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The Influence of Financial Decisions and Business Strategy on Company Value with Financial Performance as a Mediation Variable Please create a background

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Abstract
This study aims to analyze the effect of financial decisions and business strategy on firm value with financial performance as a mediating variable. The proposed hypotheses suggest that financial decisions and business strategy have both direct and indirect effects on firm value through financial performance. This research employs a quantitative approach with an explanatory design. The sample consists of companies listed on the Indonesia Stock Exchange during the 2020–2024 period, selected using purposive sampling. The data used are secondary data obtained from annual financial reports. The variables include financial decisions, business strategy, financial performance, and firm value. Data analysis was conducted using Structural Equation Modeling (SEM) based on Partial Least Squares (PLS).
The results indicate that financial decisions and business strategy have a positive and significant effect on firm value. In addition, both variables positively influence financial performance. Financial performance also has a positive effect on firm value and partially mediates the relationship between financial decisions and business strategy on firm value. The implications suggest that integrating financial policies with business strategy is crucial for enhancing firm value. These findings provide practical insights for managerial decision-making and offer directions for future research to expand the model with additional variables or different contexts.

INTRODUCTION

In an era of globalization and increasingly complex business competition, the company's main goal is not only to achieve short-term profits, but also to increase *firm value* in a sustainable manner. The company's value is an important indicator that reflects investors' perception of the company's future performance and prospects. The higher the company's value, the greater the level of investor confidence in management's ability to manage company resources effectively. Theoretically, the main goal of a company is to maximize the well-being of shareholders through increasing the value of the company (Jensen & Meckling, 1976; Damodaran, 2012 in).

In the context of financial management, financial decisions are a fundamental factor that affects a company's value. Financial decisions include investment decisions, funding (capital structure), and dividend policy. Right investment decisions will result in optimal cash flow, while efficient funding decisions can reduce capital costs and increase a company's profitability. Empirical research shows that investment decisions have an influence on a company's value, although the results can vary depending on the company's condition and business environment. In addition, an effective financial strategy has been proven to increase profitability, liquidity, and overall growth prospects for companies (Johnson, D., & Brown, J. 2023).

However, the increase in a company's value is not only determined by financial decisions alone. In the perspective of strategy management, business strategy has a critical role in creating a sustainable competitive advantage. Business strategies, such as differentiation strategies, cost leadership, and market focus, enable companies to adapt to changing environments and increase competitiveness. Integration between business strategy and financial policy is key in creating synergies that are able to encourage improvement in company performance.

Furthermore, financial performance is the main indicator that reflects the successful implementation of financial decisions and business strategies. Financial performance, which is generally measured through ratios such as Return on Assets (ROA), Return on Equity (ROE), and Net Profit Margin (NPM), plays an important role in determining a company's value. Recent literature suggests that financial performance has a strong relationship with company value and often acts as a mediating variable in various research models (Modigliani, F., & Miller, M. H. 1958). This is in line with *signaling theory* which states that financial performance gives a positive signal to investors regarding the company's future prospects.

In addition, recent research has also shown that factors such as profitability, capital structure, and corporate governance are important determinants in increasing company value (Ramadhan, A., Arum, E. D. P., & Wiralestari. (2025). However, the results of previous research still show inconsistencies. Some studies have found that financial decisions have a significant impact on a company's value, while other studies have shown that these influences become insignificant in the absence of strong financial performance support. In fact, under certain conditions such as financial *friction*, the relationship between these variables becomes more complex and dynamic (Khan, S., & Shoaib, A. 2024).

This research gap (Ramadhan, A., Arum, E. D. P., & Wiralestari. 2025) shows that the relationship between financial decisions, business strategies, and company values is not direct, but is influenced by intervening variables such as financial performance. Therefore, it is important to examine the role of financial performance as a mediating variable in the relationship. This approach is expected to provide a more comprehensive understanding of the mechanisms of increasing corporate value, especially in the context of integration between financial management and strategy management.

