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The Effect of Capital Structure and Profitability on Firm Value with Inflation Rate as Moderating Variable in Food and Beverage Companies on the Indonesia Stock Exchange

Burhanuddin [1*], Guasmin [2], Rajindra [3]

[1,2,3] Universitas Muhammadiyah Palu, 94148, Central of Sulawesi, Indonesia

Email:
bur.fekonump@yahoo.com[1]*

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Abstract

This study aims to determine the effect of capital structure and profitability on firm value moderated by the inflation rate, using a sample of food and beverage companies on the IDX. Based on the results of the analysis, capital structure has a negative and insignificant effect on firm value, while profitability has a positive and significant effect on firm value. Inflation rate cannot moderate the effect of capital structure on firm value, but it can give positive and insignificant impact on the effect of capital structure on firm value. Likewise, the inflation rate cannot moderate the effect of profitability on firm value and has a negative and insignificant impact on the effect between these variables.

Keywords: Capital Structure, Profitability, Firm Value, Inflation Rate.

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Introduction

The development of the economic sector that supports the smooth running of economic activities, especially the food and beverage sector in Indonesia is very interesting to observe. Food and beverage companies are one of the sectors of interest to investors, the reason is that this sector is one of the sectors that can survive in the midst of Indonesia's economic conditions, besides that the prospects possessed by companies in this sector are very good because basically every society needs food and drink in maintaining life. However, when associated with global competition, the company will face increasingly complex problems, namely how the company can achieve its goals in very high competition, as well as how to increase the value of the company in order to maximize owner welfare.

The aspect of company value is very important because it is able to describe the

company's performance which can affect investors' perceptions of the company. If the implied company value is not good, then investors will assess the company as having low value (Rahman 2012). One of the most widely used ratios in investment decision making is the ratio of stock price to the company's book value (price book value) (Otuteye and Siddiquee 2015). The book value of a company is the value of the company's wealth divided by the number of shares issued by the company (Andriyani and Armereo 2016). In other words, the book value of shares is the fair value of the issuer's shares. The indicator of share price book value (PBV) is used to show how far the company can create company value relative to the amount of capital invested, the greater the amount of capital invested, of course, it is hoped that an optimal balance will be formed in the company's capital structure.

(Modigliani and Miller 1958) in a financial article about modern capital structure theory states, that the value of a company should not be influenced by its capital structure, which results in an irrelevant capital structure, if the capital structure position is above the optimal capital structure target, then any increase in debt will reduce the value of the company. Capital structure is the proportion of the company's financing with debt, namely the company's leverage ratio (Chasanah 2018). Capital structure is the key to improving the productivity and performance of the company, with the aim of optimizing the value of the firm. Managers should choose the capital structure that they believe will have the highest firm value because this capital structure will be most beneficial to the firm's shareholders (Ross, Randolph, and Jeff 2013). One disadvantage is that if the company is going through a difficult time and its operating profit is not enough to cover the interest, then shareholders are forced to cover the shortfall; if they cannot, then the company will go bankrupt (Brigham and Houston 2020). Capital structure can be measured using the Debt to Equity Ratio (DER). If the DER is higher, the company value will increase, as long as the DER has not reached its optimal point in accordance with the trade-off theory. In research (Antwi, Mills, and Zhao 2012) and (Sintyana and Artini 2018) found that capital structure has no significant effect on firm value. However, this contradicts (Hirdinis 2019), (Manoppo and Arie 2016) and (Rahman 2012) which state that capital structure has a significant effect on firm value.

The value of the company can also be influenced by the size of the profit generated by the company, as Return on equity (ROE) which is used to measure the profitability of the company by the amount of profit earned from managing the capital obtained from shareholders. This means that the higher the ROE ratio, the better it is to invest, because for investors the high ROE ratio is a positive signal from the company that can increase investor confidence and also make it easier for company management to attract capital in the form of shares. If there is an increase in demand for a company's shares, it will increase the share price in the capital market. Research conducted by (Hamidah and Umdiana 2017), (Suffah and Riduwan 2016), (Sucuahi and Cambarihan 2016), and (Tiska 2015) shows the effect of profitability on firm value. Meanwhile, research (Manoppo and Arie 2016) proves that profitability as measured by ROE has no effect on firm value.

