Financial performance and corporate values: Case in Jakarta Islamic Index

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Abstract

Purpose: This study aimed to determine the effect of financial performance on the company's corporate value. The research is conducted by using companies listed in the Jakarta Islamic Index.

Methodology: The sample in this study amounted to 14 companies, with the main criteria being companies that are consistently listed in the Jakarta Islamic Index during the study period. Data is obtained directly from the Indonesia Stock Exchange (BEI) and idx.com website. Quantitative analysis techniques used in this study include partial test, F test (simultaneous test), multiple linear regression analysis, and path analysis that previously conducted the classical assumption test, including normality test, autocorrelation, multicollinearity, and heteroscedasticity.

Findings: The result of this research is that there is no influence of liquidity ratio to corporate value partially, there is a significant positive influence of profitability ratio to corporate value partially, there is a significant positive influence of solvency ratio to corporate value partially, there is a significant influence of liquidity ratio, profitability, and solvency to corporate value simultaneously. The variable of financial performance that has the most influence on corporate value is the profitability ratio.

Originality: It is important to examine the stocks listed on the Jakarta Islamic Index because the majority of Indonesia's population is Muslim. Recently, many people have been aware of certain restrictions in Islam regarding what types of transactions are allowed and forbidden according to Islamic law.

Keywords: financial performance, liquidity ratio, profitability ratio, solvency ratio, corporate value.

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Introduction

The establishment of a company must have a clear goal. The company's goal is to seek profit and maintain the viability of the company (Darsono, 2006). In addition, the company also has the main purpose of establishing the company, namely to maximize the welfare or wealth of the shareholders, which can be interpreted by maximizing the share price to increase the value of the

company (Febrianti, 2012). Meanwhile, according to Brigham and Gapenski (1999), the company's primary goal is to prosper the company's owner by maximizing the value of the company.

Corporate value is an important concept for investors because it is an indicator for the market to assess a company as a whole (Mahendra *et al.*, 2012). According to Putu *et al.* (2014), corporate value is the investor's perception of the company, often associated with stock prices. The main goal is to maximize the company's wealth or company value. Maximizing the company's value is very important; it means that maximizing shareholder wealth is the company's main goal. The value of the company is reflected in the stable and increasing share price. Meanwhile, according to Husnan and Pudjiastuti (1996), company value is the price that prospective buyers or investors are willing to pay if the company is sold. Increasing the value of the company is an achievement for the company, which is in accordance with the wishes of the shareholders. Because with the increase in the value of the company, the welfare of the company's shareholders also increases (Aditya, 2015).

Assessing a company from the stock market price is usually used to measure the company's performance. The better the company's performance, the higher the return obtained by investors (Meythi, 2013). For a company, maintaining and improving the company's performance is a must so that the company's shares still exist and remain in demand by investors (Mahendra *et al.*, 2012). The company's performance can be seen from the analysis of the company's financial statements. According to Harjito and Martono (2014), financial statements are the final result of the accounting process, which includes two main reports, namely the balance sheet and the income statement. Financial statements are prepared to provide financial information of a company to interested parties as material for consideration in making decisions. The interested parties include management, company owners, creditors, investors, and the government.

Measuring the company's financial performance can be done by analyzing the company's financial statements; one way is to analyze the company's financial ratios because the analysis of financial statements that is widely used is financial ratios (Stiyarini & Santoso, 2016). Financial ratios are useful in identifying key financial variables and relationships between variables to give meaning to various relationships while ascertaining the strengths and weaknesses of a company. The main objective is to assess the financial position and health of the company where these financial variables are related (Umobong, 2015). The financial ratios used in this study are liquidity ratios, profitability ratios, and solvency ratios

Aditya (2015) investigated the relationship between the three ratios above to measure company performance and corporate value. This study found that liquidity affects corporate value. In contrast, the research conducted by Febrianti (2012) on mining industry companies shows that liquidity has a positive effect on corporate value, but not significant. Furthermore, according to research conducted by Sianturi (2015), profitability has a positive effect on corporate value because the contribution of increased profits can indicate a higher rate of return on investment to shareholders and the picture of the company's prospects is getting better because the potential for increased profits on the amount of capital provided by the shareholders.

