International Journal of Economics, Commerce and Management
United Kingdom ISSN 2348 0386 Vol. VII, Issue 4, April 2019

http://ijecm.co.uk/

THE EFFECT OF RETURN ON EQUITY, DEBT TO ASSET RATIO AND DIVIDEND YIELD ON FIRM VALUE REGISTERED IN JAKARTA ISLAMIC INDEX (JII) 2013-2017

Zharfan Dhaifullah
Magister of System Information, Gunadarma University
JlMargonda Raya No. 11 PondokCina, Depok 16424, Indonesia
zharfan.dhaifullah@gmail.com

Abstract
As a public company, firms have an obligation to increase the value of the company. However, as a country with a majority Muslim population, public companies in Indonesia must increase their value but must in range of the sharia principles. The firm's value depend on the company's ability to generate profits and maintain its debt so that it can continue to operate for a long time. While, company have to provide dividend to shareholders. Therefore, this study aims to analyze the effect of Return on Equity, Debt to Asset Ratio and Dividend Yield on Firm Value of Companies registered in the Jakarta Islamic Index (JII) in 2013-2017. This study use Multiple Linear Regression and the result of this study indicate that Return on Equity, Debt to Asset Ratio and Dividend Yield has an effect on firm value partially and simultaneously to the companies registered in Jakarta Islamic Index in 2013-2017.

Keywords: Firm Value, Return on Equity, Debt to Asset Ratio, Dividend Yield

INTRODUCTION

As a public company, companies has an obligation to increase their value in the eyes of shareholders. Increasing firm value means maximizing the present value of all profits that will be influenced by shareholders in the future or long term oriented (Sudana, 2009). Which means, shareholders not only consider stock prices but shareholders begin to pay attention to the company's for its future prospects. However, as a country with a majority Muslim population, companies must begin to consider increasing their value that did not out range of sharia principles. This is in line with the increasing demand for sharia investment seen from increasing in Jakarta Islamic Index (JII) during 2013-2017 which increased by 6.73% per year.

Firm value can be interpreted as the views and valuation of shareholders on the success of the company to utilize all the resources owned by the company. Firm value can be measured using Tobins' Q because it is considered to be able to provide the most accurate information to assess the company because it is not only stock prices but includes all aspects. The higher the value of Tobins' Q the better the company because this indicates that the company will have good growth in the future (Rachmalia, Zahroh, and Mariah, 2016). There are many factor could influence firm value such as profitability, leverage, and dividend.

First, Profitability ratio has a relationship with firm value. Profitability in this study is peroxided through Return on Equity (ROE). ROE shows the success or failure of the management in maximizing the rate of return on shareholders' investment and emphasizing the income results in relation to the amount of capital invested (Abd 'Rachim, 2008). ROE is the best indicator to show how a company can manage the profits, because it consider whether the company uses a lot of debt or not in making a profit. Because the use of debt that is huge enough will provide risk to shareholders (Hagstorm, 2005). Therefore, ROE has an effect on firm value where high ROE indicates the ability of the company to obtain high profits so that it has an impact on increasing of firm value (Imam, Saifi and Nurlaily, 2018).

The size of the profitability ratio also has a relationship with the leverage ratio due the high profitability ratio will have a positive impact on shareholders or creditors in relation to corporate funding through debt (Harmono, 2009). The leverage ratio describes the proportion of debt to assets or equity to measure a company's ability to pay debts or interest (Murhadi, 2015). In this study, the leverage ratio is measured through Debt to Asset Ratio (DAR) which is ratio that is used to measure the size of the company's assets financed by debt or how much the company's debt affect the management of assets (Kasim, 2011). DAR has an effect on firm value because the company can increase their value through increasing sales along with the increase in assets that are financed by debt.

