

ASSESSING THE IMPACT OF EARNINGS QUALITY AND FINANCIAL FLEXIBILITY ON FIRM VALUE: INSTITUTIONAL OWNERSHIP AS A MODERATING FACTOR

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Abstract

The aim of this study was to empirically investigate the impact of financial flexibility and profits quality on business value with institutional ownership serving as a moderating variable. Since a company's worth increases with its cash management, this study examines cash holdings to gauge financial flexibility. All non-cyclical consumer sector businesses listed on the Indonesia Stock Exchange (IDX) in 2021–2023 make up the study's population. Purposive sampling combined with non-probability sampling was the sample strategy employed in this study, which yielded 67 firms. Using the SPSS software, this research method is called Moderated Regression Analysis (MRA). The findings demonstrated that firm value is unaffected by earnings quality. Because the market reaction is usually negative, low earnings quality cannot raise firm value. Firm value is positively and significantly impacted by financial flexibility. The correlation between business value and earnings quality is strengthened by institutional ownership. The association between corporate value and financial flexibility is weakened by institutional ownership. The corporation has not engaged in strategic decision-making with business-savvy institutional investors. Because they think the business's cash reserves are susceptible to misuse by corporate management, investors do not include them in their investment.

Key Words: Earnings Quality, Financial Flexibility, Institutional Ownership, Firm Value

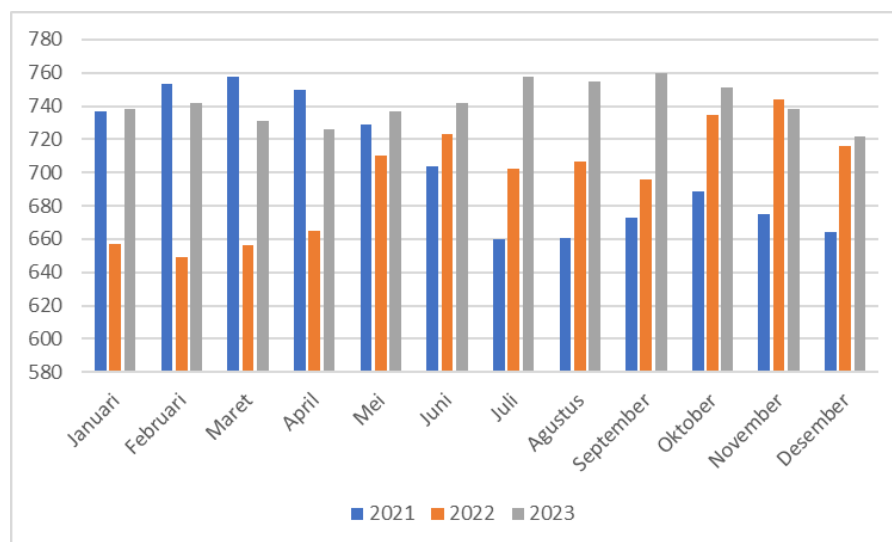
Abstrak

Tujuan dari penelitian ini adalah untuk menginvestigasi secara empiris dampak dari fleksibilitas keuangan dan kualitas laba terhadap nilai perusahaan dengan kepemilikan institusional sebagai variabel moderasi. Karena nilai perusahaan meningkat dengan manajemen kasnya, penelitian ini menguji kepemilikan kas untuk mengukur fleksibilitas keuangan. Seluruh bisnis sektor konsumen nonsiklus yang terdaftar di Bursa Efek Indonesia (BEI) pada tahun 2021-2023 menjadi populasi penelitian ini. Purposive sampling yang dikombinasikan dengan non-probability sampling adalah strategi sampel yang digunakan dalam penelitian ini, yang menghasilkan 67 perusahaan. Dengan menggunakan perangkat lunak SPSS, metode penelitian ini disebut Moderated Regression Analysis (MRA). Temuan penelitian menunjukkan bahwa nilai perusahaan tidak dipengaruhi oleh kualitas laba. Karena reaksi pasar biasanya negatif, kualitas laba yang rendah tidak dapat meningkatkan nilai perusahaan. Nilai perusahaan dipengaruhi secara positif dan signifikan oleh fleksibilitas keuangan. Korelasi antara nilai perusahaan dan kualitas laba diperkuat oleh kepemilikan institusional. Hubungan antara nilai perusahaan dan fleksibilitas keuangan diperlemah oleh kepemilikan institusional. Perusahaan tidak terlibat dalam pengambilan keputusan strategis dengan investor institusional yang mengerti bisnis karena mereka berpikir bahwa cadangan kas perusahaan rentan disalahgunakan oleh manajemen perusahaan, sehingga investor tidak menyertakannya dalam investasi mereka.

Kata Kunci: Kualitas Laba, Fleksibilitas Keuangan, Kepemilikan Institusional, Nilai Perusahaan

INTRODUCTION

The level of economic growth of a country can be determined by the volume of stock transactions that occur in capital market activities. Positive information about the economic growth rate encourages stock trading in the capital market. Increased stock transactions indicate that more shares are being bought and sold, which increases the capitalization of the company's shares. The firm's value is explained by the capitalization of its shares. The constant goal of the company is to increase the stock market value. The stock market value shows the growth of the company in the market. The company's performance, both financial and non-financial, can be the source of this appreciation. As a measure of the market's assessment of the company overall, firm value is a significant concept for investors. Firm value can be viewed as the opinion of an investor. Firm value is significantly impacted by both stock market prices and investment opportunities. As investments provide management with a positive indicator of future growth potential, stock values rise. As the share price increases, firm value will also increase (Mukhtaruddin et al., 2024). Consumer non-cyclical stocks are issued by businesses whose operations are not impacted by national economic cycles or seasonality. Since the products supplied are necessities that people constantly require, a stock or issuer joins the consumer non-cyclical. As a result, neither the economic climate nor the seasons have an impact on its sales. Because they are less risky than cyclical equities, consumer non-cyclical stocks are frequently provided to inexperienced investors because to their generally stable values. The performance of the consumer non-cyclicals sector stocks in 2021–2023 is explained in Figure 1.



