

The Role of Profitability in Mediating Financial Efficiency on Indonesian Firm Value

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ABSTRACT

The Consumer Non-Cyclicals sector occupies a strategically vital role in Indonesia's economy by supplying essential goods and services that sustain societal consumption stability across various economic conditions. Despite these defensive characteristics, average stock prices in the sector declined persistently from IDR 1,441 in 2023 to IDR 1,389 in 2025, signalling mounting pressure on firm value. This study examines the mediating role of profitability in the relationship between managerial administrative decisions, specifically Cash Conversion Cycle (CCC) management and operating costs efficiency (BOPO) and firm value (PER) among Consumer Non-Cyclicals companies listed on the Indonesia Stock Exchange (IDX) for the 2023-2025 period. Employing a quantitative causal-associative design, 108 companies were selected through purposive sampling from a population of 132, generating 324 firm-year observations. Data were analysed using Partial Least Squares-Structural Equation Modelling (PLS-SEM) via SmartPLS v3.2.9. Results indicate that CCC and operating costs do not directly affect firm value. However, both negatively and significantly influence profitability (ROA), which in turn positively and significantly affects firm value. Profitability mediates both relationships, confirming its role as the critical transmission mechanism through which operational and administrative efficiency translates into market valuation. These findings carry significant practical implications for managers, business practitioners, and economic policymakers in designing strategies that link operational discipline to sustained business value creation.

Keywords: Cash Conversion Cycle, Consumer Non-Cyclicals, Firm Value, Operating Costs, Profitability.

ABSTRAK

Sektor Consumer Non-Cyclicals memegang peranan strategis dalam perekonomian Indonesia dengan menyediakan barang dan jasa kebutuhan pokok yang menjaga stabilitas konsumsi masyarakat di berbagai kondisi ekonomi. Meskipun memiliki karakteristik defensif, rata-rata harga saham sektor ini mengalami penurunan konsisten dari Rp 1.441 pada tahun 2023 menjadi Rp 1.389 pada tahun 2025. Penelitian ini mengkaji peran profitabilitas dalam memediasi hubungan antara keputusan administratif manajerial, khususnya manajemen siklus konversi kas (CCC) dan efisiensi biaya operasional (BOPO) terhadap nilai perusahaan (PER) pada perusahaan sektor Consumer Non-Cyclicals yang terdaftar di Bursa Efek Indonesia (BEI) periode 2023-2025. Dengan menggunakan metode kuantitatif asosiatif kausal, 108 perusahaan dipilih melalui purposive sampling dari total populasi 132

perusahaan, menghasilkan 324 observasi tahun-perusahaan. Data dianalisis menggunakan PLS-SEM melalui SmartPLS v3.2.9. Hasil penelitian menunjukkan bahwa CCC dan biaya operasional tidak berpengaruh langsung terhadap nilai perusahaan. Namun, keduanya berpengaruh negatif dan signifikan terhadap profitabilitas (ROA) yang selanjutnya berpengaruh positif dan signifikan terhadap nilai perusahaan. Profitabilitas memediasi penuh kedua hubungan tersebut, mengkonfirmasi perannya sebagai mekanisme transmisi kritis yang menghubungkan efisiensi operasional dengan penilaian pasar. Temuan ini memiliki implikasi praktis penting bagi manajer, pelaku bisnis, dan pengambil kebijakan ekonomi.

Kata Kunci: *Biaya Operasional, Nilai Perusahaan, Profitabilitas, Sektor Consumer Non-Cyclicals, Siklus Konversi Kas.*

INTRODUCTION

The Consumer Non-Cyclicals sector constitutes one of the most socially significant segments of Indonesia's economy. Companies with this sector, encompassing food and beverage manufactures, household products suppliers, and personal care companies, provide goods that fulfil fundamental human needs, thereby playing an indispensable role in maintaining societal consumption stability irrespective of macroeconomic cycles. Unlike discretionary sectors whose performance fluctuates sharply with consumer income and confidence, Consumer Non-Cyclicals companies are entrusted with ensuring the continuity of essential goods supply, making their financial health a matter of public as well as market concern. In this context, the preservation and growth of firm value in this sector extends beyond shareholder enrichment, it reflects the operational sustainability of companies whose products underpin daily community welfare.