The sale and purchase of shares are carried out in the capital market. The capital market is a financial market for long-term funds. The instruments used in the capital market, in general, include stocks, bonds, and the rights team (Pakpahan, 2003). Meanwhile, according to Harjito and Martono (2014), the capital market is a market where long-term funds, both debt and equity, are traded. The long-term traded funds are realized in securities. Issuing shares is one of the company's choices when deciding to fund the company.

On the other hand, stocks are the most preferred investment instrument by investors because they are able to provide an attractive rate of return (Nurlita, 2014). One of the types of stock grouping in the capital market is the grouping of Islamic stocks, namely stocks of companies whose operations do not conflict with Islamic law, wherein in this study, the Islamic stock group was taken from the Jakarta Islamic Index (JII). In Indonesia, historically, the existence of the Islamic capital market began and was introduced in the middle of 1997 through sharia mutual funds instruments. Due to the collaboration between the Jakarta Stock Exchange (JSX) and PT

Danareksa Investment Management (DIM) in July 2014, the Jakarta Islamic Index was formed (Pratama, 2012). The development of the Islamic capital market in Indonesia is generally marked by various indicators, including the increasing number of Islamic capital market players issuing sharia securities in the form of shares incorporated in the Jakarta Islamic Index (Azwar *et al.,* 2011).

This study uses the object of research on companies whose securities are listed on the Jakarta Islamic Index to distinguish them from previous research with a period from 2011-2016. In this study, the authors feel it is important to examine the stocks listed on the Jakarta Islamic Index because the majority of Indonesia's population is Muslim. Recently, many people are aware of certain restrictions in Islam regarding what types of transactions are allowed forbidden according to Islamic law. In addition, many studies have been conducted on the effect of financial performance on corporate value. However, very few studies analyze the effect of financial performance on companies listed in the Jakarta Islamic Index.

Literature Review

Islamic Index

The Islamic Index is used as a benchmark to measure the performance of an investment in sharia-based stocks. This sharia index is expected to increase investor confidence to develop investments in Islamic equity (Azwar, *et al.*, 2011, Sudarsono, 2018). The shares of companies listed on the Islamic The sharia-based index is developed through four stages according to predetermined criteria. First, select a group of shares with the main type of business that does not conflict with sharia principles. For example, gambling and gaming businesses that are classified as gambling or prohibited trades, conventional financial institutions businesses including conventional banking and insurance; businesses that produce, distribute, and trade in food and beverages that are classified as haram, businesses that produce, distribute and/or provide goods or services that damage morals and are harmful (Azwar, *et al.*, 2011). In addition, these shares have been listed for more than three months (unless they are included in 10 large-cap stocks). Second, stocks based on annual or mid-year financial statements have a maximum liability to asset ratio of 30%. Third, choose 60 stocks from the list above based on the largest average market capitalization order over the past year. Then the fourth stage is the selection of 30 stocks in order of liquidity level of the average regular trading value for the last year (Hasthoro & Jepriyanto, 2011).

Financial Performance

Performance is the ability to work, as indicated by the results obtained from doing the work. The company produces company performance in a certain period with reference to the standards set to measure the company's financial performance (Mustoffa, 2013). Financial performance is an analytical tool carried out to see the extent to which a company has carried out the company's operational activities by using financial implementation rules properly and correctly (Subani, 2015). To measure the company's performance can be seen from the analysis of the company's financial statements. Financial statement analysis that is often used to measure company performance is financial ratio analysis. The ratios used are usually liquidity ratios, profitability ratios, and solvency ratios. The liquidity ratio measures the company's ability to meet its maturing obligations. The profitability ratio is used to assess the company's ability to seek profit or profit. While the solvency ratio is used to measure the extent to which the company's assets are financed with foreign capital or debt (Santoso, 2016).

Corporate Value

Value is something that is upheld and respected. The corporate value can deliver maximum shareholder wealth when the company's stock price rises. The higher the stock price, the higher the wealth of shareholders (Sabrin *et al.*, 2016). According to Husnan (2007), the value of the company for companies that have not gone public is the amount that prospective buyers are willing

to pay if the company is sold or liquidated. Meanwhile, for companies that have gone public, the value of the company can be seen from the value of shares in the capital market. The value of the stock itself is defined by the number of shares multiplied by the market value per share plus the value of debt, assuming that if the debt is constant, an increase in share value will directly increase the value of the company (Dewi, *et al.*, 2014). In addition, Chaidir (2015) also states that company value is an investor's assessment of the company's level of success and performance, which is reflected through stock prices in the market. The higher the stock price, the higher the value of the company and vice versa. The value of a company can be obtained through various measurements, each of which tends to give a different value than that obtained by other measurements. The first and easiest measure of the value of a company is its net value or book value (Adenugba *et al.*, 2016).

