

Financial Decisions and Firm Value in Indonesia's Consumer Non-Cyclical Sector: The Mediating Role of Performance during Post-Pandemic Volatility

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Submitted: Dec 31, 2025

Accepted: Jan 8, 2026

Published: April 1, 2026

ABSTRACT

This study investigates the effects of investment decisions, capital structure, dividend policy, and institutional ownership on firm value, with firm performance as a mediating variable, in the consumer non-cyclical sector listed on the Indonesia Stock Exchange. The sample comprises 38 firms with 150 panel data observations for the 2020-2024 period, selected using purposive sampling. Data analysis employed panel regression models fixed effect and random effect, chosen based on preliminary tests and the Sobel test to assess mediation effects. The findings reveal that investment decisions and capital structure enhance firm performance, whereas dividend policy reduces performance, and institutional ownership exerts no significant influence. In the firm value model, only capital structure demonstrates a positive and significant effect, while other variables show no direct impact. Mediation analysis confirms that investment decisions and capital structure indirectly strengthen firm value through firm performance, as effective investment allocation and leverage improve productivity and profit, which the market interprets as higher valuation. Conversely, dividend policy and institutional ownership do not exhibit mediating roles. The novelty of this research lies in incorporating institutional ownership into the financial decision firm value framework, thereby extending governance perspectives in corporate finance. Theoretically, the study reinforces firm performance as a key transmission mechanism in corporate finance models, while practically it highlights the importance of performance-oriented strategies and governance-based ownership in sustaining firm value under market uncertainty.

Keywords: Firm Value; Investment Decision; Capital Structure; Dividend Policy; Institutional Ownership; Firm Performance

INTRODUCTION

The consumer non-cyclical sector encompasses business activities such as food and grocery retailing, beverages, processed food, agriculture, household necessities, tobacco products, and personal care, which are characterized by relatively stable demand regardless of economic conditions (Bursa Efek Indonesia, 2025). This sector has garnered growing scholarly and market attention in Indonesia, primarily due to its demonstrated resilience amid periods of macroeconomic uncertainty and economic volatility (Nursela et al., 2024). This characteristic positions the sector as an attractive investment alternative for investors seeking lower risk instruments with sustainable long term value creation (Pamungkas et al., 2024). Firm value captures the extent to which a company is able to enhance shareholder wealth and is commonly reflected through stock market prices that embody financial experts assessments of future performance (Melawati & Rahmawati, 2022).

The average fluctuation of Price to Book Value (PBV) in Indonesia consumer non-cyclical sector during the period 2020-2024 demonstrates inconsistent dynamics, despite the sector being



theoretically classified as defensive. The gradual increase from 6.96 in 2020 to 7.81 in 2023 reflects market optimism regarding post pandemic recovery. However, the subsequent decline to 5.93 in 2024 underscores the sector vulnerability to external pressures. The consumer non-cyclical sector was affected by weakened purchasing power and rising production costs during the pandemic and the initial phase of economic recovery (Bursa Efek Indonesia, 2021). Furthermore, the Financial Services Authority (OJK) identified external pressures such as the normalization of global commodity prices and rising interest rates as risks in its Third Quarter Report of 2024, which likely contributed to the market negative perception of firm value in the consumer non-cyclical sector (OJK, 2024). This fluctuation pattern indicates that firm value is influenced not only by external fundamental conditions but also by the responsiveness of managerial financial decisions amid economic uncertainty (Eka & Wahyudi, 2025).

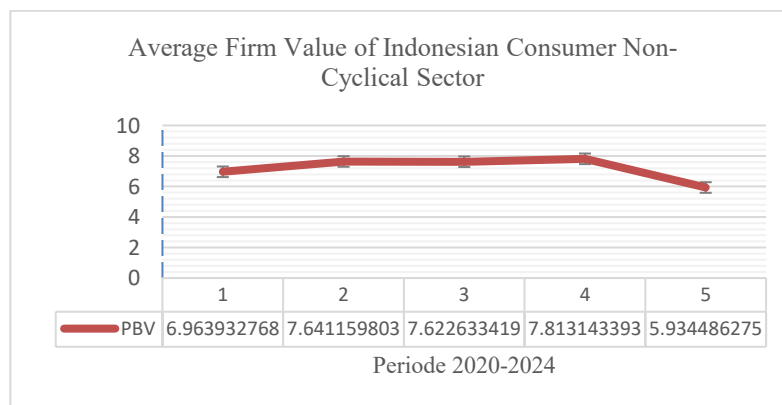


Figure 1. Average firm value
Source: Data processing by the author, 2025

Investment decisions constitute one of the primary mechanisms through which firms signal their future growth prospects (Setiawan & Prajitno, 2024). Ideally, appropriate investment choices convey positive signals to the market, thereby enhancing firm value (Ginanjar, 2021). However, empirical evidence remains inconclusive. Some studies report a positive effect of investment decisions on firm value (Nianty & Dewi, 2023; Mubarokah & Indah, 2021; Meutia et al. 2021). while others identify a negative relationship (Suteja et al., 2023; Kepramareni et al., 2024; Hasanuddin et al., 2021).

According to signaling theory, the use of debt is often interpreted as management confidence in the firm capacity to generate sustainable earnings, despite the associated risk of financial distress and bankruptcy costs (Himawan, 2022). An optimal capital structure is therefore expected to strengthen market confidence and enhance firm value (Elisa & Dwi, 2025). Empirical evidence, however, remains inconclusive: while several studies document a positive effect of leverage through tax benefits and improved managerial discipline (Nianty & Dewi, 2023; Rahman Alamsyah et al., 2020; Salju, Sapar, 2022). Meanwhile, prior studies have also documented a negative relationship between capital structure and firm value (Hasanuddin et al., 2021; Putu & Suhandi, 2021; Kurniawati et al., 2022).

