



## Analysis of Company Value through Financial Performance as a Mediating Variable

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### Abstract

*This study examines the relationship between CEO nationality, capital structure, and firm activity on firm value, both directly and indirectly through financial performance. The sample consists of primary consumer goods companies listed on the Indonesia Stock Exchange during 2018–2024, resulting in 406 observations analyzed using Stata 17. The results show that CEO nationality, firm activity, and financial performance positively affect firm value, while capital structure has no direct effect. These findings suggest that the presence of foreign CEOs, effective firm activities, and strong financial performance enhance investors' perceptions of firm value. Further results indicate that CEO nationality and firm activity do not affect financial performance, whereas capital structure negatively affects financial performance, implying that higher debt usage may increase financial burdens and reduce financial performance. Moreover, financial performance fully mediates the relationship between capital structure and firm value but does not mediate the influence of CEO nationality or firm activity on firm value. Overall, this study contributes to the literature by emphasizing the important role of financial performance in explaining firm value.*

## Introduction

Companies in the primary consumer goods sector play a vital role in the Indonesian economy, producing a variety of daily necessities. However, this sector faces challenges resulting from changing consumer behavior, rising living costs, and global economic uncertainty. Various reports on consumer behavior indicate that approximately 50% of Indonesian consumers are becoming more cautious in their purchases and tend to choose cheaper products (PwC, 2025). Furthermore, dependence on imported raw materials, the weakening rupiah exchange rate, and rising global logistics costs are increasing pressure on companies' production costs. These conditions add to the complexity of companies' efforts to increase their value.

A company's value or image serves as a comprehensive indicator reflecting the market's assessment of a company's operational performance, growth opportunities, financial stability, and inherent risk level (Paramitha, 2020). This assessment is generally reflected in stock price movements (Moolkham, 2025). The higher a company's stock price, the greater investor confidence in the quality of management in optimally managing resources, creating sustainable profits, and improving the long-term welfare of shareholders and other stakeholders (Tubastuvi et al., 2023).

The existence of a leader in a corporation is crucial for its survival. The Chief Executive Officer (CEO) holds significant responsibilities in carrying out a number of crucial roles, one of which is decision-making (Ukavwe & Jeroh, 2024). Corporate leaders possess various characteristics, including educational background, experience, and nationality (Ahmad et al., 2022). The entry

of foreign CEOs into a company is often considered to bring new perspectives through business practices or international relations (Hernandez & Kulchina, 2020) . Their experience in navigating social, economic, and political dynamics in their home countries also provides important knowledge in designing and adapting business strategies to the countries where the company operates (Putra, 2021) . The positive influence of the presence of foreign CEOs on company value is evidenced by research by Ahmad et al ., (2022) and Bouaziz & Jarboui, (2025) . However, findings by Elsharkawy et al . (2018) and Kaur & Singh (2018) indicate that foreign CEOs have a negative impact on firm value. Meanwhile, research by Hidayat et al . (2024) and Oktapiani et al . (2023) found that foreign CEOs have no impact on firm value.

As companies expand and strengthen their competitive positions, their funding needs become increasingly diverse, making capital structure crucial. Capital structure is a combination of a company's funding sources from both internal and external sources (Imronudin et al ., 2022) . Therefore, capital structure is a crucial issue, and decisions must be made well in advance of the urgent need for funds to make capital expenditure decisions (Bui et al ., 2023) . A capital structure is considered optimal if it maximizes firm value (Tubastuvi et al ., 2023) . Research by Nurdin et al . (2023), Ahmed et al . (2023) , and Tubastuvi et al . (2023) revealed that capital structure has a positive effect on firm value. Conversely, in relatively stable firm conditions, the effect of capital structure on firm value tends to weaken, which is in line with the findings of Dang & Do (2021) who stated that capital structure has no effect on firm value. However, research by Le & Phan (2017) and Nguyen (2024) found that capital structure has a negative effect on company value.

In increasingly competitive business conditions, companies rely not only on the availability of resources but also on their ability to manage operations efficiently. Evaluation of operational activity performance can be done using the activity ratio (Ross et al ., 2022) . The activity ratio is used to measure how efficiently a company uses its assets to generate sales or profits (Ahmad et al ., 2022) . In addition, this ratio provides an overview of the speed of asset turnover in a period, meaning the higher the activity ratio, the more effective the company's assets are in generating profits (Kwak, 2019). A high activity ratio generally indicates an increase in company value, because the company's ability to manage assets efficiently tends to positively contribute to profit generation and strengthen overall financial performance (Wijaya et al ., 2023). This is supported by research by Raza et al., (2023) and Wijaya et al., (2023) , which revealed that the activity ratio has a positive effect on company value. The results of research by Ahmad et al., (2022) showed that the activity ratio has no effect on company value. Meanwhile, research from Balqis et al., (2026) stated that the activity ratio has a negative effect on company value.

