

## Determination of Firm Value in Basic Industry and Chemical Sector Companies on the Indonesia Stock Exchange

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### ABSTRACT

**Objective:** This study aims to identify, examine, and analyze the factors influencing firm value in basic industry and chemical sector companies listed on the Indonesia Stock Exchange (IDX) in 2023. The research is motivated by the phenomenon of fluctuating firm values in basic industry and chemical sector companies listed on the IDX from 2017 to 2023. Ideally, these companies should attract significant interest due to the everyday relevance of their products. **Method:** This is a quantitative study employing an explanatory research approach. The independent variables are profitability (Variable 1) and inflation (Variable 2), while the dependent variable is firm value. The research focuses on companies in the basic industry and chemical sectors listed on the IDX in 2023. The data used are secondary data sourced from corporate annual reports. The data analysis methods include descriptive statistical analysis, classical assumption tests, multiple linear regression tests, and hypothesis testing. **Results:** The results indicate that profitability does not have a significant effect on firm value, inflation does not influence firm value, and profitability and inflation do not simultaneously affect firm value. The conclusion of this study is that all three hypotheses (H1, H2, and H3) are rejected. **Novelty:** Thus, the findings contribute to and reinforce empirical evidence showing that profitability and inflation do not influence firm value.

## INTRODUCTION

Indonesia, as a developing country, possesses abundant natural and cultural wealth, stretching from Sabang to Merauke. This wealth serves as one of Indonesia's competitive advantages compared to other countries, encompassing vast natural resources and diverse cultural richness. Such potential is also reflected in the growth of the business sector, which continues to expand and attract investors. This can be seen from the number of companies listed on the Indonesia Stock Exchange (IDX), which reached 936 issuers as of August 2024 (Santika, 2024). The growth in the number of issuers reflects the increasingly dynamic and competitive Indonesian capital market.

Business competition drives companies to achieve high profits, attract significant investments, and enhance their public image. Firm value is a key indicator reflecting a company's condition and future prospects, influencing investor perceptions (Firmansyah, Susbiyani, & Martini, 2022). Investment opportunities send positive signals about future company growth, thereby increasing firm value (Halim & Suharsono, 2024). As such, firm value is a primary focus because it impacts investor trust, business partners, and customers, ultimately strengthening a company's position in the competitive industry (Ningrum, 2022).

Maximizing firm value is considered a primary goal as it reflects management's success in managing assets and potential growth. With a high firm value, companies find it easier to secure funding from investors, supporting business expansion and product innovation (Ardiansyah, Yuliati, & Aspirandi, 2020). Moreover, high firm value provides

long-term benefits for all stakeholders, including shareholders, employees, and the community, as it fosters stability and sustainability amidst intense competition.

The phenomenon of firm value is observable in manufacturing companies listed on the IDX. According to IDX Channel, manufacturing companies are categorized into three sectors: basic industry and chemicals, miscellaneous industries, and consumer goods (Wijayanti, 2023). One of these sectors, the basic industry and chemicals sector, experienced fluctuations in firm value from 2017 to 2023. This sector's stocks are highly sought after due to the relevance of its products to daily life, such as cement, ceramics, metals, plastics, and paper (Oktaviani, Sinarwati & Sujana, 2024). However, the firm value in this sector has not shown consistent growth, especially in 2020, when the Price to Book Value (PBV) declined to 1.26 from 2.36 the previous year. This decline was associated with weakened industrial activity due to the pandemic, reduced global demand, and an industrial utility rate of only 50%.

Firm value is influenced by internal and external factors (Japhar, Mangantar, & Baramuli, 2020). Internal factors include management performance, operational efficiency, and resource management strategies. External factors encompass macroeconomic conditions, government regulations, and industry competition. Profitability, as an internal factor, plays a vital role in enhancing firm value because it reflects the efficiency of resource management in generating profits (Ambarwati & Vitaningrum, 2021). High profitability strengthens a company's appeal to investors and supports long-term growth. Conversely, inflation, as an external factor, can reduce consumer purchasing power and increase production costs, thereby impacting profitability and firm value (Salim et al., 2021).

