

THE EFFECT OF PROFITABILITY AND LEVERAGE ON FIRM VALUE WITH INSTITUTIONAL OWNERSHIP AS A MODERATING VARIABLE IN CONSUMER NON-CYCLICAL FIRMS

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Abstract: The present study aims to explore the relationship between profitability, leverage, and firm value, including the moderating role of institutional ownership in non-cyclical consumer goods companies listed on the Indonesia Stock Exchange during the 2022–2024 observation period. This study employs a quantitative approach, the research uses panel data derived from secondary financial statements, with 36 firm-year observations selected through purposive sampling. The data were analyzed using panel data regression and Moderated Regression Analysis (MRA) to assess both direct effects and moderating relationships among the variables. Profitability is proxied by Return on Assets (ROA), leverage by the Debt to Equity Ratio (DER), and firm value by Tobin's Q. The results reveal that profitability and leverage both have a positive and significant impact on firm value. Furthermore, institutional ownership is found to strengthen the relationship between profitability and firm value, although it does not significantly moderate the influence of leverage on firm value. These findings indicate that financial performance and capital structure are important determinants of firm value, while institutional ownership appears to function more effectively as a governance mechanism in relation to profitability.

Keywords: *Profitability; Leverage; Institutional Ownership; Firm Value*

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1. Introduction

In recent years, the global economy has experienced heightened uncertainty, driven by slower economic growth, disruptions in global supply chains, and increasing energy prices and interest rates. According to the Global Economic Prospects report issued by the World Bank (2025), global economic growth in 2025 is projected to reach only 2.3 percent, marking one of the weakest growth rates since the 2008 global financial crisis. This situation is further reinforced by the World Economic Situation and Prospects report (United Nations, 2025), which identifies global trade instability and rising production costs as continuing challenges for the real sector. Moreover, elevated global interest rates have intensified financing burdens and financial risks, particularly for companies with substantial debt levels.

The consumer non-cyclical sector is commonly recognized as a defensive industry because it provides essential goods and services required by society. Nevertheless, recent economic conditions suggest that companies operating in this sector are not fully protected from global macroeconomic pressures. Increases in production costs, exchange rate volatility, and declining

consumer purchasing power have contributed to pressure on corporate earnings. Evidence from the Indonesia Stock Exchange indicates that several firms within this sector have experienced declining net profits, reflecting a discrepancy between the sector's expected stability and the actual financial performance of companies.

In addition to the decline in financial performance, market-based indicators such as firm value have also shown negative developments. Several companies have experienced decreasing stock prices, reflecting weakened investor confidence regarding future business prospects. Firm value describes the market's perception of a company's overall achievements and management's success in increasing shareholder wealth (Susila et al., 2023). Consequently, understanding the factors that influence firm value is essential for both investors and corporate managers when formulating strategic decisions.

Among the internal determinants of firm value, profitability and leverage are widely examined in financial research. Profitability indicates a company's ability to generate profits efficiently and is commonly perceived by investors as a favorable signal. Meanwhile, leverage refers to financing decisions associated with the company's capital structure. Although debt utilization may enhance firm value by supporting business expansion and investment activities, an excessive level of leverage can increase financial risk and reduce investor trust.

In addition to financial aspects, corporate governance mechanisms also play an important role in shaping firm value. Institutional ownership, as part of corporate governance, is expected to improve monitoring effectiveness and reduce agency conflicts between shareholders and management. Through stronger oversight, institutional investors can encourage greater corporate transparency and strengthen the impact of financial performance on firm value.

However, previous empirical studies have reported inconsistent findings regarding the effects of profitability, leverage, and institutional ownership on firm value. Several studies conclude that profitability and leverage significantly affect firm value, whereas others report insignificant or contradictory relationships. Likewise, the moderating role of institutional ownership remains inconclusive, as its influence may vary across different industrial contexts and corporate characteristics.

Based on these research gaps, This study aims to examine the effects of profitability and leverage on firm value, while also investigating the moderating role of institutional ownership in consumer non-cyclical companies listed on the Indonesia Stock Exchange during the 2022–2024 period. The results of this study are expected to provide empirical evidence and enrich the understanding of how financial performance and corporate governance mechanisms interact in influencing firm value.