Another factor used by firms to communicate their financial condition and future prospects to the market is dividend policy (Njoku & Lee, 2024). Dividends are often regarded as indicators of earnings stability and as a manifestation of managements commitment to shareholders (Juliani Putri, 2023). Based on signaling theory, firms that are able to maintain or increase dividend payments are perceived to have strong future cash flow prospects, thereby enhancing investors valuation of the firm (Nurhidayah et al, 2024). Several prior studies have documented a positive effect of dividend policy on value (Nianty & Dewi, 2023; Salju, Sapar, 2022; Meutia et al., 2021; Mubarokah & Indah, 2021).

Institutional ownership contributes to the formation of firm value perceptions, as it is widely considered to reflect the quality of corporate monitoring and governance (Aureola, 2025). Within the signaling theory framework, the presence of institutional investors such as pension funds,

insurance companies, and mutual funds is viewed as an indicator of stronger oversight and higher confidence from professional investors (Effendi & Prima, 2023). A high level of institutional ownership is therefore often perceived as a positive signal regarding governance quality, managerial credibility, and firm value prospects (Rachmat & Hendayana, 2023). Prior studies have found that institutional ownership positively influences firm value (Mohammad Syafik, 2025; Putu & Suhandi, 2021).

Given the substantial inconsistencies in prior research findings regarding the effects of investment decisions, capital structure, dividend policy, and institutional ownership on firm value, financial performance emerges as an important mediating mechanism (Haerunnisah et al., 2025). Previous studies have shown that investment decisions and dividend policy positively affect firm value when mediated by firm performance (Nianty & Dewi, 2023). The study Albriano et al., (2025); Haerunnisah et al., (2025) further find that firm performance positively mediates the relationship between capital structure and firm value. Other studies also document a positive mediating effect of firm performance on the relationship between institutional ownership and firm value (Rachmat & Hendayana, 2023). When financial decisions are able to enhance profitability, the market interprets the improvement in performance as a positive signal regarding the firm future prospects, leading to an increase in firm value (Cahyono et al., 2025). By incorporating financial performance as a mediating variable, this study provides a more comprehensive explanation and helps reconcile the inconsistencies observed in prior empirical studies.

The novelty of this study lies in the integration of institutional ownership into a performance-mediated model examining the effects of investment decisions, capital structure, and dividend policy on firm value in the consumer non-cyclical sector during the post-pandemic period. Despite extensive research on financial decisions and firm value, empirical evidence specifically highlighting the role of institutional ownership as a governance mechanism to enhance the effectiveness of financial decisions in this defensive sector remains limited. Previous studies, such as Nianty & Dewi, (2023), explored similar relationships without incorporating institutional ownership and focused on different sectors, while (Mohammad Syafik, 2025) primarily examined the effects of institutional and foreign ownership on firm performance without testing performance mediation comprehensively. Furthermore, this study employs panel data analysis using STATA version 17, distinguishing its methodological approach from prior research. By focusing on a sector that experienced significant post-pandemic dynamics, the study empirically demonstrates that institutional ownership strengthens the impact of investment decisions, capital structure, and dividend policy on firm value through performance mediation. Consequently, this research extends corporate finance literature by providing new empirical and methodological evidence, while highlighting practical relevance for managers and investors in optimizing financial decisions in defensive sectors under volatile market conditions.

LITERATURE REVIEW

Signaling Theory

Based on signaling theory proposed by Spence (1973), corporate financial decisions function as signals that convey information to external stakeholders, particularly investors, regarding the firm's internal conditions and future prospects. Management tends to disclose value relevant information, especially positive signals, as such disclosures are believed to enhance investor perception and confidence (Cahyono et al., 2025). Investment decisions, capital structure, dividend policy, and ownership structure serve as signals reflecting management confidence in future cash flows and long term firm performance. Prior studies indicate that productive investment activities signal growth optimism (Aditia & Kustinah, 2023). Meanwhile, the use of debt at an optimal level is perceived as a signal of the firm's ability to meet its obligations and manage financial risk (Gultom et al., 2022). Stable dividend payments are also regarded as signals of earnings quality and management commitment to shareholders (Juliani Putri, 2023). Similarly, high institutional ownership provides a signal of effective monitoring and confidence from professional investors (Nur & Bintara, 2023).

Agency Theory

Agency theory focuses on potential conflicts of interest between managers as agents and shareholders as principals (Jensen & Meckling, 1976). This perspective suggests that it is difficult to assume that management always acts in the best interests of shareholders, as divergent objectives often generate agency conflicts within the firm (Monica & Jonnardi, 2022). In practice, managers do not always align their actions with shareholder objectives due to the pursuit of personal interests, such as engaging in overinvestment, excessively avoiding debt usage, or adopting opportunistic dividend policies. Therefore, various financial policies are viewed as governance mechanisms designed to mitigate agency problems (Rachmat & Hendayana, 2023). The use of debt, for instance, can serve as a disciplinary tool by creating fixed payment obligations, dividend policy can limit excess free cash flow that may otherwise be misused; and institutional ownership enhances monitoring, thereby encouraging managerial decisions that are more closely aligned with shareholder interests.

Investment Decisions and Firm Performance

Accurate financial information enables both investors and management to properly assess asset utilization efficiency and profit potential, which supports improved capital allocation and overall performance (Mioduchowska, 2023). This argument is consistent with signaling theory, which posits that financial statements assist management in conveying signals to the market in order to reduce information asymmetry between managers and investors (Ross, 1997). Investment decisions positively affect firm performance, as supported by empirical findings (Atmaja & Utami, 2025; Alfisyahrin & Hanggraeni, 2024;). Therefore, the hypothesis is formulated as follows:

H1: Investment decisions have a positive effect on firm performance.

Capital Structure and Firm Performance

Capital structure reflects the composition of corporate financing derived from internal sources such as retained earnings and external sources such as debt or equity issuance, which play a role in supporting operational activities, maintaining financial stability, and enhancing firm performance and value in the long term (Satrio et al., 2024). From the perspective of Agency Theory, capital structure can constrain inefficient use of free cash flow and encourage management to focus on improving productivity and performance. Jensen & Meckling, (1976) explain that firms with an optimal capital structure tend to exhibit superior performance due to stricter monitoring mechanisms. Several previous studies indicate that capital structure has a positive effect on firm performance (Nwannunu, 2022). Consequently, this study proposes:

H2: Capital structure has a positive effect on firm performance.

