growth prospects over the current DPR. The finding also contrasts with Bhattacharya (1979), who argues that investors prefer dividend

income to future capital gains. Although ROA shows no significant effect on FV in the mean regression, it has a positive and statistically significant effect in the median regression (32.454, $p < 0.01$). This result is aligned with signaling theory, as profitability serves as a positive signal, and supports H1b in the short run. The finding indicates that ROA influences FV across firms. It is also consistent with the research of Jariah (2016), which shows that higher profitability increases FV and reflects sustainable and ethical business performance (Rabiu et al., 2025). Moreover, H1c is rejected because CR is insignificant in both the short run (0.005) and the long run (-0.006), indicating that liquidity does not directly influence FV in this model. Since only ROA has a significant effect in the short run, H1 is partially supported overall.

Regarding the mediating role of EQ, H2 is rejected because EQ does not significantly affect FV in either the short run (0.045) or the long run (0.018). Although ROA significantly affects EQ in the short run (-6.372, $p < 0.10$), the absence of a significant effect of EQ on FV indicates that the mediation is incomplete. From the perspective of agency theory (Jensen & Meckling, 1976), EQ does not reduce information asymmetry. Similarly, according to information asymmetry theory, EQ does not serve as a strong signal for investors in reducing uncertainty (Akerlof, 1970). In particular, investors in JII70 firms appear to place greater value on future growth prospects than on accounting-based earnings quality.

Furthermore, Table 7 provides evidence of the moderating role of IOS. In Model 1, the interaction between CR and IOS (CR × IOS) is negative and statistically significant (-0.025, $p < 0.01$). This result indicates that high liquidity combined with substantial growth opportunities may reduce EQ, possibly due to the high costs of managing excess liquid assets while pursuing growth. This finding is consistent with real options theory (Myers, 1977), which positions growth opportunities as a dominant signal of future FV. In Model 2, the interaction between ROA and IOS (ROA × IOS) is significant, particularly at the median level (-3.262, $p < 0.01$). This implies that the market valuation of profitability changes depending on the firm's investment prospects. Moreover, an adjusted R-squared value of 0.806 indicates that the variables explain 80.6% of the variation in firm value, demonstrating the model's strong explanatory power for JII70 firms.

Regarding the moderating role, H3 is partially supported. IOS has a positive and statistically significant direct effect on FV in both timeframes, with coefficients of 2.939 ($p < 0.01$) in the short run and 2.606 ($p < 0.01$) in the long run. The interaction between ROA and IOS is negative and statistically significant in the short run (-0.686, $p < 0.10$; -3.262, $p < 0.01$) and in the long run (-0.252, $p < 0.05$). This indicates that the reliance on ROA weakens when growth opportunities are high. From the perspective of signaling theory, IOS acts as a forward-looking signal alongside financial indicators. H3a is rejected. The interaction between EQ and IOS (EQ × IOS) is partially supported, with coefficients of 0.003 and -0.014 in the short run and -0.021 ($p < 0.05$) and -0.008 in the long run. This indicates that IOS strengthens the relationship between EQ and FV in the long run, considering that EQ is a strong determinant of FV in the long term.

Similarly, the direct effects are insignificant, indicating that, in the presence of the moderator and mediator, the direct impact of financial determinants on firm value does not remain significant in the short run for JII70 firms. This illustrates that the relationship between financial determinants and FV is more complex than a simple linear or mediated pathway, as it depends on IOS, as shown in the previous regression tables. EQ consistently fails to act as a mediator between financial determinants and FV in both timeframes. Consequently, although profitability is strongly supported in the long run, H2 for mediation and H3b for moderated mediation are consistently rejected. This suggests that investors in the Shariah index prioritize direct financial performance and growth prospects over mediated accounting-quality metrics.

H3b is rejected because, although the moderated mediation role of EQ in relation to FV is significant in the long run (-0.021, $p < 0.05$), the effect of financial determinants on EQ is insignificant. The interaction effects are presented in Tables 9 and 10 through the direct and indirect effects. From the perspectives of Jensen and Meckling (1976) and Akerlof (1970), the insignificant mediation effect indicates that EQ does not sufficiently reduce information

asymmetry or enhance investor confidence in the Shariah capital market context. Investors particularly focus on directly observable indicators, such as profitability and future growth prospects. Subsequently, the moderated mediation analysis based on Hayes' (2017) Model 59 indicates that IOS fails to strengthen the mediating role of EQ in influencing FV.

CONCLUSION

This study aims to investigate the impact of financial determinants, including dividend policy, profitability, and liquidity, on the firm value of companies listed in the JII70 index. The study examines these relationships within the framework of the mediating role of earnings quality (EQ) and the moderating effect of the investment opportunity set (IOS) in both the short run and the long run.

The empirical results show that profitability has a significant effect on firm value in the short run; therefore, H1b is supported. Regarding the moderating role of IOS, H3 and H3a are partially supported. In contrast, the hypotheses concerning the effects of the dividend payout ratio (DPR) and liquidity, namely H1a and H1c, are rejected. The hypothesis regarding the mediating role of EQ, H2, is also rejected. Furthermore, the moderated mediation hypothesis, H3b, is rejected. These findings suggest that the market relies more heavily on growth signals and firm performance than on accounting quality. The results indicate that IOS is the most consistent and dominant driver of firm value across all models, while profitability serves as a prominent direct determinant, particularly in the long run. From the perspective of signaling theory, these findings suggest that growth opportunities serve as transparent and positive signals to the market, exceeding the influence of current accounting metrics. However, the study finds that EQ does not act as a significant mediator. The hypothesized moderated mediation effect is also not supported. This suggests that investors in JII70 firms prioritize direct growth prospects and tangible financial performance over accounting-quality metrics when reducing information asymmetry.

The practical implications suggest that managers of Shariah-compliant firms should optimize their investment opportunities and long-run profitability to enhance future growth prospects and maximize firm value. Firms should also disclose their growth prospects because such information acts as a positive signal to the market. Meanwhile, excessive liquidity should be managed prudently during periods of high growth.

Although this study is limited to companies listed in the JII70 index, the findings may also be relevant to other Islamic capital markets. The study is further limited by its use of relatively narrow proxies for EQ and IOS. Moreover, it does not capture macroeconomic conditions and other determinants of firm value, including global shocks that may affect firms differently in the short run and the long run. Future studies should consider incorporating macroeconomic variables or specific Shariah-governance indices to better capture the external environment affecting Islamic capital markets. In addition, future researchers could explore alternative proxies for transparency, such as cash holdings and leverage, to determine whether different measurement methods yield significant mediating effects in the Shariah-compliant context.

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