The value of the company is usually indicated by the book value (price to book value). Book value can be found in financial statements (Husnan, 2010). The high book value (price to book value) will make the market believe in the company's prospects in the future. The high book value is also desirable to the company owners because a high company value indicates the prosperity of shareholders is also high (Rinaldi, 2017). According to Breayley, *et al.* (2008), book value records how much the company paid for its assets, fewer deductions for depreciation. This value does not include the actual business value

Liquidity Ratio

The liquidity ratio is used to measure the company's ability to meet short-term financial obligations or the company's ability to meet short-term debt on time (Sabardi, 1995). Meanwhile, Harjito and Martono (2014) state the definition of liquidity, namely, the company's ability to pay its obligations that must be fulfilled immediately. Three ratios can be used to measure a company's liquidity: the current ratio, acid-test (quick) ratio, and cash ratio. The current ratio compares total current assets with current liabilities. According to Marsha and Murtaqi (2017), the current ratio is used to measure a company's ability to pay off its short-term obligations with its current assets. If the current ratio is less than 1 (one), this indicates that the company's liabilities are greater than the assets it owns and implies that its debts or obligations will not be repaid at maturity. This ratio provides information to investors that the company's financial health is not good. It may also indicate a liquidity problem in the company. In measuring the current ratio, the numerator contains inventory that is relatively difficult to determine precisely when it becomes cash. Therefore, many consider that the current ratio is less able to reflect the company's liquidity (Sabardi, 1995). Acid-test (Quick) Ratio is a more conservative measure of company liquidity because inventory is not used as the numerator. The quick ratio better reflects the company's ability to pay off its current debt. Like the current ratio, the quick ratio also does not have general guidelines for assessing the results of the ratio figure, whether it is good, too liquid, or less liquid (Sabardi, 1995).

There is an opinion that the quick ratio does not accurately reflect a company's liquidity. Especially if it is known that the maturity of the company's trade receivables is longer than the maturity of its current debt, for this reason, there is a more definite ratio by excluding trade receivables in the calculation of the ratio namely the cash ratio (Sabardi, 1995). Cash ratio. The results of this ratio also cannot be used to assess whether a company's ratio is good, too liquid, or less liquid, but this ratio better reflects the company's ability to pay off its current debts more on time than the two previous ratios (Sabardi, 1995).

Solvency Ratio

The solvency ratio measures the company's ability to meet all its obligations if it is liquidated. Usually, the problems that arise involve when the company is liquidated (closed), whether the wealth owned by the company is able to cover all its debts (Harjito & Martono, 2014). According to Ross, et al. (2009), the solvency ratio measures the company's long-term ability to meet its obligations, or moreover, its financial leverage. This ratio is sometimes called the financial leverage

ratio (leverage ratio). Meanwhile, according to Faizal (2014), the solvency ratio is a ratio that shows the company's ability to meet long-term obligations. Two ratios can be used as proxies for the solvency ratio/financial leverage ratio, namely the debt to equity ratio and the debt to total assets ratio.

First, the debt to equity ratio is used to assess the amount of debt used by the company. In measuring this ratio, preferred stock is sometimes considered debt, thereby increasing the numerators of this ratio. Preferred stock shows a claim ahead of common stock. Hence, the preferred stock must be included as debt when analyzing the company's finances. This ratio will differ according to the nature of the business and the variability of the cash flows. For companies with stable cash flows, the debt-to-equity ratio is usually higher than companies with less stable cash flows (Sabardi, 1995). Second, the debt to total assets ratio is the quotient between the company's total debt and its total assets. Market value is usually employed in calculating the debt to total assets ratio (Sabardi, 1995).