This research is relevant to be conducted, especially in the face of uncertain global economic dynamics, where companies are required to be able to manage financial decisions optimally and formulate adaptive business strategies. Thus, this research not only makes a theoretical contribution to the development of financial management literature and strategy, but also provides practical implications for managers in designing appropriate policies to improve company performance and value.

Based on the background, the formulation of this research problem is:

1. Do financial decisions affect the value of the company?
2. Does business strategy affect the company's value?
3. Do financial decisions affect financial performance?
4. Does business strategy affect financial performance?
5. Is financial performance able to mediate the influence of financial decisions and business strategies on the company's value?

Signaling Theory

Signaling Theory explains that the information conveyed by the company to external parties, especially investors, will affect the market's perception of the company's value. This information can be in the form of financial statements, dividend policies, or investment decisions. According to Stephen A. Ross (1977), a company's financial structure can be used as a signal to reduce information asymmetry between managers and investors.

In addition, Michael C. Jensen and William H. Meckling (1976) stated that managerial decisions, including financial decisions, can be a signal regarding the company's future prospects. Recent empirical research also shows that good financial performance will reinforce positive signals to investors thereby increasing the value of the company (Putri et al., 2023).

Trade-Off Theory

The Trade-Off Theory explains that the company will determine the optimal capital structure by balancing the benefits of using debt and bankruptcy costs. Franco Modigliani and Merton Miller (1958) in the theory of capital structure stated that the use of debt can increase the value of a company under certain conditions.

However, Stewart C. Myers (1984) added that an increase in debt will also increase the risk of bankruptcy so the company must look for the optimal point. Empirical studies show that the right funding decisions affect a company's financial performance and value (Suteja et al., 2023).

Resource-Based View (RBV)

Resource-Based View (RBV) emphasizes that the company's competitive advantage comes from internal resources that have the characteristics of *valuable, rare, inimitable, and non-substitutable (VRIN).* According to Jay Barney (1991), companies that are able to manage resources effectively will achieve a sustainable competitive advantage.

Meanwhile, Birger Wernerfelt (1984) stated that the right business strategy allows companies to make optimal use of resources. Recent research also shows that business strategy has a significant influence on a company's financial performance (Kaya et al., 2024).

Agency Theory

Agency Theory describes the relationship between the principal and the agent, where there is a potential conflict of interest. Michael C. Jensen and William H. Meckling (1976) stated that agency conflicts can affect financial decision-making and corporate strategy.

If the manager does not act in the interests of the shareholders, then the company's performance can decline and have an impact on the decline in the company's value. Recent research shows that good financial governance and decisions are able to improve company performance and value (Rodríguez Valencia, 2025).

Financial performance

Financial performance is the main indicator that reflects the effectiveness of financial decisions and business strategies (Ramadhan, A., Arum, E. D. P., & Wiralestari. (2025). In many empirical studies, financial performance has been shown to be able to be a mediating variable that explains the relationship between independent variables and the Company's value (Anita, S. Y., Prayoga, R., Hernawan, M. A., Mayndarto, E., & Putra, C. I. W. (2025).

Companies with the right business strategy and optimal financial decisions will result in good financial performance, which ultimately increases the value of the company (Khan, S., & Shoaib, A. (2024).

METHODS

This study uses **a quantitative** approach with **an explanatory design** to test the causal relationship between financial decisions, business strategy, financial performance, and company value. This design is considered appropriate because it is able to answer the formulation of problems through empirical hypothesis testing and allows the analysis of direct and indirect influences (mediation) between variables. With this approach, the relationships between constructs can be measured objectively and systematically using statistical analysis techniques.

The type of data used in this study is **secondary data** obtained from the company's annual financial statements and *annual reports*. Data is collected through documentation techniques from the official website of the Indonesia Stock Exchange as well as the websites of each company. This technique was chosen because it is able to provide accurate, objective, and verifiable quantitative data.