2. Literature Review

2.1. Agency Theory

Agency Theory explains the principal-agent contractual relationship between shareholders as principals and management as agents, in which both parties may have different interests that can lead to agency conflicts. Jensen and Meckling (1976) state that managers tend to act in ways that maximize their personal interests; therefore, an effective monitoring mechanism is needed to ensure that managerial decisions remain aligned with shareholders' objectives.

In the context of this study, agency conflicts are related to a company's financial performance and funding structure, particularly profitability and leverage. In addition, institutional ownership is considered an effective monitoring mechanism because it contributes to company performance by reducing agency costs and increasing efficiency (Meilanda et al.,

2025). Therefore, institutional ownership is expected to reduce opportunistic managerial behavior and enhance firm value.

2.2. Signaling Theory

Signaling Theory explains that information released by a company, particularly financial information, functions as a signal that allows investors to evaluate both the firm's current condition and its future prospects (Spence, 1973). The availability of such information helps minimize information asymmetry between management and external parties, such as investors and creditors.

Within this framework, profitability and leverage are considered key financial indicators that investors use to assess a company's operational effectiveness and financial risk. Positive financial signals that indicate strong company performance tend to enhance investor confidence, which can ultimately increase firm value. According to Goha et al. (2025), firm value reflects investors' perceptions of a company's achievements, meaning that market interpretation of corporate information plays a crucial role in determining firm valuation.

2.3. Profitability (ROA)

Profitability refers to a company's ability to generate earnings through the efficient utilization of its assets. According to Muhammad Fikri Haikal et al. (2025), profitability is an important indicator used by investors to evaluate how effectively a company manages its resources. One commonly used measure is Return on Assets (ROA), which indicates the company's ability to generate profits from its total assets. Investors frequently rely on ROA to evaluate a company's overall performance, as it demonstrates management's efficiency in managing and utilizing corporate assets.

From the standpoint of Signaling Theory, profitability is considered a positive signal that reflects the company's operational efficiency and potential for future growth. A higher profitability level, particularly when indicated by Return on Assets (ROA), tends to strengthen investor confidence in the firm's ability to generate sustainable returns. As a result, improved profitability can contribute to an increase in firm value (Susila et al., 2023).

2.4. Leverage (DER)

Leverage describes the degree to which a company utilizes debt within its capital structure. From the viewpoint of Agency Theory, debt financing can function as a mechanism to monitor and discipline management, as firms are required to meet interest payment obligations, thereby limiting managerial opportunistic behavior and reducing the likelihood of inefficient spending.

Nevertheless, excessive leverage can increase a company's financial risk and weaken investor confidence. Previous studies have shown that higher leverage is closely associated with greater financial risk, which becomes an important consideration for investors when assessing corporate performance and stability. In addition, empirical evidence suggests that the impact of leverage on firm value is highly dependent on contextual factors, including industry characteristics and the firm's overall capital structure, which may lead to either positive or negative market responses (Iqbal Nur Satriawan & Daniel Bagana, 2023; Irawan Syahril & Nugroho, 2025).

2.5. Good Corporate Governance (Institutional Ownership)

Good Corporate Governance (GCG) is a framework that regulates the relationship among shareholders, management, and other stakeholders in order to promote transparent and

accountable corporate practices. In this study, GCG is represented by institutional ownership, which refers to the proportion of company shares owned by institutions such as banks, insurance companies, and pension funds.

Based on Agency Theory, institutional ownership acts as an effective monitoring mechanism because institutional investors generally possess greater resources and stronger monitoring capabilities than individual shareholders. Harinurdin and Safitri (2022) emphasize that strong governance mechanisms can improve transparency and investor confidence, thereby contributing to better corporate management quality.

2.6. Firm Value

Firm value describes the market's perception of a company's current condition and future business outlook. Rianti et al. (2023) state that firm value reflects investors' perceptions of a company's achievements, as indicated by its market stock price. Therefore, investors' interpretation of corporate financial information plays a major role in shaping firm value.

From the perspective of Signaling Theory, firm value is influenced by how companies convey signals through financial performance and funding decisions. Meanwhile, Agency Theory emphasizes that firm value can be optimized when effective monitoring mechanisms minimize conflicts of interest. Profitability, leverage, and institutional ownership collectively contribute to shaping market perceptions of firm value.

