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Can Corporate Diversification Mitigate the Negative Impact of Economic Policy Uncertainty on Firm Value? (A Case Study of Three Countries: Indonesia, Malaysia, and Thailand)

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Abstract. *This study investigates the impact of economic policy uncertainty (EPU) on firm value and examines the role of corporate diversification between EPU and firm value. The research utilizes data from food and beverage companies in three countries Indonesia, Malaysia, and Thailand covering the period from 2019 to 2023, with 530 observations from 106 companies. It employs index-based measures for EPU and corporate diversification. Data is processed using Eviews 12, with the selected regression analysis model being the Random Effect Model (REM). The results indicate that diversification has a positive and significant effect on firm value, while EPU does not have a significant influence. Additionally, diversification cannot moderate the negative effects of EPU on firm value. Control variables positively influence firm value, including dividends, debt ratio, and operating cash flow.*

Keywords: *Corporate Diversification, Economic Policy Uncertainty, Firm Value*

1. INTRODUCTION

The food and beverage industry in Indonesia, Malaysia, and Thailand is a key sector that significantly contributes to the economies of each country. In Indonesia, this sector accounted for approximately 38% of the non-oil and gas GDP in early 2023, with an annual growth rate of 5.33% (Amanta & Gupta, 2022). n Malaysia, the food and beverage industry is a significant contributor to the national balance sheet, growing at a rate of 7.6% per year, primarily driven by SMEs (Flanders Investment and Trade Malaysia Office, 2020). Meanwhile, Thailand is known as the "kitchen of the world" because its abundant natural resources and key exports, such as rice and seafood, contribute around 23% to the country's GDP(BOI, 2018).

The food and beverage industry also faces challenges such as rising raw material prices, high logistics costs, and global economic uncertainty. However, there are significant promising opportunities through digitalization, new product innovation, and export opportunities to ASEAN and international markets (Hurlimann, 2016). These three countries also leverage ASEAN free trade to boost exports and competitiveness at the regional level. This market integration helps the three countries increase investment and economic cooperation, strengthening their roles in the Southeast Asian region (Ananda et al., 2024).

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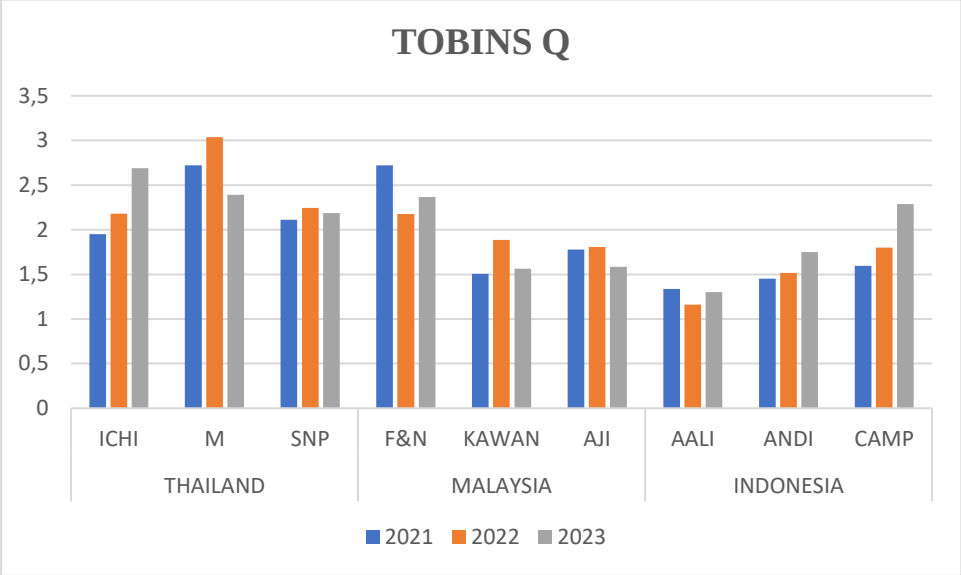
Table 1. Tobin's Q of F&B Companies in Three Countries: Indonesia, Malaysia, Thailand for the Years 2021-2023



(Source: Processed Data, 2024)

The chart above shows Tobin's Q, a ratio that measures firm value performance, for three food and beverage companies in Thailand, Malaysia, and Indonesia from 2021 to 2023. The companies were randomly selected from the food and beverage subsector. Tobin's Q is used because this ratio combines market value with the replacement cost of assets, providing a more comprehensive view of the firm's value in the context of economic policy uncertainty(Zafira, 2021).

