JOGTA Journal of Governance, Taxation and Auditing
P-ISSN - 2830-6392 (PRINT)
E-ISSN - 2962-2522 (ONLINE)
JOURNAL OF GOVERNANCE, TAXATION AND AUDITING
Volume: 3
Number: 4
Page: 185 - 201

Article History:
Received: 2025-02-04
Revised: 2025-03-02
Accepted: 2025-04-15

STOCK PRICE AS AN INTERVENING VARIABLE THAT INFLUENCING SOLVENCY, INFLATION, AND FINANCIAL DISTRESS ON FIRM VALUE

Entar SUTISMAN[1], Septyana PRASETIANINGRUM[2], Entis SUTISNA[3], Adriani LANDE[4], St. Marian B[5]
[1,2,3,4,5]Yapis University of Papua, Indonesia
Corresponding author: Entar Sutisman
E-mail: entar.uniyap@gmail.com

Abstract:
This study aims to analyze the effect of solvency, inflation, and financial distress on firm value with stock price as an intervening variable in manufacturing companies in the consumer goods sector during the 2020-2023 period. The data used in this study comes from the financial statements of companies listed on the Indonesian Stock Exchange. The analysis method used is path analysis with a quantitative approach. The population in this study is manufacturing industry companies in the consumer goods sector listed on the Indonesia Stock Exchange that have experienced a decline in profits during the years 2020-2023. The sampling technique used was purposive sampling and resulted in 30 out of a total of 91 companies in the consumer goods sector. Data analysis was carried out through descriptive analysis, outer model analysis, inner model analysis and hypothesis testing using SmartPLS v.3.2.9 software assistance. The results showed that solvency and financial distress had a significant effect on stock prices. Solvency, financial distress and stock prices have a significant effect on firm value; inflation has no significant effect on stock prices and firm value. Stock prices are unable to mediate the effect of solvency, inflation, and financial distress on firm value. This shows that these factors can affect firm value directly without having to go through stock prices.

Keywords: Solvency, Inflation, Financial Distress, Firm Value, Stock Price, Consumer Goods Sector

INTRODUCTION

Every company is established for a similar purpose, either in the short term or the long term. In the short term, companies focus on achieving maximum profits by utilizing available resources. This goal is very important to ensure the sustainability of the company and assess operational efficiency. Meanwhile, in the long term, the company's focus is on increasing the value and welfare of shareholders (Sasono, 2022). Investor or shareholder confidence can be measured through high company value. When the company value is higher, this indicates that the company has good prospects (Hapsari & Machdar, 2024). Therefore, many investors are interested in investing in the company, especially in companies in the Consumer Goods sector.

This increased investment not only benefits shareholders but also strengthens the company's position in the competitive market. The consumer goods sector has been a permanent investment choice for investors since the beginning of 2023, with predicted growth following an economic recovery driven by increased activity and consumption following the COVID-19 pandemic. The purchasing power of the Indonesian people is recorded to have improved, as seen from the release of the domestic economy in the fourth quarter of 2022, which grew by 5.31%, a figure that is higher than the growth in 2021, which only reached 3.70%. One of the supports is household consumption, where the growth rate of household consumption expenditure increased by 4.93% in 2022 (source: cnbcindonesia.com, 2023). The consumer goods industry is one of the important sectors in the

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Indonesian economy, producing goods that people expect on a daily basis, such as food, beverages, cosmetics, and household products. Firm value can be affected by a variety of factors, including solvency, inflation, and financial distress, as proxied by stock price fluctuations.

Solvency is used to measure the company's ability to meet financial obligations when liquidated from retained earnings, share capital, and debt (Septini & Santoso, 2022). The solvency ratio, or leverage ratio, shows the proportion of debt funding compared to capital and assets (DARMAYANTI et al., 2022). The DER (Debt-to-Equity Ratio) is used to assess debt-to-equity. A high DER ratio indicates a high cost of liability, resulting in investors tending to avoid companies that have high debt due to the risk of bankruptcy (Hapsari & Machdar, 2024). Shareholders' profits will decrease if the DER value is high, which in turn can reduce the stock price. Research provides results that DER has a positive effect on firm value, although there are also those who state that it is not significant (Sasono, 2022). In addition, DER affects stock prices in research (Anita Lestari, 2022; Rahmawati & Hadian, 2022).