2.7. The Effect of Profitability on Firm Value

Profitability refers to a company's ability to generate earnings through the efficient management of its assets and is generally viewed as a key benchmark of financial performance. In line with Signaling Theory, higher profitability sends a positive message to investors concerning operational effectiveness and future business opportunities, which may ultimately increase firm value. Empirical findings from Hanun et al. (2023) and Susila et al. (2023) support this argument by demonstrating that profitability positively and significantly influences firm value.

Nevertheless, previous studies have produced inconsistent findings related to the relationship between profitability and firm value. Agalliao et al. (2024), for example, found that changes in profitability did not significantly affect firm value in several consumer sector companies. These contrasting results suggest the existence of an empirical gap related to the effect of profitability on firm value, particularly in the Consumer Non-Cyclical sector, which is commonly considered relatively stable and defensive. Therefore, further investigation into this relationship remains important and relevant.

H1: Profitability (ROA) has a positive effect on firm value (Tobin's Q).

2.8. The Effect of Leverage on Firm Value

Leverage reflects a company's capital structure and shows the level of financial risk associated with the use of debt financing. From the perspective of Agency Theory, debt can function as a monitoring mechanism that promotes managerial discipline through the responsibility to fulfill interest payment obligations. However, excessive dependence on debt may increase financial risk and reduce investor confidence.

Prior empirical studies have reported mixed results regarding the relationship between leverage and firm value. Agalliao et al. (2024) found that leverage did not have a significant influence on firm value among consumer goods companies. Conversely, Supriyatna and Akbar (2025) demonstrated that leverage positively and significantly affected firm value, as debt

financing was perceived as an effective strategy for increasing shareholder wealth. In addition, Suryadi (2022) argued that the impact of leverage on firm value is conditional upon a company's financial condition and capital structure characteristics. These inconsistent findings highlight the existence of a research gap and suggest the need for further investigation, particularly within the Consumer Non-Cyclical sector.

H2: Leverage (DER) affects firm value (Tobin's Q).

2.9. The Role of Institutional Ownership in Moderating the Effect of Profitability on Firm Value

Institutional ownership constitutes an essential element of Good Corporate Governance, as it can improve the effectiveness of monitoring managerial activities and decision-making processes. From the perspective of Agency Theory, institutional investors are considered capable of enhancing the credibility of reported profits while simultaneously reducing opportunistic behavior by management, thereby potentially strengthening the relationship between profitability and firm value.

Previous empirical studies, however, have produced inconsistent findings. Luh and Pradnyani (2025) reported that institutional ownership strengthens the positive effect of profitability on firm value. In contrast, Larasati et al. (2026) found that institutional ownership weakens the relationship between profitability and firm value. These differing results indicate that the moderating role of institutional ownership may depend on specific industry characteristics and firm conditions, highlighting the need for further empirical examination.

H3: Institutional ownership moderates the effect of profitability (ROA) on firm value.

2.10. The Role of Institutional Ownership in Moderating the Effect of Leverage on Firm Value

From the perspective of Agency Theory, institutional ownership is expected to mitigate agency conflicts by strengthening the monitoring of corporate financing decisions and managerial policies. Through more intensive supervision, institutional investors may encourage companies to manage debt more prudently and efficiently.

However, previous empirical studies have produced inconsistent findings regarding the moderating effect of institutional ownership on the relationship between leverage and firm value. Several studies indicate that institutional ownership does not significantly moderate the effect of leverage on firm value, as investors generally continue to view debt-related risk negatively regardless of ownership composition. Pambudi et al. (2023) also found that institutional ownership failed to significantly moderate the relationship between leverage and firm value, suggesting that institutional investors do not substantially alter market perceptions regarding debt-related financial risk. In contrast, other studies argue that the impact of leverage on firm value may differ depending on governance mechanisms, ownership structure, and specific company characteristics (Suryadi, 2022).

These inconsistent findings indicate that the moderating role of institutional ownership in the relationship between leverage and firm value remains inconclusive and requires further investigation.

H4: Institutional ownership moderates the effect of leverage (DER) on firm value.