Furthermore, to increase firm value it is necessary to consider the amount of dividend distributed to shareholders because theoretically every retained profit will eventually become a dividend, that is retained earnings reinvested are expected to generate profit to be distributed as dividend and increase it firm value (Hagstorm, 2005:26). Therefore, dividend can be used to measure firm value. Dividend policy is also seen as providing a balance between current dividend and future growth so as to maximize stock prices (Brigham and Houston, 2001). In this study, dividend policy was measured through Dividend Yield.

Objectives of the Study

1) To analyze the effect of Return on Equity on Firm Value in companies listed on JII during 2013-2017.
2) To analyze the effect of Debt to Asset Ratio on Firm Value in companies listed on JII during 2013-2017.
3) To analyze the effect of Dividend Yield on Firm Value in companies listed on JII during 2013-2017.
4) To analyze the effect of Return on Equity, Debt to Asset Ratio and Dividend Yield simultaneously on Firm Value in companies listed on JII during 2013-2017

Hypotheses

H_1 : Return on Equity has an effect on Firm Value in companies listed on JII during 2013-2017

H_2 : Debt to Asset Ratio has an effect on Firm Value in companies listed on JII during 2013-2017

H_3 : Dividend Yield has an effect on Firm Value in companies listed on JII during 2013-2017

H_4 : Return on Equity, Debt to Asset Ratio and Dividend Yield has an effect on Firm Value in companies listed on JII during 2013-2017.

Research Questions

1) Is there an effect of Return on Equity on Firm Value in companies listed on JII during 2013-2017?
2) Is there an effect of Debt to Asset Ratio on Firm Value in companies listed on JII during 2013-2017?
3) Is there an effect of Dividend Yield on Firm Value in companies listed on JII during 2013-2017?
4) Is there an effect of Return on Equity, Debt to Asset Ratio and Dividend Yield in companies

LITERATURE REVIEW

Jakarta Islamic Index (JII)

Jakarta Islamic Index (JII) is a stock index consisting of 30 of the most liquid Islamic stocks on the IDX. The liquidity indicators used by IDX are based on market capitalization values and daily transaction values (Abdalloh, 2018).

Firm Value

Firm value is a certain condition that has been achieved by a company as an illustration of public trust in the company after going through an activity process for several years, namely since the company was established until now (Septia, 2015 in Henri, Chuzaimah and Dani, 2016). Firm value can be measured using the value of Tobin's Q. The higher the value of Tobin's Q, it will have an impact on the better level of market confidence in the company's prospects in the future. Because if a high corporate value can indicate that the level of prosperity of shareholders is also high (Imam, Saifi, and Ferina, 2018). Tobin's Q value can be calculated by the following formula (Ningtyas, 2014):

$$Tobin's\ Q = \frac{Market\ Capitalization + Debt}{Total\ Assets}$$

Return on Equity

Return on Equity (ROE) is a comparison of the company's net profit in a certain period of time with its own capital, and is a ratio to measure management's ability to manage existing capital to obtain net income. This ratio is influenced by the size of the company's debt. If the proportion of debt gets bigger, then this ratio will also increase (Sugiarti, 2014). ROE is a ratio that reflects how much return is generated for shareholders for every rupiah they invest (Murhadi, 2015). ROE can be calculated using the following formula:

$$ROE = \frac{Net\ Income}{Total\ Equity}$$

Debt to Asset Ratio

Debt to Asset Ratio is part of the solvency ratio that shows how much total assets owned by the company are funded by all its creditor (Murhadi, 2015), DAR can be calculated as follows:

$$DAR = \frac{Total\ Liabilities}{Total\ Asset}$$

Dividend Yield

Dividend Yield shows a comparison between dividends per share received by investors against the current stock market price (Murhadi, 2015). Yield dividend can be calculated using the formula:

$$Dividend\ Yield = \frac{Dividend\ Per\ Share}{Stock\ Price}$$

THEORETICAL FRAMEWORK

Return on Equity

Increasing in firm value cannot be separated of an increase in the company ability to generate profits (Hagstorm, 2005). ROE is the most suitable ratio to show how much the contribution of capital in creating net income (Hery, 2015) because it can describe the amount of debt used to generate profits (Hagstorm, 2005). According to Octavia, Marjam and Hizkia (2016) ROE has an effect on firm value, this is because ROE becomes benchmark for shareholders where high ROE reflect the company's ability to manage resource effectively so the greater the ROE the greater the firm value.