Inflation is an important issue for consumer goods companies due to the increase in raw material prices and operational costs, which can later reduce profits and company value. Currently, Indonesia is experiencing high inflation, which reached 5.95% in July 2022 (Statistics Center Agency, 2022). Inflation, which is characterized by a sustained increase in the prices of goods and services, can be caused by several factors such as increases in aggregate demand and production costs (Taufik Hidayat, Adibah Yahya, 2023). High inflation can reduce sales, company profits, and purchasing power, which negatively affects stock prices and company value (Pratama et al., 2022; Lutfiah & Pangestuti, 2023). The consumer price index reflects the goods and services consumed. Higher inflation can increase the risk for investors; as a result, investors will tend to avoid stocks. Research shows inflation has a positive and significant impact on firm value (Ramdhani et al., 2022; Lutfiah & Pangestuti, 2023), although there are also findings that share a negative and insignificant effect (Murjiani & Adiyanto, 2022; Isma et al., 2023). Several other studies show that inflation has a negative and insignificant effect on stock prices, except in consumer goods stocks (Murtiningrum, 2023).

In a more complex context, a company can face financial distress, a condition in which the company cannot manage its finances properly, which can lead to bankruptcy. Financial distress occurs when a company has difficulty meeting its financial obligations, signaling a decrease in financial terms and the inability to pay debts due to a decrease in income (Wijaya T, 2023). This is generally also followed by a significant decline in stock prices. Consumer goods companies that experience financial difficulties tend to have low value due to future uncertainty. As is the case, PT Mustika Ratu Tbk has experienced a decline in performance due to the impact of the COVID-19 pandemic. If this problem is not resolved immediately, it will negatively affect the company's value and risk of bankruptcy. Management needs to consider profitable steps. Research shows that financial difficulties have a negative impact on firm value because investors avoid the shares of companies experiencing a crisis (Hapsari & Machdar, 2024). The cause of difficulties can be from internal or external factors, and one method to predict is, for example Grover score (G-score). Meanwhile, there is research that shows financial difficulties can have a positive effect on stock prices (Anita Lestari, 2022).

In this case, stock price serves as a connecting variable that bridges the relationship between solvency, inflation, and financial distress using firm value. The stock price shows how the market sees the value of the company and the economic factors that influence it. According to Jogiyanto (2017: 143) in (Rosmawati & Rachman, 2023), "The stock price is the price prevailing in the stock exchange market at a specific time, and is influenced by market participants. The closing price can

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represent the share price. Changes in a stock price are influenced by demand and supply in the capital market. Stock prices are very important in reflecting the value of the company. If the shares of a company attract investors, the share price will tend to rise. Conversely, if the shares are less attractive to investors, the share price will fall. Therefore, understanding the role of share price as a connecting variable can provide a better understanding of the relationship between solvency, inflation, and financial distress, using firm value.

From previous studies, many inconsistent and different results were found, such as in research conducted by (Septini and Santoso, 2022); (Wijaya T, 2023), that solvency calculated using (DER) has a positive and significant effect on firm value. (Sasono, 2022) DER has no significant effect on firm value. (Anita Lestari1, 2022)(Rahmawati & Hadian, 2022) DER affects stock prices. (Eka Wahyuni1, 2023) DER has an insignificant effect on stock prices. In research (Ramdhani et al., 2022) and (Lutfiah & Pangestuti, 2023), inflation has a positive and significant effect on firm value (Murjiani & Adiyanto, 2022) and (Isma et al., 2023). Inflation has a negative and insignificant effect. (Septia Ningsih & then Hamdani Husnan, 2021), (Nadilla Fellicia, 2023) and (Riani et al., 2021) inflation has a negative and insignificant effect on stock prices. (Murtiningrum, 2023) Inflation affects the stock price of consumer goods.

This study extends the previous study (Idris, 2021) by placing an emphasis on solvency indicators as measured by DER (Debt to Equity Ratio) and adding independent variables similar to inflation and financial distress. The goal is to analyze the impact of solvency, inflation, and financial distress on firm value, with stock price as an intermediary variable, especially for companies in the Consumer Goods sector in the manufacturing industry. Required as the results of this study provide insight into the factors that influence firm value and significant contributions to decision making, financial risk management, and economic policy development.

Signaling theory. Signal theory, introduced by Spence in 1973, reveals that the owner of information sends signals about the condition of the company that is important to investors. This info helps investors know the state of the company and investment potential. As a result, companies that convey complete information have more value (Fadhila & Sipayung, 2024). Signal theory explains stock price fluctuations to be communication from management to investors, which aims to reduce information uncertainty. By using clear signals, management can provide relevant information about the company's performance and prospects, which can help investors in making investment decisions.

Agency Theory. Agency theory explains the contractual correlation between the agent, who delivers the service, and the principal, who has an interest. Introduced by Jensen & Meckling, the theory highlights the relationship between owners (principals) and management (agents) on operational decision-making. In difficult financial situations, interest problems may arise, where management may make decisions that are detrimental to shareholders, potentially lowering the value of the company as well as its share price. Agency theory states how solvency, inflation, financial distress, and stock prices hypothesize firm value through the relationship between shareholders and managers. This theory is crucial in firm value research, as poor management can hurt firm value (Patiku et al., 2023). In addition, this theory outlines the problem of interests between owners and managers that can influence the decisions and performance of the firm.