Profitability Ratio

The profitability ratio is used to measure the company's ability to generate profits at a certain level of sales, assets, and share capital. Profitability ratios can be proxied by the profit margin ratio, Return on Assets (ROA), and Return on Equity (ROE) (Ngaisah, 2008). Meanwhile, according to Ross *et al.* (2009), the notion of profitability ratios is a ratio intended to measure how efficiently a company has used its assets and managed its operations. The first is profit margin, which this ratio measures profitability in relation to sales. This profit margin can be divided into two, namely gross profit margin and net profit margin. Gross profit margin provides information on the company's profit related to sales after deducting the costs of producing the goods sold. This ratio is a measure of the company's operating efficiency and indicates how to set the price of a product (Horne & Wachowicz, 2005). The more specific measurement for sales profitability is the net profit margin. Net profit margin is a measure of a company's profitability from sales after taking into account all costs and income taxes (Horne & Wachowicz, 2005).

Second, Return on Assets (ROA) is used to measure the net profit obtained from the use of assets. In other words, the higher this ratio, the better the productivity ratio in obtaining net profits. ROA explicitly takes into account the company's ability to generate a profit for common stockholders after taking into account interest (cost of debt) from preferred stock dividends. As long as the company is able to increase its profits, every debt will result in an increase in ROA and profit for common shareholders. The ROA figure is good if the value is more than 2% (Febriyanto & Nurwiyanta, 2014). Third, Return on Equity (ROE) is a profitability ratio that measures the company's ability to generate profits that shareholders can obtain. ROE is calculated by dividing net income by the total equity of the company. Explicitly, ROE measures the company's ability to generate a profit for ordinary shareholders after calculating the cost of debt profit and preferred stock dividends (Febriyanto & Nurwiyanta, 2014). In addition, this ratio shows the earning power of the shareholders' book value investment and is frequently used to compare with several companies in the same industry. A high ROE indicates the company's acceptance of excellent investment opportunities and effective cost management (Sabardi, 1995).

Hypothesis Development

Effect of Liquidity on Corporate value

Liquidity is one of the factors that determine the level of company performance. Liquidity refers to the company's ability to meet its obligations (Hakeem & Bambale, 2016). A study conducted by Mahendra (2011) stated that liquidity has a positive and insignificant effect on corporate value. This indicates that liquidity is not considered too much by the company's external parties in assessing a company and does not have a significant effect on changes in a company's stock price. However, another study conducted by Marsha and Murtaqi (2017) stated that liquidity has a significant

positive effect on corporate value. In addition, research conducted by French *et al.* (2012) on the relationship between liquidity, corporate governance, and firm valuation conducted in Russia found that liquidity has a positive effect on corporate governance, which has a positive impact on corporate value. The liquidity ratio, which describes the company's financial performance in terms of liabilities, can affect the public's assessment, especially investors, to give confidence to the company to invest their capital. If the company has a good ability to meet its short-term obligations using current assets, the company can be said to be liquid, so investors do not need to worry about investing their funds if something unexpected happens (Susilaningrum, 2016).
H1: Liquidity has a positive effect on corporate value

The Effect of Profitability on Corporate value

Research conducted by Mahendra (2011) states that profitability also has a significant positive effect on corporate value. Profitability shows the level of net profit that can be achieved by the company when running its operations. Profits to be distributed to shareholders are profits after interest and taxes so that high profitability can add value to the company's value which is reflected in its share price. In addition, research conducted by Sabrin et al (2016) states that profitability positively impacts corporate value because the corporate value has a positive sentiment towards profit achievement to justify paying dividends. Hence, stock prices will increase because the company shows a positive signal to pay dividends. This finding is reinforced by research conducted by Sucuahi and Cambarihan (2016), which states that profitability has an influence on corporate value using Tobin's Q calculations. Putri (2015) found that profitability measured by return on assets has a positive influence on the value of the company. If the company shows high profitability as reflected by the high return on assets, then the value of the company will also increase because the value of the company is determined by the earning power of a company's assets. The higher the earning power, the more efficient the asset turnover and the higher the profit margin obtained by the company.
H2: Profitability has a positive effect on corporate value

The Effect of Solvency on Corporate Value

A study conducted by Susilaningrum (2016) states that there is an influence of solvency on corporate value. The solvency ratio is the ability of a company to fulfill all of its obligations, both short-term debt and long-term debt, if the company is liquidated (Harjito & Martono, 2014). In addition, according to Ross *et al.* (2009) solvency ratio is the ratio used to see the long-term ability of the company to meet its obligations. Research conducted by Aditya (2015) also states that solvency has an influence on corporate value, although it is not significant. A good solvency ratio will affect public confidence in a company, thereby increasing the value of the company. The solvency ratio is also one of the indicators to determine investment opportunities by potential investors (Susilaningrum, 2016). Companies that have a high solvency ratio will have an impact on the emergence of a greater risk of loss, but in addition, there is also an opportunity to earn a greater profit. Investors assume that companies that have a lot of debt will have the opportunity to use their capital for company expansion or development, with the hope that the more the company develops, the profits for the company and investors will also increase so that investors are interested in buying the company's shares (Setyarini, 2016).
H3: Solvency has a positive effect on corporate value.