Several studies have concluded that profitability and inflation significantly influence firm value. For instance, research by Putri & Hidayat (2020), Nursalim, Rate, & Baramuli (2021), and Zuhro & Irsad (2022) found that profitability significantly affects firm value. However, other studies, such as those by Muharramah & Hakim (2021) and Kristiadi & Herijawati (2023), concluded the opposite, finding no significant effect of profitability on firm value. Similarly, studies by Putri & Hidayat (2020), Zuhro & Irsad (2022), and Widanto & Mahardika (2023) found that inflation significantly influences firm value, while studies by Nursalim et al. (2021) reported contrary findings, suggesting no significant effect of inflation on firm value. These inconsistencies create a research gap that warrants further investigation in the basic industry and chemicals sector on the IDX.

This study aims to analyze the effect of profitability and inflation on firm value in this sector, considering the sector's importance to the national economy. The findings are expected to provide insights to stakeholders, including managers, investors, and regulators, to understand the determinants of firm value. Thus, this research aims to contribute to strategic decision-making to enhance firm value and competitiveness in the Indonesian capital market.

## RESEARCH METHOD

The type of data used in this study is secondary data, obtained from the annual reports of companies listed on the Indonesia Stock Exchange (IDX). The population of the study consists of 103 companies in the basic materials sector listed on the IDX in 2023. The sample size comprises 72 companies selected through an elimination process using purposive sampling. The data collection technique used in this research is documentation. Data analysis was conducted using quantitative methods with the help of SPSS (Statistical Package for the Social Sciences) software. The following are the data analysis techniques applied in this study:

### Descriptive Statistical Analysis

Descriptive statistical analysis is used to describe or explain the collected data based on its actual condition without the intention of making generalized conclusions (Jailani, 2023). This analysis presents an overview or explanation of the observed data through standard deviation values, mean (average), minimum values, and maximum values.

### Classical Assumption Tests

1. Normality Test: Used to determine whether the data follows a normal distribution (Zahriyah et al., 2021).
2. Heteroscedasticity Test: Evaluates whether there is a violation of the classical assumption of heteroscedasticity in the regression model (Zahriyah et al., 2021).
3. Multicollinearity Test: Tests the regression analysis for the absence of multicollinearity issues (Zahriyah et al., 2021).
4. Autocorrelation Test: Examines whether there is a correlation between one observation and another (Zahriyah et al., 2021).

### Multiple Linear Regression Analysis

Multiple linear regression analysis is used to test the effect of independent variables (X) on the dependent variable (Y). The formula for this analysis is as follows:

$$Y = a + b_1 X_1 + b_2 X_2 + e$$

Description:

- a = constant
- b<sub>1</sub> and b<sub>2</sub> = regression coefficients
- e = standard error
- X<sub>1</sub> = profitability (independent variable 1)
- X<sub>2</sub> = inflation (independent variable 2)
- Y = firm value (dependent variable)

### Hypothesis Testing

1. F-Test: Determines whether all independent variables included in the model collectively influence the dependent variable (Roswirman & Elazhari, 2021).
2. R<sup>2</sup> Test (Coefficient of Determination): Measures the extent to which variations in the dependent variable can be explained by variations in the independent variables (Kresna & Ardini, 2020).
3. t-Test: Tests the partial effect of each independent variable on the dependent variable within a model (Zahriyah et al., 2021).

## RESULTS AND DISCUSSION

### Results

#### Descriptive Statistical Analysis

**Table 1.** Descriptive Statistical Analysis Results.

Variabel	N	Minimum	Maksimum	Mean	Std. Deviation
Profitability	72	-15,43	52,70	4,2174	8,43386
Inflation	90	0,63	5,08	2,7660	0,73830
Firm Value	72	-0,07	7,68	1,0257	1,05532
Valid N (listwise)	72				

Source: SPSS 26 Data Processing

Based on the table presented above, the following is an overview of the results from the descriptive statistical analysis for each variable, including the minimum, maximum, average, and standard deviation values:

1. Profitability Variable: The minimum value (lowest) is -15.43, which corresponds to the data of Tirta Mahakam Resources Tbk (TIRT), and the maximum value (highest) is 52.70, which corresponds to the data of Colorpak Indonesia Tbk (CLPI). Additionally, the average is 4.2174 and the standard deviation is 8.43386. These results indicate that the average profitability is relatively low, considering the proximity of the average value to the minimum value. The variance in the data is relatively small, as evidenced by the standard deviation being close to the minimum value. Therefore, it can be concluded that the distribution of profitability data is uneven.
2. Inflation Variable: The minimum value (lowest) is 0.63, corresponding to the inflation data of Bandung City, and the maximum value (highest) is 5.08, corresponding to the inflation data of Sumenep City. The average is 2.7660, and the standard deviation is 0.73830. These results show that the average inflation is relatively low, as indicated by the proximity of the average value to the minimum value. The variance in the data is relatively small, considering the closeness of the standard deviation to the minimum value. Therefore, it can be concluded that the distribution of inflation data is uneven.
3. Firm Value Variable: The minimum value (lowest) is -0.07, corresponding to the data of Tirta Mahakam Resources Tbk (TIRT), and the maximum value (highest) is 7.68, corresponding to the data of Wilton Makmur Indonesia Tbk (SQMI). Additionally, the average is 1.0257, and the standard deviation is 1.05532. These results suggest that the average firm value is relatively low, given the proximity of the average value to the minimum value. The variance in the data is relatively small, as seen from the closeness of the standard deviation to the minimum value. Therefore, it can be concluded that the distribution of firm value data is uneven.

## Classical Assumption Test

### Normality Test

**Table 2.** Results of the Normality Test.

Kolmogrov Smirnov		
	Unstandardized Residual	Conclusion
Asym. Sig. (2-tailed)	0,146	Normal

Source: SPSS 26 Data Processing

Based on the results of the normality test shown in the table above, the significance level is 0.146. This value is greater than 0.05, indicating that the residual data in the regression model is normally distributed.

### Heteroscedasticity Test

**Table 3.** Results of the Heteroscedasticity Test.

Park Test		
Variable	Significance	Conclusion
Profitability	0,627	No signs of heteroscedasticity
Inflation	0,261	No signs of heteroscedasticity

Source: SPSS 26 Data Processing

Based on the results of the heteroscedasticity test in the table above, it is known that the significance levels for the profitability and inflation variables are greater than 0.05, indicating that the research data is free from signs of heteroscedasticity.

### Multicollinearity Test

**Table 4.** Results of the Multicollinearity Test.

Variable	Tolerance	Collinearity Statistic		Conclusion
		VIF		
Profitability	1,000	1,000		No signs of multicollinearity
Inflation	1,000	1,000		No signs of multicollinearity

Source: SPSS 26 Data Processing

Based on the results of the multicollinearity test in the table above, it is known that the profitability and inflation disclosure variables have a tolerance value greater than 0.100 and a VIF value less than 10.00, indicating that the research data is free from signs of multicollinearity.

### Autocorrelation Test

**Table 5.** Results of the Autocorrelation Test.

Durbin Watson			
DU	DL	DW	4 - DU
1,6751	1,5611	2,106	2,3249

Source: SPSS 26 Data Processing

Based on the results of the autocorrelation test in the table above, the DU value is 1.6751, the DL value is 1.5611, the DW value is 2.118, and the value of 4 - DU is 2.3249,

which are obtained from the Durbin Watson reference table with  $\alpha = 5\%$ . Therefore, the condition  $DU < DW < 4 - DU$  becomes  $1.6751 < 2.106 < 2.3249$ , indicating that the research data is free from signs of autocorrelation.

### Multiple Linear Regression Analysis

**Table 6.** Results of the Linear Regression Test.

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	0,696	0,507		1,374	0,174
Profitability	0,010	0,015	0,078	0,649	0,518
Inflation	0,105	0,177	0,071	0,594	0,555

Source: SPSS 26 Data Processing

Based on the table above, the regression equation is as follows:  $Y = 0,696 + 0,010X_1 + 0,105X_2$

1. The constant value obtained is 0.696, which means that if the independent variables are 0 (constant), the dependent variable will be 0.696.
2. The regression coefficient for the profitability variable is positive (+) at 0.010, which means that if the profitability variable increases, the firm value variable will also increase.
3. The regression coefficient for the inflation variable is positive (+) at 0.105, which means that if the inflation variable increases, the firm value variable will also increase.