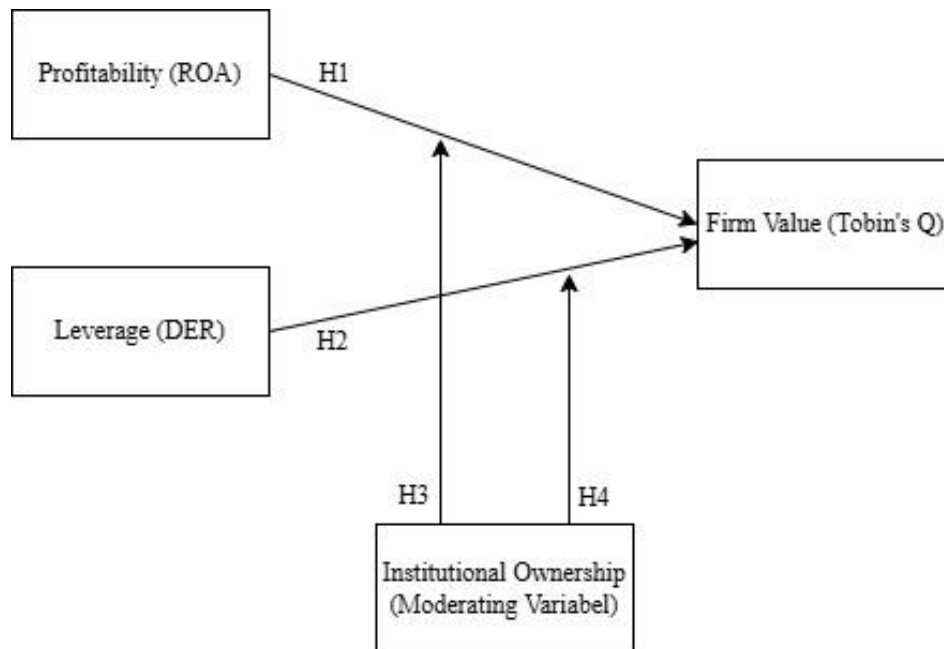


Figure 1. Conceptual Framework

3. Research Method

This study adopts a quantitative research approach utilizing panel data analysis to investigate the effect of profitability and leverage on firm value., as well as the moderating role of institutional ownership. A quantitative method is considered suitable because the study relies on numerical financial data analyzed through statistical techniques.

The population of this study consists of 131 consumer non-cyclical companies listed on the Indonesia Stock Exchange (IDX) from 2022 to 2024. The research sample was selected through purposive sampling according to several predetermined criteria.: (1) companies that had been listed before 2022, (2) firms operating in sub-sectors such as processed food, beverages, personal care, and cigarettes, (3) companies experiencing declines in both profitability and stock prices during the observation period, and (4) firms providing complete institutional ownership data. Based on these requirements, 12 companies were selected, resulting in a total of 36 firm-year observations.

The study relies on secondary data collected from annual reports, financial statements, and corporate governance disclosures available on the official IDX website as well as individual company websites. Firm value is measured using Tobin's Q, profitability is proxied by Return on Assets (ROA), leverage is represented by the Debt to Equity Ratio (DER), and institutional ownership is calculated as the proportion of shares owned by institutional investors.

Data analysis was conducted using panel data regression to evaluate the direct effects of profitability and leverage on firm value. Furthermore, Moderated Regression Analysis (MRA) was employed to assess the moderating role of institutional ownership by incorporating interaction terms between profitability and institutional ownership, as well as leverage and institutional ownership. Prior to hypothesis testing, several classical assumption tests—including normality, multicollinearity, heteroscedasticity, and autocorrelation tests—were carried out to ensure the robustness and validity of the regression model. All statistical analyses were performed using IBM SPSS Statistics version 25.

Table 1. Variable Operation

Variable	Indicator	Measurement
Leverage	DER	$\frac{\text{Total Liabilities}}{\text{Total Equity}}$
Firm Value	Tobin's Q	$\frac{(\text{Market Value of Equity} + \text{Total Liabilities})}{\text{Total Asset}}$
Profitability	ROA	$\frac{\text{Net Income}}{\text{Total Assets}}$
GCG	Institutional Ownership	$\frac{(\text{Number of Shares Owned by Institutions})}{\text{Total Outstanding Shares}}$

4. Result and Discussion

4.1. Results

Before conducting hypothesis testing, all regression models underwent classical assumption tests, including tests of normality, multicollinearity, heteroscedasticity, and autocorrelation. The results show that all assumptions were fulfilled, indicating that the regression models were suitable for further analysis.