Although there are variations across companies and countries, this industry generally demonstrates resilience to economic fluctuations. Moreover, product diversification implemented by companies such as F&N in Malaysia and ICHI in Thailand helps maintain the stability of Tobin's Q value. These companies do not focus solely on one product or market type but cover various segments targeting domestic and export markets (Fraser and Neave, 2023). Efforts such as increasing efficiency and expanding markets also contribute to the stability of companies in facing global economic uncertainty (S. Siregar et al., 2024).

Firm value is a primary concern for investors indicating the company's health and future prospects. Investors use firm value to assess the potential return on their investments and the stability of the company in facing economic challenges (Putri & Suryanto, 2022). Ratios such as Tobin's Q help investors understand whether a company is well-managed and has long-term growth prospects (Zafira, 2021).

Since the publication of the important book by Galbraith (1977), The Age of Uncertainty, uncertainty has emerged as a significant issue in the corporate environment.

Economic Policy Uncertainty (EPU) refers to the economic uncertainty caused by changes in government policy, uncertainty in monetary policy, regulation, and fiscal measures (Abel, 1983). The impact of this uncertainty leads companies to delay or reduce investments, hindering company growth and decreasing firm value (Maghdid et al., 2024).

Recent research highlights the impact of Economic Policy Uncertainty (EPU) on various country- and firm-specific factors. Events such as fluctuations in oil prices, currency volatility, and changes in corporate leadership can have both short-term and long-term effects (Al-Thaqeb & Algharabali, 2019). To measure this uncertainty, (Baker et al., 2016) developed an EPU index that captures uncertainty through news, market activities, and Government policies, and significant events like elections and the Eurozone crisis.

The research results (Ahir et al., 2022) indicate that developed countries generally experience lower uncertainty levels than developing countries. Although there is considerable research on uncertainty, the primary focus has been on developed nations, with little attention given to countries with open economies, such as Indonesia (Severesia et al., 2022). Companies in developing countries must be more adaptive in making strategic decisions (Hoang et al., 2021). High levels of EPU lead to delayed investments, increased debt, reduced stock returns, and heightened financial constraints (Jumah et al., 2023).

Previous literature has revealed the influence of Economic Policy Uncertainty (EPU) on firm value through various aspects such as sustainability disclosures (Ahsan et al., 2022), cultural factors (Borghesi & Chang, 2020), and Environmental, Social, and Governance (ESG) criteria (Azimli, 2023) which can mitigate the negative impact of EPU on firm value. More importantly, there is still limited evidence in the literature that is exogenous to a firm's operational circumstances. Therefore, exploring the relationship between EPU and firm value through corporate diversification represents a unique and original contribution to the current literature (Jumah et al., 2023)

Corporate diversification is a strategy to expand business segments or markets. This can be achieved by starting new ventures, developing existing products, or engaging in mergers and acquisitions to enhance economies of scale and other efficiencies (Harto, 2005). Diversification aims to reduce risk by increasing firm value and seizing new business opportunities (Prastya et al., 2023). According to (Chandra & Willestania, 2022) even with high sales, failing to manage operating costs can lead to losses and diminish investor confidence, ultimately reducing the firm's value.

Diversification can enhance firm value because companies can optimally leverage their excess resources. Research conducted by (Harahap et al., 2021), found that diversification

positively influences firm value. Similarly, a study (Atami, 2011) concluded that corporate diversification has a direct positive impact on firm value.

Diversification serves as a protective mechanism. When one business segment is affected by economic uncertainty, other segments that remain strong can help maintain the stability and value of the firm (Arisanti et al., n.d.). Diversified companies can reallocate resources from less profitable segments to more stable ones, thereby reducing the negative impact of EPU and enhancing firm value (Nguyen et al., 2018). Based on the literature (Jumah et al., 2023) and considering the benefits of business diversification, it is possible that EPU may have a positive impact on corporate diversification.

This study uses data from food and beverage companies in three developing countries Indonesia, Malaysia, and Thailand covering the period from 2019 to 2023. Likely companies in this sector have already engaged in diversification.