The various research results above provide different conclusions, this is certainly influenced by various factors, both internal factors that are the responsibility of each company management and external factors of the company, one of the external factors of concern is the inflation rate. According to (Kelly et al. 2021), inflation occurs when there is a general increase in prices for products and services, as well as a decrease in purchasing power. The impact of

inflation has been shown to be closely related to the money supply. As a result, an increase in the amount of money available is accompanied by a general increase in product prices. From various research results showing the negative impact of the inflation rate as (Hamidah, Hartini, and Mardiyati 2015), concluded that firm value is not significantly affected by inflation and its direction is negative. (Kobia 2018) suggests that there is a significant negative correlation between inflation and profitability, a high inflation rate affects profits so that some banks record losses as indicated by the ROA value. As the purpose of this study is to determine the effect of capital structure on firm value with the inflation rate as a moderating variable, in the sense that it is how companies are required to improve their internal factors faced with external factor conditions and situations.

Research Methods

The population in this study were food and beverage companies listed on the Indonesia Stock Exchange during the 2016-2020 period. The sample determination was carried out using the "non-probability random sampling" approach with the "purposive sampling" method, The samples in this study amounted to 12 food and beverage companies that published annual financial reports for the 2016-2020 period on the Indonesia Stock Exchange. This study uses variables: Capital Structure, Profitability and Firm Value and Inflation rate as moderating variables.

Data Analysis

The data analysis technique used in this study is to use a panel data regression model. While data processing techniques use descriptive quantitative analysis techniques. Data processing in this study used a software program, namely Econometric Views (Eviews) version 10. The panel data linear regression equation used in this study is as follows:

$$PBV = \alpha + \beta_1.DER + \beta_2.ROE + e$$

Information:
PBV = Company Value
α = Constant
$\beta_1, \beta_2,$ = Regression coefficient
DER = Capital Structure
ROE = Profitability
e = Standard error

In conducting Moderated Regretion Analysis (MRA) using the equation form:

$$PBV = \alpha + \beta_1.DER + \beta_2.ROE + \beta_3.INF + \beta_4.DER*INF + \beta_5.ROE*INF + e$$

Information:
INF = Inflation Rate

Hypothesis Test

a) If the probability value ≤ 0.05 and the t-count> t-table value, Ha is accepted and Ho is rejected, meaning that the capital structure variable individually affects firm value. Ho is rejected, meaning that the capital structure variable individually affects firm value.
b) If the probability value is ≥ 0.05 and the t-count value < t-table then Ha is rejected and Ho is accepted, meaning that the profitability variable individually affects firm value.
c) If the probability value ≥ 0.05 and the t-count < t-table then Ha is rejected and Ho is accepted, meaning that the inflation rate moderates the effect of capital structure on firm value. Ho is accepted, meaning that the inflation rate moderates the effect of capital structure on firm value.
d) If the probability value ≥ 0.05 and the t-count < t-table then Ha is rejected and Ho is accepted, meaning that the inflation rate moderates the effect of profitability on firm value. Ho is accepted, meaning that the inflation rate moderates the effect of profitability on firm value.

Results and Discussion

This study uses data obtained from food and beverage companies listed on the Indonesia Stock Exchange (IDX) for the period 2016-2022, using 2 independent variables, namely Capital Structure and Profitability, with the dependent variable being Firm Value and Inflation Rate as moderating variables.

Panel Data Analysis

The data in this study are combined data between time series data and cross section data or can be called panel data. Analyzing panel data can be done with 3 alternative approaches to management methods, including the Common Effect Model, Fixed Effect Model, and Random Effect Model.

