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Firms' Value Determinants: Evidence from Jakarta Islamic Index (JII)

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Abstract

Several factors, including the debt-to-equity ratio (DER), liquidity, firm size, and profitability, are believed to influence firms' value. However, the results of prior research indicate that there is a knowledge gap. This research aims to investigate the impact of DER, current ratio (CR) and quick ratio (QR), firm size, return on assets (ROA), and the return on equity (ROE) on firms' value as measured by Tobin's q. This research employed a quantitative approach, including secondary data from the Indonesia Stock Exchange's official website. This research used multiple regression to analyse data. The sampling strategy employed the purposive sampling method, with 22 sample companies selected from a population of 47 companies. This research was conducted on JII-listed companies between 2017 and 2020. The result suggests that the DER, liquidity, firm size, and profitability simultaneously affect firms' value, as evidenced by a significance value of 0.000 and an F value of 85.035. However, this research indicates that DER, QR, firm size, and ROA do not partially affect firms' value. In the meantime, the ROE variable significantly affects firms' value, with a significance value of 0.000<0.05.

Keywords: *Firm Value, Debt to Equity Ratio, Liquidity, Firm Size, and Profitability*

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1. INTRODUCTION

One of the recommended activities in Islam is investing since the prophet Muhammad pbuh has carried out this activity since he was young until his apostolate. Investment is placing assets in a party intending to get a profit after a particular time. Moreover, it is hoped that investment can create a good *multiplier effect*, namely creating business and employment opportunities, avoiding settling assets, and assets owned not only rotating among certain circles (Huda & Nasution, 2007).

The Islamic capital market is a system that includes market participants, the workings of transactions and securities being transacted, and market infrastructure that meets sharia principles. One of the sharia stock indexes listed on the Indonesia Stock Exchange is the JII. Before investing, Muslims should do research to avoid taking on unneeded risks. The value of a firm is something that investors can look at before making decisions about investments (Ogolmagai, 2013). Every firm has to raise its value because it is one way to measure how well it is doing. Most of the time, a firm stock price shows how much it is worth. We can also figure out how much a firm is worth by looking at its market value, book value, and the market value of its debt. So, the value of a firm can be shown by adding up its equity and debt. The value of a firm can tell us a lot about how it is doing. When it comes to a firm's success, the higher its value, the better. Investors will get dividends and capital gains from their shares because the firm's high value means its shares will also be higher.

Several things, such as DER, liquidity, size, and profitability, are thought to affect the value of a firm. DER shows a firm's risk based on how well it can pay off its debts with its capital. The higher a firm's DER, the less confident its profits are, and the more likely it will not be able to pay its debts (Dika & Pasaribu, 2020). So, the higher a firm's DER level, the higher its financial risk. The firm's high financial risk can affect the demand for shares, affecting the firm's value. Research by (Putri & Sari, 2020) shows that the DER

ratio affects the value of a firm in a good way. On the other hand, research by Nafisah, Halim & Sari (2020) shows that DER hurts the value of firms. The research of Oktrima (2017) and Chasanah (2019) shows that the DER ratio does not affect the firm

's value.

The firm's liquidity level shows how much it can pay off its short-term debts when they come due (Jayanti, 2018). According to Munawir (2001) in Jayanti (2018), research shows that a firm's high level of liquidity makes it less likely to be unable to meet its current obligations to creditors. Investors will likely decide whether or not to invest in a firm based on how liquid it is. The more liquid a firm is, the better it is at managing its current assets. Ayu & Novita (2019) and Rachman (2016) found that liquidity significantly affected firms' value. However, Jayanti (2018) and Oktrima (2017) found that liquidity did not affect firms' value.

Firm size is a large or small picture of a firm that can be reflected through total assets. A large firm indicates that it is developing every time so that investors will respond positively and the firm's value will increase Jayanti (2018). In addition, the results of research by Dewi & Ekadjaja (2020) and Jayanti (2018) show that a firm's size positively affects its value. However, the research's results contradict what Manoppo & Arie (2016) did, which shows that size does not significantly affect firms' value. The firm's profitability can impact its market value. Profitability demonstrates a firm's ability to create profits. Investors pay attention to a firm's ability to make profits because if it can generate significant profits, investors will receive a share of the earnings. Research by Manoppo & Arie (2016) and Jayanti (2018) shows that profitability significantly affects firm value. However, the study results differ from those of Rahayu & Sari (2018) and Oktrima (2017), showing that profitability does not affect firms' value.

Based on the previous explanation provided by the researchers, it is possible to determine the differences in the results of previous research (research gap) that prompted the researchers to investigate the influence of DER, liquidity, size, and profitability on firms' values in companies listed on the JII.