2. LITERATURE REVIEW

Real Options Theory

Real options theory posits that companies are better off delaying investments until uncertainty decreases or they are in an optimal phase (Li, 2011). This theory provides flexibility for managers in making strategic decisions in the future, allowing them to respond to market developments and investment opportunities (Stocks, 2016). The concept was first introduced by (SC Myers, 1977), referring to the decision-making opportunities available to a company or individual. Decisions are made based on uncertainty, irreversibility, and the ability to delay and wait (Renato & Paper, 2022). Real options theory explains the variable of EPU by indicating that firms can postpone or defer their investment decisions. In the presence of high EPU, companies tend to avoid significant risks and delay investments, which can lower operational efficiency and firm value (Jumah et al., 2023).

Agency Theory

Agency theory, as proposed by (Smulowitz et al., 2019), states that the separation between owners (principals) and managers (agents) of a company can lead to agency problems, where agents (management) pursue their own interests rather than those of the shareholders. In the context of corporate diversification, this theory emphasizes that diversification can enhance shareholder investment efficiency and serve management's interests (Erdorf et al., 2013), by reducing reliance on expensive external capital (Matsusaka & Nanda, 2002). (Denis et al., 1995) If corporate diversification is pursued solely for management’s personal interests, such

as increasing their power or obtaining higher compensation, it can diminish firm value and harm investors.

Firm Value

Firm value is defined as the total market value of equity and debt, reflecting investors' perceptions of a company's ability to generate future profits (Bongsoikrama et al., 2024). This value can also be assessed through the number of outstanding shares and stock prices, where higher stock prices indicate a higher firm value (Yasmin & Marinda Machdar, 2024). In line with agency theory, (Denis et al., 1995) explain that decisions misaligned with shareholder interests can diminish firm value. In this study, firm value is measured using Tobin's Q, which calculates the market value of equity in relation to total liabilities compared to total assets. This approach differs from traditional measurements of firm value based on historical accounting data, which may not always reflect current market conditions (Rjiba et al., 2020).

Economic Policy Uncertainty

Economic Policy Uncertainty (EPU) refers to a condition in which market participants and companies lack clarity about the future direction of economic policies, resulting from changes in regulations, inconsistent fiscal and monetary policies, and political instability (Jory et al., 2020). EPU can increase risks for lenders and investors, leading to higher company capital costs. Elevated funding costs can hinder investment and impede company growth. (Feng et al., 2023) found that high EPU negatively impacts corporate investment, revenue, and labor absorption.

Companies tend to postpone or reduce investments during periods of high EPU because it becomes challenging to predict investment outcomes, ultimately diminishing firm value. (Iqbal et al., 2020) found that EPU has a significant negative impact on company performance across various proxies, such as ROA, ROE, Tobin’s Q, and net profit margin. During periods of high EPU, companies may increase cash reserves as a precautionary measure. However, this can hinder potential growth and firm value since more funds are allocated to cash rather than productive investments. (García-Gómez et al., 2022) investigated the relationship between EPU and performance in U.S. tourism companies and found evidence consistent with two previous studies. Therefore, this research develops the first hypothesis that firm value will decline during periods of high EPU.

H1: There is a Negative Relationship Between EPU and Firm Value

Corporate Diversification

Agency theory illustrates one of the key theoretical motives behind corporate diversification strategies. This theory explains that diversification can enhance shareholder

investment efficiency while supporting management's interests (Erdorf et al., 2013), by reducing reliance on high external capital (Matsusaka & Nanda, 2002).

Diversification helps companies utilize internal resources more efficiently and reduce financial issues (Teece, 1982). Additionally, diversification enhances resilience to economic risks through cash flows from various business units (Erdorf et al., 2013). This, in turn, decreases the risk of failure and strengthens the company's overall financial position (Hoang et al., 2021). A study by (Roslita & Anggraeni, 2019) found that diversification has a positive and significant partial impact on firm value. Meanwhile, research by (Tantra & Wesnawati, 2017) indicates that diversification can improve firm performance and value when supported by adequate resources. Therefore, this study hypothesizes that corporate diversification can enhance firm value. The second hypothesis is presented in the following statement.