Dividend Policy and Firm Performance

High dividend payments indicate firm stability in generating earnings, thereby strengthening investor confidence and contributing positively to improvements in firm value. Based on signaling theory, the magnitude of dividends distributed reflects the strength of firm performance and provides a positive indication to shareholders (Ginanjar, 2021). Dividend policy can enhance financial performance through efficient cash management and investor loyalty, which is consistent with prior research (Njoku & Lee, 2024). Therefore, the hypothesis is stated as follows:

H3: Dividend policy has a positive effect on firm performance.

Institutional Ownership and Firm Performance

Jensen & Meckling, (1976), According to Agency Theory proposed, institutional investors can play an important monitoring role that reduces agency conflicts between management and shareholders, thereby theoretically improving firm efficiency and value. Prior studies support the view that institutional ownership enhances firm performance (Sakawa & Watanabel, 2020; Effendi & Prima, 2023). Based on this reasoning, the following hypothesis is proposed:

H4: Institutional Ownership has a positive effect on firm performance.

Investment Decisions and Firm Value

Firms that are able to make appropriate investment decisions send positive signals regarding future growth prospects, thereby enhancing market perceptions of firm value (Nianty & Dewi, 2023). Signaling theory suggests that firm efficiency in generating profits provides positive signals to investors, strengthening market interest and increasing firm value (Kepramareni et al., 2024). Investment decisions positively affect firm value, as supported by prior findings (Nianty & Dewi, 2023; Mubarokah & Indah, 2021; Meutia et al., 2021). Accordingly, the hypothesis proposed in this study is as follows:

H5: Investment decisions have a positive effect on firm value.

Capital Structure and Firm Value

Capital structure essentially reflects how firms combine debt and equity financing to meet operational and expansion needs (Putu & Suhandi, 2021). Based on signaling theory, Ross, (1997) an increase in leverage may signal management confidence in the firm ability to meet its fixed obligations, given the risk of financial distress if debt obligations are not fulfilled. An optimal capital structure represents a financing combination that minimizes the cost of capital and thereby enhances overall firm value (Halawa et al., 2024). As discussed evidenced by previous research (Nianty & Dewi, 2023; Rahman Alamsyah et al., 2020; Salju, Sapar, 2022). Thus, the hypothesis is formulated as follows:

H6: Capital structure has a positive effect on firm value.

Dividend Policy and Firm Value

Dividend policy represents a key decision regarding profit distribution to shareholders and the retention of earnings for investment purposes. Signaling theory suggests that dividend payments provide positive signals regarding financial stability and future prospects (Rofifudin et al., 2025). This view is supported by studies showing that dividend policy positively affects firm value (Salju, Sapar, 2022; Meutia et al., 2021; Mubarokah & Indah, 2021). Therefore, the hypothesis is stated as follows:

H7: Dividend policy has a positive effect on firm value.

Institutional Ownership and Firm Value

Institutional investors possess superior analytical and monitoring capabilities, which enable them to curb opportunistic managerial behavior (Sakawa & Watanabel, 2020). Based on Agency Theory, institutional ownership plays an important role in monitoring management to ensure alignment with shareholder interests (Jensen & Meckling, 1976). Accordingly, institutional investors can encourage management to focus on enhancing firm value and shareholder welfare. Higher levels of institutional ownership are associated with better firm valuation, as supported by empirical findings (Putu & Suhandi, 2021). Thus, the hypothesis is formulated as follows:

H8: Institutional ownership has a positive effect on firm value.

Firm Performance and Firm Value

Firm performance can be defined as the firm achievements over a specific period, reflecting its operational condition and overall financial health (Elizabet & Saring, 2023). Signaling theory explains that improved performance reflects better future prospects, thereby providing positive signals that encourage investors to invest (Halawa et al., 2024). Firm performance is used to assess a firm ability to generate profits (Diana & Munandar, 2023). Empirical evidence indicates that performance indicators positively influence firm value, as supported by prior studies (Nianty & Dewi, 2023; Gz & Lisiantara, 2022; Pamungkas et al., 2024). Therefore, the hypothesis is stated as follows:

H9: Firm performance has a positive effect on firm value.

Investment Decisions, Firm Performance, and Firm Value

Based on signaling theory, profits generated through investment activities can enhance firm value because investors perceive them as evidence of management success in making effective

investment decisions (Suardhika et al., 2024). However, the effectiveness of this signal can only be interpreted by the market when investment outcomes are genuinely reflected in improved operational performance. Improvements in performance are then perceived by the market as indicators of managerial success, which subsequently lead to increases in firm value. Prior research explicitly confirms that firm performance serves as a positive mediating mechanism transmitting the effect of investment decisions on firm value (Nianty & Dewi, 2023; Suardhika et al., 2024). Accordingly, the hypothesis proposed is as follows:

H10: Firm performance mediates the effect of investment decisions on firm value.

Capital Structure, Firm Performance, and Firm Value

Based on Agency Theory proposed by Jensen & Meckling, (1976), capital structure not only reflects financing policy but also functions as a disciplinary instrument that encourages management to optimize the use of corporate resources. The smooth operation of business activities depends on the firm ability to manage capital, which is reflected in its capital structure composition. Firms with higher levels of debt face greater interest burdens (Yuswandani et al., 2023).

Studi Gultom et al. (2022) emphasize that optimally managed capital structure improves performance quality, which in turn reinforces firm value. Similarly, Haerunnisah et al., (2025); Meidiana Puri et al., (2024) find that the effect of capital structure on firm value often operates through improved performance as a mediating variable. Accordingly, the hypothesis is stated as follows

H11: Firm performance mediates the effect of capital structure on firm value.