### Hypothesis Test F-Test

**Table 7.** Results of the F-Test.

Model	Sum of Squares	Df	Mean Square	F	Sig
1 Regression	0,866	2	0,433	0,382	0,684
Residual	78,206	69	1,133		
Total	79,073	71			

Source: SPSS 26 Data Processing

Based on the results of the F-test for the regression model, the table shows a significance value of 0.684, which is greater than 0.05. This means that we can conclude that the profitability and inflation variables do not have a significant simultaneous (joint) effect on the firm value variable. Furthermore, the F-table value is 3.31 (based on the F distribution table), and the calculated F value from the table above is 0.382. Since the calculated F value is less than the F-table value, it can also be concluded that profitability and inflation do not have a simultaneous effect on the firm value.

### R2 Test or Coefficient of Determination

**Table 8.** Results of the Coefficient of Determination Test.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0,105	0,011	-0,018	1,06462

Source: SPSS 26 Data Processing

Based on the table above, the adjusted R-square value is -0.018, meaning that the independent variables (profitability and inflation) explain 1.8% of the firm value. In other words, the dependent variable is still influenced by other variables outside this study by 98.2%.

Next, the standard error of the estimate indicates the extent of error in the regression model when predicting the firm value as the dependent variable. The table shows that the standard error of the estimate is 1.06462. Therefore, the error rate of the regression model in predicting the firm value as the dependent variable is 106.4%.

#### t-Statistic Test

**Table 9.** Results of the t-Statistic Test.

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	0,696	0,507		1,374	0,174
Profitability	0,010	0,015	0,078	0,649	0,518
Inflation	0,105	0,177	0,071	0,594	0,555

Source: SPSS 26 Data Processing

Based on the table above, the significance value for profitability is 0.518. This value is greater than 0.05, indicating that profitability does not have a significant effect on firm value. Meanwhile, the significance value for inflation is 0.555. This value is also greater than 0.05, indicating that inflation does not have a significant effect on firm value.

#### Discussion

##### The Effect of Profitability on Firm Value

Based on the data analysis conducted in the t-statistics test, the significance value obtained is 0.144. This value is greater than 0.05, indicating that there is no significant effect of profitability on firm value. As a result, the first hypothesis (H1) is rejected. According to the theory applied in this study, especially signaling theory, the research findings suggest that profitability does not provide a significant signal to the public in justifying the firm value. The reason is that in some industries, investors tend to focus more on the growth prospects of revenue rather than current profitability. Therefore, the profits earned by a company are less considered by investors, who prioritize the company's growth through revenue increases. Furthermore, other factors, such as macroeconomic stability, play a more dominant role. In an unstable economic or political environment, the company's profitability may become less relevant in determining its value.

Previous studies have shown that profitability does not influence firm value because investors or markets consider the company's growth potential, which can be seen from the investment decisions made. Another important consideration is the company's long-term sustainability (Dharmaputra, Rustiarini, & Dewi, 2022). Investors are more focused on how the company allocates its resources to support innovation, market expansion, and product diversification, which can ensure long-term growth. Corporate

governance and management's ability to face market challenges are also critical indicators for investors. Therefore, while profitability reflects financial performance, it is often regarded as less relevant compared to the long-term potential that is more strategically significant for firm value.

The findings of this study do not align with previous research by Nursalim et al. (2021), Zuhro & Irsad (2022), and Putri & Hidayat (2020), which indicated that profitability affects firm value. However, this study is consistent with the research by Muharramah & Hakim (2021) and Kristiadi & Herijawati (2023), which found that profitability does not affect firm value. Therefore, the findings from this study contribute to and strengthen the empirical evidence that profitability does not affect firm value.

### **The Effect of Inflation on Firm Value**

Based on the data analysis conducted in the t-statistics test, the significance value obtained is 0.889. This value is greater than 0.05, indicating that inflation does not have a significant effect on firm value. Therefore, the second hypothesis (H2) is rejected. According to the theory applied in this study, especially in the context of signaling theory, the findings suggest that inflation does not provide a signal to the public. The reason is that in an efficient market, information about inflation is already reflected in stock prices. Therefore, changes in inflation do not significantly affect firm value. Another reason is that companies in certain sectors can easily pass on cost increases to consumers. As a result, inflation has minimal impact on firm value in these industries.