H2: There is a Positive Relationship Between Corporate Diversification and Firm Value

Corporate Diversification, EPU, And Firm Value

Corporate diversification, economic policy uncertainty (EPU), and firm value are interrelated in the context of business strategies and economic conditions. Diversification, as a strategy to expand a company's operations or products into various fields or markets, can help maintain the stability of firm value, especially during periods of high EPU (Prastya et al., 2023). When EPU is high, diversification helps mitigate risk by spreading revenue dependence across multiple business segments, thereby maintaining cash flow stability and firm value (Erdorf et al., 2013).

Agency theory suggests that managers (agents) pursue personal interests over those of shareholders (principals), which can reduce firm value, especially if diversification is directed toward suboptimal projects (Berger & Ofek, 1995). In other studies, trade credit policies (Jory et al., 2020) and CSR initiatives (Rjiba et al., 2020) can also help companies mitigate the negative impact of EPU on firm value.

Another finding by (Ahsan et al., 2022) indicates that companies with sustainable policies they are better positioned to maintain performance during periods of high EPU. Therefore, the hypothesis is that corporate diversification enhances firm value under high economic policy uncertainty conditions, as it provides advantages in internal capital markets and more stable cash flows. The third hypothesis proposed is:

H3: Corporate diversification moderates the negative effects of EPU on firm value.

Research Framework

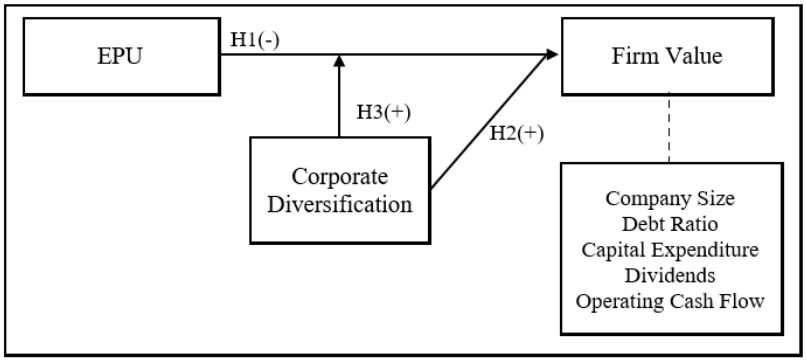


Figure 1. Research Framework

3. METHODS

This study employs a quantitative approach, focusing on firms listed in the food and beverage subsector across three countries: Indonesia, Malaysia, and Thailand, from 2019 to 2023. Data for this research is obtained from the annual financial reports available on the official stock exchange websites and the respective companies' official websites for each country during the 2019-2023 period, as well as from the website https://www.policyuncertainty.com/ to collect EPU data. The sample consists of 106 companies over the period 2019-2023, totaling 530 observations. This study utilizes purposive sampling, with the following criteria for sample selection:

Table 2. Sample Selection Criteria

No.	Sample Explanation	Sample Size
1	Companies listed in the food and beverage subsector in Indonesia, Malaysia, and Thailand for the period 2019-2023	191
2	Companies that do not disclose annual reports for the period 2019-2023	(73)
3	Companies that do not provide complete data related to the variables used in the study	(4)
4	Companies that issue annual reports with a period longer than one year	(3)
5	Annual reports of companies that are unreadable	(5)
Number of Companies Included in the Sample		106
Number of Observation Years		5 Years
Final Data Used in the Research		530

(Source: Data Processed, 2024)

Research Variables

In this study, the dependent variable or the outcome variable is the company value (Y). The company value in this research is measured using Tobin's Q, which reflects the market's perception of the company's value.

$$Tobin's\ Q_{j,t} = \frac{EMV_{j,t} + TD_{J,T}}{TA_{j,t}}$$

Where:

Tobin's Q : Firm Value

EMV : Equity Market Value (EMV = closing price × number of shares outstanding)

TD : Total Debt

TA : Total Assets

To measure Economic Policy Uncertainty (EPU), data was obtained from the website https://www.policyuncertainty.com/, developed by (Baker et al., 2016). The EPU index is based on three components: news-based EPU, tax-based EPU, and EPU based on forecasting disagreement. The data was collected using newspapers.