Financial performance is often used as a basis for determining a company's performance (Aulia & Gandakusuma, 2020) . Financial performance analysis is conducted to determine the extent to which a company has implemented financial principles or guidelines properly (Hasanudin et al ., 2020) . Information related to financial performance is needed to assess potential changes in economic resources that may be controlled in the future as well as to predict the production capacity of existing resources (Moolkham, 2025) . In addition, high return expectations will increase demand for a company's shares, thereby driving up share prices and increasing the value of a company (Tubastuvi et al ., 2023) . This is supported by research by Hasanudin et al., (2020) and Imronudin et al., (2022) where financial performance has a positive effect on company value. Meanwhile, research by Ashari & Rahmawati (2025) revealed that financial performance has a negative effect on company value. Then, research from Setiawanta et al ., (2020) and Sudrajat & Setiyawati (2021) found that company performance had no effect on company value.

The variations and differences in previous research results indicate that the relationship model between variables is likely not static. Firm value, measured by Tobin's Q, along with financial performance, shows a persistent tendency due to its influence on performance in the previous period. Therefore, this study uses a dynamic panel approach to obtain more consistent and valid estimates. Furthermore, most studies still focus on examining the direct relationship between variables, without considering the role of financial performance as a potential mediator.

## Literature Review

### Signaling Theory

Signaling theory explains the process of conveying information from the sender to the recipient (Spence, 1973). The recipient is generally an external party who does not have access to internal company information (Connelly et al., 2011). Therefore, companies convey information to the market through various corporate actions as signals regarding the company's condition (Wagenhofer, 2010). These corporate actions can include dividend distributions, share buybacks, acquisitions, or changes in top management (Muslih & Nurlina, 2024). In addition, financial reports also play an important role as a means of conveying signals to investors to increase market confidence (Dang et al., 2019). Companies present additional information to emphasize their superiority, attract investors, build market trust, and strengthen their long-term reputation consistently (Manurung, 2012; Tubastuvi et al., 2023).

### Agency Theory

Agency theory explains the contractual relationship between principal and agent, where the principal delegates authority to the agent to manage the company and make operational decisions (Jensen & Meckling, 1976). Shareholders, as owners, hand over the management of the company to professional managers who carry out daily business activities (Tandiontong, 2016). The separation between ownership and management aims to increase efficiency and maximize shareholder profits (Setiawanta et al., 2020). In ideal conditions, managers act to increase company value, while shareholders monitor management performance (Dang et al., 2019; Wibowo et al., 2021). However, managerial authority can trigger conflicts of interest, so an independent oversight mechanism is needed to maintain transparency and objectivity (Panda & Leepsa, 2017; Shapiro, 2005).

### Upper Echelons Theory

*Upper echelons* theory explains that individual characteristics at the top management level influence the strategic direction and performance of a company (Hambrick & Mason, 1984). Strategic decisions are the result of how leaders interpret the organization's internal and external conditions (Bouaziz & Jarboui, 2025). In decision-making, company leaders do not always act completely rationally because they are influenced by experience, preferences, and cognitive abilities that shape their perspectives on opportunities and challenges (Putra, 2021). Therefore, CEO characteristics can influence strategic choices and the effectiveness of company leadership (Liu & Jiang, 2020; Yusuf & Yahaya, 2023). These differences in characteristics lead to variations in mindsets and strategic decisions that ultimately impact company performance (Gupta & Mahakud, 2020; Le & Kroll, 2017; Li & Singal, 2017).

### Pecking Order Theory

*Pecking order theory* explains that corporate financing decisions are not solely focused on achieving an optimal capital structure, but are also influenced by limited information between management and external investors (Myers & Majluf, 1984). Management generally has more complete information regarding the company's financial condition, growth opportunities, and

risks than external parties (Dao & Ta, 2020) . This information imbalance can increase external financing costs, especially when a company issues new shares, which the market often interprets as a signal that the company's stock price is overvalued (Kosmala *et al.* , 2021; Paramitha, 2020) . Therefore, companies tend to follow a priority order of financing, using internal funds first, then debt, and making equity the last resort (Bui *et al.* , 2023; Chandra *et al.*, 2019; Habibniya *et al.*, 2022) .