2. RESEARCH METHODS

This research used quantitative methods and was conducted on companies listed on the *JII* for the 2017-2020 period (Oktrima, 2017). JJI has been chosen as the research subject because it comprises 30 Islamic equities with an enormous average daily transaction value on the stock market compared to other Islamic stocks. The data sources used are secondary data in the form of annual reports and financial reports taken from the official website of the Indonesia Stock Exchange www.IDX.co.id and the Stock Sheet's official website https://lembarsaham.com/. The sample in this study amounted to 22 of the total population of 47 companies.

The data analysis technique used in this research is multiple linear regression analysis. The data analysis tool used in this study used the SPSS version 25 computer program. The dependent variable in this study is the firms' value proxied by *Tobin's q* (Kurnia, 2017).

$$Tobin's\ Q = \frac{\text{MVE} + Debt}{\text{Total aset}}$$

Where:

MVE = Market Capitalization

Debt = (Current debt - Current assets) + Long-term debt

The independent variable X1 in this study is DER (Kurnia, 2017).

$$\text{DER} = \frac{\text{Jumlah Hutang}}{Jumlah\ Modal\ Sendiri}$$

In this study, the independent variables X2 and X3 are liquidity proxied by the ratio of CR and QR (Kurnia, 2017).

$$Current\ ratio = \frac{\text{Aktiva lancar}}{Utang\ lancar}$$

$$Quick\ ratio = \frac{\text{Aktiva lancar} - \text{Persediaan}}{Utang\ lancar}$$

This study's independent variable, as X4, is company size (Kurnia, 2017).

$$\text{Ukuran Perusahaan} = \text{Ln (Total Aset)}$$

In this study, the independent variables X5 and X6 are profitability, proxied by the ROA and ROE ratio (Kurnia, 2017).

$$\text{ROA} = \frac{\text{Laba Bersih}}{Total\ Aset} \ x\ 100\%$$

$$\text{ROE} = \frac{\text{Laba Bersih}}{Total\ Ekuitas} \ x\ 100\%$$

3. RESULTS AND DISCUSSION

3.1. Research result

3.1.1. Coefficient of Determination Test

The coefficient of determination (R2) aims to measure how far the ability of the variable to explain the variation of the dependent variable is.

Table 1
Coefficient of Determination Test Results

Model Summary [b]					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.929 [a]	.863	.853	1.40254	2.188
a. Predictors: (Constant), X6_ROE, X3_QR, X4_Firm_Size, X1_DER, X5_ROA, X2_CR					
b. Dependent Variable: Y_Company_Value					

Source: SPSS 2. Output Results

The Table above shows the R *Square* (R2) level of 0.863. These results indicate that the ability of the independent variable to explain the dependent variable is 0.863 or 86.3%. At the same time, the remaining 13.7% is explained by other independent variables outside of this study.

3.1.2. Simultaneous Significance Test (Statistical Test F)

The F statistic test aims to determine the simultaneous effect of the independent variable on the dependent variable. The F statistical test in this study was carried out by looking at the significance level with the criteria if the significance level was <0.05. Then, the regression model could be used to predict the dependent variable; besides that, it was also seen through the calculation of the F table where df-1 (number of variables-1) = 5 and df-2 (nk) or (88-6) = 82, then the F table is 2.33. The test criteria if the F count value > F table value, then the independent variable simultaneously affects the dependent variable.

Table 2
F Statistical Test Results

ANOVA [a]			
Model		F	Sig.
1	Regression	85,035	.000 [b]
	Residual		
	Total		
a. Dependent Variable: Y_Company_Value			
b. Predictors: (Constant), X6_ROE, X3_QR, X4_Firm_Size, X1_DER, X5_ROA, X2_CR			

Source: SPSS 25. Output Results

3.1.3. T-Statistic Test (Hypothesis Testing)

T statistical test aims to determine the partial effect of the independent variable on the dependent variable.

Table 3
T Statistical Test Results

Coefficients [a]					
		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
Model		B	Std. Error	Beta		
1	(Constant)	11,084	6.279		1,765	.081
	X1_DER	.276	.303	.063	.909	.366
	X2_CR	-.132	.396	-.042	-.334	.739
	X3_QR	.310	.464	.072	.668	.506
	X4_Company Size	-.374	.190	-.103	-1.971	.052
	X5_ROA	.029	.052	.069	.565	.573
	X6_ROE	.112	.017	.830	6.554	.000
a. Dependent Variable: Y_Company_Value						

Source: SPSS 25.Output Results

The t-test is carried out by paying attention to the significance value; if the significance is < 0.05 and the statistical value is T count value > T table value, the independent variable has a significant effect on the dependent variable. However, if the significance > 0.05 and the statistical value of T count value < T table value, the independent variable does not significantly affect the dependent variable. Looking at the T table's value, where df = nk or df = 88-6 = 82, the T table value is 1.989319.