Source. Indonesia Stock Exchange, 2025

Figure 1. Stocks Performance on Consumer Non-Cyclical Sector in 2021 - 2023

Data from the Indonesia Stock Exchange (IDX) indicates that there was volatility in the performance of shares in the consumer non-cyclicals sector between 2021 and 2023. These stocks tend to fall between January and December of 2021. Stock performance started to rise in 2022 but then veered off again in 2023. Since the start of the year, the consumer non-cyclicals sector—which is dominated by firms with high market capitalizations—has tended to be down. Furthermore, this industry has a higher proportion of defensive stocks, indicating that fewer sentiments could influence the share price movement. The purchasing power of the populace is still insufficient to exert pressure on this sector's equities. Due to increasing demand, enterprises in this industry saw good sales in 2021; however, this performance was not necessarily reflected in company values. This is consistent with increased cost constraints brought on by global supply networks and logistics disruptions. With rising global inflation and interest rate changes driving up the cost of capital, the difficulties in 2022 get more complicated. This affects how risk is perceived by investors, which lowers the market value of businesses in this industry. Even while consumer spending is normalizing and the global economy is stabilizing as 2023 approaches, the value of businesses in the consumer non-cyclical sector has not recovered as much.

Several businesses saw slow growth in spite of strong foundations. As a result, there is a discrepancy between the company's real performance and what the market believes its worth is.

A company's position and performance are reflected for stakeholders, including executives and investors, through financial reporting, which is crucial for assessing its success. These reports are crucial resources for evaluating and choosing investments as well as for clearly conveying financial activity. High cash flow components and low accruals from regular operations and recurrent income that can be turned into enough cash to replace depreciated assets are characteristics of high-quality earnings. A key metric that draws interest from a range of stakeholders is earnings quality. Effective economic decision-making is aided by earnings quality accurate forecasting of future performance and financial insights. Therefore, users of financial statements need high-quality financial information in order to make wise judgments (Intara et al., 2024). Companies' earnings quality plays a key role in reducing information asymmetry and fostering the growth of financial markets. Earnings quality can be thought of as a company's potential for profit or as the probability that it will eventually achieve the anticipated growth in earnings. As a result, expectations for a company's future performance and earnings stability are just as important to its share value as current earnings per share (Dang et al., 2020).

Firm value is greatly impacted by earnings quality, according to studies by Intara et al. (2024) and Maudi Sandia Ningsih et al. (2023), which gauge earnings quality using total accruals. Businesses with strong earnings quality and good value attract investors, and shareholders profit in a number of ways from their investments. Earnings quality had little effect on business value, according to research by Kurniawan & Sunarto (2024), which looked at Indonesia's primary consumer goods sector during COVID-19, and Putu Dina Cristina & Gerianta Wirawan Yasa (2024), which used discretionary accruals to measure earnings quality. High profits quality does not equate to increased business value.

In today's business world, financial flexibility is a crucial concern. Although businesses are divided into those that are financially flexible and those that are not, all of them want to have enough financial flexibility. Businesses can benefit from the best investment opportunities when they have enough financial flexibility. Having financial flexibility is crucial for corporate organizations and helps those that possess it succeed, grow, and expand. A corporation can take advantage of available investments and options when it has financial flexibility. Financial flexibility indicates that the business has debt capacity, which is the maximum amount of debt that the business can take on while keeping its financial policy's limitations in mind (Almomani et al., 2025). The key to financial flexibility is the capacity to raise money fast and cheaply, which helps businesses take advantage of investment opportunities, fortify their position in a dynamic market, and lessen the effects of unfavorable shocks. The ability of a business to create new capital is a key sign of its financial flexibility. These reserves enable businesses to expand, boost sales, and keep financial stability, particularly in erratic markets. This capacity helps organizations restructure as needed by providing access to funds at minimal expense. Businesses with strong financial flexibility are able to weather economic downturns and seize expansion opportunities. In summary, despite the conventional knowledge in fiscal management, financial flexibility is becoming a strategic and flexible advantage (Bagh et al., 2024).

Financial flexibility considerably raises company value, according to earlier research by Naseer et al. (2024), which assessed cash and debt flexibility in US enterprises, and Marsaulina & Hasyim (2024), which looked at cyclical consumer sector companies. Because they have good liquidity, companies with strong financial flexibility can provide investors positive signals. Nevertheless, research by Asrul Jaya et al. (2021), which used cash and market value to measure financial flexibility, and Widianingrum & Dillak (2023), which looked at food and beverage companies in the consumer goods sector, demonstrated that financial flexibility has no discernible effect on firm value because it is a sign of excess cash in the company.

Firm value, which is frequently linked to rising stock prices, also represents investors' evaluations of a company's performance. To be sure the shares they own will provide profits, investors will perform a variety of analyses. The foundation of institutional ownership is service delivery and profit-making that promote sustainability (Almashaqbeh et al., 2023). As indicated by the percentage of total shares held by internal institutional investors, institutional ownership is the percentage of shares held by institutions rather than institutional public shareholders. Institutional ownership functions independently of the business's internal operations and contributes to the development of corporate strategy, making it a monitoring tool for managers (Maudi Sandia Ningsih et al., 2023). Small-holding institutional investors might not participate in the monitoring process because it would be detrimental to them. While institutional investors with significant holdings will benefit from the motivation to keep an eye on management behavior because an exit strategy will damage them more,

institutional investors with minor holdings may sell their shares if they are unhappy with the company's performance (Bagus et al., 2024).