Corporate diversification is used as a moderating variable. Corporate diversification is a strategy to expand business segments or markets. This can be achieved by starting new ventures, developing existing products, or engaging in mergers and acquisitions to enhance economies of scale and other scales (Harto, 2005). The level of diversification is measured using the Herfindahl-Hirschman Index (HHI). The HHI is calculated by taking the sum of the squares of the sales of each segment divided by the square of the total sales of the company, using the following formula:

$$HHI = \frac{\sum_{i=1}^{n} Segsales^2}{\sum_{i=1}^{n} (sales)^2}$$

Description

Segsales : Sales of each segment

Sales : Total sales

Where,

The lower the HHI value, the more diversified the company is. To facilitate the identification of the level of diversification, it is formulated as follows:

$$(DI) = \frac{1}{HHI}$$

DI : *Diversification Index*

HHI : *Hierschman Herfindahl Index*

The higher the Diversification Index (DI) value, the greater the level of corporate diversification, indicating that the company is involved in various diversification activities.

Conversely, the lower the DI value, the lower the level of diversification, suggesting that the company is more focused on specific segments or concentrated in its business field.

This study also employs control variables, including company size, debt ratio, capital expenditures, dividends, and operating cash flow, as significant determinants of company value, following the findings of (Kwon et al., 2021)

Data Analysis

This study employs panel data analysis techniques using Eviews 12 software. Panel data combines time series and cross-sectional data. Descriptive statistical analysis summarizes the data using minimum, maximum, mean, and range measures. The selection of the regression estimation model for panel data includes the Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM), which They choose through Chow tests, Hausman tests, and Lagrange Multiplier tests (Ghozali & Ratmono, 2020)

Classical assumption tests include normality tests (significance > 0.05 for a normal distribution), autocorrelation (probability of Obs*R-Squared > 0.05 for no autocorrelation), heteroscedasticity (significance > 0.05 for no heteroscedasticity), and multicollinearity (correlation coefficient < 0.8) (Ghozali & Ratmono, 2020). However, if the chosen model is the Random Effect Model (REM), then fulfilling classical assumptions is not mandatory, as the REM has implemented the Generalized Least Squares (GLS) method (Gujarati & Porter, 2004). The following model will be used to test the effect of Economic Policy Uncertainty (EPU) on firm value.

$$Q_{i,t} = \beta_0 + \beta_1 GEPU_t + \beta_2 Size_{i,t} + \beta_3 DR_{i,t} + \beta_4 Capex_{i,t} + \beta_5 Div_{i,t} + \beta_6 OCF_{i,t} + \varepsilon_{i,t} \quad (1)$$

Where,

$Q_{i,t}$: Firm value based on Tobin's Q

GEPU : Economic Policy Uncertainty Index

Size : Firm size

DR : Debt Ratio

Capex : Capital Expenditure

Div : Dividends

OCF : Operating Cash Flow

i,t : i represents the firm and t represents time within one year

This study employs ordinary least squares (OLS) regression analysis for model estimation. Additionally, to examine the moderating effect of diversification on the relationship between EPU and firm value, the model is expanded as follows:

$$Q_{i,t} = \beta_0 + \beta_1 + \beta_2 CD_{i,t} + \beta_3 GEPU_t \times CD_{i,t} + \beta_3 Size_{i,t} + \beta_4 DR_{i,t} + \beta_5 Capex_{i,t} + \beta_6 Div_{i,t} + \beta_7 OCF_{i,t} + \varepsilon_{i,t} \quad (2)$$

Where,

$CD_{i,t}$: Corporate Diversification

$\beta_3 GEPU_t \times CD_{i,t}$: Interaction variable of EPU and corporate diversification

The interaction variable indicates the moderating effect of diversification on the relationship between EPU and firm value. The remaining model is consistent with equation (1).

Model accuracy is assessed through the coefficient of determination (R^2), an F-test to evaluate the simultaneous impact of independent variables on the dependent variable (with a significance criterion of F < 0.05 indicating a significant model), and a T-test to measure the individual effects of independent variables on the dependent variable (with a significance criterion of T < 0.05 indicating that the independent variable has a significant effect).