Descriptive Statistics

Descriptive statistics were used to provide an overview of the distribution and characteristics of the research variables. Profitability, as measured by Return on Assets (ROA), recorded an average value of 9.28%, indicating a moderate level of effectiveness in generating profits from the company's assets. Nevertheless, the relatively wide range of values, from 0.00% to 29.00%, along with a standard deviation of 7.26, reflects considerable variation in profitability performance among the sampled firms.

Leverage, proxied by the Debt to Equity Ratio (DER), exhibited an average value of 109.72%, accompanied by a high standard deviation of 128.32. This substantial dispersion indicates notable differences in financing policies and capital structure decisions across companies. The findings suggest that certain firms depend extensively on debt financing, whereas others operate with comparatively lower levels of leverage.

Firm value, measured by Tobin's Q, has a mean of 204.06, which implies that, on average, the market values firms above their book value. Nevertheless, the high variability indicates that market perceptions differ considerably across companies.

Institutional ownership has an average of 68.86%, suggesting that institutional investors hold a dominant proportion of shares in most firms, although the variation indicates differing levels of monitoring intensity.

Table 2. Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
GCG	36	7.00	92.00	68.8611	26.31366
ROA	36	.00	29.00	9.2778	7.25696
DER	36	11.00	647.00	109.7222	128.31626
Tobin's Q	36	69.00	1057.00	204.0556	212.74974
Valid N (listwise)	36				

Source : Processed data 2026

Results of Multiple Linier Regression

The results of the baseline regression model reveal that profitability, proxied by Return on Assets (ROA), has a positive and statistically significant influence on firm value ($\beta = 20.160$; $p < 0.001$). This finding supports the proposed hypothesis that higher profitability leads to an increase in firm value. It also indicates that investors tend to react positively to companies with strong earnings performance and efficient asset management.

Leverage (DER) is likewise found to have a positive and significant effect on firm value ($\beta = 0.545$; $p = 0.001$). This result implies that the use of debt, when maintained at an optimal level, is viewed favorably by the market because it may reflect managerial confidence and the company's capability to generate future cash flows.

Overall, these findings demonstrate that profitability and leverage are important determinants of firm value within the Consumer Non-Cyclical sector.

Table 3. Regression Result Table – Model 1

Model	Coefficients ^a			t	Sig.
	Unstandardized	Standardized			
	Coefficients	Coefficients	Beta		
	B	Std. Error			
(Constant)	-42.754	27.536		-1.553	.130
ROA	20.160	2.626	.688	7.677	.000
DER	.545	.149	.329	3.668	.001

a. Dependent Variable: TOBIN'S Q

Source : Processed data 2026

Results of Moderated Regression Analysis (MRA)

The results of the moderated regression analysis indicate that institutional ownership significantly enhances the relationship between profitability and firm value (ROA \times Institutional Ownership: $\beta > 0$; $p = 0.016$). This finding implies that the positive effect of profitability on firm value becomes stronger in companies with higher institutional ownership. The result supports the view that institutional investors improve the credibility and reliability of financial performance information through more effective monitoring practices.

In contrast, institutional ownership does not significantly moderate the relationship between leverage and firm value (DER \times Institutional Ownership: $p = 0.321$). This indicates that the existence of institutional investors does not meaningfully alter the effect of leverage on firm value, implying that investor perceptions regarding debt-related risk remain relatively consistent regardless of institutional ownership levels.

Interestingly, the direct effect of leverage becomes insignificant in the moderated model ($p = 0.612$), indicating that the influence of leverage on firm value may depend on specific contexts and tends to weaken once interaction effects are taken into account.

Table 4. Regression Result Table – Model 2

Model	Coefficients ^a			t	Sig.
	Unstandardized	Standardized			
	Coefficients	Coefficients	Beta		
	B	Std. Error			
(Constant)	-52.580	36.592		-1.410	.169
ROA	22.281	3.441	.760	6.476	.000
DER	-.526	1.028	-.317	-.512	.612

<i>X1M</i>	2.387E-5	.000	.274	2.536	.016
<i>X2M</i>	.013	.013	.670	1.009	.321

a. Dependent Variable: TOBIN'S Q

Source: Processed data 2026

Summary of Findings

Overall, the findings indicate that profitability consistently exerts a strong positive influence on firm value, both directly and in the presence of institutional ownership as a moderating variable. Meanwhile, leverage demonstrates a positive effect only in the baseline model but loses significance in the moderated model. Institutional ownership functions as a pure moderator in the profitability–firm value relationship but not in the leverage–firm value relationship.

