Determinants of Firm Value Islamic Banks in Indonesia

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ABSTRACT

The growth of Islamic banking, which has become one of the alternatives to finance, increased as the year went on. Islamic banks, which are also a form of company, need to pay attention to determinants of the firm's value for them to survive. The primary aim of this study was to analyze the determinants that influence the firm value of Islamic banks in Indonesia. The research uses a quantitative explanatory approach to assess the firm value relationship between eight selected Islamic banking institutions from 2018 to 2022. The data variables used to assess the bank's financial performance consist of liquidity, leverage, profitability, and operational efficiency. The study uses secondary data sourced from the annually reports of the chosen Islamic banks, with SPSS as an auxiliary software to process the statistical data. The results of the study show 1) a positive and statistically not significant relationship between liquidity and Islamic banks firm value in Indonesia; 2) a negative and statistically significant relationship between leverage and Islamic banks firm value in Indonesia; 3) a positive and statistically significant relationship between profitability and Islamic banks firm value in Indonesia; and 4) a negative and statistically significant relationship between operational efficiency and Islamic banks firm value in Indonesia. The study's practical consequences pertain to the management of Islamic banks in Indonesia, which should devise strategies pertaining to leverage, profitability, and operational efficiency. Additionally, Islamic banks in Indonesia should design Islamic bank strategies that address both internal and external elements that influence firm value.

Keywords: Liquidity; Leverage; Profitability; Operational Efficiency; Firm Value; Islamic Banks

INTRODUCTION

Islamic banking has existed and has become a pillar of alternative finance together with conventional banking (Bakry & Masse, 2020). The development of Islamic banking in Indonesia is seen through the proliferation of Islamic financial institutions, Islamic insurance, and Islamic mutual funds (Marlina et al., 2021). Based on Islamic Banking Statistical data that has been made publicly available by the Financial Services Authority December 2022 edition, the Islamic financial sector consists of a total of 13 Islamic Commercial Banks, 20 Islamic Business Units, and 167 Islamic Rural Banks (BPRS) (Otoritas Jasa Keuangan, 2023). Islamic banking, as a distinct corporate entity, is inherently intertwined with the objective of generating and enhancing the company's value (Nurwulandari et al., 2021). According to Paramitha (2020), one of the objectives of establishing a company, including Islamic banking, is generally related to the company's business of paying attention to the wishes of investors. The valuation of the company will serve as a favorable indicator for potential investors to allocate their investments toward that company (Widyowati et al., 2021). Data from that information is used as a signal that can be obtained from financial reports or annual reports by the company management (Arsal, 2021).

Previous studies have identified several determinants that exert influence on firm value. Bahraini et al. (2021) states in his research that activity, liquidity, and company size are several variables that can influence the valuation of a company. Nurwulandari et al. (2021) found that liquidity, profitability, and firm size affect the firm value. Meanwhile, Maryadi & Susilowati (2020) in their research found that the loan-to-deposit ratio (LDR) and operational efficiency affect the firm value in the banking sub-sector. In contrast, research conducted by Jihadi et al. (2021) demonstrates that various factors, namely liquidity, activity, leverage, and profitability have a substantial influence on the firm value of a company. This study aims to undertake an analysis on the determinants of firm value, specifically focusing on liquidity, leverage, profitability (Jihadi et al., 2021; Zoraya et al., 2023), and operational efficiency (Hameeda, 2022; Maryadi & Susilowati, 2020), as these determinants have been identified as significant factors influencing a firm's value of the company (Hameeda, 2022; Jihadi et al., 2021; Maryadi & Susilowati, 2020; Nurwulandari et al., 2021; Zoraya et al., 2023).