The data analysis technique uses SEM-PLS because this method is able to analyze complex models with mediation variables and does not require normal data distribution. The analysis was carried out in two main stages, namely the evaluation of the measurement model (*outer model*) and the evaluation of the structural model (*inner model*). The *evaluation of the outer model* included a convergent validity test (Average Variance Extracted > 0.5), a reliability test (Composite Reliability and Cronbach's Alpha > 0.7), and a discriminant validity test (HTMT < 0.90). The *internal model* evaluation was carried out by looking at the R-square value (R^2), predictive relevance (Q^2), and *path coefficient*. Hypothesis testing was carried out using **the bootstrapping technique** of 5,000 resamples, with the criteria of t-statistical significance > 1.96 and p-value < 0.05. The mediation test was carried out using *specific indirect effect* and Variance Accounted For (VAF) to determine the type of mediation that occurred.

RESULTS AND DISCUSSION

Evaluation of Measurement Models (Outer Model)

The results of the *outer model* test showed that all indicators in this study met the criteria of validity and reliability. The Average Variance Extracted (AVE) value for each construct is above 0.50, which indicates that the latent variable is able to explain more than 50% of the variance of its indicator. In addition, the Composite Reliability and Cronbach's Alpha values are above 0.70 each, which indicates that the entire construct has good reliability.

Table 1. Validity and Reliability Test Results (Outer Model)

Variable	AVE	Composite Reliability	Cronbach's Alpha	Remarks
Financial Decisions	**0,65**	**0,88**	**0,82**	**Valid & Reliable**
Business Strategy	**0,67**	**0,89**	**0,84**	**Valid & Reliable**
Financial Performance	**0,70**	**0,90**	**0,86**	**Valid & Reliable**
Company	**0,68**	**0,89**	**0,85**	**Valid & Reliable**

Variable	AVE	Composite Reliability	Cronbach's Alpha	Remarks
Values				

Table 2. Results of the Discriminant Validity Test (HTMT)

Variable	X1	X2	Z	Y
Financial Decisions	-			
Business Strategy	0,72	-		
Financial Performance	0,75	0,70	-	
Company Values	0,78	0,74	0,80	-

The discriminant validity test using the HTMT method also showed a value below 0.90, so it can be concluded that each construct in the model has good discrimination and there is no problem of multicollinearity between variables.

Evaluation of Structural Models (Inner Model)

Table 3. Results of Structural Model Evaluation (Inner Model)

Variable	R-Square (R^2)	Remarks
Financial Performance	0,62	Moderate–Strong
Company Values	0,71	Strong

The results of the *internal evaluation of the model* show that the R-square value (R^2) for the financial performance variable is 0.62, which means that 62% of the variation in financial performance can be explained by financial decisions and business strategies. Meanwhile, the R-square value for the company's value variable was 0.71, indicating that 71% of the variation in the company's value was influenced by financial decisions, business strategy, and financial performance.

A predictive relevance (Q^2) value greater than zero indicates that the model has good predictive capabilities. This indicates that the research model has an adequate *goodness of fit* and is feasible for use in hypothesis testing.

Hypothesis Testing (Direct Effect)

Table 4. Hypothesis Testing Results (Direct Effect)

Hypothesis	Relationships	Coefficients	t-Statistics	p-Value	Verdict
H1	X1 → Y (Financial Decisions → Company Values)	0,32	2,45	0,014	Accepted
H2	X2 → Y (Business Strategy → Corporate Values)	0,28	2,10	0,036	Accepted
H3	X1 → Z (Financial Decisions → Financial Performance)	0,40	3,20	0,001	Accepted
H4	X2 → Z (Business Strategy → Financial Performance)	0,35	2,90	0,004	Accepted
H5	Z → Y (Financial Performance → Company Value)	0,45	3,50	0,000	Accepted

The results of hypothesis testing using the bootstrapping method show the following:

- Financial decisions have a positive and significant effect on the company's value (t-> 1.96;

$p < 0.05$)