3.2. Discussion

3.2.1. Effect of *Debt to Equity Ratio* (DER), Liquidity, Company Size, and Profitability Simultaneously on Firm Value

Based on the F statistical test and the level of significance, it is known that the variables *debt to equity ratio, current ratio, quick ratio,* firm size, ROA, and ROE simultaneously affect firm value. The F-count value is greater than the F table value (85.035 > 2.33) and with a significance level less than 0.05 (0.000 < 0.05).

The magnitude of the influence of the ratio variables DER, CR, QR, company size, ROA, and ROE in influencing the firms' value together is 86.3%. Thus, all independent variables have an influence of 86.3% on the independent variable, while other variables influence the remaining 13.7%.

3.2.2. Influence of *Debt to Equity Ratio* (DER) on Firm Value

Based on the T statistical test, the T-count value is smaller than the T-table value (0.909 < 1.899319), and the significance level is larger than 0.05 (0.366 > 0.05). The hypothesis test result shows that the DER ratio partially does not affect firms' value in companies listed on the JII. Based on the result of this study, the DER cannot be used to predict value, where with every change in DER, firms' value tends not to follow these changes.

The DER ratio shows a firm's debt to its capital. The high debt of a firm is not always seen as bad if it can pay its obligations and finance its operational activities with the capital it has, then it is still considered good. So it can be concluded that firms that use debt more significantly than their capital or vice versa will not affect their value (Dwiastuti & Dillak, 2019).

This result does not support the signalling theory, which says the DER ratio gives a negative signal to firm value growth. So information about the DER ratio cannot signal investors to see the growth of the firms' value to make investment decisions. This study's result also contradicts the research conducted by Nafisah, Halim & Sari (2018) and Putri & Sari (2020). However, this research is in line with Dwiastuti & Dillak (2019) and Simonangkir (2021), who found that DER did not significantly affect firms' value.

3.2.3. Partial Effect of *Quick Ratio on Firm Value*

Based on the T statistical test, the t-count value is smaller than the t-table value (0.668 < 1.989319), and the significance level is greater than 0.05 (0.506 > 0.05). The test result shows that the *quick ratio* does not partially affect firms' value listed on the JII. Based on the result of this study, the QR variable cannot be used to predict firms' value, where with every change in the *quick ratio*, the value of the firms tends not to follow the change.

The test result in this study shows that the high and low values of firms' *quick ratios* cannot affect their high and low values. The no effect of the QR *level* on firms' value can be interpreted because the value of current assets compared to the firms' short-term debt does not affect increasing firms' value. The QR is a ratio that shows the firm's ability to pay off its short-term debt if the level of liquidity is high. It is also marked by the firms' current assets being idle and not being utilised so that it is not paid much attention to by investors. Investors will see it as a negative signal because it is considered poor handling of idle excess assets, so increased liquidity can negatively impact investors (Dwi Astuti & Dillak, 2019).

The finding of this study does not support the signalling theory, which suggests that an increase in the QR ratio will favour a firm's value. Good information from the firm's internal parties sends a favourable signal to its external parties, including investors, so they will respond by making investment decisions. Therefore, investors cannot determine the firm's value based on information about QR. The result of this study is in line with the study conducted by Steven Chen, Sierra, et al. (2021) that found QR did not affect firms' value.

3.2.4. Partial Effect of *Current Ratio on Firm Value*

Based on the T statistical test, the t-count value is smaller than the t-table value (-0.334 < 1.899319), and the significance level is greater than 0.05 (0.739 > 0.05). Therefore, the hypothesis test result implies that the CR does not affect the firms' value listed on the JII. Consequently, based on the findings of this study, the CR variable cannot be utilised to predict the value of a firm.

This study's test results indicate that a firm's high and low CR cannot influence its high and low values. The current ratio describes a firm's ability to use current assets to satisfy its short-term obligations. A high CR may also be indicative of underused firm funds. When evaluated from an investor's perspective, it is possible to state that investors disregard the firm's CR factor because it merely demonstrates its ability to cover current liabilities with current assets. Moreover, investors do not consider this position when deciding whether or not to invest, instead focusing on the firm's ability to make profits.