4.2. Discussion

The empirical results indicate that profitability, measured by Return on Assets (ROA), has a positive and significant effect on firm value; thus, H1 is accepted. This finding is consistent with Signaling Theory, which posits that profitability serves as an important signal of a firm's financial performance and future prospects. Higher profitability reflects efficient management in utilizing assets to generate earnings, which strengthens investor confidence and increases firm value. This result is in line with previous studies by Agalliao et al. (2024) and Hanun et al. (2023), which identify profitability as a key determinant of firm value, particularly in the Consumer Non-Cyclical sector.

Furthermore, leverage, as represented by the Debt to Equity Ratio (DER), demonstrates a positive and significant influence on firm value, thereby supporting the acceptance of H2. This result indicates that, within the Consumer Non-Cyclical sector, the use of debt at an appropriate level is viewed favorably by investors and the market. In the context of Signaling Theory, debt financing may convey positive signals regarding management's confidence in the company's future cash flow stability and growth potential. Iqbal Nur Satriawan and Daniel Bagana (2023) as well as Supriyatna and Akbar (2025), who argue that leverage does not always negatively affect firm value and may contribute positively under certain conditions.

Regarding the moderating effect, institutional ownership strengthens the relationship between profitability and firm value; therefore, H3 is accepted. This finding supports Agency Theory, which emphasizes the role of institutional investors in improving monitoring effectiveness and reducing information asymmetry. Strong institutional oversight enhances the credibility of financial information, thereby increasing the market's response to profitability in determining firm value. This result is consistent with Luh and Pradnyani (2025), who highlight the importance of corporate governance mechanisms in enhancing firm value.

In contrast, the moderating effect of institutional ownership on the relationship between leverage and firm value was found to be insignificant., resulting in the rejection of H4. This indicates that the market evaluates leverage primarily as a direct indicator of financial risk, and institutional investors do not significantly alter this perception. In other words, institutional ownership does not meaningfully influence how debt-related risk is interpreted by investors. This finding aligns with Pambudi et al. (2023), who also report that institutional ownership does not significantly moderate the effect of leverage on firm value.

Overall, the findings suggest that the role of institutional ownership as a corporate governance mechanism is context-dependent. It is effective in strengthening the impact of profitability on firm value but does not extend to moderating leverage-related effects. These

results highlight the need for further research to explore additional governance mechanisms and sectoral variations in explaining firm value formation.

5. Conclusion

This study was conducted to analyze the influence of profitability and leverage on firm value, while institutional ownership was examined as a moderating variable in consumer non-cyclical companies listed on the Indonesia Stock Exchange during the 2022–2024 period. The findings reveal that profitability, proxied by Return on Assets (ROA), positively and significantly affects firm value. This result suggests that firms with stronger profitability are likely to obtain higher market valuations, as profitability is considered an important factor by investors in assessing corporate performance and future business prospects.

The study further reveals that leverage, proxied by the Debt to Equity Ratio (DER), positively and significantly affects firm value in the baseline regression model. This suggests that the effective utilization of debt financing can support business expansion and signal management confidence in the company's future growth opportunities, thereby encouraging positive market reactions.

Regarding the moderating role, institutional ownership was found to reinforce the relationship between profitability and firm value. This implies that institutional investors contribute to more effective monitoring practices and improve the credibility of the company's financial disclosures. However, institutional ownership does not significantly influence the relationship between leverage and firm value as a moderating variable, indicating that the existence of institutional investors has limited impact on market perceptions of corporate debt policy and financial risk.

Overall, these findings support both Signaling Theory and Agency Theory by highlighting the significant role of financial performance and corporate governance mechanisms in shaping firm value. Nevertheless, this study is subject to several limitations, including a relatively short observation period, a limited sample size, and the use of only a single proxy for corporate governance. Therefore, future research is recommended to incorporate additional explanatory variables, broader governance measurements, and longer observation periods to produce more comprehensive and robust findings.

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