Institutional ownership has a significant and positive impact on company value, according to research by Rahman et al. (2022), which used the Price Earnings Ratio to measure company value, and Retno Sari & Wuri Septi Handayani (2024), which looked at companies in the food and beverage sub-sector. The more institutional ownership a corporation has, the more external control it has. To achieve corporate objectives, including enhancing business value, institutional ownership will promote more efficient management of business operations. Institutional ownership has no effect on firm value, according to studies by Raharjo & Muhyarsyah (2021), which looked at company value using Price Book Value in the manufacturing sector, and Ningsih et al. (2023), which measured company value using Tobin's Q. It is difficult for institutional investors to keep an eye on managers' performance.

This study aims to examine the effect of earnings quality and financial flexibility on firm value with institutional ownership as a moderating variable, focusing on consumer non-cyclical companies listed on the Indonesia Stock Exchange during the 2021–2023 period. The findings reveal that earnings quality does not significantly affect firm value, while financial flexibility plays an essential role in enhancing firm value. Furthermore, institutional ownership is found to strengthen the relationship between earnings quality and firm value but weakens the link between financial flexibility and firm value. Theoretically, this study contributes to enriching the literature on signaling theory and agency theory in the context of the Indonesian capital market. Practically, the results provide insights for managers to improve transparency in cash management, for institutional investors to play a more active monitoring role, and for regulators to reinforce disclosure policies and corporate governance. Thus, this research offers both academic and practical contributions to promoting sustainable firm value growth.

LITERATURE REVIEW AND HYPOTHESIS

Agency Theory

The contractual arrangement between agents and principals, in which shareholders give managers the authority to run the business, is described by agency theory. According to the idea, there is a justifiable worry that agents would act opportunistically in ways that are detrimental to the owners' interests when both parties are trying to maximize their own. When an agent acts outside the principal's direct supervision, moral hazard may result, raising agency expenses. The unequal goals of the principal and the agent are the foundation of the agency problem. The division of ownership and management within the company and the requirement to regulate the agent working on behalf of the principle are the main responsibilities of the board of directors, according to agency theory. According to this viewpoint, the board of directors' main responsibility is to oversee management in order to safeguard ownership interests (Thanh et al., 2024).

Signal Theory

Signal theory is a theory that provides advice to investors regarding the activities carried out by the company. All of these instructions are information about what management has done to fulfill the owner's wishes in their business (Sapitri & Ginting, 2022). Signaling theory indicates an information gap between stakeholders and management. Consequently, managers ought to notify stakeholders by issuing financial statements. Signal theory suggests information that sends signals to business report users. Ads or other content that emphasizes the company's advantages over rival companies might serve as signals (Mukhtaruddin et al., 2024).

Firm Value

Value is typically associated with the significance of an item and the degree to which it affects the environment. The idea of corporate value in financial markets relates to the organization's objective of increasing shareholder wealth as much as possible through its actions and operations. Different concepts have been used to explain the idea of company value in the past, and prior research indicates that firm value is not only linked to one concept (Almashaqbeh et al., 2023). Firm value, which is frequently associated with the stock price, is a word used to characterize how investors view a company's success. High stock prices also contribute to the firm's high value. The market will be more inclined to believe in the company's future prospects and existing achievements if its enterprise value is high. Firm value is a measure of market value, and if the stock price rises, firm value can maximize shareholder prosperity. The wealth of shareholders increases with the share price (Mukhtaruddin et al., 2024).

Earnings Quality

Investors frequently utilize earnings as a financial metric when making investment decisions. Good earnings can support efficient investment forecasting and analysis if they are correlated with stock prices or profitability. Earnings produced throughout the time period that corresponds to the development of cash flows are known as quality earnings. The financial statements' effective recent performance, or earning quality, is a good indicator of the company's inherent value and future success. Furthermore, regular operations should produce high-quality earnings that can be turned into enough cash to cover necessities. High-quality profits accurately reflect the company's inherent value, reflect current operational performance, and are a good indicator of future operating performance (Intara et al., 2024).

Financial Flexibility

When entrepreneurs are making financial policy decisions, one of the most important factors is financial flexibility, which is defined as a company's capacity to obtain and restructure its funding at a reasonable cost. Another way to think of financial flexibility is as an assessment of the need for funding and goal attainment without endangering creditworthiness. Less flexible businesses may find themselves in financial trouble quickly and compelled to adopt steps that more financially sound businesses might view as harmful to the long-term value of their shareholders (Wu et al., 2024). According to (Islam et al., 2022), financial flexibility can be measured by indicators of a company's cash holdings and leverage. Cash holdings are the most liquid assets and can indicate financial flexibility. Cash holding is the amount of cash a company has to carry out business activities; where companies need to pay attention to their liquidity because cash holdings will help investors assess the performance of managers in maintaining the stability of the company's cash. Companies with high cash holdings and low leverage will be more resilient because this type of company is better able to raise external capital. Conversely, companies with high debt and lower cash positions indicate that the company is less flexible.

Institutional Ownership

The number of shares held by banks, insurance companies, holding companies, investment companies, pension funds, finance companies, organizations, government agencies, and state-owned companies relative to the number of shares issued by the company is known as institutional ownership. Monitoring management and improving the effectiveness of information released in financial markets are two other significant functions of institutional ownership. Additionally, institutional ownership lowers agency expenses. The capacity to supervise management in accomplishing objectives is another benefit of institutional ownership. This idea indicates that financial entities or investment funds hold a disproportionate amount of the company's shares. These organizations and funds act as go-betweens for the institutions looking to invest in stakeholders (investors) (Almashaqbeh et al., 2023).