### **Nationality of CEO**

CEO nationality reflects the national background of a company leader, which is generally distinguished between domestic and foreign CEOs. These differences in background are not only administrative but also influence mindsets, decision-making preferences, and leadership styles (Le & Kroll, 2017) . Foreign CEOs have experience in the social, economic, and political environments of their home countries, which can serve as references in formulating business strategies in other countries (Putra, 2021) . In the era of globalization, these differences in perspectives are increasingly relevant for companies seeking to integrate a global perspective into business management (Hernandez & Kulchina, 2020) . However, foreign CEOs also face adaptation challenges such as language barriers, differences in organizational culture, and limited understanding of local regulations (Gupta & Mahakud, 2020) . In this study, CEO nationality (NAT) is a *dummy variable*, with a value of 1 if the CEO is from a foreign country and 0 otherwise.

### **Capital Structure**

Capital structure is a strategic management decision in determining the efficient proportion of debt and equity to achieve a balance between risk and expected returns (Habibniya *et al.* , 2022). Effective capital structure management allows companies to utilize equity to support more strategic investments (Budiman & Margaretha, 2024) . In addition, the use of debt can also provide benefits, such as tax savings through reduced interest expenses or expanding operational capacity without having to wait for a longer funding process (Ruan *et al.*, 2009) . A proportional and efficient capital structure can increase company value while strengthening its competitive position in the long term (Bui *et al.*, 2023) . In this study, capital structure is calculated using the Debt to Equity Ratio (DER), a ratio that shows the comparison between a company's total debt and its total equity.

### **Company Activities**

In carrying out operational activities, companies need to maintain continuity between production, distribution, and sales processes. Inventory plays a crucial role not only in supporting operational activities but also in ensuring the company's ability to meet changing market demand (Kwak, 2019). Therefore, inventory management is a crucial aspect for maintaining operational efficiency while supporting company success (Park & Kim, 2021) . To assess the effectiveness of this management, companies can use activity ratios, which describe the efficiency of asset utilization in generating sales and profits (Ross *et al.* , 2022) . In addition, activity ratios can also be used to measure accounts receivable turnover, fixed assets, and working capital (Nurlaela *et al.* , 2019) . In this study, Company activity is measured using Inventory Turnover (ITO), where this ratio is used to measure the company's ability to manage inventory by comparing the cost of goods sold to inventory.

### **Financial performance**

Financial performance is the results achieved by management in managing company assets effectively and efficiently (Darmawan, 2020) . For investors, good financial performance is a

positive signal that the company is able to create sustainable shareholder value (Naibaho & Hardiata, 2025) . Investor assessment is not only based on profit but also on the level of profitability that reflects the company's financial health. Increased profitability can drive company value and provide a positive signal to the market (Nurdin et al., 2023) . Companies that are able to maintain consistent profitability generally have a competitive advantage through innovation, operational efficiency, or the ability to adapt to market changes (Song & Lee, 2021) . In this study, financial performance is measured by Return on Equity (ROE) which is calculated by dividing net profit by total equity, so that this ratio shows the level of return obtained by shareholders on the capital they invest.

### **Company Values**

Company value reflects the level of welfare of owners and shareholders and shows how the market assesses a company's performance and prospects (Nurdin et al ., 2023) . This value can also be seen as a market representation of the total value of the company's securities, both in the form of outstanding debt and equity (Budiman & Margaretha, 2024) . In public companies, the assessment of company value is relatively easy to observe because it is reflected in stock prices on the capital market (Naibaho & Hardiata, 2025) . An increase in stock prices indicates a growth in company value which has an impact on increasing shareholder welfare. Company value is considered optimal when the stock price reaches its highest level in a certain period (Hendi et al ., 2024) . In this study, company value is calculated using Tobin's Q (TOB), where this ratio compares the market value of equity plus total liabilities to the company's total assets.

### **The Influence of CEO Nationality on Firm Value**

The presence of foreign CEOs often provides international experience and strong cultural adaptability, thus contributing to the effectiveness of strategic decision-making processes (Kaur & Singh, 2019) . Furthermore, their ability to adapt business strategies to national economic conditions makes them more effective in managing company resources (Oktapiani et al ., 2023) . The accuracy of these decisions can not only increase operational efficiency but also company value (Ahmad et al., 2022) . Previous research by Ahmad et al., (2022) and Bouaziz & Jarboui (2025) found that CEO nationality has a positive effect on company value.

