



Article

The Effect Of Return On Equity (Roe) On Company Value

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Abstract: The purpose of this study is to find out how good the level of return on equity (ROE) is on the value of companies in the Jakarta Islamic Index (JII) group in 2019-2021, to find out how good the value of companies listed in the Jakarta Islamic Index (JII) group in 2019-2021, to find out the relationship of return on equity to company value after the effect of return on equity to the value of companies in the Jakarta Islamic Index group for 2019-2021.

The results obtained from this study in testing the analysis of data requirements are normally disbusted with sig values. $0.200 > 0.05$ then the data can be said to be normally distributed and the results of this analysis can be continued for the next regression analysis and correlation testing with a sig of $0.000 < 0.05$ which means that there is a relationship between the decline on equity to the value of the company in the Jakarta Islamic Index group and the results of the nonparametric correlation test there is also a significant relationship between the two variables, namely the return on equity variable (ROE) is the value of the company, and the partial test (T) shows that the sig t result is greater than 0.05, which is $0.000 < 0.05$ and the coefficient of determination test of 0.729 which means that 72.9% of the company's value can be explained by the return on equity because it is in the high category while 27.1% is explained by other variables outside the variables studied. So it can be said that there is a positive and significant influence on equity on the value of companies in the Jakarta Islamic Index (JII) group.

Keywords: Return On Equity, Company Value, Price Earning Ratio

1. Introduction

In today's era, it requires everyone to prepare themselves in the midst of rapid technological developments. These changes have made changes in people's lifestyles that were previously still manual shift to an all-online system. Likewise with investment, in the past people were very familiar with this term where people were invited to set aside their income so that they could be enjoyed in the future. Investment is the activity of placing funds in a certain period with the expectation of a return in the future (return). There are many kinds of investment products that we find in everyday life, both official in the sense of being supervised by the authorities (the state) and illegal investment products that often take their toll on the public. In Indonesia, there are many investment products that we can use to prepare finances in the future to be even better, just like stocks.¹

Investors who are Muslims certainly consider their capital in investing their funds because halal investment products will certainly be a requirement that must be met in order to distance themselves from things that are prohibited by Shari'a. The Jakarta Islamic Index was launched on July 3, 2000 to guide investors who want to invest their funds in sharia. In the presence of the index, financiers have been provided with shares that can be used as a means of investing in accordance with Islamic principles. JII consists of the 30 most liquid and largest-cap stocks on the Indonesia stock exchange. Sharia shares are part of ownership or a proof of ownership in the participation of one's capital in a company that does not conflict with sharia principles.²

The analysis aims to minimize the risks that investors will receive in the future, considering that investment in the capital market is an investment with a fairly high value with relatively large profits. Financial statements can

¹ Ali Geno Berutu, *Indonesia Sharia Capital Market, Institutions Research and Devotion To IAIN Society Salatiga* (Salatiga:Institution Research and Devotion To IAIN Society Salatiga, 2020), pp. 1-2

² Andri Soemitra, *Time Front Sharia Capital Market in Indonesia*, (Jakarta: Gold, 2014), p.238

be optimized by investors if investors can analyze further through financial ratio analysis. Where the financial ratio serves to predict the company's financial difficulties, operating results, the company's current and future financial condition, as well as as a guide for investors regarding the company's performance. The company's performance must be carried out to the maximum to achieve the company's goals. Where the main goal of the company is to maximize profits for shareholders, as one of the company's efforts to safeguard the interests of shareholders. The achievement of company goals will have an impact on the value of the company. One of the factors affecting the value of the company is the performance of the company. There are several relevant studies, namely: Niranda Manggale (2021), Ika Listyawati (2020), Sofiah (2019), Arif (2018), and Helmi (2018)³⁴⁵⁶⁷.