Hypothesis Formulation

The Effect of Earnings Quality on Firm Value

Investors can utilize earnings quality, or profit statistics, to evaluate a business. Profits made during a time period that aligns with the cash flow are known as quality earnings. Since earnings quality serves as a standard by which to measure how well a company performs in accomplishing its objectives, it is linked to the company's worth. Earnings data is crucial for investors since it is used to evaluate the company's shares in addition to being connected to dividend data. The difference between the goals and desires of owners (principals) and managers (agents), as well as managers' hegemony in gathering information, can lead to agency problems, according to agency theory. According to agency theory, managers seek to increase profits solely for their own benefit or even for personal gain, whereas principals or business owners seek success in the form of substantial profit sharing from the company they operate on a continuous basis. The quality of profit data that investors can use to evaluate the company can also be impacted by agency disputes. The public has access to this data, which demonstrates how much the company's earnings can affect choices (Susilawati et al., 2020). High-quality earnings can support efficient forecasting and analysis of investments. The present effective performance shown in the financial accounts is known as earnings quality, and it serves as a trustworthy indicator of future success and the company's inherent worth. Credible financial reports can boost investor confidence, which in turn raises the stock price and overall worth of the business. Unreliable financial statements will cause investors to hesitate, thus reducing the company's value. (Intara et al., 2024) and (Maudi Sandia Ningsih et al., 2023) research results state that earnings quality affects company value.

H1: Earnings quality has a positive and significant effect on firm value.

The Effect of Financial Flexibility on Firm Value

Financial flexibility is the idea that a company can adjust and stay strong when faced with environmental instability. Leverage and cash holdings are frequently used to gauge financial flexibility. The goal of keeping large cash reserves is to improve a company's ability to handle unforeseen shocks in the future. Businesses need financial flexibility to retain their debt capacity and future funding prospects, which makes it a crucial component of their financial decision-making process (Bagh et al., 2024).

According to signal theory, whenever corporate action announcements or financial performance are published, whether on purpose or accidentally, the market will receive a signal that contains information. Signaling to external parties that the company's financial data is trustworthy and honest might help to lessen information asymmetry by lowering doubts about the company's prospects for the future. Publication of the business's financial results can give external parties a clue as to the true state of affairs within the organization. Cash, real assets, and marketable securities are examples of financial slack that the corporation will use to manage its financial strength. As a result, a business with greater financial flexibility will appear to have less debt. The ability and quickness with which a business can deploy its financial resources or use proactive, reactive, and exploitative measures to optimize firm value is known as flexibility. For businesses or organizations, having financial flexibility is crucial because it enables them to weather challenging times and make the best choices to accomplish long-term objectives (Putri & Willim, 2024).

As a result, financial flexibility offers investment options and helps businesses grow in value. It is based on research from (Marsaulina & Hasyim, 2024) and (Naseer et al., 2024) explains that financial flexibility positively contributes to enhancing firm value.

H2: Financial flexibility has a positive and significant effect on firm value.

The Effect of Institutional Ownership as a Moderating Variable on the Relationship between Earnings Quality and Firm Value

Institutional ownership can improve the relationship between firm value and earnings quality because corporate governance features reduce opportunities for earnings management and information asymmetry, which impacts both firm value and earnings quality. These features include effective internal controls, disclosures, and transparency. Firm value and earnings quality are more strongly correlated in organizations with stronger corporate governance than in those with weaker corporate governance (Intara et al, 2024). According to agency theory, having concentrated shareholders can boost firm value and lessen agency issues. Institutional shareholders will actively participate in the business by keeping an eye on corporate governance in order to optimize their earnings, which leads to the active monitoring function. Institutional shareholders can oversee managers at a reduced cost and have control rights (Bagus et al., 2024). Research conducted by (Rahman et al., 2022) and (Ali et al., 2024) explain that institutional ownership has a positive influence on firm value. Businesses with more institutional ownership typically exhibit higher-quality results, as seen by smaller discretionary accruals and less manipulation of actual operations.

H3: Institutional ownership strengthens the relationship between earnings quality and firm value.

The Effect of Institutional Ownership as a Moderating Variable on the Relationship between Financial Flexibility and Firm Value

Businesses today must take on greater risks as a result of the commercial market's complexity. Financially flexible businesses may manage more funding and unpredictable future investments in a variety of ways. Strong financial flexibility enables businesses to protect cash when investment opportunities present themselves and to tolerate unfavorable risks. Financially flexible businesses ought to perform better and more consistently (Akbar & Setiana, 2024). Among the governance systems that motivate businesses to provide high-quality financial reports is institutional ownership, which has an impact on financial flexibility. As investors, institutions are better equipped to analyze financial statements and serve as supervisors to curb managers' opportunistic actions (Islam et al., 2022). According to agency theory, which examines the conflict of interest between principals and agents, managers' degrees of risk-taking may vary according to their degree of financial flexibility. According to this hypothesis, managers might put their own interests ahead of those of shareholders, which could result in less-than-ideal choices on business investments and risk-taking. In order to reduce agency costs and shape corporate governance, institutional ownership is crucial (Bagh et al., 2025). Research conducted by (Rahman et al., 2022) and (Rafsanjani et al., 2024) explain that firm value is significantly and actually impacted by institutional ownership. Institutions that own shares can oversee managers and lessen their abnormal behavior. Because they have greater resources than ordinary shareholders, institutions typically own the majority of the shares. This

gives them the ability to exercise greater voting power over the shares they possess and to oversee and decide on all manager actions. This has a positive effect on the business since everything may go in a way that serves its interests, and ultimately, the business will perform better.

H4: Institutional ownership strengthens the relationship between financial flexibility and firm value.