Research Methods

The research data is obtained from the annual financial statements of companies listed in the Jakarta Islamic Index (JII) for 2011-2016, including liquidity, profitability, and solvency as proxies for company performance. The value of the company is proxied by the book value of the stock price (price to book value; PBV), which is the comparison between the market price and the book

value of the stock. The number of research samples was 14 companies observed for six years (2011 to 2016), so the number of observational data was 84 data downloaded from idx.com website. This research used SPSS software to conduct data analysis. The list of the 14 companies used as the samples in this research can be seen in the table 1 below.

Table 1. List of companies

No	Code	Companies
1	AALI	Astra Argo Lestari Tbk
2	ADRO	Adaro Energy Tbk
3	AKRA	AKR Corporindo Tbk
4	ASII	Astra International Tbk
5	ICBP	Indofood CBP Sukses Makmur Tbk
6	INCO	Vale Indonesia Tbk
7	INTP	Indocement Tunggal Prakasa Tbk
8	KLBF	Kalbe Farma Tbk
9	LPKR	Lippo Karawaci Tbk
10	LSIP	PP London Sumatra Indonesia Tbk
11	SMGR	Semen Indonesia (Persero) Tbk
12	TLKM	Telekomunikasi Indonesia (Persero) Tbk
13	UNTR	United Tractors Tbk
14	UNVR	Unilever Indonesia Tbk

Variable Operational Definition

Liquidity

Liquidity is the company's ability to meet all of its maturing obligations (Al-Nasser, 2014). One of the liquidity ratios commonly used to measure the level of liquidity of a company is the quick ratio. The quick ratio formula is:

$$\text{Quick Ratio} = \frac{\text{Current Asset-Inventory}}{\text{Current Liabilities}}$$

Profitability

Profitability is the company's ability to generate profits or profits that reflect the benefits of financial investments (Harjito & Martono, 2014). Profitability ratios can be measured from two approaches, namely the sales approach and the investment approach. The most widely used measures are return on assets (ROA) and return on equity (ROE). The profitability ratios measured by ROA and ROE reflect the attractiveness of the business (Sabrin, *et al*, 2016). In this study used is Return on Assets. This ratio is calculated by the formula:

$$\text{Return on Asset} = \frac{\text{Earning After Taxes}}{\text{Total Assets}}$$

Solvency

The solvency ratio is the ratio used to measure the extent to which the company's activities are financed with debt (Kasmir, 2015). In this study, the debt to total assets ratio is used because this ratio emphasizes the important role of debt financing for the company by showing the percentage of company assets supported by debt funding (Harjito & Martono, 2014). The debt to total assets ratio can be calculated by the formula:

$$\text{Debt to Total Assets Ratio} = \frac{\text{Total Debt}}{\text{Total Assets}}$$

Company value

The value of the company can be measured from the comparison between the market price per share and the book value per share. According to Brigham & Houston (2001), PBV measures the value that the market gives to the management and organization of a company that continues to grow. The formula for calculating price to book value is:

$$\text{Price to Book Value} = \frac{\text{Stock Price}}{\text{Book Value}}$$

Results and Discussion

Descriptive Statistics

Descriptive statistics can provide an overview of the variable data used in the study seen from the minimum, maximum, average (mean), and standard deviation values (Ghozali, 2016). The descriptive statistics are shown in Table 2. below.

