

## Factors Affecting Company Value in Sharia Commercial Banks in Indonesia

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### Abstract

*This study aims to determine the effect of investment decisions proxied by Capital Expenditure to Book Value Assets (CEP/BVA), funding decisions proxied by Debt-to-Equity Ratio (DER), and profitability as proxied by Return on Equity (ROE) to value companies that are proxied by Earnings Per Share (EPS) at Islamic commercial banks for the 2015-2020 period. In this study, the data used are secondary data by analyzing 5 (five) samples of financial statements of Islamic commercial banks using purposive sampling method in sampling. The results of this study, it was found that Capital Expenditure to Book Value Assets (CEP/BVA) had a negative and insignificant effect on Earnings Per Share (EPS). While the Debt-to-Equity Ratio (DER) has a positive and significant effect on Earnings Per Share (EPS).*

### Keywords

Investment Decision, Funding Decision, Profitability, Company Value



### I. Introduction

The economic growth of a nation can be caused by various factors, one of which is the banking sector which can be a guide for the economic growth of a nation, this is because banking has an important role in supporting economic growth.(Julianti, 2021).The banking sector is included in an institution related to financial intermediaries of a country whose main activity is carrying out receipts for savings deposits, demand deposits and deposits and being a provider of payment instruments.(Sutedi, 2014). Financial statements are basically a source of information for investors as one of the basic considerations in making capital market investment decisions and also as a means of management responsibility for the resources entrusted to them (Prayoga and Afrizal 2021) . Financial performance is a measuring instrument to know the process of implementing the company's financial resources. It sees how much management of the company succeeds, and provides benefits to the community. Sharia banking is contained in the Law of the Republic of Indonesia No.21 of 2008 article 5, in which the Financial Services Authority is assigned to supervise and supervise banks. (Ichsan, R. et al. 2021)

Banking has a major contribution in collecting public funds and being a liaison between people who have more funds and the business environment where in the end the economy of a country can rotate and increase from year to year.(Hasoloan, 2014).Banks also have a strategic position, namely being the executor of various monetary provisions, achieving financial system balance, and providing allowances for the smooth running of the system in a series of payment procedures which are ultimately needed by banks whose health, transparency, and responsibility are guaranteed.(Sutedi, 2014). The higher the company's leverage, the company tends to generate less cash, this is likely to affect the occurrence of earning management. Companies with high debt or leverage ratios tend to hold their profits and prioritize the fulfillment of debt obligations first. According to

Brigham and Ehrhardt (2013), the greater the leverage of the company, it tends to pay lower dividends in order to reduce dependence on external funding. So that the greater the proportion of debt used for the capital structure of a company, the greater the number of liabilities that are likely to affect shareholder wealth because it affects the size of the dividends to be distributed. (Yanizzar, et al. 2020)

To maintain public trust in saving their funds in Islamic banks, Islamic banks continue to improve their services and company performance by displaying good corporate values. Islamic banking also has a goal in its operational activities, namely to obtain optimal profits or profits (Iska, 2012). From this goal, Islamic banks need to maximize the value of the company as proxied by Earnings Per Share (EPS) and as illustrated by investment decisions proxied by Capital Expenditure to Book Value (CEP/BVA), funding decisions proxied by Debt-to-Equity Ratio (DER) and profitability as a proxy for Return On Equity (ROE).

**Table 1.** Development of EPS, CEP/BVA, DER, and ROE Nilai Values

Company Name	Year	EPS	CEP/BVA	DER	ROE
Bank BTPN Syariah	2015	29.1	28	84	17.89
	2016	30.4	29	84	31.71
	2017	20	20	179.7	20
	2018	73	36.50	2018	13
	2019	23	51	30.80	2019
	2020	18.2	21	45	31,20
	2021	1,1	6	45	16.08