METHODOLOGY

Research Type and Sample

For this study, secondary data is gathered using a quantitative descriptive methodology, namely by summarizing the results. The yearly financial reports of consumer non-cyclical companies obtained from the Indonesia Stock Exchange's official website for the years 2021–2023 served as secondary data for this study. All consumer non-cyclical sector companies listed on the IDX for the years 2021–2023 make up the study's population. Purposive sampling is used in the sample selection process, and the following standards are applied:

1. Companies in the non-cyclical consumer sector that were listed in 2021–2023 on the Indonesia Stock Exchange (IDX)
2. Companies in the non-cyclical consumer sector that release comprehensive financial reports for 2021–2023
3. Non-cyclical consumer sector businesses that display their financial data in rupiah

Research Model

This study examines the impact of earnings quality and financial flexibility on firm value in non-cyclical consumer sector companies listed on the Indonesia Stock Exchange in 2021–2023, using institutional ownership as a moderating variable.

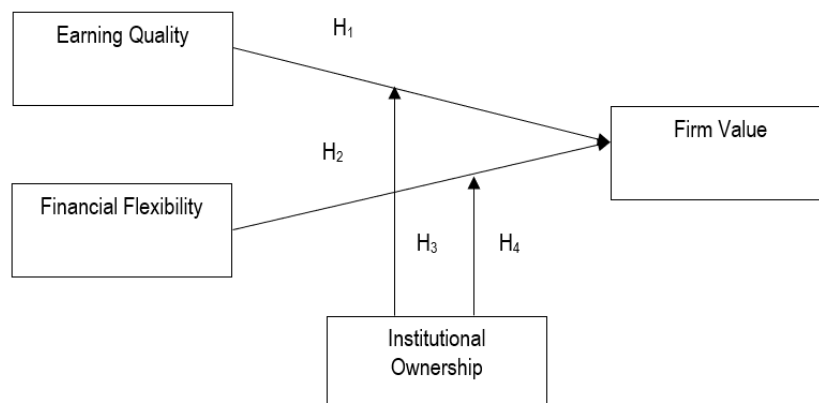


figure 2. Research Model

Variable Indetification and Indicators

One dependent variable, two independent variables, and one moderator variable make up the study's four variables. Firm value (Y) is the dependent variable; earnings quality and financial flexibility (X) are the independent variables; and institutional ownership (Z) is the moderator variable. An explanation of each variable is provided below:

Table 1.
Variable Indicators

Variables	Indicator	Scale
Firm Value (Y)	Tobins' Q = $\frac{\text{Market value equity} + \text{Debt}}{\text{Total assets}}$	Ratio
Source: (Mukhtaruddin et al., 2024)		
Earnings Quality (X1)	EQ = $\frac{\text{Operational cash flow}}{\text{Net income}}$	Ratio

Source: (Susilawati et al., 2020)		
Financial Flexibility (X2)	Cash holding = $\frac{\text{Cash and cash equivalent}}{\text{Total assets}}$	Ratio
Source: (Widianingrum & Dillak, 2023)		
Institutional Ownership (Z)	IO = $\frac{\text{Number of shares owned by the institution}}{\text{Number of outstanding shares}} \times 100\%$	Ratio
Source: (Raharjo & Muhyarsyah, 2021)		

Technical Analysis

The Statistical Product and Service Solution (SPSS) is used in this research method, which is Moderated Regression Analysis (MRA). Utilizing institutional ownership as a moderating variable, it looks at how financial flexibility and profits quality affect a company's value.

Moderated Regression Analysis (MRA)

A special kind of regression known as "moderated regression analysis" (MRA) involves the inclusion of aspects of interaction between one or more independent variables and the dependent variable in the regression equation. This study's MRA model is tested at a significance level of 5% and is presumed to be linear. It was employed to test the study's hypothesis.

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3. X_1 * Z + \beta_4. X_2 * Z + e$$

Y = Firm Value

α = Constanta

β_1 -4 = Regression Coefficient

X1 = Earnings Quality

X2 = Financial Flexibility

Z = Institutional Ownership

X1*Z = The interaction between earnings quality and institutional ownership

X2*Z = The interaction between financial fle

e = Standard error

Hypothesis Test

The t-test, also known as hypothesis testing, essentially illustrates the extent to which one independent or explanatory variable contributes to the explanation of the variation in the dependent variable. The hypothesis is rejected if the significance value is greater than 0.05, and accepted if it is less than 0.05.

FINDINGS

Research Data Description

The goal of this research is to ascertain how, in the presence of institutional ownership, financial flexibility and profits quality impact the value of non-cyclical consumer sector companies listed on the Indonesia Stock Exchange (IDX) in 2021–2023. Moderated regression is the outcome of the data analysis. 129 non-cyclical consumer sector enterprises registered on the IDX served as the study population. This study employs secondary data from non-cyclical consumer sector companies, namely financial records available on the website www.idx.co.id. The sampling approach employs the purposive sampling technique, which chooses a sample according to preset criteria, in order to represent a population. The criteria are listed in Table 2 below.

Table 2.
Sample Selection Criteria

Criteria	Total
Consumer non-cyclical sector companies listed on the Indonesia Stock Exchange (IDX) in 2021-2023	129
Companies publish complete financial reports for 2021-2023	81
Companies that have financial information presented in rupiah for the period 2021-2023	78
Data outlier	11

Number of companies sampled	67
Number of periods in years	3
Total sample	201

Source: Processed by researchers, 2025

Descriptive Statistic

Descriptive statistics are used to offer information on the properties of the research variables, such as the observed quantity of minimum, maximum, mean, and standard deviation values. The results of the descriptive statistics are shown in Table 2.

Table 3.
Descriptive Statistic Results

	N	Minimum	Maximum	Mean	Std. Deviation
Firm Value	201	.58	3.41	1.4424	.66615
Earnings Quality	201	-711.90	2302.03	10.0279	170.39076
Financial Flexibility	201	.00	.62	.1032	.11364
Inst. Ownership	201	.00	1.00	.7227	.25708
Valid N (listwise)	201				

Source: SPSS Output, 2025.