Common Effect Model (CEM)

The calculation results using the Common Effect Model (CEM) are as follows:

Table 1. Common Effect Model

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-1.035635	0.609030	-1.700466	0.0945
DER	-0.222566	0.489267	-0.454896	0.6509
ROE	26.75334	1.337529	20.00206	0.0000
			R-squared	0.877609

Source: Data processing results Eviews version 10

Fixed Effect Model (FEM)

The following are the results of calculations using the Fixed Effect Model (FEM) and

are presented as follows:

Table 2. Fixed Effect Model

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2.243997	0.644190	3.483437	0.0011
DER	-0.562882	0.647218	-0.869695	0.3890
ROE	13.21268	1.557724	8.482042	0.0000
Durbin- Watson stat	1.889890	Prob (F-statistic)		0.000000

Source: Data processing results Eviews version 10

Random Effect Model (REM)

The following are the results of calculations using the Random Effect Model (REM) and are presented as follows:

Tabel 3. Random Effect Model

Variable		Coefficient	Std. Error	t-Statistic	Prob.
C		0.785443	0.649567	1.209180	0.2316
DER		-0.484588	0.475976	-1.018093	0.3129
ROE		19.55492	1.220607	16.02065	0.0000
				R-squared	0.877609

Source: Data processing results Eviews version 10

Panel Data Regression Model Test

The estimation technique to test the regression equation to be estimated can use three tests including the chow test, hausman test, and lagrange multiplier (LM) test, as follows:

Chow Test

The Chow test in this study uses the Eviews version 10 program. the criteria for decision making in the chow test are: if the probability value of F > a significant value of 0.05 then the most appropriate model to use is CEM rather than FEM, if the probability value of F < a significant value of 0.05 then the most appropriate FEM is used.

Table 4. Chow Test

Effects Test	Statistic	d.f.	Prob.
Cross-section F	15.050540	(11,46)	0.0000
Cross-section Chi-square	91.550883	11	0.0000

Source: Data processing results Eviews version 10

The chow test shows that the cross-section F probability value of 0.0000 <0.05 means that the FEM is selected. Thus, the most appropriate model used in estimating the regression equation is the fixed effect model (FEM).

Hausman Test

The decision-making criterion in the Hausman test is that if the probability value for random cross section > significant value of 0.05 then the most appropriate model to use is REM. if the value of random cross section < significant value of 0.05 then the most appropriate FEM is used.

Table 5. Hausman Test

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	49.660955	2	0.0000

The Hausman test shows that the cross section random probability value is 0.0000 <0.05, meaning that the FEM is selected. Thus, the most appropriate model used in estimating the regression equation is the fixed effect model (FEM). Thus, for the Lagrange Multiplier Test (LM), it cannot be done again because based on the chow test and hausman test, the FEM is the most appropriate model used in estimating the regression equation.

Panel Data Regression Analysis

Based on the regression estimation method, from the test results conducted using the panel data regression model, the result is the Fixed Effect Model (FEM) that will be used in this study, as follows:

Table 6. Panel Data Regression Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2.243997	0.644190	3.483437	0.0011
DER	-0.562882	0.647218	-0.869695	0.3890
ROE	13.21268	1.557724	8.482042	0.0000
	Effect Specification			
Cross-section fixed (dummy variables)				
R-squared	0.973388	Mean dependent var		4.588167
Adjusted R-squared	0.965867	S.D. dependent var		7.300511
S.E. of regression	1.348782	Akaike info criterion		3.637244
Sum squared resid	83.68375	Schwarz criterion		4.125924
Log likelihood	-95.11732	Hannan-Quinn criter.		3.828394
F-statistic	129.4249	Durbin-Watson stat		1.889890
Prob(F-statistic)	0.000000			

Based on the above results, the panel data regression equation is obtained as follows:

PBV=2.243997-0.562882 (DER)+ 13.21268 (ROE)+e

Information:

The constant value is 2.243997, which means that the company value (PBV) is 2.243997 when the value of all independent variables is 0. Coefficient DER is negative -0.562882, if each DER increases, the company value will decrease by 0.562882 assuming the ROE variable from the regression model is fixed. Positive ROE coefficient of 13.21268, if each ROE increases, the company value will increase by 13.21268 assuming the DER variable from the regression model is constant.