H<sub>1</sub> : CEO nationality has a positive effect on company value.

### **The Influence of Capital Structure on Company Value**

The use of debt in the capital structure can increase a company's financial risks, such as the potential for default and limitations in implementing business strategies (Le & Phan, 2017) . However, effective capital structure management can provide positive signals to investors regarding the company's prospects. In signaling theory, a company's decision to use debt reflects management's confidence in the company's ability to generate future cash flows to meet debt repayment obligations (Dao & Ta, 2020) . This positive signal can increase investor confidence, thereby driving stock prices up (Ruan et al., 2009) . The results of previous studies conducted by Nurdin et al ., (2023). and Tubastuvi et al ., (2023) indicate that capital structure has a positive effect on firm value.

H<sub>2</sub> : Capital structure has a positive effect on company value

### **The Influence of Company Activities on Company Value**

When management is able to effectively maximize the activity ratio, it increases investors' confidence that the company's internal oversight processes are running smoothly and that there is no misuse of resources (Ahmad et al ., 2022) . The operational efficiency achieved not only

helps reduce capital costs but also allows the business to operate economically (Wajo, 2021) . Ultimately, this contributes significantly to the company's overall value. (Wijaya et al ., 2023) . Based on previous research by Raza et al ., (2023) and Wijaya et al ., (2023) which stated that company activities have a positive effect on company value.

H<sub>3</sub> : Company activities have a positive effect on company value.

### **The Influence of CEO Nationality on Financial Performance**

The placement of foreign CEOs is currently often carried out by local companies seeking to strengthen their competitiveness in the international market through leadership with cross-border insight and experience (Thams & Rickley, 2023) . Business prospects become more promising thanks to the contribution of foreign parties who provide significant economic flexibility (Nguyen et al ., 2023) . Furthermore, CEOs with a foreign background generally provide good business networks and can be used to strengthen relationships with stakeholders, accelerate the negotiation process, and open up opportunities for strategic collaboration (Chen et al ., 2025) . Based on previous research by Putra (2021) and Nguyen (2023) , which stated that CEO nationality has a positive effect on financial performance.

H<sub>4</sub> : CEO nationality has a positive effect on financial performance.

### **The Influence of Capital Structure on Financial Performance**

Although debt-based financing can accelerate business expansion, excessive reliance on debt can potentially degrade a company's financial performance (Le & Phan, 2017) . High liability burdens encourage companies to allocate more cash flow to meet interest and principal payments rather than increasing operational efficiency (Jaisinghani & Kanjilal, 2017) . This condition reduces a company's ability to maintain profit stability, especially when facing market uncertainty and demand fluctuations (Ahmed et al ., 2023) . Thus, an aggressive capital structure tends to degrade the quality of a company's financial performance on an ongoing basis. Previous research by Naibaho & Hardiata (2025) and Aulia & Gandakusuma (2020) showed that capital structure negatively impacts financial performance.

H<sub>5</sub> : Capital structure has a negative effect on financial performance

### **The Influence of Company Activities on Financial Performance**

A high asset turnover ratio reflects a company's ability to reduce costs or increase productivity through more effective asset utilization (Ahmad et al ., 2022) . When operational activities are carried out optimally, a company can achieve cost efficiency while improving production performance (Bawono & Handika, 2023) . If this condition can be consistently maintained, the company will establish a harmonious relationship between operational activities and financial performance, thus creating a strong foundation for driving long-term business growth. (Liu et al ., 2020) . Based on previous research by Park & Kim (2021) and Alnaim & Kouaib (2023) which shows that company activities have a positive effect on financial performance.

H<sub>6</sub> : Company activities have a positive effect on financial performance.

### **The Influence of Financial Performance on Company Value**

To maintain its operational activities, a company must be able to generate stable and healthy cash flow (Ashari & Rahmawati, 2025) . This positive cash flow generally provides companies with the flexibility to make strategic investment decisions, maintain financial flexibility, support expansion programs, and reduce the pressure of debt burdens (Setiawanta et al ., 2020) . Furthermore, companies with solid financial performance tend to attract investor interest because their primary goal is to generate profits. The more investors invest in a well-performing

company, the higher its stock price will be (Imronudin et al ., 2022) . Based on previous research by Hasanudin et al ., (2020) and Imronudin et al ., (2022), which found that financial performance has a positive effect on company value.