Furthermore, a company whose share are listed on JII has requirement criteria which one of those was the portion of interest bearing debt on the total assets held by company is not more than 45% (Abdalloh, 2018). It can be measured by Debt to Asset Ratio (DAR), because it describe how much the total assets of the company are funded by all its creditors (Murhadi, 2015). Increasing in DAR has an effect on firm value because even though a company with high DAR is able to manage its debt and increase ownership of asset owned by the company (Inggi, Siti and Nilai, 2014).

On the other hand, according to the research of Zainal, Meina and Ziyad (2014) Dividend Yield has an effect on firm value and has negative correlation. This means that the greater the dividend yield given by the company will reduce their value. Because higher dividend is considered to affect the company's growth in the future. So, the amount of dividend given will reduce the value of the company because it can hinder the growth of corporate investment.

RESEARCH METHODOLOGY

Research method used in this study is descriptive and verification analysis research methods. Descriptive research is an activity of collecting data to answer questions about the final status of the subject of research. The most common type of descriptive research involves evaluating individuals, organizations or certain conditions (Husein, 2007). Furthermore, the verification method is testing the research hypothesis through a statistical analysis tool (Narimawati, 2010). Verification method is used to re-examine the results of previous research with the aim to find out the truth of the results of previous studies.

Population and Sample

The population in this study took the object of research, namely companies listed in Jakarta Islamic Index (JII) according to the announcement of Indonesia Stock Exchange (IDX) during 2013-2017. Meanwhile, sampling is done by purposive sampling method.

There are 10 companies that meet the requirements as sample for this study form 46 companies that have been selected with the following criteria: 1) keep registered at JII during 2013-2017; 2) the company provide financial report during 2013-2017; 3) companies listed on JII have financial statements in Indonesia Rupiah.

Classic Assumption Test

In looking for multiple regression, this study will tested using the classic assumption test, which aims to determine whether the regression model obtained can produce a good estimator or not. Classic assumption test conducted in this study are as follows:

1. Normality test aims to test whether in the regression model have a normal distribution or not. In this study, the normality test result used Kolmogorov-Smirnov (K-S) was 0.051 which is more than 0.05 which mean regression model in this study was normally distributed because a study is said to be normally distributed using Kolmogorov-Smirnov if the significance level calculated is greater than 0.05 (Ghozali, 2016).
2. Multicollinearity test, is test to aim whether the regression model is found to have a correlation between variables (independent). To do multicollinearity test can be seen from 1) tolerance value and 2) Variant Inflation Factor (VIF). The result of multicollinearity test can be seen in Table 1 that there is no multicollinearity in this study due tolerance value is higher than 0.10 and VIF < 10 (Ghozali, 2016).

Table 1. Result of Multicollinearity Test

VARIABLE	**Tolerance**	**VIF**
dar	0.779	1.283
roe	0.781	1.280
yIELD	0.996	1.004

3. Autocorrelation test aims to test whether in the linear regression model there is a correlation between interruptions in the period t with the interruption in the previous period (Ghozali, 2016).In this study the autocorrelation test uses the Durbin-Watson test (DW-Test) where the results of the autocorrelation test can be seen in Table 2 that there is no autocorrelation because the result wasdU<D-W <4-dU which mean there is no autocorrelation (Ghozali, 2016).