Table 2. Descriptive statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Liquidity	84	0,204	6,086	1,82674	1,200605
Profitability	84	0,000	0,404	0,13312	0,093053
Solvency	84	0,074	0,719	0,3529	0,169134
Zcorporate value	84	0,266	62,931	5,6794	12,262236
Valid N (listwise)	84				

Based on the results of the descriptive statistical test in Table 2 above, it shows that in this study, the liquidity variable has a minimum value of 0.204 and a maximum value of 6.086 with an average value of 1.82674 and a standard deviation of 1.20605. The profitability variable as proxied by return on assets has a minimum value of 0.000, a maximum value of 0.404, an average value of 0.13312, and a standard deviation of 0.093053. The solvency variable proxied by the Debt to Total Assets Ratio (DAR) has a minimum value of 0.074, a maximum value of 0.719, an average value of 0.35290, and a standard deviation of 0.169134. As for the dependent variable, the company value as proxied by PBV has a minimum value of 0.266, a maximum value of 62,931, an average value of 5.67940, and a standard deviation of 12.262236.

Classic Assumption Test

A classical assumption test was conducted using multiple regression analysis on the independent and dependent variables. The independent variables used in this study are the quick ratio, return on assets, and debt to total assets ratio, each of which represents the ratio of liquidity, profitability, and solvency. As for the dependent variable, corporate value is used as a proxy for Price to Book Value (PBV). The classical assumption tests that have been carried out are the data normality test, autocorrelation test, multicollinearity test, and heteroscedasticity test. The classical assumption test results that all classical assumption tests have been met.

Multiple Linear Regression Analysis

The multiple linear regression analysis used in this study is to determine the effect of financial performance in the form of liquidity, profitability, and solvency on the value of companies listed on the Jakarta Islamic Index during the period 2011-2016. To find out the results of multiple regression analysis can be seen in Table 3 below.

Table 3. Multiple Linear Regression Analysis Results

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1,651	0,172		9,606	0,000
	t_liquidity	-0,084	0,153	-0,056	-0,547	0,586
	t_profitability	0,988	0,126	0,677	7,870	0,000
	t_solvency	0,559	0,196	0,288	2,857	0,005

a. Dependent Variable: t_pbv

From Table 3 above, it can be seen that the liquidity variable has a probability value above 0.05, so it means that the liquidity ratio has no effect on corporate value. In addition, the profitability ratio has a probability value of 0.000 which is far below 0.05, so that profitability affects the corporate value. Meanwhile, solvency has a probability value of 0.005, which is still below 0.05, so it means that solvency has an effect on corporate value. The results of the regression analysis in Table 2 above can be formulated as a regression equation to determine the effect of liquidity, profitability, and solvency on the value of companies listed on the Jakarta Islamic Index as follows:

$$PBV = 1.651 – 0{,}056\ LKD + 0{,}677\ PROFIT + 0{,}288\ SOLV$$

The coefficients of the multiple linear regression equation above can be interpreted as follows:

a. The constant value in the regression equation above is 1.651, indicating that if the independent variable is considered constant or is zero, then the dependent variable is the corporate value, then the average corporate value is 1.651 units.
b. The regression coefficient of the profitability variable (X2) of 0.677 indicates that if the profitability variable increases by one unit, the corporate value variable will increase by 0.677 units provided that the other independent variables are constant.
c. The regression coefficient of the solvency variable (X3) of 0.288 indicates that if the solvency variable has increased by one unit, the corporate value variable as the dependent variable will increase by 0.288 units provided that the other independent variables are held constant.
d. The most dominant independent variable is the profitability variable which can be seen from the value of standardized coefficients, which has a beta of 0.677, while the solvency beta is only 0.288, and the liquidity beta is -0.056.

Simultaneous Significance Test

Simultaneous Significance Test or F statistical test shows whether all independent variables included in the model have a simultaneous effect on the dependent variable. To find out whether the independent variables simultaneously affect the dependent variable, the significance value should be below 0.05 (Ghozali, 2016). The results of the simultaneous significance test can be seen in Table 4 below.

Table 4. Simultaneous Significance Test Results.

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	9,071	3	3,024	28,829	0,000[b]
	Residual	8,18	78	0,105		
	Total	17,251	81			

a. Dependent Variable: t_pbv
b. Predictors: (Constant), t_solvability, t_profitability, t_liquidity

The results of the F statistical test above can be seen that the significance or probability value is 0.000, which is much smaller than 0.05. From these results, it can be said that the regression model can be used to predict corporate value or that the variables of liquidity, profitability, and solvency simultaneously affect corporate value.

The value of R square (R^2) or the value of the coefficient of determination essentially measures how far the ability of a model to explain the variation of the dependent variable. The value of the coefficient of determination is between zero and 1. The value of R-square can be seen in the table 5 below.