4. RESULTS

Table 3. Summary Statistics

	Q	GEPU	CAPEX	DEBT	DIV	OPERCF	SIZE	DI
Mean	2.160699	263.8055	10.85673	0.454489	0.134432	0.506677	19.22959	1009526.
Median	1.241752	258.4641	15.53235	0.450341	0.176275	0.350776	19.13631	10672.97
Maximum	19.19101	320.8973	21.42196	2.311944	3.307692	23.10387	23.98708	9824325
Minimum	0.237192	216.4101	-19.16394	0.010929	-56.00000	-38.77918	15.36451	4.027969
Std. Dev.	2.558295	35.61438	11.54200	0.280044	2.538816	2.197255	1.454577	8427642.
Skewness	3.407635	0.329963	-1.797636	2.370382	-20.52272	-8.819700	0.379653	10.14157
Kurtosis	16.30148	1.996888	4.393834	14.80764	452.8122	216.4375	3.845729	105.1776
Jarque-Bera	4932.915	31.83832	328.3515	3575.185	4505349.	1012890.	28.52728	239640.9
Probability	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000001	0.000000

Sum	1145.171	139816.9	5754.065	240.8789	71.24921	268.5388	10191.68	5.35E+08
Sum Sq. Dev.	3462.239	670975.0	70472.23	41.48658	3409.716	2553.975	1119.256	3.76E+16
Observations	530	530	530	530	530	530	530	530

(Source: Output Eviews 12, 2024)

Table 3 presents summary statistics for the variables used in the regression model.

According to the descriptive statistical analysis, the dependent variable, firm value (Q), has an average of 2.160699 with a standard deviation of 2.558295, indicating a significant variation among the companies in the sample. The minimum value of Q is 0.237192, while the maximum value is 19.19101, reflecting a considerable difference in the market capitalization of the companies. The independent variable, Global Economic Policy Uncertainty (GEPU), has an average of 263.8055 with a standard deviation of 35.61438, indicating global economic policy uncertainty fluctuations during the sample period. Diversification (DI), serving as the moderating variable, has an average of 1,009,526 with a significant standard deviation, reflecting differences in the levels of diversification among companies. Control variables, such as capital expenditure (CAPEX), debt ratio (DEBT), dividends (DIV), operating cash flow (OPERCF), and firm size (SIZE), also demonstrate considerable variation among companies, indicating differences in operational and financial characteristics.

Table 4. Panel Data Regression

Dependent Variable: Y
Method: Panel EGLS (Cross-section random effects)
Date: 09/26/24 Time: 22:16
Sample: 2019 2023
Periods included: 5
Cross-sections included: 106
Total panel (balanced) observations: 530
Swamy and Arora estimator of component variances

Variable		Output (1) (Q)	Output (2) (Q)	Output (3) (Q)
C	Prob.	0.0003	0.0034	0.0030
	t-Statistic	3.672770	2.940960	2.984354
	Coefficient	10.10408	7.721688	7.838463
GEPU	Prob.	0.7811	0.7104	0.6449
	t-Statistic	0.277966	0.371549	0.461071
	Coefficient	0.000373	0.000497	0.000616
CAPEX	Prob.	0.6729	0.6922	0.6906
	t-Statistic	0.422406	0.396054	0.398248
	Coefficient	0.020311	0.018909	0.018874

DEBT	Prob.	0.0037	0.0037	0.0036
	t-Statistic	2.918718	2.916350	2.928665
	Coefficient	1.064670	1.042965	1.041141
DIV	Prob.	0.3673	0.3610	0.3578
	t-Statistic	0.902405	0.914188	0.920427
	Coefficient	0.000752	0.000759	0.000758
OPERCF	Prob.	0.0109	0.0112	0.0106
	t-Statistic	2.554727	2.545608	2.565688
	Coefficient	0.069885	0.069171	0.069196
SIZE	Prob.	0.0017	0.0148	0.0128
	t-Statistic	-3.158522	-2.444906	-2.496948
	Coefficient	-0.461714	-0.341849	-0.349267
DI	Prob.		0.0013	0.0218
	t-Statistic		3.228034	2.300552
	Coefficient		2.63E-08	1.05E-07
GEPU×DI	Prob.			0.4494
	t-Statistic			-0.757058
	Coefficient			-1.27E-10
Adjusted R-squared		0.041024	0.157676	0.154511
Prob(F-statistic)		0.000095	0.000003	0.000007
N		530	530	530

(Source: Output Eviews 12, 2024)

Table 4 illustrates the ordinary least squares regression analysis results based on models (1) and (2).