Despite these defensive qualities, empirical evidence reveals a persistent and concerning erosion of firm value within the sector. Average stock closing prices for Consumer Non-Cyclicals companies listed on the Indonesia Stock Exchange (IDX) declined consecutively from IDR 1,441 in 2023 to IDR 1,412 in 2024, and further to IDR 1,389 in 2025. This sustained declined signals that the market has grown increasingly sceptical of corporate performance within the sector, reflecting a broader pattern in which managerial concealment of negative operational information disrupts price-relevant signals and compounds downward market pressure on firm value (Chen et al., 2022; Nguyen & Nguyen, 2024). Critically, this phenomenon invites deeper inquiry into the managerial and administrative decisions that drive or undermine the market's perception of corporate health.

At the heart of this inquiry are two managerial administrative decisions that directly shape operational efficiency. The first is working capital management, operationalised through the Cash Conversion Cycle (CCC). Far from being a passive financial metric, CCC embodies a series of deliberate managerial choices concerning inventory procurement schedules, receivable collection policies, and supplier payment arrangements (Brigham & Houston, 2019). Each decision reflects the judgment of corporate leaders about how to balance liquidity with operational continuity. A shorter CCC indicates that management has succeeded in accelerating cash recovery from operations without disrupting the supply chain, a hallmark of

competent, efficiency-oriented leadership (Gupta et al., 2023; Suriawinata et al., 2023). The second is operating costs management, measured through the Operating Expense Ratio (OER/BOPO). The magnitude of operating costs is not determined by impersonal forces but by explicit administrative decisions regarding sales expenditures, general and administrative overhead, and cost control protocols. When operating costs are allowed to rise unchecked, the resulting compression of profit margins is a direct consequence of managerial choices, not market conditions alone (Hian et al., 2025; Yuliana et al., 2024).

Both managerial dimensions converge on profitability as their primary outcome. Profitability measured through Return on Assets (ROA) functions as the market readable translation of internal operational decisions. When management successfully shortens the CCC and controls operating costs, ROA improves, and this improvement constitutes a powerful signal to the capital market under the framework of Signaling Theory (Friske et al., 2022; Ndung'u, 2024). Conversely, when operational inefficiencies persist due to suboptimal managerial choices, profitability deteriorates, weakening investor confidence and depressing firm value. Prior literature has confirmed inconsistent findings on the direct effects of CCC and operating costs on firm value (Akpataka & Edeh, 2024; Putra & Ugut, 2021; Setianingsih & Silaban, 2023; Suriawinata et al., 2023), suggesting that profitability may serve as the critical mediating mechanism that converts operational efficiency into market-recognized value.

Despite growing scholarly attention to these relationships, empirical studies specifically examining the mediating role of profitability between CCC, operating costs, and firm value within the Consumer Non-Cyclicals sector in Indonesia remain limited (Suriawinata et al., 2023). This gap is particularly consequential given the sector's social mandate and the ongoing deterioration of its market valuation. Therefore, this study aims to: (1) examine the direct effects of CCC and operating costs on firm value; (2) examine the effects of CCC and operating costs on profitability; (3) examine the effect of profitability on firm value; and (4) test whether profitability mediates the relationship between CCC, operating costs, and firm value among Consumer Non-Cyclicals companies listed on the IDX for the 2023-2025 period.

This study is anchored in three theoretical pillars that collectively explain the pathway from managerial administrative decisions to market valuation. Financial management theory establishes that the primary task of corporate leadership is to optimise fund deployment in order to maximise firm value (Supiyanto et al., 2023; Sutrisno, 2020). Agency Theory, explains that conflicts of interest between managers and shareholders may cause managers to prioritise liquidity over profitability, thereby reducing firm value; effective working capital management serves as a mechanism to mitigate these conflicts (Naz et al., 2021; Otekunrin et al., 2021). Signaling Theory further posits that managerial decisions communicate information about the firm's future prospects to the market, with profitability constituting the most credible and investor-readable of such signals (Akpataka & Edeh, 2024; Ndung'u, 2024). Together, these frameworks suggest that CCC and operating cost efficiency as outputs of managerial administrative choices, affect firm value

indirectly by first shaping profitability, which then transmits an observable signal to the capital market.

The Cash Conversion Cycle (CCC) measures working capital management effectiveness and represents the aggregate result of managerial decisions on inventory scheduling, receivable collection, and supplier payment terms (Brigham & Houston, 2019; Tago & Sumawe, 2024). A shorter CCC reflects faster cash turnover and reduced dependence on costly external financing, directly supporting higher profitability (Gupta et al., 2023; Suriawinata et al., 2023). Operating costs, measured through the Operating Expense Ratio (OER/BOPO), reflect managerial administrative choices on resource allocation across selling, general and administrative expenditures (Kalsum et al., 2025; Rustiana et al., 2022). Uncontrolled operating costs compress net profit margins and reduce ROA, while disciplined cost turn captures the net effect of these operational decisions and serves as the primary signal through which investors assess corporate health and adjust firm valuation (Damayanti & Sucipto, 2022; Hidayat, 2018). Firm value is measured using Price-to-Earnings Ratio (PER), selected given the persistent PER decline observed in the Consumer Non-Cyclicals sector (Kolamban et al., 2020; Neldi & Hady, 2023).