Earnings quality has an average value of 10.027 and a standard deviation of 170.390, with a minimum value of -711.90 and a maximum value of 2302.03, according to Table 3's descriptive test results. With a minimum value of 0.00 and a maximum value of 0.62, financial flexibility has an average value of 0.103 and a standard deviation of 0.113. With a minimum value of 0.00 and a maximum value of 1.00, institutional ownership has an average of 0.722 and a standard deviation of 0.257. Firm value ranges from a minimum of 0.58 to a maximum of 3.41, with an average of 1.442 and a standard deviation of 0.666.

Classical Assumption Test

Normality Test

Finding out if the dependent and independent variables in the regression model have a normal distribution is the goal of the normality test. Table 4 displays the findings of the normalcy test.

Table 4.
Normality Test Results
One-Sample Kolmogorov-Smirnov Test

			Unstandardized Residual
N			201
Normal Parameters ^{a,b}		Mean	-.0093449
		Std. Deviation	.17592759
Most Differences	Extreme	Absolute	.030
		Positive	.030
		Negative	-.026
Test Statistic			.030
Asymp. Sig. (2-tailed) ^c			.200 ^d

a. Test distribution is Normal.

b. Calculated from data.

Source: SPSS Output, 2025.

The Asymp. Sig (2-tailed) value is 0.200, as indicated in Table 4. Since this number exceeds the alpha value of 0.05, it suggests that the regression equation model is regularly distributed.

Multicollinearity Test

Finding out if the regression approach detects a link between independent variables is the goal of the multicollinearity test. Table 5 displays the findings.

Table 5.
Multicollinearity Test Results

Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients		Sig.	Collinearity Statistics	
	B	Std. Error	Beta	t		Tolerance	VIF
1 (Constant)	.269	.029		9.181	.000		
Earnings Quality	-.023	.020	-.076	-1.150	.252	.995	1.005
Financial Flexibility	.116	.020	.380	5.775	.000	.995	1.005

a. Dependent Variable: Firm Value

Source: SPSS Output, 2025.

Table 5 demonstrates that the VIF value is less than 10 and the tolerance value for each variable is larger than 10% or 0.1. Multicollinearity is thus absent from the regression equation model used in this investigation.

Heteroscedasticity Test

The research regression model's variance and residuals from one observation to the next are examined using the heteroscedasticity test. Table 6 displays the findings.

Table 6.
Heteroscedasticity Test Results

Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients		t	Sig.
	B	Std. Error	Beta			
1 (Constant)	.150	.017			8.689	.000
Earnings Quality	.007	.012	.041		.582	.561
Financial Flexibility	.008	.012	.048		.679	.498

a. Dependent Variable: Firm Value

Source: SPSS Output, 2025.

The Sig. value is more than 0.05, as seen in Table 6, indicating that the independent variables have no effect on the absolute residual. Heteroscedasticity symptoms are absent from the study regression model.

Autocorrelation Test

The autocorrelation test determines if the linear regression model's disturbance error t-1 (before to this) and the disturbance error in period t are correlated. Table 7 displays the autocorrelation test findings.

Table 7.
Autocorrelation Test

Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.719 ^a	.517	.512	.07201	1.866

a. Predictors: (Constant), Earnings Quality, Financial Flexibility

b. Dependent Variable: Firm Value

Source: SPSS Output, 2025.

It is known that the Durbin Watson (DW) value is 1.866 based on Table 7. Since the DW value is less than 2.34 (4-du) and higher than the lower limit (du), it may be said that neither positive nor negative autocorrelation exists. Therefore, it can be said that autocorrelation does not exist.

Moderated Regression Analysis (MRA) Test Results

An equation with components of interaction between one or more independent variables and the dependent variable is known as a moderate regression analysis (MRA). Table 8 displays the outcomes of the MRA test.

Table 8.**Moderated Regression Analysis Test Result****Coefficients^a**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	.272	.012		22.630	.000
Earnings Quality	-.008	.010	-.051	-.791	.430
Financial Flexibility	.117	.009	.722	12.547	.000
X1 Z	.093	.043	.147	2.137	.034
X2 Z	-.001	.016	-.005	-.084	.933

a. Dependent Variable: Firm Value

Source: SPSS Output, 2025.

The following is the structural equation based on the moderated linear regression analysis results shown in Table 8:

$$Y = -0,272 - 0,008 X1 + 0,117 X2 + 0,093 X1 \cdot Z - 0,001 X2 \cdot Z + e$$

Determination Coefficient Test (R²)

The model's capacity to explain changes in independent variables is assessed using the determination coefficient test (R²). Table 9 displays the test results.

Table 9.**Determination Coefficient Test Results (R²)****Model Summary^b**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.719 ^a	.517	.512	.07201	1.866

a. Predictors: (Constant), Earnings Quality, Financial Flexibility

b. Dependent Variable: Firm Value

Source: SPSS Output, 2025.

According to Table 9, the adjusted R Square value of 0.517 shows how much the independent variable influences the dependent variable. This indicates that 51.7% of the variation in institutional ownership, financial flexibility, and earnings quality impacts the firm's value, with additional factors not covered by this model accounting for the remaining 48.3%.

Feasibility Test (F Test)

The first step in determining the viability of the calculated regression model is the reliability or feasibility test. Table 10 displays the outcomes of the feasibility test.