Moderation Regression Analysis of Inflation Variables

After conducting the panel data regression analysis, an analytical approach to the effe

ct of the moderator variable inflation is then conducted, as follows:

Table 7. Moderated Regretion Analysis (MRA) Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2.356245	0.948097	2.485235	0.0169
DER	-0.642500	0.544195	-1.180642	0.2442
ROE	15.36628	5.123254	2.999321	0.0045
INF	-1.171049	25.58063	-0.045779	0.9637
DER*INF	10.47740	15.59084	0.672023	0.5052
ROE*INF	-109.0261	122.1252	-0.892741	0.3770
	Effects Specification			
Cross-section fixed (dummy variables)				
Weighted Statistics				
R-squared	0.971819	Mean dependent var		5.144511
Adjusted R-squared	0.961333	S.D. dependent var		5.041458
S.E. of regression	1.251222	Sum squared resid		67.31889
F-statistic	92.67760	Durbin-Watson stat		2.013705
Prob(F-statistic)	0.000000			

From table 7 above, the adjusted R^2 value of 0.961333 is smaller than the adjusted R^2 in table 6 of 0.965867. This means that with the Inflation variable as a moderating variable, it can reduce the previous adjusted R^2 value found in table 6 of 0.965867 to 0.961333. Thus, the Moderated Regretion Analysis (MRA) equation is obtained as follows:

$$PBV=2.356245-0.642500(DER)+13.21268(ROE)-1.171049(INF)+10.47740 (DER*INF)-109.0261(ROE*INF) +e$$

Information:

With the moderation variable (Inflation), the constant value becomes 2.356245, which means that the company value (PBV) is 2.356245 when the value of all independent variables is 0. Coefficient DER is negative at -0.642500, if each DER increases, the company value will decrease by 0.642500 assuming the value of the other variables (ROE, INF, DER * INF and ROE * INF) of the regression model is fixed. Coefficient ROE is positive at 15.36628, if each ROE increases, the company value will increase by 15.36628 with the assumption that the other variables (DER, INF, DER*INF and ROE*INF) of the regression model are fixed.

Coefficient INF is negative at -1.171049, if INF increases, the company value will decrease by 1.171049 assuming the other variables of the regression model are fixed, Coefficient DER * INF is positive at 10.47740, if DER *INF increases, the company value will increase by 10.47740 assuming the other variables of the regression model are fixed, while the Coefficient ROE *INF value is negative at -109.0261, if ROE *INF increases, the company value will decrease by 109.0261 assuming the other variables of the regression

model are fixed.

Hypothesis Test

Hypothesis testing in this study consists of a partial test (t-test) and a coefficient of determination test (R^2) with estimates for panel data linear regression using the Fixed Effect Model (FEM). From the tests carried out, it can be summarized in the form of the table below:

Table 8. Summary of Hypothesis Test Results

Hypothesis	Probability	Results
The Effect of Capital Structure on Firm Value	0.3890	No effect
Effect of Profitability on Company Value	0.0000	Influential
The Effect of Capital Structure on Firm Value with Inflation Moderation	0.5052	No effect
The Effect of Profitability on Firm Value with Inflation Moderation	0.3770	No effect

From the table above, we can describe the results of the partial hypothesis test (t test) and the coefficient of determination test (R^2) with estimates for panel data linear regression using the Fixed Effect Model (FEM).

Partial Hypothesis Test (t-test)

The test criteria are if the significance value ≤ 0.05 and the t-count> t-table value, Ha is accepted and Ho is rejected, meaning that the independent variable individually affects the dependent variable.

Table 9. t-Statistic Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2.243997	0.644190	3.483437	0.0011
DER	-0.562882	0.647218	-0.869695	0.3890
ROE	13.21268	1.557724	8.482042	0.0000

To see the t-table in hypothesis testing on the regression model, it is necessary to determine the degree of freedom (df). This can be determined by using the formula df = n - k. Thus, the df in this study amounted to 60 - 2 - 1 = 57. Meanwhile, finding the t table is done by looking at the t-table or by using Microsoft excel with the formula = TINV (0.05; 57) to get the result 2.0024654. Based on the results of the t-test, the following decisions were made:

The Effect of Capital Structure on Firm Value

Based on the results of calculations using the Eviews version 10 program, the DER variable has t-count = -0.869695 < t-table = 2.0024654 with a significance level of 0.3890 > 0.05, it can be concluded that the hypothesis (H1) which explains "Capital structure proxied by DER affects Firm Value" is rejected.