In Output 1, which tests the direct effect of Economic Policy Uncertainty (GEPU) on firm value, the regression results show that the coefficient for GEPU is 0.000373, with a t-statistic of 0.277966 and a probability of 0.7811. These results indicate that the effect of EPU on firm value is not statistically significant at the 5% significance level. The first hypothesis (H1), which posits a negative relationship between EPU and firm value, cannot be accepted based on the data. Although the coefficient is positive, its impact is not significant.

In Output 2, which examines the effect of diversification (DI) on firm value, the results indicate that the coefficient for the DI variable is 2.63E-08, with a t-statistic of 3.228034 and a probability of 0.0013. This demonstrates that the diversification variable has a positive and significant effect at the 1% significance level. This supports the second hypothesis (H2), which states a positive relationship between corporate diversification and firm value. Therefore, diversification helps enhance firm value, indicating that companies with diversified portfolios can better maintain or increase their value.

In Output 3, which examines the interaction effect between EPU and diversification (GEPU×DI), the results show that the interaction coefficient is -1.27E-10 with a t-statistic of -0.757058 and a probability of 0.4494, which is not statistically significant. Therefore, this data

does not support the third hypothesis (H3), which posits that diversification moderates the negative effect of EPU on firm value. Although the interaction coefficient is negative, the moderating effect is not significant, indicating that there is no evidence suggesting that diversification can mitigate the negative impact of EPU on firm value.

The regression estimates for control variables such as CAPEX, DEBT, DIV, OPERC, and SIZE also show significant results. Firm size (SIZE) positively affects firm value, significant at the 1% level (p-value below 0.01). The debt ratio variable (DEBT) consistently shows a positive and significant effect on firm value with a probability below 1%, indicating that companies with higher debt levels tend to have better firm value. Operating cash flow (OPERC) positively affects firm value, significant at the 1% level (p-value below 0.01). This suggests that higher operating cash flow can contribute to an increase in firm value. Additionally, dividends (DIV) and capital expenditure (CAPEX) significantly negatively affect firm value across all models. This evidence aligns with the findings. (Jumah et al., 2023); (Azimli & Cek, 2023); (Rjiba et al., 2020).

The Adjusted R-squared values for the three models indicate that the first model only explains about 4.10% of the variation in firm value, the second model 15.76%, and the third model 15.45%. This suggests that other factors beyond the variables studied also significantly influence firm value.

5. DISCUSSION

The Impact of EPU on Firm Value

Based on the regression results from Output 1, the EPU (GEPU) coefficient shows a positive value of 0.000373 with a t-statistic of 0.277966 and a probability of 0.277966, indicating that the effect of EPU on firm value is not statistically significant at the 5% significance level. This finding contrasts with previous literature, such as those by (Iqbal et al., 2020) and (García-Gómez et al., 2022), which argue that EPU significantly negatively impacts corporate performance, including firm value. According to Real Options Theory, companies tend to delay investment decisions when faced with high economic uncertainty (SC Myers, 1977). Therefore, an increase in EPU is typically associated with reduced investment and a decline in firm value (Jumah et al., 2023). However, the results of this study do not align with that theory.

We can attribute these results to the characteristics of the food and beverage subsector, which tends to have a business model that is more resilient to economic policy uncertainty, or due to differences in economic stability and regulations in the sample countries. Thus, the

findings indicate that the effect of EPU on firm value in this study does not support the first hypothesis (H1), which posited a negative relationship between EPU and firm value. This discrepancy suggests that the impact of EPU on firms can vary depending on the industry context, country, and prevailing economic policies.

The Impact of Corporate Diversification on Firm Value

The regression results in Output 2 show that the diversification (DI) coefficient is 2.63E-08, with a t-statistic of 3.228034 and a probability of 0.0013, indicating that diversification has a positive and significant effect on firm value at the 1% significance level. These findings support the second hypothesis (H2), which states a positive relationship between corporate diversification and firm value. This result aligns with agency theory, suggesting that corporate diversification can enhance shareholder investment efficiency and serve management's interests (Erdorf et al., 2013), by reducing reliance on expensive external capital (Matsusaka & Nanda, 2002).

