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# Company's financial performance before and after registering on Indonesia Sharia Stock Index

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## Abstract

This study aims to analyze the company's financial performance before and after being listed on the Indonesian Sharia Stock Index (ISSI). This research applied a quantitative method. The data in this study are 10 companies from all companies that are registered on the ISSI. Purposive sampling technique was applied to obtain the target sample. The results showed there were differences in financial performance in terms of solvency ratios before and after the company was registered at ISSI. In conclusion, there was a change in the company's solvency ratio before and after being registered on ISSI.

**Keywords:** Sharia, Stock index, Finance, Performance.

## Desempeño financiero de la compañía antes y después de registrarse en el índice de acciones Sharia de Indonesia

### Resumen

El objetivo de este estudio es analizar el desempeño financiero de la compañía antes y después de cotizar en el Índice de Acciones de la Sharia de Indonesia (ISSI). Esta investigación aplicó un método cuantitativo. Los datos en este estudio son 10 compañías de todas las compañías que están registradas en el ISSI. Se aplicó la técnica de muestreo intencional para obtener la muestra objetivo. Los resultados mostraron que hubo diferencias en el desempeño financiero en

términos de índices de solvencia antes y después de que la compañía se registrara en ISSI. En conclusión, hubo un cambio en el índice de solvencia de la compañía antes y después de registrarse en ISSI.

**Palabras clave:** Sharia, Índice bursátil, Finanzas, Desempeño.

## 1. INTRODUCTION

Investment is a transactional activity that is highly recommended in Islam. This is because by investing, the assets owned will also bring benefits to others (SUTEDI, 2011). For individuals or parties that have excess funds, investing in the capital market can be an option. The benefits of investing, especially in the capital market, can be felt by investors, companies, and countries.

The capital market is a facility for parties who have funds and those who need funds by trading securities. The capital market acts as an intermediary since it helps channel funds from parties. Thus, previously unproductive funds become more productive and useful. Besides, in the long run, this may help increase the country's economy.

Investors who place their funds in the capital market by buying shares can receive the benefit in the form of capital gain and dividends. The company that sells shares can obtain additional capital that can be used to develop the company's project. In choosing securities, Muslim investors need to pay attention to whether the transaction is permissible in sharia or not. This is done to ensure that every transaction does not conflict with Islamic law.

The development of the Islamic economy in Indonesia has led to the emergence of the Islamic capital market. Sharia capital market is a market in which all mechanisms of activity are mainly concerning issuers, types of securities traded, and trading mechanisms that are in accordance with sharia principles. Some of the criteria that must be met are that in conducting securities transactions in the capital market, it is not allowed to speculate or manipulate anything which contains dharar elements, gharar, usury, maisir, risywah, immorality, and tyranny.

The existence of sharia capital markets can meet the needs of people who want to invest by buying securities that are based on the sharia criteria. The existence of the Islamic capital market in Indonesia began with the birth of the sharia danareksa in 1997 by PT Danareksa Investment Management. In 2000 the Indonesia Stock Exchange and PT Danareksa Investment Management worked together to launch the Jakarta Islamic Index (JII) and in 2003 the Islamic capital market was officially launched in Indonesia.

Jakarta Islamic Index (JII) contains 30 types of shares that comply with Islamic regulations and are the most liquid. After the presence of JII, the 2011 Indonesian Sharia Stock Index (ISSI) was launched. ISSI is a stock index that reflects the overall sharia shares listed on the Indonesia Stock Exchange (IDX) and is listed on the Sharia Securities List (DES). Companies whose shares are listed on JII and ISSI reviewed once every 6 months. Some companies remain registered, some leave, and some join in exchange.

In contrast to JII, the number of registered shares remains at 30, while in ISSI, the number of listed shares has changed. The number of shares of companies listed on ISSI is fluctuating. However, from June 2011 to December 2016 there was an increase in the number of listed shares in ISSI by 56%. This shows that the Indonesian Islamic capital market is experiencing growth. (MUKHARYAMOVA, 2019).