H<sub>7</sub> : Financial performance has a positive effect on company value

### **The Effect of Financial Performance in Mediating CEO Nationality on Firm Value**

Companies led by a foreign CEO are often assumed to have a global perspective, international experience, and broader network access. These advantages are not always directly reflected in increased company value, as shown by research by Hidayat et al . (2024) and Oktapiani et al . (2023) . The international experience of a foreign CEO has the potential to influence the quality of strategic decision-making and the effectiveness of company management, which is then reflected in financial performance. Good financial performance demonstrates a company's ability to manage resources efficiently and generate sustainable profits, which ultimately becomes one of the main determinants in the formation of company value (Kosmala et al ., 2021) .

H<sub>8</sub> : Financial performance is able to mediate CEO nationality towards company value.

### **The Influence of Financial Performance in Mediating Capital Structure on Firm Value**

Capital structure is a company's funding policy related to the use of debt and equity to support operational and investment activities (Bui et al ., 2023) . If a company is able to manage its capital structure stably without exhibiting excessive debt fluctuations, this condition does not always directly affect investor risk perceptions or company value, as shown by the results of research by Dang & Do (2021) . The absence of this direct influence indicates that capital structure plays a greater role through the company's internal mechanisms, particularly through financial performance. An appropriate capital structure policy can affect funding costs, operational efficiency, and a company's ability to generate profits, which are then reflected in financial performance (Naibaho & Hardiata, 2025) . Good financial performance then becomes an important factor considered by investors in assessing a company's prospects and value (Chandra et al ., 2019: 76) .

H<sub>9</sub> : Financial performance is able to mediate capital structure on company value.

### **The Influence of Financial Performance in Mediating Corporate Activities on Corporate Value**

Company activity describes the extent to which a company utilizes resources to support its business activities (Balqis et al ., 2026) . Based on research by Ahmad et al., (2022) , it shows that operational efficiency reflected in company activities does not always have a direct impact on company value, because investors tend to respond more to performance indicators that are directly related to profitability. A high level of company activity can generally reduce operational costs, increase productivity, and encourage increased profits, which are then reflected in the company's financial performance (Liu et al., 2020) . Good financial performance then becomes a positive signal for investors because it reflects the company's ability to create value and reduce the risk of bankruptcy, thus having an impact on increasing company value.

H<sub>10</sub> : Financial performance is able to mediate company activities towards company value

Based on the framework of thought that has been described, a research model can be created as in Figure 1.

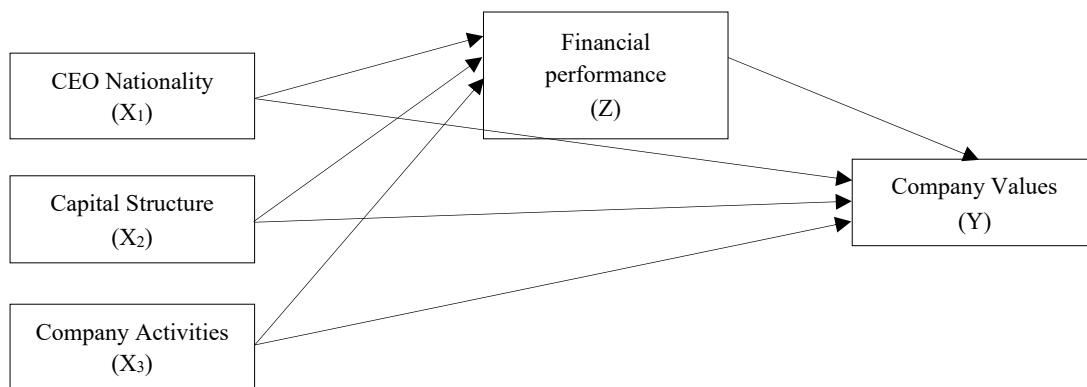


Figure 1. Conceptual Framework

## Methods

This study employed a quantitative method with an associative approach. Data collection was conducted manually using a data triangulation approach as recommended by Heale & Forbes (2013). The data used were secondary data obtained from various sources, such as annual reports, corporate sustainability reports, official company websites, and news searches on official online media. The collected information was then verified by comparing various sources to ensure data accuracy. The population in this study included 132 companies in the primary consumer goods sector listed on the Indonesia Stock Exchange during the 2018–2024 period.

The sample selection in this study was conducted using a purposive sampling technique with several criteria, namely: (a) the company had conducted an initial public offering (IPO) before 2018; (b) the company consistently published annual reports and sustainability reports during the 2018–2024 period; (c) the company did not experience a capital deficiency during the observation period. Based on these criteria, 58 companies were obtained that met the requirements as research samples, with a total of 406 data observations over seven years.