Dividend Policy, Firm Performance, and Firm Value

Based in increasingly fundamentals sensitive markets, dividend signals are only meaningful when supported by genuinely strong firm performance. Bagiana et al., (2025) find that dividend policy positively affects firm performance. Juliani Putri, (2023) dan Pristiana & Murtadho, (2025) also find that market responses to dividends depend heavily on actual performance quality, with markets valuing dividends that reflect earnings sustainability. These findings indicate that firm performance serves as a critical link that strengthens the effectiveness of dividend signals on firm value. Thus, the hypothesis is formulated as follows:

H12: Firm performance mediates the effect of dividend policy on firm value.

Institutional Ownership, Firm Performance, and Firm Value

From an agency theory perspective, institutional ownership represents monitoring suppresses opportunistic behavior, enhances governance quality, and encourages firms to operate more efficiently (Abedin et al., 2022). Improvements in operational efficiency are reflected in firm performance, which subsequently forms the basis for higher market valuation. In other words, the market assigns higher valuations not merely due to the level of institutional ownership, but because of performance improvements generated through institutional monitoring mechanisms (Putu & Suhandi, 2021). Studies by, Cahyono et al., (2025) dan Rachmat & Hendayana, (2023) consistently show that firm performance mediates the effect of institutional ownership on firm value, particularly in emerging markets such as Indonesia.

H13: Firm performance mediates the effect of institutional ownership on firm value.

Based on the development of the above hypotheses, the conceptual framework of this study is presented in Figure 2.

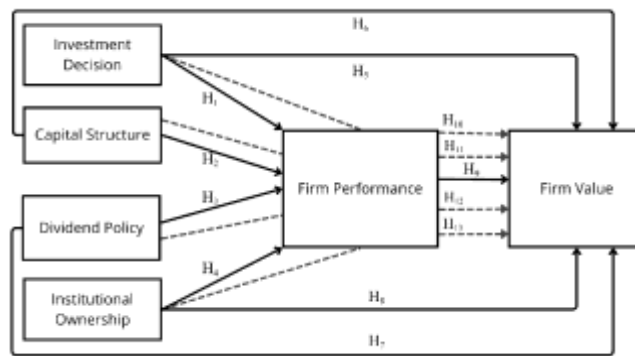


Figure 2. Conceptual Framework
 Data processing by the author, 2025

This study uses two regression models to analyze the relationships among variables. Model 1 assesses the effects of investment decisions, capital structure, dividend policy, and institutional ownership on firm performance. Model 2 investigates how firm performance mediates the effects of these financial decisions on firm value, allowing a clear evaluation of both direct and indirect impacts.

Model 1. Effect of Independent Variables on the Mediating Variable

$$\text{Performance} = \alpha + \beta_1 \text{Invest} + \beta_2 \text{Modal} + \beta_3 \text{Dividend} + \beta_4 \text{Ownership} + \varepsilon$$

Model 2. Effect of Independent Variables on the Dependent Variable

$$\text{Value} = \alpha + \beta_1 \text{Invest} + \beta_2 \text{Modal} + \beta_3 \text{Dividend} + \beta_4 \text{Ownership} + \beta_5 \text{Performance} + \varepsilon$$

Note:

- Value = Variable Dependent Firm Value
- Invest = Variable Independent Investment Decision
- Modal = Variable Independent Capital Structure
- Dividend = Variable Independent Dividend Policy
- Ownership = Variable Independent Institutional Ownership
- Performance = Variable Mediated Firm Performance
- α = Constant
- $\beta_1 - \beta_5$ = Koefisien Regresi Variable Investment Decision, Capital Structure, Dividend Policy, Institutional Ownership, and Firm Performance
- ε = Error/ Residual

METHODS

This study employs a quantitative research design using secondary data obtained from the annual financial statements of consumer non-cyclical companies over the period 2020-2024. The study is specifically aimed at examining the causal relationships between investment decisions, capital structure, dividend policy, and institutional ownership on firm value, with firm performance serving as a mediating variable. The analysis applies descriptive statistics and panel data regression techniques. Sample selection is conducted using a purposive sampling method based on specific criteria, which are presented in Table 1 below.

Table 1. Sample Selection Criteria

No	Description	Quantity
1.	Total number of top tier consumer non-cyclical firms listed on the Indonesia Stock Exchange (IDX) during the 2020-2024 period	43 firms
2.	Initial number of firm year observations (43 firms x 5 years)	215 observations

3.	Observations excluded due to incomplete financial disclosures during the 2020-2024 period	(16 observations)
4.	Observations excluded due to the absence of dividend distribution during the 2020-2024 period	(36 observations)
5.	Observations excluded due to the absence of institutional ownership during the 2020-2024 period	(11 observations)
6.	Observations excluded due to negative net income during the 2020-2024 period	(2 observations)
Final sample observations		150 observations

Source : Data Processing by the authors, 2025

This study employs a quantitative research design using secondary data obtained from the annual and financial reports of consumer non-cyclical firms listed on the Main Board of the Indonesia Stock Exchange during the 2020-2024 period. From an initial population of 43 firms, purposive sampling yields an unbalanced panel dataset consisting of 150 firm year observations from 38 companies. Data were analyzed using Stata version 17, including model selection procedures through the Chow and Hausman tests, followed by classical assumption tests for heteroskedasticity and autocorrelation. To address any detected violations, the estimations were adjusted using clustered robust standard errors to ensure statistical robustness (Cameron & Miller, 2015). In addition, mediation analysis between the independent variables and firm value was conducted using the Sobel test, implemented through Daniel Soper mediation calculator, to verify the indirect effect of financial performance on the relationships among variables.

To ensure consistency with the research objectives, all independent and dependent variables were operationalized using specific indicators for empirical testing, as presented in Table 2.