This study's finding does not support the signaling theory, which suggests that good information or an increase in the CR value will favorably affect a company's worth. However, this analysis demonstrates that the CR does not affect the rise of business value. Therefore, investors cannot foresee the rise of a company's worth to make investment decisions based on the information presented. This study's findings contrast those of Nafisah, Halim & Sari (2018) and Putri and Sari (2020), who concluded that the CR affected firm

value. However, the result of this study supports the findings of Simonangkir (2021), who found that CR did not affect firms' value.

3.2.5. Partial Effect of Firm Size on Firm Value

Based on the results of the analysis of the T statistical test, the t-count value is smaller than the t-table value (-1.971 < 1.989319), and the significance level is greater than 0.05 (0.052 > 0.05). Therefore, the hypothesis test result indicates that company size does not affect the value of companies listed on the JII. Furthermore, based on the results of this study, the firm size variable cannot be used to predict firm value, where with every change in firm size, firm value tends not to follow these changes.

Based on the test results in this study, firms' size does not affect their high and low values. Therefore, a firm's performance is said to be good, not only seen through its size, because firms with good performance, such as generating high profits, are both large and small.

The test result in this study does not support the signal theory, where the theory states that increasing firm size will positively impact firm value. So information about the company's size cannot signal the company's value for investors to make investment decisions. In addition, this research does not support Rahayu & Sari (2018) and Husna & Satria (2019), which state that company size affects firm value. However, this study is in line with the results of research by Dwiastuti & Dillak (2019), which found that firm size did not affect firm value.

3.2.6. Partial effect of ROA on Firm Value

Based on the result of the analysis of the T statistical test, the t-count value is smaller than the t-table value (0.565 < 1.989319), and the significance level is greater than 0.05 (0.573 > 0.05). Hence, the test result shows that it does not affect the firms' value of companies listed on the JII. Therefore, based on the results of this study, the ROA variable cannot predict firms' value because there is not enough acceptable evidence.

Thus, the net income cannot provide a positive information signal for investors, contrary to the signalling theory. Even so, investors still see the firm's profit as an indicator of investment decisions. Therefore, the firm's profitability is essential to be seen and considered in the long term for investors and parties interested in the firm.

This study's result contradicts the research Sintyana & Artini (2019), and Husna & Satria (2019) found that ROA significantly affects firm value. However, this study is in line with Oktrima (2017) who found that ROA did not significantly affect firms' value.

3.2.7. Partial effect of ROE on Firm Value

Based on the result of the analysis of the T statistical test, the t-count value is greater than the t-table value (6.554 > 1.989319), and the significance level is less than 0.05 (0.000 < 0.05). The test result shows that ROE partially affects firms' value in companies listed on the JII in 2017-2020. Based on the result of this study, the ROE can be used to predict firms' value because the higher the ROE value, the firm's value will also increase.

The high and low ROE affects the high and low value of firms because their profit on equity increases when the ROE increases. Also, it will increase the firm's stock price and show that it is in good shape. The result of this study supports the signalling theory, which says that an increase in the ROE ratio is a good signal for investors. An increase in the ratio value usually means that a firm is doing well, so its stock price increases. The result of this study is also related to stakeholder theory, which says that for firms and other parties to trust each other, they need to do well financially and make money. The more money a firm makes, the more likely the trust it builds with stakeholders will last in the long run. This study's result is in line with Prakoso, Husna, and Rikayana (2022) found that ROE significantly affects a firm's value.

4. CONCLUSION

Based on the research results and discussion previously, the conclusions that can be obtained from this research are: the simultaneous test result (Statistical Test F) shows that the variables DER, liquidity, firm size, and profitability simultaneously significantly affect firms' value. The F-count value is greater than the F-table value (85,035 > 2,213) with a significance level less than 0.05 (0.000 < 0.05).Partial test results (Test Statistics) show that the variables *debt to equity* (DER), *current ratio, quick ratio,* firm size, and *return on assets* (ROA) do not partially affect firms' value, namely Tobin's q. However, at the same time, the *return on equity* (ROE) variable partially affects firms' value, namely Tobin's q.

It is recommended that investors monitor the increase of DER, current ratio, quick ratio, company size, ROA, and ROE simultaneously. According to this study, each ratio can signal or influence firms'' values. However, only the return on equity can influence the value of firms. Therefore, firms should pay more attention to things that can affect their values, like DER, current ratio, quick ratio, company size, and ROA, especially ROE, which is thought to affect firm value in this study. By keeping an eye on these ratios, the company can show its stakeholders that it can run its business well regarding its assets, profits, and debts. The results of this research show a difference between the F -test and the T-test. Future researchers can add samples, either from the number of periods or the number of companies. Furthermore, future researchers can divide the research period before and after the Covid-19 pandemic to find more definite results regarding the effect of each variable X on the Y variable.

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