Prior studies examining these variables have yielded inconsistent findings. Several found significant direct effects of CCC and operating costs on firm value (Akpataka & Edeh, 2024; Anggada & Safitri, 2024; Utami, 2021; Yaswat et al., 2021), while others found no significant direct effect (Kansil et al., 2021; Putra & Ugut, 2021; Putri & Susanto, 2021; Setianingsih & Silaban, 2023; Suriawinata et al., 2023). Evidence also confirms that CCC negatively affects profitability (Deari & Palomba, 2024; Mandalaputri et al., 2021; Ngari, 2023; Suriawinata et al., 2023), and that higher operating costs reduce profitability across multiple sectors (Ishikawa et al., 2025; Kholis et al., 2022; Purnamasari & Hanantijo, 2023). Profitability, as measured by ROA, has generally been found to positively influence firm value (Mutyarawati et al., 2024; Naqiya & Setyabudi, 2024; Sutrisno, 2020; Utami, 2021), pointing to profitability as the likely transmission mechanism connecting operational efficiency to market valuation. Empirical studies specifically testing this mediation within the Consumer Non-Cyclicals sector in Indonesia remain limited (Suriawinata et al., 2023), representing a critical knowledge gap that this study addresses.

METHODS

This study employs quantitative method with a causal-associative approach, examining cause-and-effect relationships among variables through path analysis (Duryadi, 2021). The research population comprises all 132 Consumer Non-Cyclicals sector companies listed on the IDX during the 2023-2025 period. Using purposive sampling, the final sample comprised 108 companies across three observation years (2023-2025), yielding 324 firm-year observations after excluding companies with incomplete annual financial reports or missing variable data.

Table 1. Purposive Sampling Process

No	Criteria	Total
1.	Consumer Non-Cyclicals sector companies listed on	132

the IDX during 2023-2025.	
2. Companies with incomplete annual financial reports during the observation period.	(21)
3. Companies with missing variable data (CCC, BOPO, ROA, PER).	(3)
Total Sample	108

Source: Author processed, 2026

Four variables are operationalised as follows: CCC (X1) is measured as $CCC = DIO + DSO - DPO$ (Brigham & Houston, 2019); Operating costs (X2) measured by the BOPO ratio, which divides operating costs by operating income (Yuliana et al., 2024); profitability (M) is measured by ROA (net income divided by total assets) (Brigham & Houston, 2010); and firm value (Y) is measured by PER (market price per share divided by earnings per share) (Rahmawati & Hadian, 2022). Secondary data were obtained from audited annual financial statements accessed through the official IDX website (www.idx.co.id). Data analysis was using PLS-SEM with SmartPLS version 3.2.9, focusing on inner model evaluation encompassing R-Square (R^2), F-Square (F^2), Q-Square (Q^2), path coefficient, and mediation test. Hypothesis testing was performed via bootstrapping, with significance determined at T-Statistics > 1.96 and P-Values < 0.05 (Duryadi, 2021).

RESULTS AND DISCUSSION

Research Results

Table 2. Descriptive Statistics

Variable	Mean	Median	Min	Max	Std. Dev.	Skewness
CCC	97.767	59.894	-43.223	1,623.64	149.391	4.987
BOPO	0.383	0.209	-0.541	2.97	0.496	2.955
ROA	0.028	0.039	-0.429	0.257	0.113	-1.507
PER	21.288	23.616	-1,081.08	700	136.345	-1.742

Source: SmartPLS output, processed by author (2026)

CCC exhibits a mean of 97.767 days with a median of 59.894 days, indicating a right-skewed distribution (skewness = 4.987) driven by a small number of companies with very long cash cycles, while others operate with negative CCC values, reflecting ideal working capital conditions. The BOPO variable shows a mean of 0.383 with a median 0.209, also right-skewed (skewness = 2.955), suggesting that while most companies manage operating costs efficiently, a small proportion operates at very high cost ratios. ROA has a mean of 0.028 and median of 0.039, with left-skewed distribution (skewness = -1.507), indicating that a few companies with substantial losses pull the average downward. PER exhibits a mean of 21.288 with a median of 23.616 and notable skewness (-1.742), with extreme outlier values attributable to companies with near-zero earnings per share.