Table 2. Operational Definitions and Measurements

No	Variable	Information	Measurement
1	Firm Value	Firm value reflects stock prices as an indicator of investors' confidence in the firms prospects and the effectiveness of managerial performance (Albriano et al., 2025). Value is proxied by ratio Price to Book Value (PBV).	$PBV = \frac{\text{Stock Prices}}{\text{Book Value}}$
2	Investment Decision	Represents the proportion of <i>current assets to total assets</i> , reflecting management decisions regarding liquidity and short-term capital allocation. Companies with a high CATA ratio tend to prioritize investments that enhance operational flexibility and support business growth. (Nianty & Dewi, 2023).	$CATA = \frac{\text{Current Aset}}{\text{Total Aset}}$
3	Capital Structure	Capital structure is measured using the Debt to Equity Ratio (DER), which reflects managerial decisions regarding the proportion of debt and equity financing to optimize funding efficiency and maintain long term financial stability (Gultom et al., 2022).	$DER = \frac{\text{Total Debt}}{\text{Total Equity}}$

4	Dividend Policy	Dividend policy is measured by the Dividend Payout Ratio (DPR), which indicates the proportion of earnings distributed to shareholders as a signal of financial stability and confidence in future performance (De Villiers et al., 2024).	$DPR = \frac{\text{Dividend}}{\text{Net Income}}$
5	Institutional Ownership	Institutional ownership represents the extent of monitoring and control exercised by institutional investors over managerial decisions (Rachmat & Hendayana, 2023).	$KI = \frac{\text{Share institutional Investor}}{\text{Outstanding share}}$
6	Firm Performance	Firm performance reflects the company ability to generate profits through the efficient utilization of its assets and equity. Performance is measured using Return on Equity (ROE) (Albriano et al., 2025).	$ROE = \frac{\text{Net Income}}{\text{Total Equity}}$

Data processing by the author, 2025

RESULT

Descriptive statistics are employed to summarize the main characteristics of the data, including the mean, minimum, maximum, and standard deviation, thereby providing an initial overview of data distribution prior to subsequent analysis. The results are reported in Table 3.

Table 3. Descriptive Statistics

Variable	Obs	Mean	Std. dev.	Min	Max
Value	150	3.97712	7.768213	.2436257	56.7919
Invest	150	.4575494	.1810217	.143317	.8973589
Modal	150	1.057658	.9873598	.0719886	6.465892
Dividend	150	.5626679	.6488766	.0049355	6.381487
Ownership	150	.6551619	.2059104	.0049355	.9535391
Performance	150	.2058356	.2656247	.0015295	1.567368

Source : STATA 17, data processing 2025

Based on Table 3, firm value (Value) exhibits a mean of 3.9771, with substantial dispersion reaching a maximum of 56.79. This indicates considerable heterogeneity in firm valuation, where certain firms possess markedly higher market values than others. The investment decision variable (Invest) records an average of 0.4575, suggesting that approximately 45.75% of corporate assets are allocated to investment activities. This reflects firms tendency to balance productive asset utilization with operational requirements. The capital structure variable (Modal) reports a mean value of 1.0576, implying that most firms rely relatively heavily on debt financing, although notable variation exists across firms. Dividend policy (Dividend) shows an average of 0.5626, indicating that, on average, firms distribute around 56.2% of their available earnings as dividends. However, the maximum value of 6.38 suggests that some firms adopt exceptionally aggressive dividend policies. Institutional ownership (Ownership) averages 65.51%, highlighting the dominant role of institutional investors in ownership structures, which may enhance managerial monitoring and governance effectiveness (Abedin et al., 2022). Finally, firm performance (Performance) has a mean of 0.2058, indicating that sample firms generate an average return of approximately 20.58% on equity. The maximum value of 1.5673 reflects the presence of firms with substantially higher profitability relative to the sample average.

Following the initial insights obtained from descriptive statistics, the study proceeds with a series

of preliminary tests, including the Chow test and the Hausman test, to determine the most appropriate panel data model specification prior to regression estimation. These tests are employed to identify whether the common effects, fixed effects, or random effects model is more suitable. The results of these tests are presented in Table 4.

Table 4. Preliminary test

Model	Test	Conditions	Measure	Result	Applied
1	Uji Chow	H1 (FEM) H0 (CEM)	< 0.05	0.0000	FEM
	Uji Hausman	H1 (FEM) H0 (REM)	< 0.05	0.0002	FEM
2	Uji Chow	H1 (FEM) H0 (CEM)	< 0.05	0.0000	FEM
	Uji Hausman	H1 (FEM) H0 (REM)	< 0.05	0.0000	FEM

Source : STATA 17, data processing, 2025

The Chow test is applied to select the appropriate specification between the Common Effects Model (CEM) and the Fixed Effects Model (FEM). The null hypothesis assumes that the CEM is adequate. A p-value below 0.05 indicates rejection of the null hypothesis, implying that the FEM provides a better fit to the data (Gujarati & Porter, 2009). The results indicate that both Model 1 and Model 2 are best estimated using the Fixed Effects Model. Subsequently, the Hausman test is employed to distinguish between the Random Effects Model (REM) and the Fixed Effects Model (FEM). Under the null hypothesis, the REM is consistent and efficient. A p-value below 0.05 supports the FEM specification, while a p-value above 0.05 favors the REM (Gujarati & Porter, 2009). The test results confirm that Model 1 and 2 is appropriately estimated using the Fixed Effects Model.

To ensure the reliability of the panel regression estimates, classical assumption tests are conducted, including heteroskedasticity and autocorrelation diagnostics. These tests are performed to verify that the disturbance terms exhibit constant variance and are free from serial correlation. The summarized results of these diagnostic tests are presented in the following table.

Table 5. Diagnostic Test Results

Model	Classical Assumption Tests	Prob.	Information
1	Heterokedastisitas	0.0000	Occured
	Autokorelasi	0.5683	Not Occured
2	Heterokedastisitas	0.0000	Occured
	Autokorelasi	0.0000	Occured

Source: STATA 17, data processing, 2025

The results of the classical assumption tests for both research models are reported in Table 5. The heteroskedasticity tests for Model 1 and Model 2 yield probability values of 0.0000, indicating the presence of heteroskedastic error variances across cross sectional units. Regarding autocorrelation, Model 1 does not exhibit serial correlation, as indicated by a probability value of 0.5683, which exceeds the 5% significance level. In contrast, Model 2 shows evidence of autocorrelation with a probability value of 0.0000. Given the presence of heteroskedasticity in both models and autocorrelation in Model 2, subsequent estimations employ the Fixed Effects estimator with clustered robust standard errors to obtain consistent and unbiased results (Cameron & Miller, 2015).