Table 2. Result of Autocorrelation Test

dU	Durbin Watson	4-dU
1.674	1.788	2.326

4. Heteroscedasticity test is used to measure the symptom of heteroscedasticity which means, the residual variant must be the same because most cross section data contain heteroscedasticity situation because the data collected represent various size causing the interpretation of regression coefficient to be inefficient and the estimated results can be unstable. As in figure 1 using scatterplots, it can be seen that the points spread randomly and spread both above and bellows the number 0 on Y axis.

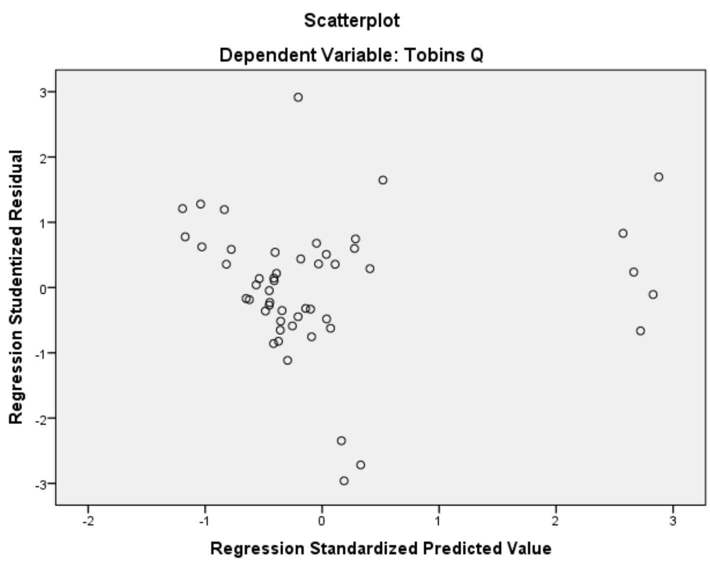

Figure 1. Heteroscedasticity test

ANALYSIS AND DISCUSSION

Multiple Linear Regression

Multiple linear regression analysis aims to determine the direction of the relationship between the independent variable and dependent variable, which will show the increase and decrease of the relationship. In this study the results of multiple linear regression analysis can be seen below:

Tobins Q = 0.887 + 4.055 ROE – 1.117 DAR – 3.497 Yield + e

The regression equation can be interpreted as follows:

1) Constant value if all independent variable did not change (constant), the firm value will increase by 0.887.

2) Regression coefficient of Return on Equity (ROE) of 4.055. Positive value means that every increase in ROE of 1 unit will increase firm value by 4.055. As long as other independent variables are considered to be constant.
3) Regression coefficient of Debt to Asset Ratio (DAR) of 1.117. The negative results means that every increase in DAR of 1 unit will reduce firm value by 1.117. As long as other independent variables are considered to be constant.
4) Regression coefficient of Dividend Yield (Yield) of 3.947. The negative results means that every increase in Yield by 1 unit will reduce firm value by 3.947. As long as other independent variables are considered to be constant.

Simultaneous Test (F-Test)

Simultaneous test (F-Test) aims to show the effect together of all independent variables on the dependent variable. The results of the F-Test in this study can be seen in Table 3.

Table 3 :Result of F-Test

Model		**Sum of Squares**	**df**	**Mean Square**	**F**	**Sig.**
1	Regression	40.494	3	13.498	143.178	.000[b]
	Residual	4.337	46	.094		
	Total	44.830	49			

The results of the F test in Table 3 shows that the calculated F values is 143.178 and significance value is 0.000, the significance value is less than 0.05 so that the variables ROE, DAR and Yield jointly affect the firm value.

Independent Sample Test (t-Test)

Independent sample test aims to test the predetermined hypothesis which shows how far the influence of one independent variable individually in explaining the dependent variable. The t-test determines whether research hypothesis is accepted or rejected.