Table 3. R-Square Results

Variable	R-Square
Profitability (ROA)	0.099
Firm Value (PER)	0.103

Source: SmartPLS output, processed by author (2026)

The R^2 value for profitability is 0.099, indicating that CCC and operating costs explain 9.9% of the variability in profitability. The R^2 for firm value is 0.103, indicating 10.3% of variability in firm value is explained by model variables. Both values fall within the weak category (Duryadi, 2021), reflecting the influence of additional external factors not captured in this study.

Table 4. F-Square Results

	Profitability (M)	Firm Value (Y)
CCC (X1)	0.027	0.008
Operating Costs (X2)	0.085	0.000
Profitability (M)	-	0.105

Source: SmartPLS output, processed by author (2026)

The F^2 values for CCC and operating costs on firm values are 0.008 and 0.000, and both classified as weak. The F^2 value for profitability on firm value is 0.105, classified as moderate (Ghozali & Kusumadewi, 2023), confirming that profitability holds the most meaningful explanatory power over firm value in this model.

Table 5. Q-Square Results

Variable	Q-Square
Profitability	0.094
Firm Value	0.072

Source: SmartPLS output, processed by author (2026)

Both Q^2 values exceed zero, confirming that the structural model possesses adequate predictive relevance (Duryadi, 2021).

Table 6. Path Coefficient Results

Path	Original Sample (O)	T-Statistics	P-Values	Decision
X1 → Y	0.086	0.780	0.436	Rejected
X2 → Y	0.002	0.047	0.963	Rejected
M → Y	0.323	5.567	0.000	Accepted
X1 → M	-0.156	2.979	0.003	Accepted
X2 → M	-0.276	4.065	0.000	Accepted

Source: SmartPLS output, processed by author (2026)

Table 7. Specific Indirect Effect (Mediation Test)

Path	Original Sample (O)	T-Statistics	P-Values	Decision
X1 → M → Y	-0.050	2.792	0.005	Accepted
X2 → M → Y	-0.089	3.111	0.002	Accepted

Source: SmartPLS output, processed by author (2026)

CCC shows a positive but insignificant direct effect on firm value. These finding reveals that working capital efficiency, as expressed through CCC duration, is not autonomously interpreted by the capital market as a signal that meaningfully shifts stock valuation. From the perspective of Signaling Theory, signal must be observable and material for investors to incorporate them into pricing decisions (Akpataka & Edeh, 2024). CCC is a technical, internally-oriented operational measure that is rarely communicated explicitly in public disclosures, which means that investors lack sufficient information to directly translate CCC changes into valuation adjustments. Agency Theory further clarifies this outcome: even when managers successfully shorten the CCC, this accomplishment does not immediately signal improved shareholder earnings without concrete evidence of profitability improvement. The extremely high standard deviation of CCC underscores the heterogeneous nature of working capital practices across sampled companies, making it difficult for the market to form CCC-responsive price expectations. This finding is consistent with Suriawinata et al. (2023), Putra & Ugut (2021), and Putri & Susanto (2021), all of whom documented no significant direct effect of CCC on firm value.

Operating costs exert a positive but insignificant direct effect on firm value. The near-zero F^2 value confirms the negligible effect size. This result is consistent with Signaling Theory, information about cost efficiency becomes a meaningful investor signal only when it demonstrably translates into profitability improvement. A reduction in BOPO without accompanying profit growth is insufficient to drive share price increases, as investors require concrete manifestations of efficiency in the form of improved earnings. This findings aligns with Setianingsih & Silaban (2023) and Kansil et al. (2021), who similarly found no significant direct effect of BOPO on firm value.

Profitability exerts a positive and significant effect on firm value, representing the strongest and most decisive relationship in the model. The F^2 value of 0.105 is classified as moderate, confirming that profitability holds the most meaningful explanatory power over firm value within this analytical structure. Consistent with Signaling Theory, high ROA signals to investors that management effectively utilises assets to create value, driving grand theory of financial management, profitability is the primary pathway to firm value maximization (Supiyanto et al., 2023). This is

consistent with Mutyarawati et al. (2024), Naqiya & Setyabudi (2024), Sutrisno (2020) and Utami (2021).

CCC exhibits a negative and significant effect on profitability. The negative direction implies that shorter CCC is associated with higher ROA, confirming that managerial decisions that extend the cash conversion cycle impose real financial costs on the firm. Brigham & Houston (2019) explain that a longer CCC forces companies to finance larger working capital requirements for extended periods through costly external financing, directly compressing net income and ROA. From the Agency Theory perspective, a prolonged CCC may signal managerial inefficiency in the operational cycle, a misalignment between managerial conduct and shareholder interest that ultimately reduces earnings (Otekinrin et al., 2021). This is consistent with Mandalaputri et al. (2021), Putra & Ugut (2021), Putri & Susanto (2021), Ngari (2023), and Suriawinata et al. (2023).