Table 10.**Feasibility Test (F Test) Results****ANOVA^a**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.099	2	.550	106.020	.000 ^b
	Residual	1.027	198	.005		
	Total	2.126	200			

a. Dependent Variable: Firm Value

b. Predictors: (Constant), Earnings Quality, Financial Flexibility

Source: SPSS Output, 2025

Table 10 indicates that the F count value is 106.020, which is less than 0.05 and has a significance level of 0.000. This suggests that using the model in this investigation is doable.

Hypothesis Test (t Test)

In essence, hypothesis testing demonstrates the extent to which the fluctuation of the dependent variable can be explained by the effect of a single explanatory or independent variable. Table 11 displays the findings of the hypothesis test.

Table 11.
Hypothesis Test (t) Results

Coefficients ^a		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
Model		B	Std. Error	Beta		
1	(Constant)	.272	.012		22.630	.000
	Earnings Quality	-.008	.010	-.051	-.791	.430
	Financial Flexibility	.117	.009	.722	12.547	.000
	EQ_IO	.093	.043	.147	2.137	.034
	FF_IO	-.001	.016	-.005	-.084	.933

a. Dependent Variable: Firm Value

Source: SPSS Output, 2025

Based on Table 11, each influence between variables in this study will be explained as follows:

1. A regression coefficient value of -0.008, a significance value of 0.430 > 0.05, and a t value of -0.791 were obtained from the first hypothesis analysis. These results show that H1 is rejected, suggesting that profits quality has no discernible impact on firm value.
2. The findings of the second hypothesis analysis show a t value of 12.547, a regression coefficient value of 0.117, and a significance value of 0.000 < 0.05. Since these results show that financial flexibility significantly and favorably affects business value, H2 is accepted.
3. A regression coefficient value of 0.093, a significance value of 0.034 < 0.05, and a t value of 2.137 are the outcomes of the third hypothesis analysis. Since these results show that institutional ownership can strengthen the relationship between company valuation and earnings quality, H3 is approved.
4. The examination of the fourth hypothesis yields a t value of -0.084, a regression coefficient value of -0.001, and a significance value of 0.933 > 0.05. Since the results show that institutional ownership lowers the relationship between financial flexibility and firm value, H4 is rejected.

DISCUSSION

The Effect of Earnings Quality on Firm Value

According to regression analysis, firm value is not significantly impacted by earnings quality for the first hypothesis (H1). The results of this study are in line with the research of (Putu Dina Cristina & Gerianta Wirawan Yasa, 2024) and (Kurniawan & Sunarto, 2024), namely that earnings quality does not affect firm value. The information about a company's earnings will entice investors or shareholders to purchase shares. Because the market reaction is usually negative, low earnings quality indicates that the company's value cannot be raised. Earnings quality is one of the many aspects that investors consider when making investment decisions.

Firm value is unaffected by earnings quality, meaning that company value will not be impacted by either high or low earnings quality as measured by discretionary accruals. This is due to the fact that a large number of Indonesian businesses falsify their financial records by claiming large profits but having low rates of return. Investors who are aware of this method do not base their evaluation of a company's value primarily on profits quality since they do not believe the stated profit figures. Whereby businesses with modest profits but steady increases in company value are more appealing to investors. This may occur when investors are more

concerned with the potential high rate of return and profit than with the stated profit margins. Furthermore, other criteria including high and low stock prices, return on investment, and growth in business value are more important to investors than reported earnings (Putu Dina Cristina & Gerianta Wirawan Yasa, 2024). Signal theory does not support this investigation. According to this idea, the market value of the company is positively correlated with pertinent accounting data, particularly financial data like earnings, cash flow, and book value. Relevant accounting information is information that significantly affects investors' evaluation of the company's potential and future performance during the investment decision-making process.

According to (Kurniawan & Sunarto, 2024), the sole purpose of firm value is to guide investors to track changes in the stock price of the company over time. In addition to earnings, additional elements including cash flow, profit margin, return on equity (ROE), and capital structure all affect a company's value. In addition to the quality of earnings, investors may consider additional aspects. The results of this study are not in line with the research of (Intara et al., 2024) and (Maudi Sandia Ningsih et al., 2023) which states that Firm value is impacted by earnings quality. The firm value increases with the quality of earnings. The market will react favorably to high profits quality, increasing the company's worth.

The Effect of Financial Flexibility on Firm Value

According to regression analysis, firm value is significantly impacted by financial flexibility for the second hypothesis (H2). The results of this study are in line with research by (Marsaulina & Hasyim, 2024) and (Naseer et al., 2024), specifically that firm value is significantly enhanced by financial flexibility. Market values are typically higher for companies with larger cash reserves, easier access to outside funding, and less financial restraints. Better liquidity is often associated with high corporate financial flexibility, which supports both the company's high and low value. The company's cash availability is one way to gauge its financial flexibility. Businesses with cash on hand are able to pay off both internal and external funding directly, giving investors the impression that the business can effectively manage its cash holdings. This demonstrates that the business has a sound long-term plan, which in turn offers investor confidence in the company's performance, according to signaling theory. In order to boost the company's worth, investors will want to put money into the business (Sapitri & Ginting, 2022). Businesses with a high degree of financial flexibility are better equipped to handle their finances in response to shifts in the market or in the financial landscape. High flexibility makes it easier for businesses to take advantage of investment possibilities, get through unforeseen financial obstacles, and make the best use of their available funds (Putri & Willim, 2024). The results of this study are not in line with the research of (Asrul Jaya et al., 2021) and (Widianingrum & Dillak, 2023), it explains why firm value is not much impacted by financial flexibility. This can be brought on by businesses that are unable to handle their finances and hurt investors by using the money they get less effectively, which lowers the company's worth. Cash holdings or large cash holdings are not a significant criterion for investors when allocating their capital; creditors and investors will judge the company's lack of investment planning, and investors are concerned because management is thought to have more authority to waste funds on initiatives that could affect the company's value.