Table 5. R-Square Result

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	0,725[a]	0,526	0,508	0,323846	1,913

a. Predictors: (Constant), t_solvability, t_profitability, t_liquidity
b. Dependent Variable: t_pbv

If the value of R-Square is small, it means that the ability of the independent variables to explain the dependent variable is very limited. If the value of R-Square is close to 1 (one), it means that the independent variables provide almost all the information needed to predict the variation of the dependent variable (Ghozali, 2011). The coefficient of determination shows that the R-Square value is 0.526, which means the independent variables can explain the 52.6% dependent variable. In other words, 52.6% of corporate value can be explained by the variables of liquidity, profitability, and solvency. While the remaining 47.4% is explained by other causes or factors outside the model used in this study.

Discussion

The results of the multiple regression test obtained are variables that have an effect and are significant on corporate value, namely profitability and solvency. While the variable that has no effect on corporate value is the liquidity variable. The results of this study are in accordance with the findings of research conducted by Sianturi (2015), and Stiyarini danSantoso (2016), which suggests that the profitability ratio and solvency ratio have a positive and significant effect on corporate value. Meanwhile, research conducted by Febrianti (2012) found that the liquidity ratio had an effect on corporate value but not significantly.

Effect of Liquidity on Corporate value

Liquidity has no effect on corporate value. The results of this study are in accordance with research conducted by Mahendra (2011), Reschiwati *et al.* (2019), and Ningsih and Sari (2019), which suggest that the liquidity ratio has no significant effect on company value. This indicates that liquidity is not considered too much by the company's external parties in assessing a company. Likewise, the research conducted by Febrianti (2012) in mining industry companies found that liquidity had no significant effect on corporate value.

Some of the findings above and also the conclusions of this study are in accordance with the opinion stated by Sabardi (1995) in his book, which suggests that the results of the calculation of the quick ratio do not accurately reflect the liquidity of a company, especially if it is known that the maturity of the company's trade receivables is longer than that of the company's maturity of current debt.

The findings in this study are not in accordance with the findings of Aditya (2015), who also examined the effect of liquidity on corporate value in manufacturing companies listed on the Indonesia Stock Exchange for the period 2011-2013, which stated that liquidity had an effect on corporate value. This research is also supported by the research results conducted by Marsha and Murtaqi (2017) and Jihadi *et al.* (2021), which found that liquidity has a positive and significant effect on corporate value. In line with this, research conducted by French *et al.* (2012) on the relationship between liquidity, corporate governance, and company valuation found that liquidity has a positive effect on corporate governance, and then corporate governance has a positive impact

on corporate value. In line with this research, Susilaningrum (2016) found that liquidity has a positive effect on corporate value. If the company has a good ability to meet its short-term obligations using current assets, the company can be said to be liquid, so investors do not need to worry about investing their funds if something unexpected happens.

The Effect of Profitability on Corporate Value

Profitability has a positive and significant effect on corporate value. These findings are in accordance with the findings of research conducted by Sianturi (2015), which states that profitability positively affects corporate value. This is due to the contribution of increasing profits or increasing the value of profitability ratios which can provide a signal or indication for shareholders that the rate of return on investment is getting higher and the company's prospects are getting better because of the potential for increased profits on the amount of capital provided by shareholders.

In line with the results of this study, research conducted by Mahendra *et al.* (2012), Zuhroh (2019), and Ningsih and Sari (2019) also stated that profitability also has a positive and significant effect on corporate value. In another study, Mahendra (2011) revealed that profitability shows the level of net profit that can be achieved by the company when running its operations. Profits that deserve to be distributed to shareholders are profits after deducting interest costs and taxes so that high profitability can add value to the company's value as reflected in the company's share price. Likewise, research conducted by Sucuahi and Cambarihan (2016) and Jihadi *et al.* (2021) found that profitability can affect corporate value. It means that when a company improves its financial performance, it can create company value. This research indicates that having a good company value will attract more investors and the interests of other parties to participate and play a role in the company. Thus, it is important to create and determine the value of the company's company to realize a reliable investment (Sucuahi & Cambarihan, 2016).