Solvency. The solvency ratio, or leverage ratio, assesses how much the company is financed by debt, providing a relationship between debt, capital, and assets (Sasono, 2022; DARMAYANTI et al., 2022). From Latif Eka Wahyuni (2023), this ratio assesses the company's ability to pay debts and meet financial obligations when liquidity problems arise. Debt-to-Equity Ratio (DER) measures the ratio of debt to equity. A high DER ratio indicates a large proportion of debt, which can increase

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solvency risk. Good solvency can increase the value of the company by facilitating access to funding and lowering borrowing costs, while high risk can reduce the value and reputation of the company. Investors tend to avoid companies that have high debt due to the risk of bankruptcy (Hapsari & Machdar, 2024). DER is an indicator of solvency, showing significant debt if the ratio is high (Beautiful Eka Wahyuni, 2023). Therefore, solvency is important in assessing company value, with the calculation of DER referring to research (Rahmawati & Hadian, 2022).

Inflation. Inflation is an economic phenomenon indicated by an increase in the general price of goods due to a decrease in the value of the currency (Septia Ningsih & Hamdani Husnan, 2021). According to research by Taufik Hidayat and Adibah Yahya (2023), inflation occurs due to an imbalance between cash flow and the circulation of goods. Inflation is sustainable, affecting the purchasing power of money and economic conditions. Factors causing inflation include:

- An increase in aggregate demand (demand-pull inflation) occurs when demand exceeds supply, and prices rise as a result.
- Increase in the cost of production (cost-push inflation), which is caused by the rising cost of raw materials and other factors of production. Due to inflation, among others:
- A decrease in sales value and company revenue.
- Reducing people's purchasing power as prices rise while incomes remain the same.

A decline in company performance can cause share prices to fall, impacting company value. High inflation increases investment risk, especially in the consumption sector, because it can increase production costs and product prices. (Taufik Hidayat, Adibah Yahya, 2023) The Consumer Price Index (CPI) is used to measure price changes and the impact of inflation on people's purchasing power.

Financial Distress. Financial distress means a condition in which the company experiences losses or cash flow that is insufficient to meet obligations (DARMAYANTI et al., 2022). From Wijaya (2023), this is a prolonged decline in financial condition, potentially pointing to liquidation. Financial distress is the initial term before bankruptcy, and can be avoided by predicting its causes through the socialization of several signs of financial distress (DARMAYANTI et al., 2022). The signs of financial distress include:

- Sales decline due to ineffective management
- Decreased profitability
- High dependence on debt
- Dividend deduction
- Profit decline that leads to losses
- Closure or sale of struggle units
- Massive employee dismissal
- Continuous decline in market prices

Companies that know their financial terms early can avoid bankruptcy through debt restructuring or more lenient terms using creditors. However, if the situation worsens, shareholders and company value may be affected. That way, a management must actively manage financial risk. The causes of financial distress come from internal factors, such as cash flow difficulties and large debts, as well as external factors. The Grover method (G-Score) is a way to predict financial distress and is proven to be more accurate than the Altman Z-score. However, research on the stock price effects of the Grover model is limited. The Grover score is the original development of the Altman Z-Score model.

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Share Price. A share price is a value that indicates ownership in a company, which is determined by supply and demand in the market. Prices rise when demand is higher and fall when supply increases. Investors will seek returns through capital gains, dividends, and ownership. Before investing, it is important to obtain information that can help with investment decisions, including stock price index analysis. While stock prices reflect the market's view of a company's value discourse, other factors, such as market sentiment, also play a role. The closing price of the stock is the reference for analysis to reflect price changes over an exclusive period.

Firm Value. Firm value reflects management's ability to manage resources, which has an impact on the share price. An increase in share price can increase the value of the company, while a decrease in share price can indicate poor performance. The success of a company can be judged by long-term public trust. Company value is the main reference for investors (Hidayat et al., 2023; Putri Windiarti et al., 2024). Firm value is measured through 2 ratios: market to book, which reflects the perception of stock value, and book to market, which analyzes earnings returns (Isma et al., 2023). Both help investors in valuing the company based on the stock price determined by inflation. The ratio of stock price to book value (PBV) is often used in investment decisions. Book value is calculated from total wealth divided by the number of shares outstanding, and the PBV ratio provides how well the company creates sufficient value for the capital invested. Using the PBV ratio, investors can identify stocks that are fair, undervalued, or overvalued. The higher the PBV, the greater the prosperity felt by shareholders (Setiabudhi, 2022; Nursalim et al., 2021).