Return on equity (ROE) as one of the financial ratios that shows the value of profitability for shareholders, is usually used as an indicator of financial performance. In addition, a good return on equity (ROE) is also a reflection of the company in generating high profits for shareholders, which will then have an impact on the value of the company. The high return on equity (ROE) value will give a positive signal for investors to buy the company's shares, the increase in demand for such shares will increase the share price which will then have an impact on increasing the value of the company. Company value can be measured using price earning ratio (PER⁸), where price earning ratio (PER) compares stock price with profit per share, the value of price earning ratio (PER) will increase or decrease because the stock price and earnings per share change.⁹

Thus, to analyze, find out the condition, economic prospects and performance of the company, namely with the information stated in the financial statements compiled and reported by the company concerned periodically. Financial statements are an important information for investors in making investment decisions. The information contained in the company's financial statements can provide financial statement analysis to assess the company's performance which also reflects the company's fundamentals so that the information can provide a basis for investment decisions.¹⁰

2. Methodology

The type of research used is quantitative approach research, which puts more emphasis on the measurement or calculation aspects and usually there are numbers that support research data and this type of¹¹ research is associative, namely asking for the relationship between two or more variables that aim to find out the relationship of independent variables (variables that affect) to dependent variables (influenced variables).. The data analysis process uses¹² quantitative descriptive data and the data analysis test uses simple linear regression.

3. Result

A. Descriptive Statistical Analysis

Descriptive statistics are statistics used to analyze data by describing or describing the data that has been collected as it is without intending to make conclusions that apply to the general public or generalizations. The Share Price in this study is the closing price of stock buying and selling transactions on the stock exchange. The descriptive statistical test results used are the maximum value, minimum value, and average value. Here are the results of the descriptive statistics test:

³ Niranda Manggale, 'Influence Return On Equity, Leverage, Size Company, and Growth Sales Towards Company Values', (*Journal Science and Research Accountancy*, Vol.10. No.1, 2021) p. 17.

⁴ Ika Listywati and Ida Kristiana, 'Influence Return On Equity, Current Ratio, Size Company And Debt To Equity Ratio Towards Company Values', (*Maximum:Media Accountancy Muhammadiyah University of Semarang*, Vol.10, No.2, 2020), p. 53.

⁵ Syofian Br Sinaga, "Influence Return On Equity, Return On Assets And Size Company Towards The value of the company on the exchange Effect Twitter" (Thesis:University Prince Batam, 2019)

⁶ Learned, Influence Structure Capital Return On Equity, LiquidityAnd Growth Opportunity Towards Company Value In Service Companies That Registered on the Exchange Effect English, (Thesis: Faculty Economics State University Yongyakarta 2018), p 59-61

⁷ Helmy Fahrizal, Influence Return On Assets (Roa), Return On Equity (Roe) and Investment Opportunity Set (Ios) Towards Company Values (Study Empirical In the Company Manufacturing Kind *Consumer Goods* That Registered On the Exchange Effect English, (Thesis: Faculty Economics State University Yongyakarta 2018), p 59-61

⁸ F Nugraha and Muhammad Doddy Influence Return On Equity And Economic Value Added Towards Company Value, (*Journal Accountancy And Finance Islam* 2019), p.31

⁹ Jogyianto, *Theory Portfolio and Analysis Investment*, (Yongyakarta: BPFE, 2015), p. 204

¹⁰ Hantono, *Concept Analysis Report Finance With Approach Ratio And Spss*, (Yongyakarta: Deepublish, 2018), p. 1.

¹¹ A. Mun Joseph, *Method Research: Quantitative, Qualitative, Research Combined*, (Jakarta: Gold, 2014), p.58.

¹² Sugiono, *Method Research Education Approach Quantitative, Qualitative, and R&N*, (Bandung: Alfabeta, 2015), p.57.

Table 1.1 Descriptive Statistical Test Results

Statistics	Descriptive			
	N	Minimum	Maximum	
Return On Equity	12	9.7	140.2	43.270
Company Values	12	7	43	19.25
Valid N (listwise)	12			

Data Source: Data processed author 2022

The explanation in the table above is as follows: The SPSS results for the descriptive statistical test of the Return On Equity (ROE) variable show a sample (N) of 12, obtained from a sample of 4 companies whose shares in the JII group are multiplied by 3 years of research. Return On Equity (ROE) resulted in an average value of 43,270 with a minimum value of 9.7 and a maximum value of 140.2 data on the four companies, namely under the company names Indofood CBP Sukses Makmur Tbk (ICBP), Indofood Sukses Makmur Tbk (INDF), United Tractors Tbk (UNTR), Unilever Indonesia Tbk (UNVR). in 2019-2021. Company Value (Y) resulted in an average value of 19.25 with a minimum value of 7 and a maximum value of 43 data on the four companies, namely under the company name Indofood CBP Sukses Makmur Tbk (ICBP), Inducement Tunggal Prakarsa Tbk (INTP), Indofood Sukses Makmur Tbk (INDF), Unilever Indonesia Tbk (UNVR) in 2019-2021.