All models are estimated using a two-step system GMM which is able to provide more accurate estimates while also overcoming problems related to the nature of the unit root. (Bond, 2002). One of the tests that must be performed is the Arellano–Bond test, which aims to determine whether or not there is a correlation problem in the residuals. In this test, the first-order correlation AR(1) is still acceptable if the significance level is below 0.05, while the second-order correlation AR(2) must not be significant so that the research model can be declared feasible or valid (Arellano & Bond, 1991). In addition, this study also used the overidentifying restrictions test, namely the Sargan test to ensure that the instruments used are truly valid and not correlated with the error term. As explained by Roodman (2009), the combination of the results of the Arellano–Bond test and the Sargan test is the main requirement in ensuring that the GMM model can be considered feasible and that the estimation results can be trusted as a basis for drawing conclusions.

As a consequence of using System GMM, the regression model in this study is structured as a dynamic panel, incorporating the values of the dependent variables from previous periods into the equation. This aims to represent the influence of past events on current conditions while also accommodating potential endogeneity issues in the research model. The dynamic panel model estimation in this study was performed using Stata software version 17. In general, the regression model used can be formulated as follows:

$$TOB_{i,t} = \beta_0 + \beta_1 NAT_{i,t} + \beta_2 DER_{i,t} + \beta_3 ITO_{i,t} + \beta_4 TOB_{i,t-1} + \varepsilon_{i,t} \quad (1)$$

$$ROE_{i,t} = \alpha_0 + \alpha_1 NAT_{i,t} + \alpha_2 DER_{i,t} + \alpha_3 ITO_{i,t} + \alpha_4 ROE_{i,t-1} + \varepsilon_{i,t} \quad (2)$$

$$TOB_{i,t} = \beta'_0 + \beta'_1 NAT_{i,t} + \beta'_2 DER_{i,t} + \beta'_3 ITO_{i,t} + \beta'_4 ROE_{i,t} + \beta'_5 TOB_{i,t-1} + \varepsilon_{i,t} \quad (3)$$

In this study, Model 1 is used to estimate the total effect of the independent variable on the dependent variable before the mediator is entered into the equation, as suggested in Baron & Kenny's (1986) conceptual framework . This model serves as a basis for comparison in determining the type of mediation by comparing the coefficients of Model 1 ( total effect ) and Model 3 ( direct effect ). If the effect of the independent variable becomes insignificant after the mediator is entered, then full mediation occurs . Whereas if the effect remains significant but the coefficient decreases, then partial mediation occurs. (Baron & Kenny, 1986) . Next, Model 2 is used to test the effect of the independent variable on the mediator variable, so that the hypothesis testing related to the path to the mediator in this study is based on the estimation results of Model 2. Referring to Preacher & Hayes (2004) , the direct effect is defined as the effect of the independent variable on the dependent variable after the mediator is controlled in the model. Therefore, the interpretation of the hypothesis testing related to the direct effect in this study is based on the estimation results of Model 3.

## Result and Discussion

Table 1. Descriptive Statistical Test

<b>Variables</b>	<b>Mean</b>	<b>Standard Deviation</b>	<b>Minimum</b>	<b>Maximum</b>
NAT	0.1945	0.3963	0	1
DER	1.9430	3,7642	0.0719	38,1721
ITO	7,6071	10,6162	0.5040	186,4103
ROE	0.0608	0.4289	-2.5878	2.5546
TOB	1.8666	2,3200	0.4308	26,8243

Based on the results of the descriptive statistical test analysis in Table 1, the average value of NAT is 0.1945; the standard deviation value is 0.3963; the minimum value is 0; and the maximum value is 1. DER shows an average value of 1.9430; the standard deviation value is 3.7642; the minimum value is 0.0719; and the maximum value is 38.1721. ITO shows an average value of 7.6071; the standard deviation value is 10.6162; the minimum value is 0.5040; and the maximum value is 186.4103. ROE shows an average value of 0.0608; the standard deviation value is 0.4289; the minimum value is -2.5878; and the maximum value is 2.5546. TOB shows an average value of 1.8666; the standard deviation value is 2.3200; the minimum value is 0.4308; and the maximum value is 26.8243 .