**Table 1 (Continued)** Development of EPS, CEP/BVA, DER, and ROE Nilai Values

Company Name	Year	EPS	CEP/BVA	DER	ROE
Bank BRISyariah	2015	3.6	16	274	6.33
	2016	4.3	12	337	7.40
	2017	2.5	13	350	4.10
	2018	1.2	16	217	2.49
	2019	0.7	12	233	1.57
	2020	2, 5	25	321	5.03
Bank BCA Syariah	2015	2.3	31	37	3.20
	2016	4.6	12	355	3.50
	2017	4.8	16	425	4.30
	2018	5.8	15	460	5.00
	2019	3.3	18	271	4.00
	2020	3, 2	11	253	3.10
Bank Syariah Mandiri	2015	87.1	4	115	5.92
	2016	38	10	113	5.61
	2017	36.2	1	113	5.83
	2018	40.3	13	115	6.85
	2019	58.8	17	111	15.65
	2020	36.7	11	107	15.03
Bank Mega Syariah	2015	15.8	30	107	1.61
	2016	16.6	17	462	10.91
	2017	18.7	12	84	11.66
	2018	23	4	84	13.76
	2019	28.8	8	78	4.27
	2020	11.4	50	327	9.76

Data Processed by Author, 2022

As described in table 1, the CEP/BVA value of each Islamic commercial bank provides an indication of the value that fluctuates every year. As happened to the BCA sharia bank, the CEP/BVA value was not balanced in 2015 to 2018, but the EPS value of the BCA sharia bank increased in 2015 to 2018. This is certainly not in line with the statement that the high value CEP/BVA, it will cause the value of the EPS to also provide an indication of high yields, and not in line with the studies conducted (Fenandar, 2012) which stated that the decision to invest has a positive and significant impact on firm value.

In the relationship between the DER variable and EPS, namely the high value in funding decisions (DER), it can increase the value of a company proxied by EPS (Shufa, 2020). For example, mega-Islamic banks have DER values that are not balanced every year, of course this is not in line with the EPS value which has increased from 2015 to 2019. The results of research conducted (Naiborhu, 2014) state that funding decisions have a significant effect positive and significant to firm value.

The relationship between profitability and firm value, that is, if the ROE ratio has increased, it will provide an indication of an influence on the EPS value. As in independent Islamic banks, there is an ROE value in 2015 to 2017 which is not balanced every year, and related to the EPS value in 2015 to 2017 it has decreased every year. This is certainly not in line with the results of research conducted by (Monika, 2021) which states that profitability has a positive and significant influence on firm value.

## **II. Review of Literature**

### **2.1 Syariah banking**

Islamic banking is included in the banking system based on Islamic law and free from usury and financial institutions whose production developments are based on Islamic law (HS Sufyati, 2021). Its functions and operations are based on sharia law, whereby banks must ensure that all their activities meet sharia requirements, as well as the objectives of the investment allocation made to develop the economy and social community and provide banking services in accordance with sharia values (Anshori, 2018).

### **2.2 The value of the company**

Firm value is a company's performance which is reflected by the stock price formed by the demand and supply of the capital market which reflects investors' assessment of the company's performance (Harmono, 2011). The value of the company in this study is measured by Earnings Per Share (EPS), which is a comparison of the company's net income with the number of shares outstanding. EPS is a ratio used to measure the success of a company in obtaining profits for shareholders (Yennia, 2018).

### **2.3 Investation decision**

The investment decision is an important decision in the management function in the financial sector because it will affect the allocation of company funds from both internal and external sources of the company regarding the form of investment decisions by obtaining greater profits from the funds issued, and is a long-term decision so that the decisions taken must be considered properly because it has long-term risks (Fama, 2013). Investment decisions are proxied by Capital Expenditure to Book Value Assets (CEP/BVA) which is This ratio is the amount of investment carried out by companies with fixed assets, it will cause a high level of investment carried out by companies (Dachi, 2010).

### **2.4 Funding Decision**

The funding decision is a decision related to the source of funds that will be used by a company, as a determination of optimal funding considerations, and the company uses sources of funds from within the company or will take funds from outside the company (Kustini, 2013). Funding decisions in this study are proxied by the Debt-to-Equity Ratio (DER) which provides an indication of the comparison between debt and equity in company funding and provides an indication of the company's personal capital capability in carrying out the fulfillment of all its obligations (Damayanti, 2019).

### **2.4 Profitability**

The profitability ratio is a measure of a company's ability to earn profit from its operational activities. In the end result, investors can see how efficient the company is in

utilizing its assets and carrying out its operations to earn a profit (Octavia, 2013). Profitability in this study is proxied by Return on Equity (ROE) which is a ratio that shows the rate of return generated by the management in managing the capital provided by the company owner (Prapaska, 2012).