The normality test aims to test whether in a regression model, residual variables have a normal distribution. A good regression model has a normal or close to normal data distribution. The normality test was performed using the non-parametric statistics of the Kolmogorov-Smirnov (K-S) test. The data is said to be normally distributed when Asymp.Sig (2-tailed) > 0.05 or 5%.

Table 1.2 Normality Test Results

One-Sample Kolmogorov-Smirnov Test		
		Unstandardized Residual
N		12
Normal Parameters ^{a,b}	Mean	.0000000
	Std. Deviation	6.42941355
Most Extreme Differences	Absolute	.150
	Positive	.150
	Negative	-.124
Test Statistics		.150
Asymp. Sig. (2-tailed)		.200 ^{c,d}
a. Test distribution is Normal.		
b. Calculated from data.		
c. Lilliefors Significance Correction.		
d. This is a lower bound of the true significance.		

Data Source: 2022 author processed data

Based on the results of the normality test using the kolmogorov smirnov test in the table above, the result of a significant value is 0.200 which means it is greater than 0.05. So it can be concluded that a significant value > 0.05 or $0.200 > 0.05$, the data can be said to be normally distributed and the results of this analysis can be continued for the next regression analysis because in this test a normally distributed residual value was obtained.

B. Correlation Test

The correlation test is used to determine the relationship between two variables. With this correlation analysis, the relationship between these variables can be known. Positive correlation, negative correlation, neither correlation nor perfect correlation can occur between two variables.

Table 1.3 Correlation Test Results

Correlations			
		Return On Equity	Company Values
Return On Equity	Pearson Correlation	1	.854 [*]
	Sig. (2-tailed)		.000
	N	12	12
Company Values	Pearson Correlation	.854 [*]	1
	Sig. (2-tailed)	.000	
	N	12	12

**. Correlation is significant at the 0.01 level (2-tailed).

Based on the results of the correlation test above, the significant value of the variable is return on equity (ROE) and the company value is 0.000 to 0.000 < from 0.05. It can be concluded that H_1 is accepted and H_0 is rejected, which means that there is a relationship between the decline on equity (ROE) and the value of the company as measured using the price earning ratio (PER).

C. Simple Regression Analysis

Simple regression analysis to test the effect of one free variable on a bound variable. Decision making in a simple linear regression test can refer to two things, namely: comparing the significance value with the proficiency value of 0.05. If the significance value < 0.05. meaning that variable X affects variable Y. while if the significance value is > 0.05. meaning that variable X has no effect on variable Y.

Table 1.4 Model Summary test results^b

Model Summary				
Type	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.854 ^a	.729	.702	6.743
a. Predictors: (Constant), Return On Equity				

Data Source : Data processed by the author 2022

The table describes the magnitude of the correlation value or relationship (R) which is 0.854. From this output, a coefficient of determination (R Square) of 0.729 was obtained. which contains the understanding that the effect of variable X (return on equity) on variable Y (Company Value measured using price earning ratio) is 72.9%.

Table 1.5 Anova Test Results

ANOVA ^a						
Type		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	1225.539	1	1225.539	26.952	,000 ^b
	Residual	454.711	10	45.471		
	Total	1680.250	11			
a. Dependent Variable: Company Value						
b. Predictors: (Constant), Return On Equity						

Data Source : SPSS 26 output result, data processed by author 2022

The table above is known that the calculated F value = 26,952 with a singnificance rate of 0.000 < 0.05, so it can be known that the return on equity (ROE) affects the value of the company as measured using the price earning ratio (PER).