The results of this study are consistent with previous research (Roslita & Anggraeni, 2019; Tantra & Wesnawati, 2017) which found that diversification positively impacts firm value. Diversification enables companies to use internal resources more efficiently, improving performance and increasing their value.

The Role of Diversification in Moderating Economic Policy Uncertainty (EPU) on Firm Value

The regression results in Output 3 show that the interaction coefficient between EPU and diversification (GEPU×DI) is -1.27E-10, with a t-statistic of -0.757058 and a probability of 0.4494, which is not significant at the 5% significance level. This indicates that diversification does not moderate the negative impact of EPU on firm value. Therefore, the third hypothesis (H3), which states that diversification moderates the negative effect of EPU on firm value, is not supported.

These findings contradict previous literature (Jumah et al., 2023), suggesting that corporate diversification significantly moderates the negative effects of policy uncertainty on firm value. Diversification provides companies with flexibility in managing cash flow and assets, helping them navigate uncertainty. However, in this study, the insignificant results may be influenced by differences in industry characteristics or the economic solid stability of the sample countries.

Additionally, although agency theory suggests that diversification can increase firm value by reducing reliance on external capital (Matsusaka & Nanda, 2002), there is a risk that diversification may be pursued not for efficiency but to expand managerial power, which could,

in turn, reduce firm value (Denis et al., 1995). In these results, management may need to optimally allocating resources during periods of economic uncertainty, leading diversification to fail in providing the expected benefits. These findings indicate that the effectiveness of diversification as a risk mitigation strategy may vary depending on sector characteristics, country, and corporate management strategies.

6. CONCLUSION

This study provides new insights into the effect of corporate diversification in moderating the impact of economic policy uncertainty (EPU) on firm value. Based on panel data from companies in the food and beverage subsector across three countries (Indonesia, Malaysia, and Thailand), the results indicate that corporate diversification has a positive and significant effect on firm value. However, it does not significantly moderate the negative impact of EPU on firm value.

First, these findings confirm that corporate diversification significantly enhances firm value. This result is consistent with agency theory, which posits that diversification can reduce dependence on external capital and help companies better navigate economic uncertainty. Diversification facilitates revenue stability through various business units, ultimately strengthening the company's financial position and increasing its overall value.

However, the hypothesis regarding the moderating role of diversification in mitigating the negative impact of Economic Policy Uncertainty (EPU) on firm value is not supported by the data. The regression results indicate that the interaction between EPU and diversification is not statistically significant, meaning that diversification does not effectively reduce the negative impact of EPU on firm value. This finding contradicts previous literature that suggests diversification can help firms navigate economic uncertainty.

Several reasons may explain these findings. First, the characteristics of the food and beverage subsector, which tends to be more resilient to economic policy uncertainty, could clarify why diversification does not play a significant role in moderating the impact of EPU. Second, the stability of regulations and the economy in the countries included in the study may also influence these results. Firms in the sample may have developed alternative strategies that are more effective in addressing policy uncertainty than diversification.

Overall, this study contributes to the literature by identifying the positive impact of diversification on firm value while finding that diversification cannot moderate the effects of EPU. These findings emphasize the importance of considering industry and country characteristics when analyzing the relationship between economic policy uncertainty and firm

value. Company managers must be cautious when adopting diversification strategies during economic uncertainty. They should consider alternative strategies that may suit specific market and industry conditions.

LIMITATION

This study has several limitations that need to be addressed. First, its focus on the food and beverage subsector, which tends to be more resilient to economic uncertainty, may limit the generalizability of the findings to other subsectors that are more sensitive to such conditions. Second, the economic stability and regulatory environments of the sampled countries (Indonesia, Malaysia, and Thailand) may influence the results, making them less representative of situations in countries with higher or lower levels of economic uncertainty. Third, the limited sample scope, which focuses only on three developing countries, poses a challenge as the findings may not fully apply to developed nations or other developing countries with distinct characteristics. Fourth, the diversification model employed in this study is relatively simplistic and does not account for the complexity of diversification types (e.g., product or geographic diversification), which could impact the findings regarding the moderating role of diversification on EPU.

To address these limitations, future research should consider expanding the sample to include other subsectors, developed nations, or additional developing countries. Moreover, adopting a more sophisticated approach to diversification analysis could yield more comprehensive and generalizable insights.

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