### **2.5 Relationship between Capital Expenditure to Book Value Assets and Earnings Per Share**

The effect of investment decisions on firm value can show the company's ability to maximize investment in obtaining profits. Company growth is a factor expected by investors in order to provide the returns expected by investors. In Prapaska's research (2012) introduced IOS in a study carried out in relation to investment decisions.

This research is also in line with Kurnia (2016) which states that investment decisions have a significant positive effect on firm value. And also in line with research conducted by Johan (2012) which states that investment decisions have a positive effect on firm value.

H1: It is suspected that Capital Expenditure to Book Value Assets has a positive and significant effect on Earnings Per Share

### **2.6 The relationship between Debt-to-Equity Ratio and Earnings Per Share**

In a funding decision the company will relate to the source of funding that will be used by the company regarding whether the company will use debt or personal capital (Purwitasari, 2018). Funding decisions will be positive information for investors if the company can properly consider debt with personal capital, which in the end the demand for shares will increase, the share price will increase which will ultimately have a positive impact on the value of the company. If you take advantage of debt, then the value of the company will increase this is because the cost of debt interest is a cost that reduces tax payments (Bagaskara, 2020).

Supported by research conducted (Purwitasari, 2018) which states that funding decisions have a positive and significant effect on firm value. And also in line with research conducted (Hariyanto, 2016) which states that funding decisions have a positive and significant effect on firm value.

H2: It is suspected that the Debt to Equity Ratio has a positive and significant effect on Earnings Per Share

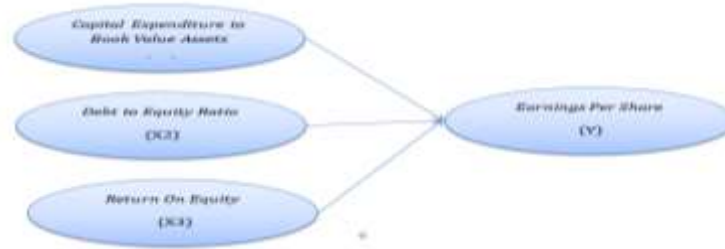
### **2.7 Relationship between Return on Equity and Earnings Per Share**

The profitability ratio is a company measuring tool in obtaining company profits by utilizing the sources owned by the company such as assets, capital, and sales of business entities. By providing an indication of the company's effectiveness in obtaining profit levels from period to period with a series of asset management, the company has the ability to influence investors' perceptions of companies related to company opportunities in the future (Melfiandoni, 2018).

In line with research conducted by Martikarini (2012) which states that profitability has a positive and significant effect on firm value.

H3: It is suspected that Return On Equity has a positive and significant effect on Earnings Per Share

### III. Research Method



In this study, the object of research is Company Value whose measurement uses Earnings Per Share which is influenced by Investment Decisions whose measurement uses Capital Expenditure to Book Value Assets, Funding Decisions whose measurement uses Debt to Equity Ratio, and Profitability whose measurement uses Return on Equity in Islamic Commercial Banks in Indonesia for the 2015-2020 period. The source of this research is secondary data obtained from the website of the Financial Services Authority (OJK) and the official websites of each Islamic bank. The population in this study is Islamic Commercial Banks in Indonesia with a period from 2015 to 2020. The sample of this study amounted to 5 companies taken based on predetermined sample criteria.

### IV. Result and Discussion

Table 2 shows the descriptive statistics of each research variable, namely investment decisions, funding decisions, profitability, and firm value.

**Table 2.** Descriptive Statistical Test Results

	NR	Range	Min	Max	Sum	Mean	Std	Deviation	Variance
Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistics
BVA	30	.4884	.0148	.5032	5.1257	.170857	.0181580	.0994555	.010
DER	30	11.1613	.3740	11.5353	1.1814	3.948149	.7201312	3.934320	15.558
ROE	30	.8669	.1091	.9760	11.2989	.376630	.0390539	.2139070	.046
EPS	30	8.6388	7.6200	871.5000	5.62601	1.875320	3.5972845	197.031385	3,882

Valid N 30  
(list wise)

Source: SPSS Output Results

Table 2 shows the investment decision variable (CEP/BVA) with a minimum value of 0.14 and a maximum of 0.50 with a mean value of 0.17 and a standard deviation of 0.09. The funding decision (DER) has a minimum value of 0.37 and a maximum of 11.53 with a mean value of 3.94 and a standard deviation of 3.93. Profitability (ROE) has a minimum value of 0.10 and a maximum value of 0.97 with a mean value of 0.37 and a standard deviation of 0.21

Table 3 shows the coefficient of determination can be seen as follows:

**Table 3.** Coefficient of Determination

Model	R Square	Adjusted R Square	Std. Error of the Estimate
1,720	<sup>a</sup>	.518	463144.4018458

*Data Processed by Author, 2022*

The results of data processing using SPSS can be seen that the Adjusted R Square is 0.463 which gives an indication that the firm value which is influenced by CEP/BVA, DER, ROE is 46.3%, the remaining 53.7% is caused by the influence of other variables.