Table 1.6 Coefficients

Coefficients ^a						
Type		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	10.281	2.603		3.950	.003
	Return On Equity	.207	.040	.854	5.192	.000
a. Dependent Variable: Company Value						

Data Source: 2022 author processed data

Based on the results of the simple linear rengresi test above the constant value (α) obtained, which is 10.281, while the value of the regression coefficient (β) obtained is 0.207 so that the result can be entered into a simple linear rengresi equation as follows:

$$Y = \alpha + \beta X + e$$

$$Y = 10.281 + 0.207X$$

The constant value obtained is 10.281 which indicates that the contingent value of the company value is 10.281. The regression coefficient value obtained by 0.207 indicates that the addition of 1% of the return on equity (ROE) value, then the company value measured using the price earning ratio (PER) will increase by 0.207 based on the results of the significant value obtained from the table above, which is 0.000 which means 0.000 < from 0.05. So it can be seen that return on equity (ROE) affects the value of the company as measured using the price earning ratio (PER).

D. Hypothesis Test

Partial Test (T)

The T test is carried out to test whether or not there is an influence of the independent variable return on equity (ROE) on the dependent variable of the company's value. The test value criterion is that if the significant level (sig t) is smaller than $\alpha = 0.05$ then H_a is accepted which means that the independent variable partially has a significant effect on the dependent variable. Conversely, if sig t is greater than $\alpha = 0.05$ then H_a is rejected and H_0 is accepted which means that the indevenden variable has no significant effect on the dependent variable.

Table 1.7 Partial Test Results (t)

Type		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error			
1	(Constant)	10.281	2.603		3.950	.003
	Return On Equity	.207	.040	.854	5.192	.000
a. Dependent Variable: Company Value						

The table above is known that the significant value of $0.000 < 0.05$ or the value of sig t is smaller than 0.05 so it can be concluded that independent variables affect the dependent variable. Based on these results, H_0 was rejected and H_a was accepted, so the hypothesis in this study states that return on equity (ROE) has a positive and significant effect on the value of companies in the Jakarta Islamic Index group.

Coefficient Determination Test (R^2)

The coefficient of determination essentially measures how far the model is capable of explaining the variation of dependent variables. The value of the coefficient of determination is zero and one. A small R^2 value means that the ability of independent variables to describe the variation of dependent variables is very limited. A value close to one means that independent variables provide almost all the information needed to predict a dependent variable.

Table 1.8 Coefficient Determination Test Results (R^2)

Model Summary				
Type	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.854 ^a	.729	.702	6.743
a. Predictors: (Constant), Return On Equity				

Data Source: SPSS 26 output result, data processed author 2022

In the table above, the coefficient of determination obtained a correlation value (R) of 0.854 which indicates that the independent variable has a relationship in the category is strong enough to the dependent variable or this value can be interpreted that the relationship between the two research variables is in the good category. The value of the coefficient of determination in the R Square column is 0.729, which means that 72.9% of the company's value can be explained by return on equity (ROE) while 27.1% is explained by other variables outside the variables studied. And based on the interpretation table of the coefficient of determination, 0.723 is included in the category of good relationships because 72.9% of the effect means that return on equity (ROE) has a positive and significant relationship to company value. The greater the Return on equity (ROE) of a company, the greater the rate of return on capital for investors who invest so that the value of the company measured using the price earning ratio (PER) is greater and the better the position of the company in terms of investor valuation so that the value of the company increases.

4. Conclusion

Based on the results of the research and discussion that has been described, the author concludes that:

1. The results of the correlation test of the significant value of the variable on equity (ROE) and the company value are $0.000 < 0.05$. It can be concluded that H_a is accepted and H_0 is rejected, which means that there is a relationship between the return on equity (ROE) and the value of the company as measured using the price earning ratio (PER). The results of the nonparametric correlation test study based on the analysis of the spearman's test is a positive and significant relationship between the two variables, namely the return on equity (ROE) variable to the company value as measured using the price earning ratio (PER).
2. Return on equity (ROE) does not have a positive and significant effect on the value of the company or it can be said that although the return on capital increases, it is not necessarily the value of the company as measured using the price earning ratio (PER) to increase, because in addition to the Return on equity (ROE) there are many other factors that can affect the value of the company. The results of the partial test study (t) are known that the significant value of $0.000 < 0.05$ or the value of sig t is smaller than 0.05 so it can be concluded that the independent variable affects the dependent variable. Based on these results, H_a is accepted and H_0 is rejected, so the return on equity (ROE) has a positive and significant effect on the value of the company in the Jakarta Islamic Index group

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