In companies, information asymmetry often occurs. Information asymmetry occurs when parties in the company know more about company information compared to outside parties, including investors. One way to reduce information asymmetry is by companies publishing their financial statements regularly as a signal to outsiders. The financial statements report both the position of the company at a certain time and its operations over several periods.

Such action is known as signaling theory. Signaling theory shows how information asymmetry can be reduced by those who have excess information by giving information signals to others. Although this theory was developed in the labor market, signaling is a common phenomenon that can be used in any market that has information asymmetry (MORRIS, 1987). The company also provides signals including advertisements, recruitment and annual reports (KARASEK & BRYANT, 2011). In this way, outsiders who have an interest can catch the signal given by the company by reading and understanding financial statements. Companies that have been listed on the IDX are required to publish financial reports and annual reports. One way to find out the company's condition is to look at its financial statements.

Through JII and ISSI, investors can find out companies whose types of securities and trading mechanisms meet sharia criteria.

Previous research was conducted by several researchers, such as (SUN & TONG, 2002; LUKJANOVA, 2002; GUNAWAN & SUKARTHA, 2013; WEI, VARELA, D'SOUZA & HASSAN, 2003; KUMARA & SATYANARAYANA, 2013). Concerning privatization, there was an insignificant decrease in ROA, an increase in ROE and a significant increase in debt ratio after privatization (LUKJANOVA, 2003). There was no significant increase in ROA, a decrease in ROE and debt ratio after the company was privatized (SUN & TONG, 2002). Profitability experienced insignificant changes before and after privatization.

Besides, concerning mergers and acquisitions, there are significant differences between the current ratio and ROA before and after mergers and acquisitions. There is a significant decrease in the current ratio before and after mergers and acquisitions. Liquidity and profitability have increased before and after mergers and acquisitions (KUMARA & SATYANARAYANA, 2013).

The events that occurred in previous studies were privatization, mergers, and acquisitions. Privatization is the sale of shares of a BUMN company in the form of a limited liability company to an outside party. Whereas mergers and acquisitions are business combination activities. However, in this study, the events that occurred were before and after being the company was registered on ISSI.

Based on the description above, the focus of this study is the computation of the financial performance of companies before and after being listed on the Indonesia Sharia Stock Index (ISSI). The purpose of this study is to analyze the company's financial performance before and after being listed on the Indonesia Sharia Stock Index (ISSI).

## **2. METHODOLOGY**

Based on the type of data used, this study applied quantitative research. This is due to the analysis in this study using statistical calculations with the help of SPSS software. The data in this study are 10 companies. The data was obtained by using a purposive sampling technique from all companies whose shares are registered on ISSI.

In this study, three ratios will be used, namely liquidity ratio, solvency ratio, and profitability ratio. Liquidity is an indicator of a company's ability to pay all short-term financial obligations at maturity using available liquid assets (MANNAN, 2009). The purpose of calculating liquidity ratios is to find out how liquid a company is. The liquidity ratio used in this study is the Current Ratio. The current ratio measures the ability of the company to pay off current debt using current assets owned. Through the calculation of the current ratio, the level of company liquidity can be known. The greater the level of current assets available relative to current liabilities, the greater the company's liquidity. A high level of liquidity can increase a company's

security, yet excessive levels of liquidity can reduce a company's return.

The solvency ratio is a ratio used to measure the extent to which a company's assets are financed with debt. The solvency ratio used in this study is debt ratio and debt to equity ratio. This ratio measures how much the company's assets are financed by the creditor. If the calculation results are high ratio, it indicates that the funding with debt increases, if lower or gets smaller the company is financed with debt. The debt ratio is counted based on the calculations of (MOYER, MCGUIGAN, RAO & KRETLOW, 2003).