Effect of Profitability on Company Value

From the results of the calculation of the Eviews version 10 program, the ROE variable

has a t-count = 8.482042 < t-table = 2.0024654 with a significance level of 0.0000 < 0.05, it can be concluded that the hypothesis (H2) which explains "Profitability proxied by ROE affects Firm Value" is accepted.

The Effect of Capital Structure on Firm Value Moderating Inflation

Testing the third hypothesis aims to test whether the inflation rate can moderate the relationship between capital structure and profitability on firm value. The following are the results of the moderation regression t-statistic test as follows:

Table 10. Moderated Regretion Analysis (MRA) t-Statistic Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2.356245	0.948097	2.485235	0.0169
DER	-0.642500	0.544195	-1.180642	0.2442
ROE	15.36628	5.123254	2.999321	0.0045
INF	-1.171049	25.58063	-0.045779	0.9637
DER*INF	10.47740	15.59084	0.672023	0.5052
ROE*INF	-109.0261	122.1252	-0.892741	0.3770

From the results of the calculation of the Eviews version 10 program, the moderation variable of the inflation rate, namely INF multiplied by DER, has a t-statistic value = 0.672023 < t-table = 2.0024654, with a significance level of 0.5052 > 0.05, it can be concluded that the hypothesis (H3) which explains "Inflation rate can moderate the effect of capital structure proxied by DER on firm value" is rejected.

The Effect of Profitability on Firm Value Moderation Inflation

The results of the calculation of the Eviews version 10 program in Table 10 show that the moderation variable of the inflation rate, namely INF multiplied by ROE, has a t-statistic value = -0.892741 < t-table = 2.0024654, with a significance level of 0.3770> 0.05, it can be concluded that the hypothesis (H4) which explains "Inflation rate can moderate the effect of profitability proxied by ROE on firm value" is rejected.

Test Coefficient of Determination (R^2)

The coefficient of determination test is used to measure the ability of the model to explain how far the model's ability to explain the variation in the dependent variable. The determination value is determined by the Adjusted R-squared value. The results obtained from the coefficient of determination test with an R^2 value of 0.961333 mean that 96.13% of the relationship level and variation in the relevance of the value generated from the annual financial statements of food and beverage companies can be influenced by ROE, DER, INF, DER * INF and ROE * INF. While 3.87% of the level of value relevance in the annual financial statements of mining sector companies can be influenced by other factors not examined in this study.

Discussion

As the purpose of this study is to determine the effect of capital structure and profitability on firm value by examining whether the inflation rate variable is able to moderate the relationship between capital structure and profitability on firm value in food and beverage companies on the Indonesia Stock Exchange (IDX) for the period 2016 to 2022.

The Effect of Capital Structure on Firm Value

The results of this study can be concluded that the company's capital structure has a negative and insignificant effect on the value of food and beverage companies on the Indonesia Stock Exchange (IDX) for the period 2016 to 2022.

The capital structure will basically have an impact on the high and low debt of the company, so it is necessary to strive for an optimal balance in using these two sources, because allegedly this will cause stock price appreciation and depreciation. The higher the capital of a company that comes from its own capital, both investors and owners indicate the low debt owned, so that it tends to provide greater incentives to its owners, which in turn can encourage high payment of investment returns, which in turn will increase the value of the company from rising stock prices (Gultom and Wijaya 2013).

Similarly, the results of this study indicate that the higher DER will reduce the value of food and muniman companies on the Indonesia Stock Exchange, this is due to the assumption that a high DER value will pose a risk commonly called Financial Risk is the risk imposed on shareholders because of the use of debt by the company. The risks that arise are related to stock price depreciation. In other cases, investors will speculate that the company running its business requires debt to fund its operations. The company cannot only rely on the capital it has. Because of this difference, it causes the insignificant effect of DER on firm value. The results of this study are in line with research conducted by (Antwi et al. 2012) and (Sintyana and Artini 2018) which concluded that capital structure has no significant effect on firm value.