The multicollinearity test was conducted to ensure no high correlation among independent variables.

Tabel 2. Multicollinearity Test

Variabel	VIF	1/VIF
Invest	1.36	0.825210
Modal	1.32	0.809684
Dividend	1.24	0.757296
Ownership	1.21	0.941453
Performance	1.06	0.737097
Mean VIF	1.24	

Source : STATA 17, data processing, 2025

The multicollinearity test was conducted using the Variance Inflation Factor (VIF) and Tolerance (1/VIF) values to ensure that the independent variables in the regression model are not highly correlated, thereby allowing valid interpretation of the estimated coefficients.

The following section presents the hypothesis testing results based on the panel regression estimates. The analysis evaluates the direct effects of each independent variable on the dependent variable, with the estimation results and significance levels reported in the subsequent table.

Table 7. Results of Hypothesis Testing for Models 1 and 2

Model	Performance	Coefficien t	Robust std. err.	t	P> t	Result
1	Invest	.4520043	.1611751	2.80	0.008***	Supported
	Modal	.0596133	.0211843	2.81	0.008***	Supported
	Dividend	-.0982523	.0414009	-2.37	0.023**	Not Supported
	Ownership	-.275794	.2380517	-1.16	0.254	Not Supported
	R-squared	0.0005				
	Within	0.2402				
	F	3.53				
	Prob>F	0.0160				
Model	Value	Coefficien t	Robust std. err.	t	P> t	Result
2	Invest	-3.058888	2.385029	-1.28	0.208	Not Supported
	Modal	.6725148	.3918769	1.72	0.095*	Supported
	Dividend	.1925993	.2469736	0.78	0.441	Not Supported
	Ownership	-2.107103	2.114027	-1.00	0.326	Not Supported
	Performance	3.581148	1.634485	2.19	0.035**	Supported
	R-squared	0.3459				
Within	0.1637					

F	5.64
Prob>F	0.0007
*10% Sign	
**5% Sign	
***1% Sign	

Source : STATA 17, data processing, 2025

The regression results indicate that investment decisions have a positive and statistically significant effect on firm performance, with a coefficient of 0.4520 and a probability value of 0.008, supporting the first hypothesis. Capital structure also shows a positive and significant relationship with firm performance, as reflected by a coefficient of 0.0596 and a probability value of 0.008, thereby supporting the second hypothesis. In contrast, dividend policy exhibits a negative significant effect on firm performance, with a coefficient of minus 0.0982 and a probability value of 0.023, leading to the rejection of the third hypothesis. Institutional ownership does not have a significant effect on firm performance, indicated by a probability value of 0.254, and therefore the fourth hypothesis is not supported. The within R squared value of 0.2402 suggests that the independent variables jointly explain twenty four percent of the variation in firm performance. Despite the moderate explanatory power, the model demonstrates adequate overall significance, as confirmed by the F test with a probability value of 0.016.

In the second model, investment decisions do not significantly influence firm value, with a probability value of 0.208, resulting in the rejection of the fifth hypothesis. Capital structure shows a positive association with firm value and marginal statistical significance, with a coefficient of 0.6725 and a probability value of 0.095, supporting the sixth hypothesis. Dividend policy and institutional ownership do not exhibit significant effects on firm value, leading to the rejection of the seventh and eighth hypotheses. Firm performance has a positive and statistically significant effect on firm value, with a coefficient of 3.5811 and a probability value of 0.035, supporting the ninth hypothesis. The within R squared value of 0.1637 indicates that the model explains sixteen percent of the variation in firm value. Although the explanatory power is moderate, this is consistent with market-based valuation models where firm value is influenced by substantial external factors.

The mediating role of firm performance is assessed using the Sobel test. A probability value below 0.05 indicates significant mediation, whereas a value above this threshold indicates that the mediating effect is not supported. The mediation test results are reported in the subsequent table.

Table 8. Mediation Analysis

Variabel	t	P> t	Result
Invest→Performance→Value	1.72	0.042	Supported
Modal→Performance→Value	1.72	0.041	Supported
Dividend→Performance→Value	-1.60	0.053	Not Supported
Ownership→Performance→Value	-1.02	0.152	Not Supported

Source : STATA 17, data processing, 2025

The mediation test results indicate that financial performance acts as a significant mediator in the relationship between investment decisions and firm value, as reflected by a t-value of 1.72 with a significance level of 0.042. A similar pattern is also observed in the relationship between capital structure and firm value, where financial performance again serves as a mediating variable with a t-value of 1.72 and a significance level of 0.041. Accordingly, the tenth and eleventh hypotheses are empirically supported. In contrast, dividend policy does not exhibit a significant mediating effect, as indicated by a t-value of minus 1.60 with a significance level of 0.053, nor does

institutional ownership, which yields a t-value of minus 1.02 and a significance level of 0.152, leading to the rejection of the twelfth and thirteenth hypotheses. Overall, these findings confirm that investment decisions and capital structure play an important role in enhancing firm value through financial performance as a mediating mechanism, while dividend policy and institutional ownership do not demonstrate a significant mediating effect.

DISCUSSION

Discussion of the First Hypothesis

Empirical findings reveal that investment decisions have a positive significant on firm performance. This finding is consistent with prior studies (Nianty & Dewi, 2023; Suardhika et al., 2024; Rita & Fuji, 2022). Firms that consistently undertake strategic investments tend to exhibit improved operational efficiency and enhanced profit margins, thereby strengthening perceptions of credibility and stability among investors (Rofifudin et al., 2025). Within the consumer non-cyclical sector during 2020-2024, market volatility has reinforced the importance of actual performance as an indicator of managerial capability in addressing uncertainty. Accordingly, appropriate investment decisions operate as managerial signals that translate into performance improvements.