The Effect of Institutional Ownership as a Moderating Variable on the Relationship between Earnings Quality and Firm Value

According to regression research, institutional ownership improves the correlation between business valuation and profits quality (H3). The results of this study are in line with the research of (Rahman et al., 2022) and (Ali et al., 2024), namely that institutional ownership has a positive effect on increasing profits on firm value. According to (Ali et al., 2024), although the methods of influence differ, more institutional ownership is substantially linked to improved profits quality in both state-owned and non-state enterprises. This is accomplished by reducing real management efforts for state-owned businesses and increasing accruals management for non-state businesses. The degree of external oversight over the company increases with institutional ownership. The presence of institutional ownership will promote more effective oversight of business operations in accomplishing corporate objectives, specifically maximizing business value. Because of the large amount of institutional ownership, institutional investors will be making more unusual measures to supervise managers in order to stop them from acting opportunistically (Rahman et al., 2022). Institutional ownership can reduce or even remove managerial authority over the company. Restrictions on managerial ownership might lessen management's control over the company, which makes concentrated ownership seem like a manager discipline tool and monitoring power. Monitoring and disciplinary actions will work if institutional investors are prepared to put in place an active monitoring system. The more shares that institutional investors own, the more control rights they will have.

Institutional investors are more likely to misuse their monitoring function to exploit smaller shareholders, which would reduce firm value, the more influence they have (Bagus et al., 2024).

The results of this study are not in line with the research of (Raharjo & Muhyarsyah, 2021) and (Retno Sari & Wuri Septi Handayani, 2024), it asserts that the value of a corporation is unaffected by institutional ownership. It is not possible to increase firm value by changing the level of institutional ownership because it has no effect on firm value. This may occur as a result of institutional investors' limited ability to monitor the performance of business managers.

The Effect of Institutional Ownership as a Moderating Variable on the Relationship between Financial Flexibility and Firm Value

According to regression research, institutional ownership reduces the correlation between business value and financial flexibility (H4). The results of this study are in line with the research of (Ningsih et al., 2023) and (Nurisyah & Setiany, 2022), specifically that corporate value is unaffected by institutional ownership. The value of the company cannot be increased by changes in the institutional ownership percentage. Institutional investors rely entirely on the management of the company to operate it without their input, particularly when it comes to significant policy. Because they are heavily relied upon, management can feel less pressure to raise business value. Without active involvement and effective oversight, institutional ownership may be passive and make little contribution. In actuality, important determinants of value include internal company dynamics, corporate strategies, and market conditions (Hendrayati et al., 2025). Managers feel under the influence of institutional investors who have little influence on the share price because these investors lack business expertise and have not participated in the company's strategic decision-making. Because they think the business's cash reserves are susceptible to misuse by corporate management, investors do not include them in their investment. Therefore, the growth in firm value is unaffected by the size of a company's cash balance (Rahmaniar & Fitrihan Rizky, 2022).

The fact that not all institutional owners participate in company governance is another aspect. Some merely make passive investments (index funds, for example), therefore they may not have much of an impact on managerial choices on the use of financial flexibility. While financial flexibility is typically associated with long-term initiatives, institutions have short-term objectives. Institutional ownership does not always support flexibility tactics that might forgo short-term returns because of this misalignment in time horizon. The fundamental components of financial flexibility, such as capital structure, investment, and cash allocation, may not be adequately influenced by institutions. Institutional ownership may have a neutral impact if management control continues to be predominant. Institutions are not all the same. Analytical abilities, investment horizons, and managerial influence vary greatly. An excessively dispersed ownership structure may render the overall impact negligible. If financial flexibility is already taken into consideration by the market when valuing the company, then added institutional trust has no effect on value.

The results of this study are not in line with the research of (Rahman et al., 2022) and (Rafsanjani et al., 2024), firm value is positively and significantly impacted by institutional ownership. Firm value can raise the share of institutional investors if institutional investors can raise firm value. Institutional investors are more drawn to businesses with strong market performance, and a high firm valuation can attract more of them.

CONCLUSION AND SUGGESTION

This study uses institutional ownership as a moderating variable to explain how financial flexibility and profits quality affect business value. All non-cyclical consumer sector companies listed on the IDX for the years 2021–2023 are the focus of this study. Purposive sampling procedures were used to choose a sample of 67 companies and collect 201 and 201 observation data. Institutional ownership strengthens the relationship between earnings quality and firm value, while institutional ownership weakens the relationship between financial flexibility and firm value. The study's findings clarify that financial flexibility has a significant impact on firm value while earnings quality has no discernible effect. One of the study's drawbacks is that it only looked at the non-cyclical consumer sector. Earnings quality, financial flexibility, and institutional ownership were the only variables utilized in the three-year study, which ran from 2021 to 2023. Additional variables that are markers of corporate value, such as funding decisions, company reputation, and gender diversity on the board of directors, can be used in future research. Furthermore, it is possible to extend the research period to five years and generate indicators for each of the variables employed in this study.

The results of this study have important theoretical and practical implications. Theoretically, the finding that earnings quality does not affect company value suggests that investors in the non-cyclical consumer sector place greater emphasis on other factors, such as financial flexibility, thereby challenging the relevance of signalling theory regarding the role of earnings. Conversely, financial flexibility has been proven to increase company value, reinforcing the literature that emphasises the importance of liquidity and funding capabilities in facing uncertainty. The moderating role of institutional ownership also shows a dual dynamic: it strengthens the influence of earnings quality but weakens the relationship between financial flexibility and company value, thereby enriching the development of agency and signalling theory in the Indonesian capital market. Practically, these results emphasise the need for management to improve cash management transparency, for institutional investors to strengthen their monitoring function so as not to be passive, and for regulators to tighten information disclosure and governance policies so that company value can increase sustainably.

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