Table 2. System GMM Estimation Results

<b>Variable</b>	<b>Model 1 (TOB)</b>	<b>Model 2 (ROE)</b>	<b>Model 3 (TOB)</b>
Constanta	0.6358*** (0.0276)	0.1955*** (0.0090)	0.6107*** (0.0296)
NIGHT	0.2526*** (0.0631)	0.0198 (0.0211)	0.2580*** (0.0464)
THERE	-0.0175*** (0.0065)	-0.0816*** (0.0007)	0.0006 (0,0055)
ITO	0,0058*** (0,0008)	0,0012 (0,0015)	0,0035*** (0,0009)
ROE	-	-	0,3483***

	-	-	(0,0452)
<i>Lag TOB</i>	0,5318***	-	0,5203***
	(0,0051)	-	(0.0053)
<i>Lag ROE</i>	-	0.0162***	-
	-	(0.0034)	-
Number of Observations	348	348	348
Number of Companies	58	58	58
<i>AR(1) p - value</i>	0.0410	0.0324	0.0440
<i>AR(2) p - value</i>	0.1257	0.1201	0.1251
<i>Sargan p - value</i>	0.3009	0.2123	0.2484
Wholesale Instruments	24	24	25

\* p<0.10, \*\*p<0.05, \*\*\*p<0.01

Based on the results of the model validity test in Table 2, the Arellano–Bond test shows that the AR(1) value in all models is significant, while AR(2) is insignificant. This indicates a first-order correlation but no second-order correlation, thus the assumption of *System GMM estimation consistency* has been met. Furthermore, the Sargan test produces probability values above 0.05 in all models, indicating that the instruments used are valid and not correlated with the error term. The number of instruments is also still within reasonable limits and does not exceed the number of cross-sections, so there is no problem of instrument proliferation. Thus, the three *System GMM models* in this study are declared suitable for use.

### **The Influence of CEO Nationality on Firm Value**

The tested CEO nationality showed a positive influence on firm value, thus the hypothesis in this study is accepted. This is reinforced by Ahmad *et al.* (2022) and Bouaziz & Jarboui (2025), who found similar results. These findings indicate that the presence of a foreign CEO can improve the quality of strategic decision-making through international experience, better governance practices, and a long-term orientation. In line with *upper echelons theory* and *the resource-based view*, this reflects the superiority of *human capital* and *relational capital*, which encourage increased investor confidence and a company's competitive advantage.

### **The Influence of Capital Structure on Company Value**

The tested capital structure did not show any effect on firm value, therefore, the hypothesis in this study was rejected. This finding is supported by research by Dang & Do (2021). According to *pecking order theory*, debt use reflects limited internal funds rather than a strategy to increase firm value. Therefore, it is not considered a significant signal by the market and has no significant impact on firm value. This is reinforced by the characteristics of the primary consumer goods sector, which has stable demand, maintained cash flow, and low risk, resulting in relatively controlled agency conflicts and a minimal role *for leverage*.

### **The Influence of Company Activities on Company Value**

The tested company activities showed a positive influence on company value, so the hypothesis in this study can be accepted. The results of this study are consistent with Raza *et al.*, (2023) and Wijaya *et al.*, (2023). A high *inventory turnover* (ITO) rate reflects the company's efficiency in managing inventory, thereby accelerating conversion into sales and cash flow and reducing storage costs and the risk of damage, especially in the primary consumer goods sector which has products with a short shelf life. Furthermore, a high ITO indicates strong market demand and managerial ability in managing working capital. This condition reflects healthy

and sustainable operations, thus encouraging increased market confidence, maintaining stock price stability, and strengthening the company's competitive advantage.

### **The Influence of CEO Nationality on Financial Performance**

The tested CEO nationality did not show any effect on financial performance, therefore, the hypothesis in this study was rejected. This result is in line with the findings of Wisdom *et al.*, (2025) and Khan *et al.*, (2021). In *signaling theory*, CEO nationality represents a non-financial signal related to managerial quality. However, in the primary consumer goods sector, company performance is more determined by the effectiveness of operational strategies and business efficiency amid cost pressures, raw material volatility, and changing consumer preferences. As a result, investors tend to focus on fundamental performance that reflects the company's ability to create economic value, while CEO characteristics are only viewed as supplementary information with limited relevance.

### **The Influence of Capital Structure on Financial Performance**

The tested capital structure showed a negative effect on financial performance, thus the hypothesis in this study is accepted. This finding is consistent with the research results of Naibaho & Hardiata (2025) and Aulia & Gandakusuma (2020). In *agency theory*, debt can be a disciplinary tool for management, but at excessive levels, it triggers conflict between shareholders and creditors and encourages more conservative managerial behavior. This reduces investment efficiency and firm value, particularly in the primary consumer goods sector, which has low margins and limited financial flexibility. Consequently, financial risk increases and investors demand higher *returns*.