Table 4: Result of t-Test

VARIABLE	**Sig.**
Dar	0.001
Roe	0.000
yIELD	0.000

According to Table 4 the result of Independent Sample Test can be describe as below:

1) The t-test result of ROE variable have significance value of 0.000. It can be seen that the significance value is smaller than 0.05 so H_1 is accepted and it can be conclude that ROE has an effect on firm value.
2) The t-test result of DAR variable have significance value of 0.001. It can be seen that the significance value is smaller than 0.05 so H_2 is accepted and it can be conclude that DAR has an effect on firm value.
3) The t-test result of Yield variable have significance value of 0.000. It can be seen that the significance value is smaller than 0.05 so H_3 is accepted and it can be conclude that Yield has an effect on firm value.

Determination Coefficient Test

The test of the coefficient of determination indicate the ability of the regression equation to indicate the level of explanation of the model on the dependent variable. The results of the coefficient of determination measured by Adjusted R^2(*Adjusted R Square*) of 0.897. This shows that ROE, DAR and Yield can explain the firm value (Tobins Q) of 89.7%, while the remaining 10.3% is explained by other variables not examined. So that it can be concluded that the ability of the research variables used has been able to explain the dependent variable of the study.

CONCLUSION

Based on the results of data analysis and discussion that has been done, following conclusions are drawn:

1) Variable Return on Equity has an effect on firm value. This result in line with research of Octavia, et al (2016) because ROE is used by shareholders as a benchmark for shareholders due ROE can be describe the company's ability to manage invested capital to generate profits. So that a large ROE has an impact in increasing of firm value.
2) Variable Debt to Asset Ratio has an effect on firm value. This result in line with research of Inggi, et al (2014) that increasing in DAR has an effect on firm value because even though a company with high DAR is able to manage its debt and increasing asset of the company. However, negative coefficient means increasing DAR will reduce firm value because shareholder will consider the risk that will occur if the company has too much debt so that it can reduce the value of the company.
3) Variable Dividend Yield has an effect on firm value. This result in line with research of Zainal, et al (2014) that dividend yield has an effect on firm value and has negative correlation. This means that the greater the dividend yield given by the company will

reduce their value. Because higher dividend is considered to affect the company's growth in the future. So, the amount of dividend given will reduce the value of the company because it can hinder the growth of corporate investment.

4) Variable Return on Equity, Debt to Asset Ratio and Dividend Yield simultaneously has an effect on Firm Value.

LIMITATIONS

This study focused on the Islamic Stock which is unique due Indonesia has majority Muslim population. Moreover there are still remaining variable not examined and could have an effect on firm value. Therefore, the other factor outside this study that may affect firm value need to be examined more deeply.

REFERENCES

AbdallohIrwan (2018), Pasar Modal Syariah, Jakarta.

Brigitadan Farida (2017), PengaruhStruktur Modal TerhadapNilai Perusahaan Pada Sub Sektor Pulp And Paper yang terdaftar di Bursa Efek Indonesia (BEI) Periode 2010-2014. JOM FISIP Vol. 4 No. 2 – Oktober 2017.

Brigham dan Houston. Penerjemah : Ali AkhbarYulianto. 2001. Fundamental Of Financial Management Dasar-DasarManajemenKeuangan. Edisi 10. Jakarta :SalembaEmpat.

Ghozali Imam (2018), AplikasiAnalisis Multivariate Dengan Program IBM SPSS 25 Edisi 9, UniversitasDiponegoro, Semarang.

Hagstorm G. Robert (2005), The Warren Buffett Way, Jakarta.

Henri, ChuzaimahdanSugiarti (2016), PengaruhUkuran Perusahaan, Profitabilitas,KebijakanDividen, danKeputusanInvestasiTerhadapNilai Perusahaan (StudiPenggunaanIndeks LQ-45 Periode 2010-2014).JurnalManajemendanBisnis Volume 1, Nomor 2 Desember 2016: 156-164.

Harmono. 2009. ManjemenKeuanganBerbasis Balanced Scorecard. BumiAksara: Jakarta.