Debt to Equity Ratio is almost similar to debt ratio which is related to total corporate debt but compared to total equity. This ratio shows the relationship between the amount of debt held by the company and the amount of equity owned by the company. Debt to Equity Ratio calculated is counted based on the formula used by (MOYER ET AL., 2003).

The last is the profitability ratio. Profitability ratios are used to assess the company's ability to obtain profits. There are several types of profitability ratios that can be used. Among them are; Return on Assets (ROA), Return on Equity (ROE) and Earning per Share (EPS).

Return on Assets (ROA) is used to determine the return on investment so that it can show the productivity of the overall funds owned by the company. In this study, the return on Assets (ROA) is

calculated based on the formula used by Sudana. Return on Equity is a measurement of income (income) that is available to business owners (both ordinary shareholders and preferred shareholders) for the capital they invest in the company. Return on Equity (ROE) is also calculated by the formula used by Sudana. While Earning per Share (EPS) is used to measure the amount of a company's net profit that is ready to be distributed to all company shareholders. Hence, there are 6 variables in this study, namely Debt to Equity Ratio, Return on Equity, Earnings per Share, Return on Assets, debt ratio, and current ratio.

The type of data used in this study is secondary data. Secondary sources are sources that do not directly provide data to data collector (HORNE & WACHOWICZ, 2012). Data used in this study is the 2008-2016 annual company financial statement of the company that has met the sample criteria. The data was obtained from the site Indonesia Stock Exchange and The Indonesia Capital Market Institute.

The analysis model used in this study begins by grouping the company is divided into two periods: when the company has not been registered on ISSI, in 2008-2011 and when the company was registered on ISSI, in 2013-2016. The annual financial statements were also used to calculate the financial performance ratio, such as the current ratio, Debt ratio, Debt to Equity Ratio (DER), Return on Assets (ROA), Return on Equity (ROE) and Earning per Share (EPS). For EPS the numbers are not obtained through formula calculations but are obtained from the figures that have been available in the company's income statement. Through the ratio calculation results, the paired-

sample t-test is done if the data is normally distributed. While Wilcoxon signed ranks test is done if the data is not normally distributed to find out if there are differences companies' financial performance before and after the company's shares are listed on ISSI.

### **3. RESULT**

The current ratio the minimum time before being registered on ISSI was 0.514 which occurred in 2008 and the maximum was 2.783 which also occurred in 2008. The highest average of the current ratio occurred in 2009 with 1.3970. Standard deviations show the variation of data; the highest standard deviations occur in 2008 which was 0.634424. While the minimum Current ratio after being registered on ISSI was 0.995 which occurred in 2013 and the maximum was 5.611 which occurred in 2014. The highest average of current ratio occurred in 2013 which was 2.13530. Standard deviations show the variation of data; the highest standard deviations occurred in 2013 which was 1.356345.

The debt ratio the minimum time after listed on ISSI is 0.468 and the maximum is 0.883. The highest average debt ratio occurred in 2008 which was 0.75350. The standard deviation shows the variation of data and the highest standard deviation occurred in 2011 which amounted to 0.128776. The minimum Debt ratio after listed on ISSI was 0.099 and the maximum is 0.831. The highest average debt ratio occurred in 2016, 0.59150. Standard deviations show the variation of

data; the highest standard deviations occurred in 2014 which was 0.246608.

The minimum Value of Debt to Equity ratio (DER) before registered with ISSI was 0.878 and the maximum was 7.745. Average Debt to Equity ratio (DER) the highest occurred in 2008 which was 3.91130. Standard deviations show the variation of data; the highest standard deviations that occurred in 2009 were 2.125764. While the minimum value of Debt to Equity ratio (DER) after listed on ISSI is 0.109 and the maximum is 5.278. The highest average Debt to equity ratio (DER) occurred in 2013 which was 1.88180. Standard deviations show the variation of data; the highest standard deviations that occurred in 2013 were 1.653073.