Effect of Profitability on Company Value

The test results of this study can be concluded that the level of a company's ability to generate profits has a significant positive effect on the value of companies in food and beverage companies on the Indonesia Stock Exchange (IDX) for the period 2016 to 2020. Measurement of profitability using the Return on Equity (ROE) ratio is an important indicator in assessing the company's financial performance for investors. The amount of profitability obtained by food and beverage companies on the IDX, the greater the value of the company, in other words, if the level of profitability in a company is high, it will increase investor confidence in the company, because the high level of profitability can be perceived as a positive signal for investors, besides that this increase will be considered as future company growth and determinants of company value. The results of this study are in line with the results of research conducted by (Mayarina and Mildawati 2017) the higher the company's profitability the higher the company's value or often referred to as a unidirectional relationship. This is because high profits will provide an indication of the company's good prospects in the future and will be considered by investors as a guarantee to get a return on the shares owned, so that it will trigger investor attraction to increase demand for company

shares. The company's value will also increase if the demand for the company's shares increases. Other research on the effect of profitability on firm value has been researched by (Setyawati 2019); and (Indriyani 2017) in his research proves that there is a positive and significant influence between Profitability on Firm Value.

The Effect of Capital Structure on Firm Value Moderated by Inflation

Based on the results of this study, it shows that the inflation rate is not able to moderate the relationship between capital structure and firm value but can strengthen the relationship between capital structure and firm value even though it has no significant effect on food and beverage companies on the IDX for the period 2016 to 2020. Not moderating or an insignificant relationship between capital structure and firm value despite strengthening the relationship between these variables, but this indicates that a higher inflation rate will cause the capital structure of each company to be more optimal, because this will encourage each company to utilize capital from internal funds, of course, this will generate good responses from investors and owners due to the low debt owned, and have an impact on providing greater incentives to owners, which in turn can encourage high payment of investment returns. The results of this study indicate that the inflation rate cannot moderate the relationship between capital structure on the value of food and beverage companies on the IDX for the period 2016 to 2020, because the significance level criterion is greater than the probability value, but the research results show a positive value.

The Effect of Profitability on Firm Value Moderated by Inflation

Based on the results of this study, it shows that the inflation rate cannot moderate the relationship between profitability and firm value, and has an insignificant negative value, meaning that moderation of the inflation rate weakens the relationship between profitability and the value of food and beverage companies on the IDX for the period 2016 to 2020. Thus, it can be explained that the higher the inflation rate will reduce the company's ability to earn profits and of course this will have an impact on decreasing investor interest, so that stock prices decline which ultimately reduces company value.

Conclusion

This study concludes that capital structure negatively affects firm value, this is due to the assumption that a high DER value will pose a risk commonly called Financial Risk which is the risk imposed on shareholders because of the use of debt by the company. These results confirm the theory (Miller and Modigliani 1961) which states that an increase in debt (capital structure) can reduce the value of the company if it has reached its optimal point. Meanwhile, profitability has a significant effect on firm value with a positive direction, meaning that the greater the profitability, the greater the firm’s value. These results confirm the signaling theory of how companies should signal to report users in the form of information about the company's ability to earn profits. There is a cheaper method for companies to signal to investors that the company can issue announcements about the company's prospects and ability to generate profits and the results of the determination test can be seen that the Adjusted R2 value generated is 0.961, namely by hiring outsiders to examine the company's

books or other materials and provide an opinion on whether the manager is telling the truth.

Another result of this study that can be confirmed is the moderation of the inflation rate, which is an external factor of the company, where the results of the analysis show that the inflation rate cannot moderate either the capital structure or profitability on firm value. Although the moderation of the inflation rate can have a positive value impact on the capital structure, it does not have a significant effect. While the effect of profitability on firm value, the inflation rate has a negative and insignificant impact. This study finds a knowledge gap by presenting research results on the impact of capital structure and profitability on firm value moderated by the inflation rate on food and beverages on the IDX for the period 2016 to 2020. The company must be able to optimally combine the capital structure, with various careful considerations because the non-optimal use of the capital structure will have an impact on the company's value. The high ROE ratio as a positive signal from the company that can increase investor confidence also makes it easier for company management to attract capital in the form of shares, it should be a concern for management to continue to be maintained, especially if there is a higher inflation rate, the company must pay attention to the use of capital to maintain price stability so that profits are maintained, which ultimately increases investor confidence.

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