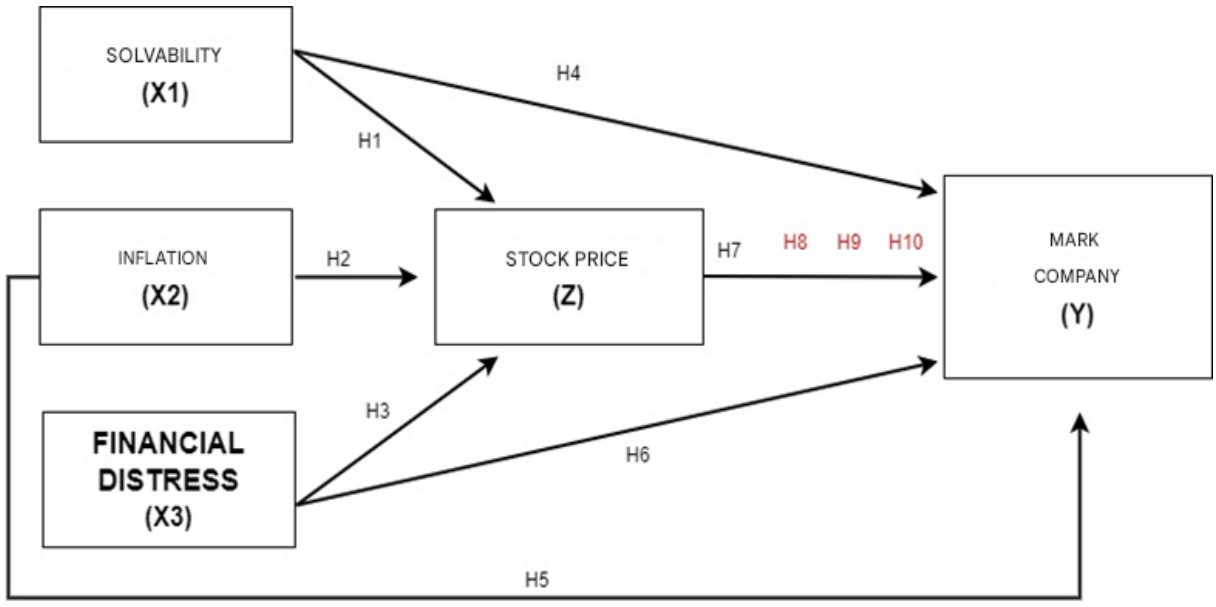

Figure 1. Conceptual Framework

Research Hypothesis

- H1: Solvency affects stock price
- H2: Inflation affects stock prices
- H3: Financial distress affects stock price
- H4: Solvency affects firm value
- H5: Inflation affects firm value
- H6: Financial distress affects firm value

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- H7: Share price affects firm value
- H8: Share price is able to mediate the effect of solvency on firm value
- H9: Stock price is able to mediate the effect of inflation on firm value
- H10: Stock price is able to mediate the effect of financial distress on firm value

METHODS

This type of causality quantitative research is used in this study, which focuses on the effect of independent variables on the dependent variable by involving intervening variables. The types and sources of data used are secondary data in the form of financial reports taken from the IDX web, namely www.idx.co.id and inflation data from the central statistical agency web, namely https://www.bps.go.id/idtahun 2020-2023. The population of this study includes the consumer goods sector manufacturing industry listed on the Indonesia Stock Exchange (IDX) during the 2020-2023 period. The sampling used is purposive sampling using certain criteria. The criteria used are:

- Consumer goods companies listed during the research period 2020-2023
- Companies that publish annual financial statements during 2020-2023
- Companies that do not earn a profit during 2020-2023

Determination of these criteria resulted in 30 companies that are eligible for testing from 91 companies. The independent variables (X) are Solvency, Inflation, and Financial Distress. The intervening variable (Z) is stock price, and the dependent variable (Y) is company value. The indicators used in the research variables are shown in Table 1:

Table 1. Research Variable Measurement Indicators

No.	Variables	Research Indicators	Scale	Literature
1.	Solvency (X1)	$DER \frac{Total\ Debt}{Equity} \times 100\%$	Ratio	(Rahmawati & Hadian, 2022)
2.	Inflation (X2)	$\text{Inflasi} = \frac{\text{IHK(t)} - \text{IHK(t-1)}}{\text{IHK(t-1)}} \times 100$ *IHK(t) = Consumer Price Index month/year X *IHK(t-1) = Price Index of the previous month	Ratio	(Taufik Hidayat, Adibah Yahya, 2023)
3.	Financial Distress (X3)	$G = 1,650X1 + 3,404X2 + 0,016X3 + 0,057$ *X1(WCTA) = Working capital/Total assets = Earnings before interest and taxes/Total assets *X3 (NITA) = Net income/Total Asset	Nominal	(Anita Lestari[1], 2022)
4.	Firm Value (Y)	$PBV = \frac{Market\ Price\ per\ Share}{Book\ Value\ per\ Share}$	Ratio	(Sasono, 2022)
5.	Stock Price (Z)	Stock Price = Closing Price	Rupiah	(Rosmawati & Rachman, 2023)