Husein Umar. 2007, MetodePenelitianUntukSkripsi Dan TesisBisnis,Jakarta: PT. Raja GrafindoPersada

Imam, Saifi, danFerina (2018), Pengaruh Debt to Equity Ratio, Return on Equity, Return on Asset danUkuran Perusahaan TerhadapNilai Perusahaan.JurnalAdministrasiBisnis Vol. 57 No. 1 April 2018.

Inggi, Siti, danNilai (2014), PengaruhStruktur Modal TerhadapNilai Perusahaan (StudiPadaSektorPertambangan Yang Terdaftar di BEI Periode 2009-2012.JurnalAdministrasiBisnis (JAB) Vol. 17 No. 1 Desember 2014.

Kasim, YuyuYusran, 2011, ValuasiHargaSaham PT. Garuda Indonesia (Persero), Tbk., denganMetode Present Value to EBITDAR Cash Flow danHidden Value, Tesis, Universitas Indonesia, Jakarta.

Made danAgung (2016), Pengaruh Debt to Assets Ratio, Dividend Payout RatiodanReturn on Assets TerhadapNilai Perusahaan. E-JurnalAkuntansiUniversitasUdayana Vol. 17.3. Desember (2016): 2008-2035, ISSN:2302-8556.

Ni Made, A.E, & I Putu, Sudana. (2009). Intangible Asset, Nilai Perusahaan, danKinerjaKeuangan. JurnalAkuntansi, Vol. 4(1).

Octavia, Marjam, Hizkia (2016), Pengaruh Return on Equiy, Ukuran Perusahaan, Price Earning Ratio danStruktur Modal TerhadapNilai Perusahaan Property And Real Estate Terdaftar di Bursa Efek Indonesia. JurnalBerkalaIlmiahEfisiensi Volume 16 No. 02 Tahun 2016.

PancadanMaduretno (2016), Analisis ROA Dan ROE TerhadapNilai Perusahaan Dengan Corporate Social Responsibility SebagaiVariabel Moderating. Jurnal STIE Semarang Vol. 8 No. 3 EdisiOktober 2016, ISSN:2085-5656.

PutudanKetut (2014), Pengaruh Price Earning Ratio, ProfitabilitasdanNilai Perusahaan pada Return SahamIndeks LQ45. E-JurnalAkuntansiUniversitasUdayana 8.2 2014. ISSN: 2302-8556

Rachmalia, Zahroh, Maria (2016), PengaruhRasioLikuiditas Dan RasioProfitabilitasTerhadapNilai Perusahaan(StudiPada Perusahaan SektorIndustriBarangKonsumsi Yang Terdaftar di BEI Tahun 2012-2014). JurnalAdministrasiBisnis (JAB) Vol. 38 No. 2 September 2016.

Rizky (2016), Pengaruh Good Corporate Governance, Return on Asset, Return on Equity, Bopo, dan Capital Adequacy Ratio TerhadapNilai Perusahaan Go Public Di Bursa Efek Indonesia. JurnalEkonomiBisnis Volume 21 No. 2 Agustus 2016.

Umi, Narimawati. (2010). MetodologiPenelitian :DasarPenyusunanPenelitianEkonomi. Jakarta :Ganesis.

Zainal, Meina, danZiyad (2014), PengaruhStruktur Modal, Kebijakan Dividend an Size TerhadapNilai Perusahaan (StudiPada Perusahaan Properti Di Bursa Efek Indonesia). JurnalWawasanManajemen, Vol. 2, Nomor 3, Oktober 2014.

Zuhria, Murni, danYunita (2016), Pengaruh Current Ratio, Ukuran Perusahaan, Struktur Modal, dan ROE TerhadapNilai Perusahaan Farmasi Yang Terdaftar di Bursa Efek Indonesia Periode 2011-2014. JurnalBerkalaIlmiahEfisiensi Volume 16 No. 03 Tahun 2016.