Operating costs negatively and significantly affect profitability. Lower BOPO ratios reduce net profit margins, increasing ROA. This finding reinforces the understanding that administrative decisions regarding expense management have direct and measurable consequences for firm performance. Under Agency Theory, this relationship underscores that managerial choices on cost management directly shape profitability, when managers fail to exercise appropriate cost discipline, shareholders bear the consequences through reduced earnings (Akpataka & Edeh, 2024; Otekinrin et al., 2021). Consistent findings are reported by Kholis et al. (2022), Purnamasari & Hanantijo (2023), and Ishikawa et al. (2025).

The indirect effect of CCC on firm value through profitability is negative and significant. Since the direct effect of CCC on firm value is not significant while the indirect effect is significant, profitability functions as a mediator. Within the Agency Theory framework, a shorter CCC reflects efficient working capital management that reduces reliance on costly external financing and improves ROA (Brigham & Houston, 2019). Within the Signaling Theory framework, the resulting ROA improvement functions as an investor-readable translator, converting internal managerial decisions into market-legible signals. This finding extends the results of Suriawinata et al. (2023), who documented the mediating role of profitability in the CCC and firm value relationship within the Consumer Non-Cyclicals sector.

The indirect effect of operating costs on firm value through profitability is negative and significant. As with CCC, the direct effect of operating costs on firm value is not significant, establishing profitability as a mediator. When management reduces selling and administrative expenses, profit margins expand and ROA increases (Rustiana et al., 2022). This ROA improvement then serves as a strong signal to investors, reflecting efficient and responsible management, thereby increasing share price and PER. Without a corresponding ROA improvement, cost efficiency gains go unrecognized by the market, investors can observe managerial behaviour only through profitability figures disclosed in financial statements. This outcome collectively underlines that the value investors place on Consumer Non-Cyclicals companies is ultimately a function of the profitability translated from internal administrative decisions. The combined findings of Yuliana et al. (2024),

Kholis et al. (2022) and Mutyarawati et al. (2024) indirectly support this mediation chain.

CONCLUSION

This study analysed the mediating role of profitability in the relationship between the Cash Conversion Cycle, operating costs, and firm value among 108 Consumer Non-Cyclicals sector companies. Using PLS-SEM, seven conclusions were drawn: (1) CCC does not directly and significantly affect firm value; (2) operating costs do not directly and significantly affect firm value; (3) profitability positively and significantly affects firm value, representing the strongest relationship in the model; (4) CCC negatively and significantly affects profitability; (5) operating costs negatively and significantly affect profitability; (6) profitability mediates the effect of CCC on firm value; and (7) profitability mediates the effect of operating costs firm value. These findings demonstrate that in the Consumer Non-Cyclicals sector, operational efficiency is not independently recognised by the market as a direct driver of firm value. Rather, profitability constitutes the critical bridge between internal administrative decisions and external market valuations, simultaneously supporting the Signaling Theory and Agency Theory frameworks.

The practical implications of these findings are significant for several stakeholders. For corporate managers in the Consumer Non-Cyclicals sector, the key lesson is that operational excellence must be clearly reflected in profitability metrics to generate market recognition. Shortening the Cash Conversion Cycle through more effective receivable collection, leaner inventory management, and optimised payable scheduling is a valuable managerial priority, but its market payoff is realised only when these efficiencies translate into improved ROA. Likewise, operating costs discipline must be pursued not merely as an internal administrative exercise but as strategy for protecting and expanding profit margins that investors can observe and reward. For business practitioners, particularly those managing consumer staples companies that carry an implicit social responsibility to ensure stable goods supply to the community, these findings underscore that sustainable business viability depends on converting operational discipline into profitability. A financially healthy Consumer Non-Cyclicals firm is better positioned to absorb cost shocks, sustain supply chains, and continue serving societal consumption needs over the long term. For economic policymakers, the evidence suggests that incentivising working capital efficiency and cost management frameworks, through targeted guidance, industry benchmarks, or access to affordable short-term financing, could strengthen the profitability of this socially vital sector, thereby stabilising firm values and supporting the broader goal of economic resilience. Future research is encouraged to extend the observation period, incorporate alternative firm value proxies such as Price-to-Book Value (PBV) or Tobin's Q, and include macroeconomic control variables to enhance model's explanatory power.

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