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RESULT AND DISCUSSION

Table 2. Descriptive Statistical Test

	No.	Mean	Median	Min	Max	Standard Deviation
Solvency (X1)	1	152.633	86.71	-194.49	1703.7	249.91
Inflation (X2)	2	-0.288	0.17	-24.98	1.17	3.612
Financial Distress (X3)	3	0.47	0.55	-5.2	2.78	0.892
Stock Price (Z)	4	1835.083	288	17	41000	5244.405
Company Value (Y)	5	3.167	1.25	-2.33	56.79	7.988

Source: SmartPLS Output

The results of the Descriptive Statistical Test show that in the solvency variable based on the DER indicator, the lowest value is -194.49 obtained by PT Indofarma Tbk in 2023, the highest value is 1703.7 at PT Prasidha Aneka Niaga Tbk in 2022, with an average of 152.633 and a standard deviation of 249.91. In the inflation variable, the highest value is 1.17% in September 2022, the lowest value is -24.98%, meaning that there was deflation in January 2020, with an average of -0.288% which indicates average deflation and a standard deviation of 3.612. In the Financial Distress Grover Score variable, the minimum value is -5.20 at PT Indofarma Tbk in 2023, the maximum value is 2.78 at PT Prasidha Aneka Niaga Tbk, 2023, with an average of 0.47 and a standard deviation of 0.892. In the Share price variable, the minimum value of 17 was obtained by PT Boston Furniture Industries Tbk in 2023, the maximum value of 41,000 was obtained by PT Gudang Garam Tbk, 2020, with an average of 1,835 and a standard deviation of 5,244. In the Company value variable, the minimum value of -2.33 was obtained by PT Indofarma Tbk in 2023, the maximum value of 56.79 was obtained by PT Unilever Tbk in 2020, with an average: 3.167 and a standard deviation of 7.988.

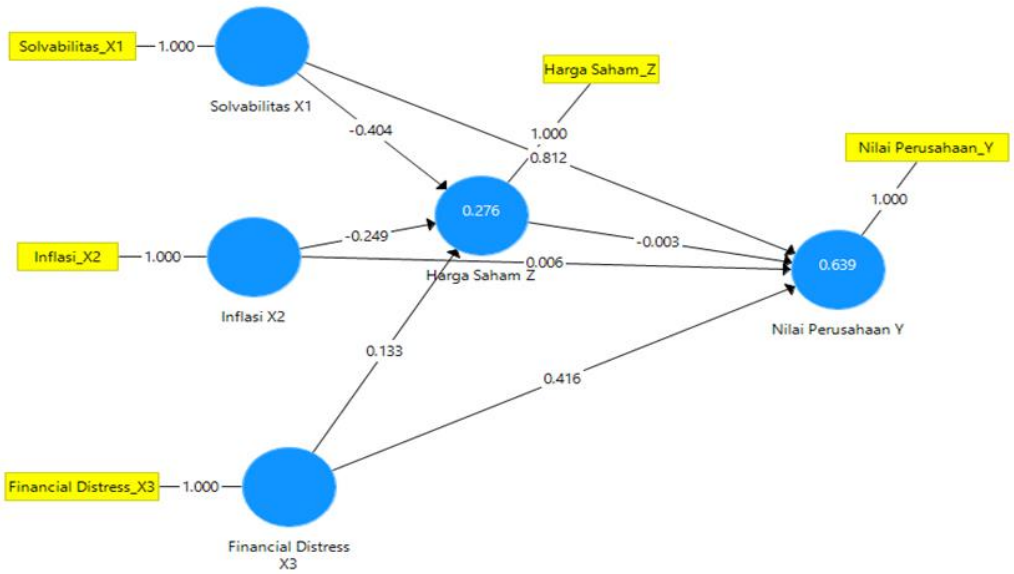

Figure 2. Outer loading

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P-ISSN - 2830-6392 (PRINT)
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JOURNAL OF GOVERNANCE, TAXATION AND AUDITING

In convergent validity, an indicator is considered valid if its outer loading value is at least 0.5. The figure above shows that the loading factor value for all indicators of variables X1, X2, X3, Z, and Y is 1.000, which is greater than 0.50 (Rahadi, 20203), so that the data is declared valid.

Discriminant Validity Test

Table 2. AVE Value

	Average Variance Extracted (AVE)
Financial Distress X3	1.000
Stock Price Z	1.000
Inflation X2	1.000
Firm Value Y	1.000
Solvency X1	1.000

Source: data processed with SmartPLS v.3.2.9

Table 3. Fornell-Larcker Criterion Value

	Financial Distress X3	Stock Price Z	Inflation X2	Firm Value Y	Solvency X1
Financial Distress X3	1.000				
Stock Price Z	0.253	1.000			
Inflation X2	-0.017	-0.253	1.000		
Firm Value Y	0.181	-0.259	0.004	1.000	
Solvency X1	-0.288	-0.444	0.005	0.693	1.000

Source: data processed with SmartPLS v.3.2.9

To assess the ability of reflective indicators to measure their constructs. Indicators must have a high correlation with the construct, which can be seen from the AVE and root AVE values. The measurement model is considered good if the latent construct AVE> 0.5. The AVE value shows that the discriminant validity value based on the AVE of each variable is 1.000 times greater than 0.5. So that discriminant validity is met. In addition, in Table 3, the Fornell-Larcker Criterion value shows that the root AVE of each variable is also greater than the root AVE of the correlation with other variables, indicating good discriminant validity.