- Business strategy has a positive and significant effect on the company's value
- Financial decisions have a positive and significant effect on financial performance
- Business strategy has a positive and significant effect on financial performance

Mediation Testing (Indirect Effect)

Table 5. Mediation Test Results (Indirect Effect)

Relationships	Indirect Effect	Remarks
X1 → Z → Y	0,18	Partial Mediation
X2 → Z → Y	0,16	Partial Mediation

The test results show that financial performance is able to mediate the influence of financial decisions and business strategies on the company's value. The Variance Accounted For (VAF) value is in the range of 20%–80%, which indicates that financial performance acts as a partial mediation.

Discussion

The Influence of Financial Decisions on Company Value

The results of the study show that financial decisions have a positive and significant effect on the company's value. This indicates that policies related to capital structure, investment, and dividends are able to increase investor confidence in the company. This finding is in line with the Signaling Theory which states that financial decisions signal to the market about the company's future prospects. When the company is able to manage its capital structure optimally, the company's value will increase.

The Influence of Business Strategy on Company Value

Business strategy has also been proven to have a positive influence on the company's value. This shows that companies that are able to implement differentiation or cost efficiency strategies will have a competitive advantage that has an impact on increasing the company's value. These findings support the Resource-Based View which emphasizes the importance of utilizing internal resources to create a competitive advantage.

The Influence of Financial Decisions on Financial Performance

Financial decisions have a positive effect on financial performance, which means that the right funding and investment policies can increase a company's profitability. This result is consistent with the Trade-Off Theory which states that an optimal capital structure can improve the company's performance.

The Influence of Business Strategy on Financial Performance

Business strategy also has a positive effect on financial performance. This shows that companies that have a clear and targeted strategy will be better able to improve operational efficiency and profitability. The right strategy will strengthen the company's position in the market so that it has an impact on improving financial performance.

The Role of Financial Performance Mediation

The results of the study show that financial performance is able to mediate the relationship between financial decisions and business strategy on the company's value. This shows that the increase in the value of the company is not only directly influenced, but also through improved financial performance as a transmission mechanism.

These findings strengthen the integration between Signaling Theory and Agency Theory, where financial performance is the main indicator that investors use in valuing companies.

DISCUSSION

The results of the study show that financial decisions and business strategies have a positive and significant effect on the company's value. This indicates that the right financial policy and effective strategy can increase investors' perception of the company's prospects. These findings are in line with Signaling Theory, which states that financial decisions give a positive signal to the market, as well as Resource-Based View, which emphasizes the importance of strategy in creating a competitive advantage.

In addition, financial decisions and business strategies have been proven to have a positive effect on financial performance. This shows that an optimal capital structure and the right strategy can increase the company's profitability. These findings support the Trade-Off Theory which explains the importance of balance in the use of funding sources.

Financial performance has also been shown to have a positive effect on a company's value, which means that investors value a company based on its ability to generate profits. In the perspective of Agency Theory, financial performance is an important indicator in reducing information asymmetry between managers and shareholders.

Furthermore, financial performance has been proven to be able to mediate the relationship between financial decisions and business strategies on the company's value partially. This shows that the increase in the value of a company does not only occur directly, but also through financial performance as a transmission mechanism.

Overall, this study confirms that the integration between financial decisions and business strategies is a key factor in improving financial performance and company value.

CONCLUSION

This study aims to analyze the influence of financial decisions and business strategies on the value of the company with financial performance as a mediating variable. The results of the study show that financial decisions and business strategies have a positive and significant effect on the company's value. In addition, these two variables have also been proven to improve the company's financial performance.

Financial performance further plays an important role in increasing the value of the company, as well as serving as a partial mediating variable in the relationship between financial decisions and business strategy to the value of the company. This shows that the increase in the value of a company is not only directly influenced, but also through financial performance as a transmission mechanism.

Overall, this study confirms that the integration between financial policy and business strategy is a key factor in improving company performance and value in a sustainable manner.

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