Previous studies have shown that inflation does not affect firm value because inflation is a recurring phenomenon. Companies are typically equipped with strategies to address inflation, such as adjusting product prices, operational efficiency, and portfolio diversification to mitigate the impact of rising costs. Additionally, companies in certain sectors, such as basic and chemical industries, often have the ability to pass on inflation-related cost increases to consumers, minimizing the impact on firm value. With ongoing adaptation, companies can maintain stability even as inflation fluctuates over time.

The findings of this study do not align with research by Putri & Hidayat (2020), Widanto & Mahardika (2023), and Zuhro & Irsad (2022), which indicated that inflation affects firm value. However, this study aligns with research by Nursalim et al. (2021) and Noviani et al. (2022), which found that inflation does not affect firm value. Therefore, the findings from this study contribute to and strengthen the empirical evidence that inflation does not affect firm value.

### **The Effect of Profitability and Inflation on Firm Value**

Based on the data analysis conducted in the F-test, the significance value obtained is 0.684. This value is greater than 0.05, indicating that profitability and inflation do not have a significant effect on firm value. Additionally, the F-table value is 3.31 (based on the F distribution table), and the F-calculated value from the table above is 0.382. Since the F-calculated value is less than the F-table value, it can be concluded that profitability and inflation do not have a simultaneous effect on firm value. Therefore, the third hypothesis (H3) is rejected. According to the theory applied in this study, particularly in

the context of signaling theory, the findings suggest that neither profitability nor inflation can provide signals to the public. This is because if the market doubts the validity of profitability information (e.g., due to financial statement manipulation), such signals may be ineffective in enhancing firm value. Furthermore, if inflation causes profitability to decline, these signals may weaken the firm's value. High inflation may signal that the economy faces certain risks, affecting market perceptions of the company's stability. As a result, if inflation reduces profitability and the company cannot provide other positive signals, the firm value will be under pressure.

Previous research by Nursalim et al. (2021) indicates that profitability and inflation do not affect firm value because high profitability does not always increase firm value. Investors might focus more on growth prospects or cash flow stability rather than current profitability. On the other hand, not all sectors or companies respond to inflation in the same way. For example, companies that can easily adjust their product prices may be less affected by inflation. However, companies with high fixed costs might be significantly impacted. In the manufacturing sector, the effect of inflation may depend on specific subsectors.

Therefore, the findings of this study do not align with the research by Zuhro & Irsad (2022) and Putri & Hidayat (2020), which found that profitability and inflation have a simultaneous effect on firm value. However, this study aligns with the research

by Nursalim et al. (2021), which found that profitability and inflation do not simultaneously affect firm value. Consequently, the findings from this study contribute to and strengthen the empirical evidence that profitability and inflation do not simultaneously affect firm value.

## CONCLUSION

**Fundamental Finding :** The findings derived from both the t-statistics test and the F-test analysis indicate that neither profitability nor inflation has a significant effect on firm value within the observed sample. Specifically, the results reveal that (1) profitability does not significantly impact firm value, leading to the rejection of Hypothesis 1 (H1), (2) inflation similarly shows no significant impact on firm value, resulting in the rejection of Hypothesis 2 (H2), and (3) the joint influence of profitability and inflation on firm value is also insignificant, causing the rejection of Hypothesis 3 (H3). **Implication :** These results suggest that companies in the basic and chemical industries should not overly rely on profitability and inflation control as direct levers for enhancing firm value. Instead, they are encouraged to pursue long-term growth strategies such as product diversification, market expansion, and the adoption of technological innovation. Furthermore, despite inflation not showing a statistically significant impact, firms should remain vigilant by formulating proactive strategies to mitigate potential inflationary pressures. **Limitation :** A notable limitation of this study lies in the scope of its analysis, which is restricted to selected companies within the basic and chemical industries over a certain period. This constrained sample may limit the generalizability of the findings to other sectors or economic conditions. Additionally, the study focuses solely on

profitability and inflation as independent variables, potentially overlooking other critical factors that may affect firm value. **Future Research :** To build upon these findings, future research is recommended to incorporate additional variables that may have a more pronounced influence on firm value. Expanding the research sample to include a broader range of industry sectors and extending the time frame of analysis would also enhance the robustness and representativeness of future conclusions. Such efforts would provide a more comprehensive understanding of the determinants of firm value across varying economic contexts.

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