Model Collinearity Test

Table 4. Variance Inflation Factor (VIF)

	VIF
Financial Distress X3	1.000
Stock Price Z	1.000
Inflation X2	1.000
Firm Value Y	1.000
Solvency X1	1.000

Source: data processed with SmartPLS v.3.2.9

To identify strong relationships between independent variables. The test is done by looking at the variance inflation factor (VIF) value. If the VIF is less than 5.00, there is no collinearity problem.

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Table 4.20 shows that all variable indicators have a VIF below 5.00, so there is no collinearity between the measured indicators.

Reliability Test

Table 5. Construct Reliability and Validity

	Cronbach's Alpha	rho_A	Composite Reliability
Financial Distress X3	1.000	1.000	1.000
Stock Price Z	1.000	1.000	1.000
Inflation X2	1.000	1.000	1.000
Firm Value Y	1.000	1.000	1.000
Solvency X1	1.000	1.000	1.000

Source: data processed with SmartPLS v.3.2.9

To assess the reliability of a measuring instrument. There are three methods to measure it: composite reliability, rho-a, and Cronbach's alpha, with values above 0.7 considered reliable. Table 5 above shows that the value of Composite reliability, rho-a, and Cronbach's Alpha for all variables is 1.000, which is greater than 0.7, indicating that the indicators used are reliable.

Structural Model (Inner Model); Coefficient of Determination

Table 6. R-square

	R Square	R Square Adjusted
Stock Price Z	0.276	0.257
Firm Value Y	0.639	0.626

Source: data processed with SmartPLS v.3.2.9

The coefficient of determination is measured by R-squared, which shows how much variation in the dependent variable can be explained by the independent variable. R-square values of 0.67, 0.33, and 0.19 indicate strong, moderate, and weak categories, respectively (Rahadi, 2023). Path model I has an R-square of 0.276, indicating a weak contribution of solvency, inflation, and financial distress variables to stock prices, while Path model II, with an R-square of 0.639, indicates a moderate contribution to firm value.

Table 7. F-square

	Financial Distress X3	Stock Price Z	Inflation X2	Firm Value Y	Solvency X1
Financial Distress X3		0.022		**0.430**	
Stock Price Z				**0.000**	
Inflation X2		0.086		**0.000**	
Firm Value Y					
Solvency X1		**0.207**		**1.386**	

Source: data processed with SmartPLS v.3.2.9

To assess the significance of the regression model and the effect of exogenous variables on endogenous variables, it can be seen in the F-square value. F-Square values of 0.02, 0.15, and 0.35 indicate small, medium, and large effects. In this study, solvency has a moderate effect on stock prices (0.207) and a large effect on firm value (1.386). Inflation shows a small effect on stock prices

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(0.086) and no effect on firm value (0.000). Financial distress has a moderate effect on stock price (0.022) and a large effect on firm value (0.430). Stock price does not affect firm value (0.000).

Table 8. Path Coefficients

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (|O/STDEV|)	P Values
Financial Distress X3 -> Stock price Z	0.326	0.307	0.105	3.114	**0.002**
Financial Distress X3 -> Firm Value Y	0.290	0.279	0.090	3.213	**0.001**
Stock price Z -> Firm Value Y	0.418	0.380	0.191	2.185	**0.029**
Inflation X2 -> Stock price Z	-0.087	-0.067	0.078	1.121	**0.263**
Inflation X2 -> Firm Value Y	-0.032	-0.014	0.060	0.537	**0.591**
Solvency X1 -> Stock price Z	0.317	0.318	0.154	2.065	**0.039**
Solvency X1 -> Firm Value Y	0.514	0.525	0.181	2.833	**0.005**

Source: data processed with SmartPLS v.3.2.9

The Effect of Solvency on Stock Price. The test results show that solvency measured using DER has a significant effect on stock prices, with a T-statistic of 2.090 (greater than T-table 1.980) and a P-value of 0.037 (less than 0.05). This means H1 is accepted. High DER provides greater risk, suggesting investment decisions and stock prices, where companies using high DER tend to experience a decrease in stock prices. Conversely, low DER can increase investor confidence. Previous research shows that the higher the DER, the lower the stock price, although this result is not the same as the research of Pratama et al. (Based on the signal theory, high solvency can be called a bad signal for investors, who see it as a greater risk and expect higher returns, as a result it can reduce stock prices. In addition, high solvency can cause conflicts between shareholders and creditors, who may request collateral and stricter supervision, limiting managers' freedom, and potentially reducing company value. The results of this research are in line with previous research conducted by Anita Lestari (2022), Ramadhan & Nursito (2021), and Rahmawati & Hadian (2022), which show that solvency has a positive and significant effect on stock prices.