Research conducted by Wardoyo and Ardimas (2014) which examines the effect of financial performance and corporate responsibility on corporate value in listed banks, finds that profitability proxied by Return on Assets (ROA) has a significant effect on corporate value. Research conducted by Pertiwi and Pratama (2012) also supports the results in this study which states that partially financial performance has a significant and positive effect on corporate value. It shows that the higher the financial performance, the possibility of an increase in the value of the company, and vice versa. If the financial performance decreases, the value of the company will decrease. Based on the results of research conducted by Pertiwi and Pratama, it can be concluded that when the level of the financial performance achieved by a company is getting better, it will have a positive effect in increasing the value of the company. The higher the financial performance as measured by return on assets (ROA), the better the productivity of assets in obtaining net profits. It will further increase the company's attractiveness to investors. The increase in the company's attractiveness makes the company more attractive to investors because it has a higher level of profit. Therefore, return on assets (ROA) is one of the factors that affect the value of the company (Pertiwi & Pratama, 2012).

In addition, Sudarsono (2015) examined the effect of capital structure, dividend policy, investment decisions, and profitability on corporate value in companies listed on the Sharia Securities List for 2011-2013. He found that profitability is measured using ROA ratio has a positive but not significant effect on the value of companies whose securities are listed on the Sharia Securities List. It means that the size of the company's ROA does not affect the size of the company's value as measured by the PBV ratio.

While the research conducted by Putri (2015) on the effect of financial performance on corporate value with CSR disclosure as a moderating variable states that financial performance as measured by ROA has a positive and significant effect on corporate value. It shows that financial performance is one of the corporate governance mechanisms that can increase corporate value, which means that the higher the financial performance, the higher the corpora te value. (Nindiasari,

2021). If the company shows good financial performance as reflected by a high return on assets, then the value of the company will also increase because the value of the company is determined by the earning power of the company's assets. The higher the earning power, the more efficient the asset turnover and the higher the profit margin obtained by the company.

The Effect of Solvency on Corporate Value

This study found that the solvency ratio has a positive and significant effect on corporate value. These findings are in accordance with the research conducted by Stiyarini and Santoso (2016), which suggests that the solvency ratio has a significant effect on corporate value. The results of this study are also strengthened by research conducted by Susilaningrum (2016) on companies in the mining industry sector for the period 2012-2014, which states that there is an effect of solvency ratio on corporate value. Research conducted by Aditya (2015) also found that solvency has an influence on corporate value, although it is not significant. Meanwhile, another study conducted by Febrianti (2012) found that the solvency ratio as measured by the debt to equity ratio (DER) has a positive and significant effect on corporate value.

Contrary to the results of previous studies, research conducted by Sianturi (2015) found that solvency has a negative effect on corporate value because companies that have high debt levels will cause the interest expense paid by the company to be high, this will reduce the company's ability to generate income, and this affects investors' decisions in investing their funds or buying shares of a company. The research conducted by Setiyarini (2016) on the effect of financial performance on corporate value in telecommunication service companies found that the solvency ratio had a significant effect on corporate value. Telecommunications service companies use debt as a source of funding. Companies that have more debt are also seen as companies that believe in the company's prospects in the future. Companies with a high solvency ratio will have a greater risk of loss, but there is also an opportunity to earn greater profits. Investors assume that companies that have a lot of debt will have the opportunity to use their capital for expansion or development, hoping that as the company grows, the profits for the company and investors will also increase so that investors are interested in buying shares of the company.

Conclusion

This study aims to determine the effect of financial performance as measured by the ratio of liquidity, profitability, and solvency on corporate value in companies consistently listed in the Jakarta Islamic Index for the period. This study has collected and tested these data in 14 samples of companies listed on the Jakarta Islamic Index using multiple linear regression. It can be concluded that the independent variables of profitability and solvency ratios have a significant effect on positive and significant to the dependent variable in the form of corporate value as measured by Price to Book Value (PBV). While the independent variable liquidity ratio as measured by the quick ratio has no effect on corporate value. The independent variable that has the most dominant influence on corporate value is the profitability ratio variable; this is indicated by the standardized beta coefficients generated by the profitability ratio of 0.677. While the standardized coefficients beta value generated by the solvency ratio is only 0.288.

This research is expected to be able to provide benefits and contributions for stakeholders to be used as input and guidelines for decision-making on the policies used. It can provide benefits to the shareholders of the companies studied in this research in making decisions regarding shares that have been contributed to the company.

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