Discussion of the Second Hypothesis

Observed results demonstrate that capital structure positively affects firm performance. This result is consistent with previous studies reporting a positive effect of capital structure on firm performance (Nianty & Dewi, 2023; Nugraha, 2025; Nwannunu, 2022). Empirically, firms with an optimal debt proportion tend to deploy funds to strengthen operations and support demand recovery, thereby achieving more stable and measurable performance. Within the consumer non-cyclical sector during 2020-2024, characterized by high volatility, managerial decisions to strategically utilize debt provide positive signals to the market regarding the firm's capacity to manage productive projects and generate sufficient cash flows to meet financial obligations.

Discussion of the Third Hypothesis

Higher dividend payments reduce internal funds that could otherwise be allocated to expansion and productive investment, thereby constraining revenue growth and stock price appreciation. This condition ultimately limits firm growth potential and is reflected in weaker performance (Ilhamsyah & Soekotjo, 2017; Juliani Putri, 2023). Empirically, consumer non-cyclical firms in 2024 faced external pressures that significantly reduced firm value, leading many firms to maintain dividend payments to preserve investor perceptions, although such decisions constrained reinvestment capacity needed to sustain performance. These findings are consistent with Obot et al., (2022) dividend distribution can suppress financial performance when not supported by sufficient earnings capacity. This result is further reinforced by ; who demonstrate that high dividend payouts may reduce internal financing flexibility and consequently lower firm performance.

Discussion of the Fourth Hypothesis

The results indicate that institutional ownership does not affect firm performance. This outcome suggests that high institutional ownership does not necessarily exert sufficient pressure on management to improve financial performance (Rachmat & Hendayana, 2023). Insignificance of these results reflects the limited effectiveness of internal monitoring mechanisms in enhancing firm performance under unstable market conditions. Empirically, several consumer non-cyclical firms exhibit high institutional ownership, such as PT Unilever Tbk, PT Mulia Boga Raya Tbk, and Sariguna Primatirta Tbk, yet firm performance fluctuated during 2020-2024, indicating that institutional investors may prioritize market value stability rather than operational control. This finding is consistent with previous studies reporting that institutional ownership does not always effectively enhance firm performance (Setiawan & Prajitno, 2024; Hertina et al., 2021; Khairunnisa et al., 2022).

Discussion of the Fifth Hypothesis

The results show that investment decisions do not necessarily enhance firm value under

conditions of external instability and heightened risk sensitivity. This is consistent with Bon & Hartoko, (2022); Erpina et al., (2025); Ramansyah et al., (2023). In the consumer non-cyclical sector during 2020-2024, firm value volatility weakened the market response to long-term investment policies, as investor sentiment was more strongly driven by stock price fluctuations than by asset based investment decisions. Firms must therefore be capable of managing investment risks effectively to translate investment decisions into higher firm value (Suteja et al., 2023).

Discussion of the Sixth Hypothesis

The use of debt is perceived as a signal conveyed by management to the market regarding confidence in firm prospects and commitment to value enhancement (Rahman Alamsyah et al., 2020). A high level of debt conveys to the market that management is confident in the firm ability to meet its financial obligations. Consequently, an appropriately managed capital structure enhances market perceptions of firm value. Hence the reflects investors rational response to the controlled and value oriented use of debt, rather than a mere mechanical consequence of increased leverage. Debt usage can also prevent managers from misusing excess cash for non value adding activities or investing in unprofitable projects (Ade & Musdholifah, 2023). This finding is consistent with prior studies (Salju, Sapar, 2022; Nurhidayah et al., 2024; Halawa et al., 2024).

Discussion of the Seventh Hypothesis

Dividend policy does not affect firm value. Empirically, firm value in the consumer non-cyclical sector declined in 2024, during which investors focused more on macroeconomic uncertainty, such as rising production costs and commodity price normalization, than on dividend signals. In addition, inconsistent dividend payments despite positive earnings weakened the credibility of dividend signals (Rahman Alamsyah et al., 2020). Accordingly, firms should design a progressive dividend policy strategy, whereby a stable payout level is maintained and supplemented with special dividends under specific conditions (Nguyen et al., 2021). The insignificance of dividend policy effects indicates a shift in investor focus from profit distribution signals toward fundamental indicators that better capture the resilience and sustainability of firm performance. These align with prior studies (Nofi & Purwidianti, 2024; Natsir & Yusbardini, 2020).

Discussion of the Eighth Hypothesis

The findings indicate that institutional ownership has no significant effect on firm value. This insignificance is consistent with the dynamics of the consumer non-cyclical sector during 2020-2024, when market pressures and heightened systemic risk broadly suppressed firm value, including among firms with high levels of institutional ownership. Thomsen *et al.* (2006); Hertina et al., 2021) argue that high ownership concentration may weaken protection for minority shareholders, as institutional owners may pursue objectives beyond firm value maximization. This result is in line with Setiawan & Prajitno, (2024); Hertina et al., (2021); Khairunnisa et al., (2022), who show that institutional ownership does not always translate monitoring functions into higher market valuation. Consequently, the market does not interpret high institutional ownership as a sufficiently strong signal of value creation, indicating that the valuation relevance of institutional ownership is conditional on its ability to generate performance outcomes that are both timely and observable.

Discussion of the Ninth Hypothesis

From a valuation perspective, the positive effect of firm performance on firm value reflects investors' reliance on observable and verifiable fundamentals when assessing firms under economic uncertainty. Amid fluctuations in firm value within the consumer non-cyclical sector during 2020-2024, driven by weakening demand, rising production costs, and commodity price normalization, firms with superior performance continued to be perceived as more valuable due to their ability to maintain efficiency and financial resilience under market pressure. Under such turbulent conditions, investors tend to rely on the most credible fundamental indicators, making stable performance a primary signal of firm quality. Consequently, performance serves as a key determinant of market value by reducing uncertainty and strengthening investor confidence in long

term prospects. These findings are supported by Nianty & Dewi, (2023); Fauziah et al., (2024); Gz & Lisiantara, (2022) who indicating that firm value is shaped not merely by expectations, but by demonstrated financial resilience and earnings-generating capacity.