The minimum return on Assets (ROA) before being registered on ISSI was -0.082 and the maximum was 0.231. The highest average of Return on assets (ROA) occurred in 2011 which was 0.05760. Standard deviations show the variation of data; the highest standard deviations that occurred in 2011 were 0.067883. The minimum value of Return on Assets after registered on ISSI was -0.654 and the maximum was 0.676. The highest average of Return on assets (ROA) occurred in 2016 which was 0.08000. Standard deviations show the variation of data; the highest standard deviations that occurred in 2015 was 0.252352.

The minimum value of Return on Equity (ROE) before being registered on ISSI was -0.293 and the maximum was 0.435. The

highest average of Return on equity (ROE) occurred in 2009 which was 0.19050. Standard deviations show the variation of data; the highest standard deviations occurred in 2008 which was 0.162107. While the minimum Return on Equity (ROE) after registered on ISSI was -1.468 which occurred in 2015 and the maximum was 0.711 which also occurred in 2015. The highest average of Return on equity (ROE) occurred in 2013 which was 0.1333. Standard deviations show the variation of data; the highest standard deviations that occurred in 2015 was 0.560195.

Minimum Value of Earning per Share (EPS) when before registered with ISSI was -26 and the maximum was 120.550. The highest average Earning per Share occurred in 2011 which was 44.324. Standard deviations show the variation of data; the highest standard deviations that occurred in 2011 were 45.697682. The minimum value of Earning per Share (EPS) after being listed on ISSI was -139.920 and the maximum was 225.38. The highest average of Earning per Share (EPS) which occurred in 2013 was 65.794. Standard deviations show the variation of data; the highest standard deviations that occurred in 2015 was 105.0524.

This study grouped companies into two periods; before and after listed on ISSI. Then the statistical test was done to determine the comparison of company performance. A paired sample t-test would be used if the data is normally distributed and Wilcoxon signed-rank test if the data is distributed abnormally. Kolmogorov-Smirnov test would be used for data normality tests. The statistical test process used SPSS

software. Based on the results of Kolmogorov-Smirnov test the significance value of the current ratio before listed on ISSI was 0.200 (more than 0.05) and after was 0.002 (less than 0.02). Thus, the variable data of the current ratio was not normally distributed, and the difference will be tested using the Wilcoxon signed-rank test. The significance of the debt ratio, DER, ROA, ROE, EPS variables before and after were more than 0.05, which indicates that the data was normally distributed. Thus multiple sample t-test would be used to answer the hypothesis.

Table 1: Statistical test results

<b>Variable</b>	<b>Sig</b>
Current ratio (after) – current ratio (before)	0,059
Debt ratio (before) – debt ratio (after)	0,50
DER(before) - DER(after)	0,032
ROA (before) – ROA (after)	0,646
ROE (before) – ROE (after)	0,317
EPS_(before) – EPS_(after)	0,124

This research had 6 hypotheses that were tested using statistical tests. The results of the Wilcoxon signed ranks test from the current ratio before and after the company's shares were listed on ISSI show that there are 2 companies included in the negative ranks and there are 8withpositive ranks. Other than that, the asymptotic significance in table 1 for two-tailed testing was 0.059. The probability was 0.025 (0.05 / 2) because is a two-tailed test to find out whether there are differences or not. So, H0 accepted because of  $0.059 > 0.025$ . This indicates that there is no difference in financial performance based on the current ratio before and after the company stock was registered in ISSI.

The results of the paired sample t-test from the debt ratio before and after the company's shares were listed on ISSI shows that the correlation value is 0.344 with a significance of 0.331 (more than 0.05). The t-test did not show the significance of the correlation of debt ratio before and after being registered on ISSI. As for the results of the paired sample test, the test was done two-tailed to find out whether the average shares before is the same as the after or not. Each side in a two-tailed test will be divided in half, with the probability number used 0.025 (0.05/2). The basis of decision making from the results of the paired sample t-test can use two methods, based on t calculation with t table and based on the probability value. The probability value is more often used as a basis for decision making for practical reasons.