#### **4.1 Effect of Capital Expenditure to Book Value on Earnings Per Share**

The results of this study indicate that the variable Capital Expenditure to Book Value (CEP/BVA) has a significance level of T count  $0.195 > 0.05$ . Thus, it is concluded that investment decisions proxied by Capital Expenditure to Book Value (CEP/BVA) show a negative and insignificant effect on Earnings Per Share (EPS). The results of this study are also in line with research (Kustini, 2013) which states that investment decisions have a negative and insignificant effect on firm value. Thus, the results of this study are also in line with (Rakmandani, 2016) which states that investment decisions have a negative and insignificant effect on firm value. But the results of this study are also not in line with research conducted by (Rahayuningsih)

The CEP/BVA ratio is included in the comparison between the previous year's assets and the current year's assets. Which in the end, if the current year's assets experience a decline, it is possible that the following year's assets will also decrease. So this is not too much of a concern for investors if they want to invest.

#### **4.2 The Effect of Debt-to-Equity Ratio on Earnings Per Share**

The results of this study indicate that the Debt-to-Equity Ratio (DER) variable has a significance level of T count  $0.000 < 0.05$ . So, it can be concluded that the funding decision proxied by the Debt-to-Equity Ratio (DER) shows a positive and significant effect on Earnings Per Share (EPS). The results of this study are also in line with research (Bagaskara, 2020) which states that funding decisions have a positive and significant effect on firm value. Thus, the results of this study are also in line with (Susilawati, 2021) which states that funding decisions have a positive and significant effect on firm value. But the results of this study are also not in line with research conducted by (Damayanti, 2019) which states that funding decisions have a negative and insignificant effect on firm value.

The DER ratio describes the composition of the use of debt with equity owned by a business entity. This is also in line with the theory of the trade off model which states that tax benefits are obtained from the use of debt. This is because if the company has debt, it will reduce tax costs to be incurred by the company, so that this can benefit shareholders and attract the attention of potential investors.

#### **4.3 Effect of Return on Equity on Earnings Per Share**

The results of this study indicate that the Return on Equity (ROE) variable has a significance level of T count  $0.221 > 0.05$ . So, it can be concluded that profitability as proxied by Return on Equity (ROE) shows a negative and insignificant effect on Earnings Per Share (EPS). The results of this study are also in line with research (Kustini, 2013) which states that profitability has a negative and insignificant effect on firm value. Thus, the results of this study are also in line with (Bahrudin, 2018) which states that profitability has a negative and insignificant effect on firm value. But the results of this study are also

not in line with research conducted by (Wibowo, 2016) which states that profitability has a positive and significant effect on firm value.

This gives an indication that there are factors other than profitability that have more influence on the value of a company, for example dividend policy and good corporate governance (GCG) and there is an imbalance in the ROE value which can have an effect on company value and attract less attention from investors.

## V. Conclusion

*Capital Expenditure to Book Value Assets* (CEP/BVA) has a negative and insignificant effect on Earnings Per Share (EPS) in Islamic commercial banks in Indonesia for the 2015-2020 period. Debt to Equity Ratio (DER) has a positive and significant effect on Earnings Per Share (EPS) at Islamic commercial banks in Indonesia for the 2015-2020 period. Return On Equity (ROE) has a negative and insignificant effect on Earnings Per Share (EPS) at Islamic commercial banks in Indonesia for the 2015-2020 period.

The implication of the research findings is that it is expected that the company will pay more attention to and reconsider the investment decisions that will be chosen for long-term company investments which in the end the company's financial performance will be more effective and have an influence on investors' perceptions of company value. It is hoped that investors will reconsider when they want to invest their funds in the company in order to get maximum profit every year.

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