Discussion of the Tenth Hypothesis

Viewed through a valuation lens, investment decisions affect firm value indirectly because capital spending entails time lags, operational risks, and unpredictable outcomes, Firm performance therefore serves as a credibility filter, validating whether investment decisions genuinely create economic value rather than merely increasing asset size. This mechanism explains why the market rewards investment activity only after it is substantiated by improved performance, reinforcing performance as the key transmission channel between investment decisions and firm value. The Indonesian consumer non-cyclical sector during 2020-2024 experienced a decline in firm value in 2021, followed by another downturn in 2024, indicating that investors relied more heavily on performance indicators that directly reflect firm ability to withstand market pressure, such as operating cash flows and profit margins, rather than asset based investment indicators. Investors tend to seek rapid and observable signals, whereas investment outcomes require time to materialize (Alfisyahrin & Hanggraeni, 2024). As a result, investment decisions translate into higher market value only when they successfully enhance firm performance. This finding is consistent with prior studies emphasizing performance as the primary determinant of firm value (Nianty & Dewi, 2023; Suardhika et al., 2024; Kumalasari, 2020; Raffi Uz-zaky et al., 2024).

Discussion of the Eleventh Hypothesis

The effect of capital structure on firm value is found to occur indirectly through firm performance, indicating that new financing contributes to higher firm value only when it leads to improved performance. Although debt can enhance managerial discipline and curb agency problems, its value relevance depends on the firm's ability to convert financing into operational efficiency and sustainable earnings (Jensen & Meckling, 1976). However, in periods of heightened uncertainty, leverage alone may even be interpreted as a source of financial risk rather than a value enhancing mechanism, leading investors to discount its direct effect on firm value. Firm performance therefore functions as an information-revealing channel that verifies whether debt is employed productively or merely increases financial exposure. During the decline in firm value in 2024, investors placed greater emphasis on earnings stability than on capital structure, implying that leverage is valued only after it improves efficiency and profitability. The relatively weak mediation effect suggests that the market capitalizes capital structure decisions only after their disciplinary benefits are evidenced through improved profitability and earnings stability, thereby reinforcing firm performance as the critical conduit through which leverage translates into higher firm value. This finding is consistent with (Haerunnisah et al., 2025).

Discussion of the Twelfth Hypothesis

Dividend policy is found no affect firm value indirectly through firm performance, with a negative direction, as dividend payments reduce retained earnings and limit profit generating capacity, thereby weakening perceptions of firm value. Although dividends may theoretically serve as signals of future cash flows, such signals become less effective when dividend payments constrain investment capacity and performance, as observed among many consumer non-cyclical firms during market pressure in 2020-2024, reduced internal funds weaken firms' capacity to maintain margins and operational efficiency, thereby deteriorating performance-based valuation metrics. The relatively weak but significant mediation effect indicates that the market responds more strongly to profit reductions resulting from dividend payouts than to the positive signal intended through cash distributions. This finding aligns with Said, (2024) concludes that dividend payments reducing internal funds can weaken firm value through declining performance.

Discussion of the Thirteenth Hypothesis

From a governance perspective, the absence of an indirect effect reflects the limited transmission of institutional monitoring into operational performance under conditions of heightened external

volatility. Although institutional investors possess the resources and incentives to monitor management, their influence tends to be exercised at a strategic or portfolio level rather than through direct involvement in day-to-day operational decisions that drive short-term profitability. During 2021-2024, firm value was heavily influenced by external factors such as commodity prices, interest rates, and inflation, reducing the relevance of internal governance mechanisms in shaping market value, particularly when external pressures dominate. As investors place greater weight on macro-driven fundamentals than on internal monitoring structures when external uncertainty dominates. These findings are consistent with Setiawan & Prajitno, (2024); Hertina et al., (2021); Khairunnisa et al., (2022).

CONCLUSION

This study shows that investment decisions and capital structure have a positive effect on firm performance, consistent with signaling theory and agency theory. In contrast, dividend policy and institutional ownership do not have a significant impact on firm performance. In Model 2, most financial variables do not exert a direct effect on firm value, with the exception of capital structure and firm performance, both of which are shown to enhance firm value. The Sobel mediation test further strengthens the evidence that investment decisions and capital structure influence firm value indirectly through firm performance, whereas institutional ownership and dividend policy do not exhibit mediating effects. These findings confirm that firm performance functions as a key mediator linking financial decisions to firm value, reinforcing the notion that the market responds more strongly to performance as a primary signal than to internal financial policies.

The implications of these findings highlight the importance of prioritizing performance improvement through productive investment, optimal debt management, and a balanced dividend policy that maintains investor confidence while preserving internal funds for reinvestment. Institutional investors are also encouraged to strengthen their monitoring role to more effectively support performance enhancement. For investors, this study underscores that firm performance remains the most critical indicator in investment decision making, as the market is more responsive to corporate fundamentals than to internal financial policy choices. This study contributes to the literature by extending existing financial decision–firm value models through the inclusion of institutional ownership and by confirming firm performance as a central transmission mechanism. Future research may consider several extensions. First, governance related variables such as managerial ownership could be incorporated, as prior studies Hertina et al., (2021); Effendi & Prima, (2023) show that this variable strengthens the alignment of interests between management and shareholders. Second, audit committee effectiveness may be included as an independent variable, given evidence from Hertina et al., (2021); Saragih & Tampubolon, (2023) emphasizing its role in enhancing oversight and reporting quality. Third, future studies may expand the sample by conducting cross-subsector comparisons within the consumer non-cyclical industry to capture greater variation in business characteristics and financial structures, an approach recommended in contemporary industry studies to achieve more robust generalizability.

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