The Effect of Inflation on Stock Prices. The test results indicate that inflation has no significant effect on stock prices, with a T-statistic of 1.070 (smaller than the T-table of 1.980) and a P-value of 0.285 (greater than 0.05). As a result, H2 is rejected. Although there is a negative relationship with a sample value of -0.087, changes in inflation do not result in significant changes in stock prices. Other factors, such as company fundamentals and macroeconomic conditions, may be more influential. The stock market is forward-looking, reflecting investors' expectations of future inflation. This negative correlation suggests that rising inflation tends to lower stock prices. High inflation can reduce purchasing power and investment appetite, and is often followed by rising interest rates, which have a negative impact on investment as well as consumption. In addition, based on agency theory in an unstable inflation situation, management may make decisions that harm shareholders. The results of this study are in line with previous research conducted by Adikerta & Abundanti (2020), Aizsa et al. (2020), (Sila Sebo & Moch Nafi (2020), which provides that inflation does not affect stock prices.

Effect of Financial Distress on Stock Price. The Grover score, a bankruptcy prediction model developed from the Altman Z-score in 1968, suggests that financial distress has a significant effect on stock prices. The test results show a T-statistic of 3.162 (greater than the T-table of 1.980) and a P-value of 0.002 (smaller than 0.05), so H3 is accepted. A high Grover score indicates that the level of financial distress is low, as a result of which the stock price tends to rise. Conversely, a low Grover

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score gives a high level of financial distress, making the stock price tend to fall. High financial distress is considered high risk and less attractive to investors, resulting in a lower stock price. According to signaling theory, info about a company's financial distress is considered a negative signal to investors. This makes investors see the company as high risk; as a result, they ask for higher returns, which results in the share price of companies with financial distress falling. The results of this study are in line using research conducted by (Septia Ningsih & Hamdani Husnan, 2021), (Sitorus & Marcella, 2020), and (Hernawati Pramesti, 2021) obtained the results of financial distress affecting stock prices.

The Effect of Solvency on Firm Value. The solvency ratio, measured using DER, assesses the company's ability to pay debts and meet financial obligations at liquidation time. The increase in DER, a greater proportion of debt in the financial structure. The study gives DER a significant effect on firm value, using a T-statistic of two.822 and a P-value of 0.005, so H4 is accepted. These findings are in line using research by Wijaya (2023) and Putri (2023), which provides the influence of DER both simultaneously and partially. Imanah et al. (2021) added that good debt and equity management can increase firm value. Although the effect of DER is simultaneously significant, Sasono (2022) noted that the partial effect is not significant. Signaling theory states that good solvency improves investor views, while agency theory provides that good solvency reduces agency risk and increases shareholder confidence.

The Effect of Inflation on Firm Value. Inflation is a continuous increase in prices in the economy, often caused by a lack of money distribution. Research shows that inflation does not affect firm value, with a T-statistic of 0.503 and a P-value of 0.615; as a result, hypothesis H5 is rejected. Inflation between 2020-2023 ranges from 1% to 5%, referred to as mild and has no significant impact on company profitability. Companies generally have tactics to deal with inflation, and research supports that inflation does not affect firm value, unlike the findings of Isma et al. (2023). from the point of view of signal theory, inflation can convey negative signals to investors, who are more focused on how companies increase value and profits, not on inflation itself. Which will happen this research is supported by previous research conducted by (Nursalim et al., 2021), (Maya Topani Suzulia, Sudjono, 2020), and (Utami, 2024), which shows the result that inflation does not affect firm value.

The Effect of Financial Distress on Firm Value. The Grover-score model includes 3 financial ratios related to financial distress: WCTA, EBITTA, and NITA. The test results show that financial factors affect firm value, with a T-statistic of 3.239 (higher than T-table 1.980) and a P-value of 0.001 (smaller than 0.05); as a result, H6 is accepted. Research by Wijaya (2023) and Desvita Adaria et al. (2022) also shows the effect of financial distress on firm value. Companies experiencing financial difficulties can be affected by decreased revenue and ineffective asset management. However, a well-managed company can increase its stock market value despite the difficulties. Based on agency theory, financial difficulties can reduce market value and build management problems that reduce shareholder confidence, encouraging management to make risky decisions that can harm shareholders.