### **The Influence of Company Activities on Financial Performance**

The tested company activities did not show any impact on financial performance, therefore, the hypothesis in this study was rejected. This is in line with the findings of Klingenberg *et al.*, (2022). Increasing *inventory turnover* through aggressive strategies, such as promotions or discounts, can accelerate inventory turnover. However, profitability is more influenced by cost structure, operational efficiency, and the ability to maintain profit margins, so ITO reflects operational stability rather than being a direct determinant of financial performance. From a *working capital management perspective*, financial performance is linked to inventory, receivables, and accounts payable. In the primary consumer goods sector, a liquidity management orientation focused on credit policy and short-term liabilities results in an insignificant partial contribution of ITO to ROE.

### **The Influence of Financial Performance on Company Value**

The tested financial performance shows a positive effect on firm value, thus the hypothesis in this study is accepted. This finding is consistent with research by Hasanudin *et al.* (2020) and Imronudin *et al.* (2022). A high *return on equity* (ROE) reflects a company's effectiveness in managing shareholder capital into profits, thus providing a positive signal to investors regarding performance quality and competitive advantage. This consistent performance also shapes expectations regarding cash flow stability and the company's fundamental strength, ultimately increasing investor confidence, reducing risk perception, and driving higher valuations and share prices.

### **The Effect of Financial Performance in Mediating CEO Nationality on Firm Value**

The test results indicate that financial performance is unable to mediate the relationship between CEO nationality and firm value, thus the hypothesis is rejected. CEOs with certain

nationalities, particularly from countries with better governance, are perceived to improve the quality of corporate oversight, transparency, and strategic capabilities (Chen *et al.* , 2025; Thams & Rickley, 2023) . In line with *signaling theory* , the appointment of a foreign CEO signals the faster adoption of global practices, which are reflected in market valuations. Meanwhile, ROE, influenced by conservative funding policies, has limited ability to reflect managerial quality, making it less effective as a mediating variable.

### **The Influence of Financial Performance in Mediating Capital Structure on Firm Value**

Financial performance, tested as a mediating variable, was proven to fully mediate the relationship between capital structure and firm value, thus accepting the hypothesis. In *pecking order theory* , increased debt reflects limited internal funds, which can suppress profitability through interest expenses, thus impacting ROE and firm value. This indicates that capital structure is not perceived as a direct primary factor, but rather through the company's ability to generate returns on equity (Le & Phan, 2017) . In companies with relatively stable cash flows, investors tend not to respond significantly to changes in *leverage* , as long as *profitability remains maintained* (Jaisinghani & Kanjilal, 2017) . Thus, ROE becomes a primary indicator reflecting the effectiveness of resource management and acts as a mechanism that bridges the influence of capital structure on firm value.

### **The Influence of Financial Performance in Mediating Corporate Activities on Corporate Value**

Test results indicate that financial performance is unable to mediate the relationship between company activity and firm value, thus rejecting the hypothesis. *Inventory turnover* reflects operational efficiency through accelerated product turnover and distribution, but is often accompanied by margin pressure due to operational costs and pricing strategies, so it does not always increase ROE proportionally (Alnaim & Kouaib, 2023) . Consequently, the contribution of operational efficiency to shareholder profitability is limited (Park & Kim, 2021) . Furthermore, investors place greater emphasis on cash flow stability and operational sustainability than short-term indicators such as ROE (Bawono & Handika, 2023) . The medium- and long-term benefits of inventory efficiency are also not directly reflected in profits, making ROE less able to fully represent its impact and ineffective as a mediating variable.

## **Conclusion**

This study complements previous studies that examined the relationship between CEO nationality, capital structure, and firm activity on firm value by including financial performance as a mediating variable. Based on 406 observations from 58 companies listed on the Indonesia Stock Exchange during the 2018–2024 period, the results show that CEO nationality, firm activity, and financial performance have a positive effect on firm value. Conversely, capital structure has no effect on firm value. This finding suggests that the presence of a foreign CEO, effective management of firm activities, and good financial performance can strengthen investors' perceptions of firm value. On the other hand, CEO nationality and firm activity have no effect on financial performance, while capital structure has a negative effect. This indicates that increased debt usage has the potential to increase financial burdens and depress firm performance. Furthermore, financial performance is proven to fully mediate the relationship between capital structure and firm value, but does not act as a mediator in the relationship between CEO nationality and firm activity on firm value.

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