Test results of the paired sample test in table 1 show the level of significance as 0.05. Thus it could not be decided whether  $H_0$  accepted or rejected. A comparison of t calculation with t table would be used as a basis for decision-making. Based on the results, the t output calculation was 2.259 and df(degree of freedom) was 9. Based on t table, it was obtained that t (0.025; 9) was 1.833. T calculation (2.259) is in an area outside of the accepted  $H_0$  (1.833), it can be concluded that there are differences in financial performance based on the debt ratio before and after the company is registered on the ISSI.

Results of the paired-sample t-test from Debt to Equity Ratio (DER) before and after the company's shares listed on ISSI shows that the correlation of Debt to Equity Ratio before and after being

registering in ISSI is 0.287, with a significance of 0.421 (more than 0.05). The t-test does not show a significant correlation between DER before and after being registered on ISSI. While the test results of the paired sample test on table 1 show that the calculated t value was 2.432 with a probability of 0.032. This test is two-tailed. Therefore, the probability number was divided into 0.016. Because  $0.016 < 0.025$ ,  $H_0$  is rejected. It can be concluded that there are differences in financial performance based on Debt to Equity Ratio (DER) at the time before and after the company's shares are registered on ISSI.

A correlation value of Return on Assets before and after being listed on ISSI was -0.077 with a significance of 0.832 (more than 0.05). The t-test did not indicate the significance of the correlation between ROA before and after being registered on ISSI. Besides, the results of the paired sample test in table 1 are -0.475 with a probability of 0.646. Because this test is two-tailed, the probability number is halved to 0.323. Because  $0.323 > 0.025$ , then  $H_0$  was accepted. It can be concluded that there is no difference in financial performance based on the Return on Assets (ROA) at the time before and after the company's shares are listed on the ISSI.

The average statistical calculation of Return on Equity before registered on ISSI was 0.1593 and after being listed on ISSI was 0.0705. This shows that after registering at ISSI, the ROE experienced a decrease. A correlation value of Return on Equity before being registered on ISSI was -0.354 with a significance of 0.315 (more than

0.05). The t-test did not indicate the significance of the correlation between ROA before and after being registered on ISSI.

The test results of the paired sample test Return on Equity in table 1 before being registered on ISSI was 1.060 with a probability of 0.317. Since this test is two-tailed, the probability number is halved to 0.1585. Because  $0.1585 > 0.025$ ,  $H_0$  is accepted. It can be concluded that there is no difference in financial performance based on the Return on Assets (ROA) at the time before and after the company's shares are listed on the ISSI.

A correlation value of Earning per Share (EPS) before and after the company's shares listed on ISSI was 0.945, with a significance of 0.000 (less than 0.05). The t-test did not indicate the significance of the correlation between ROA before and after being registered on ISSI. The t value is -1.699 with a probability of 0.124 (see table 1). Because this test is two-tailed, the probability number is halved to 0.062. Because  $0.062 > 0.025$ ,  $H_0$  is accepted. It can be concluded that there is no difference in financial performance based on Earning per Share (EPS) before and after the company's shares are registered on ISSI.

#### **4. CONCLUSION**

A correlation value of Earning per Share (EPS) before and after the company's shares listed on ISSI was 0.945, with a significance of 0.000 (less than 0.05). The t-test did not indicate the significance of the

correlation between ROA before and after being registered on ISSI. The t value is -1.699 with a probability of 0.124 (see table 1). Because this test is two-tailed, the probability number is halved to 0.062. Because  $0.062 > 0.025$ ,  $H_0$  is accepted. It can be concluded that there is no difference in financial performance based on Earning per Share (EPS) before and after the company's shares are registered on ISSI.

Based on the results of the analysis and discussion that has been presented previously, it could be concluded that there was a change in the company's solvency ratio before and after being registered on ISSI. The liquidity ratio and profitability ratio of the company did not change before and after being listed on ISSI.

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