The Effect of Stock Price on Firm Value. Stock prices reflect firm value and are determined by various factors, including market sentiment. The study shows that stock price has an effect on firm value, with a T-statistic of 2.266 and a P-value of 0.024, which supports the hypothesis that stock price has a positive effect, as a result of which H7 is accepted. Investors tend to pay attention to changes in stock prices because price increases often indicate good financial performance. Research (Idris, 2021) and others provide a positive relationship between an increase in stock price and an increase in firm value. An increase in company value can encourage an increase in stock prices,

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which has a positive impact on investor welfare. Based on existing theory, stock prices can be an indicator of manager performance in managing the company, where changes in stock prices will influence the value of the company from the perspective of shareholders. The results of this study are supported and in line with research conducted by Idris (2021), Rosmawati & Rachman (2023), and Warmita & Wati (2022), stock prices have a positive and significant effect on the firm value variable.

Table 9. Specific Indirect Effects

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (|O/STDEV|)	P Values
Financial Distress X3 -> Stock Price Z -> Firm Value Y	0.136	0.131	0.096	1.421	**0.156**
Inflation X2 -> Stock Price Z -> Firm Value Y	-0.036	-0.026	0.041	0.882	**0.378**
Solvency X1 -> Stock Price Z -> Firm Value Y	0.133	0.137	0.108	1.224	**0.222**

Source: data processed with SmartPLS v.3.2.9

The role of stock price in mediating the effect of solvency on firm value. From the tests conducted, it can be concluded that stock price does not function as an intermediary between solvency and firm value. This can be seen from the T-statistic value of 1.351, which is smaller than the T-table of 1.980, and the P-value of 0.177, which is greater than 0.05, with an original sample value of 0.133, so H8 is rejected. This indicates that stock price cannot mediate the relationship between solvency and firm value. This would suggest that solvency can affect firm value exclusively without going through the stock price. In addition, firm value is also capable of being determined by other more significant factors such as profitability, growth, and dividend policy. The different ways investors view and evaluate solvency information can also shape stock prices to not fully reflect this information, thus reducing the role of stock prices as intermediaries. Research by Idris (2021) also shows that stock prices cannot mediate the impact of solvency on firm value.

The role of stock price in mediating the effect of inflation on firm value. The test results show that stock prices cannot mediate inflation on firm value. The T-statistic obtained is 0.866, smaller than the T-table of 1.980, and the P-value is 0.387, greater than 0.05, with an original sample value of -0.036, so H9 is rejected. This means that stock prices do not serve as a link between inflation and firm value. Inflation can directly affect firm value without going through stock prices, for example, through increased production costs, decreased consumer purchasing power, or changes in cash flow. The effect of inflation on firm value can fc206ad04f4e2453ce9aad41266780bc depend on industry and firm characteristics, such as the ability to shift higher costs, business diversification, or capital structure. These different characteristics make stock prices not fully mediate between inflation and firm value.

The role of stock price in mediating the effect of financial distress on firm value. The test results show that stock price does not serve as an intermediary between financial distress and firm value. This is evident from the T-statistic value of 1.444, which is smaller than the T-table of 1.980, and the P-value of 0.149, which is greater than 0.05 using the original sample value of 0.136; as a result, H10 is rejected. Financial distress can directly affect firm value, for example, through decreased investor confidence or bankruptcy risk. Agency theory mentions conflicts between managers and shareholders, where, in situations of financial distress, managers may try to hide

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information or convey misleading information. This can undermine the ability of stock prices to perfectly reflect financial distress rumors, thereby hindering the mediating role of stock prices.

CONCLUSION

Solvency as measured by Debt to Equity Ratio (DER) has a major effect on stock prices; a high DER tends to reduce stock prices due to higher risks for investors. Inflation has no significant effect on stock prices; other factors, such as company performance and market sentiment, are more dominant. Financial Distress, measured by the Grover-score model, has a significant effect on stock prices; a high risk of financial distress lowers stock prices. Solvency also has a significant effect on firm value; high DER can increase value if managed properly. Inflation had no significant effect on firm value because the inflation rate during the study was relatively low. Financial Distress has a significant effect on firm value; companies in this condition usually have a lower value. Stock price has a significant effect on firm value; high stock prices reflect good performance and increase firm value. Stock price does not mediate the effect of solvency, inflation, and financial distress on firm value, indicating that these factors affect firm value directly.

For the Company, it should manage the debt-to-equity ratio (DER) to maintain solvency. Conduct regular evaluations of financial issues and prepare mitigation strategies against inflation. For Investors, always pay attention to the solvency ratio (DER) when investing, evaluate the company's financial issues, and diversify the portfolio to reduce risk. For future researchers, it is recommended to add other variables that affect stock prices and firm value, such as dividend policy and income growth. Expanding the sample from different sectors and over a longer period may result in more applicable findings. Comparisons between companies with high and low DER, as well as those experiencing financial difficulties, may also provide additional insights.

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