Investors are inclined to display confidence in a company and engage in investment activities when the company exhibits strong liquidity, as it is perceived to be indicative of successful performance (Kusumawati & Setiawan, 2019), additionally investors are motivated to do so due to the influence liquidity has on the company's internal and external decision-making processes (Vincent & Gilbert, 2023). Several research studies conducted by Jihadi et al. (2021); Putra & Sedana (2019); Sondakh (2019); Zoraya et al. (2023) have showed a positive correlation between liquidity and firm value. This implies that as a company's liquidity ratio increases, indicating a greater proportion of current assets covering its liabilities, the general public's trust in the company will be enhanced. Nevertheless, several research analyses published by Bahraini et al. (2021); Damayanti & Sucipto (2022); Nurwulandari et al. (2021); Siringoringo & Hutabarat (2019) have revealed that liquidity exerts a noteworthy adverse impact on firm value. According to these studies, an excessive level of liquidity denotes a sizable amount of idle company funds that the management of the company is not effectively utilizing. The decline in the company's revenue will subsequently reduce the inclination of investors to allocate their investments to the company. Hidayat et al. (2019); Stephanie & Agustina (2019) determined that there is no significant impact of liquidity on firm value.

In order to optimize the firm value, it is imperative for a company to consider several financial performance criteria while determining its capital structure (Meifida & Hertati, 2022). According to the study by Aprilyani et al. (2021); Damayanti & Sucipto (2022) found a positive correlation between leverage and firm value, indicating that an increase in the company's leverage leads to a corresponding increase in firm value, which might be attributed to the ability of loans to mitigate the company tax liabilities. Different findings from Fosu et al. (2016); Ilham et al. (2022); Ismiyatun et al. (2021) suggest that leverage has a negative effect on the firm value, which is particularly due to the fact that when leverage exceeds the optimal threshold, both firm value and investor perception decline. The company's increased obligation to make debt repayments, including installments and interest, is the main cause of the decline.

The revenue generated for profitability in Islamic banking as a company does not stem from interest, but rather from the equitable distribution of profits, which must be devoid of any components of usury (Suppia & Che Arshad, 2019). The research conducted by Aprilyani et al. (2021); Bahraini et al. (2021); Damayanti & Sucipto (2022); Hameeda (2022); Luthfiah & Suherman (2018); Nurwulandari et al. (2021) reveals that firm value is positively influenced by profitability, which is attributed to the fact that high profitability serves as an indicator of strong financial performance inside the company, hence attracting investors to invest in or hold shares of the company. Different findings from Maryadi & Susilowati (2020); Wiyadi & Yanti (2023) shows that profitability has no effect on firm value. The efficiency of the firm's management in attaining greater revenue is known by improving the company's operational efficiency, which leads to the rise of firm value (Fitriani & Lasmanah, 2022; Kansil et al., 2021), which means a company is deemed more efficient when it has a lower operational efficiency value. The outcomes of these studies indicate the presence of contradicting results, consequently highlighting gaps in the existing literature that have piqued the author's interest in analyzing determinants of firm value Islamic banks in Indonesia.

LITERATURE REVIEW

Signaling Theory

Signalling theory initially proposed by Bhattacharya in 1979 refers to a strategic approach employed by corporate management to provide valuable information to investors regarding the future prospects of the company (Brigham & Houston, 2019). The received signals could appear as either positive or negative, thereby imposing an influence on market circumstances through a decline in the company's financial performance (Arsal, 2021). Companies that have unfavorable prospects are more likely to engage in the sale of their shares (Awaluddin et al., 2019).

Sharia Entreprise Theory

The Sharia Enterprise Theory is a prominent theoretical framework within the context of sharia compliance and Islamic corporate governance. Its primary objective is to foster the development of society and the economy by recognizing Allah, as the supreme ruler of all beings (Rini, 2018). Allah, as the supreme stakeholder, possesses the ability to evoke a profound spiritual consciousness that serves as a unifying bridge between individuals and their actions, so ensuring the implementation and assurance of sharia compliance in governing a business (Abdullah, 2021; Rini, 2018).

Stewardship Theory

The concept of stewardship theory was initially introduced by Donaldson and Davis in 1989 (Pasaloran, 2001), whereas managers are expected to act in line with common interests (Raharjo, 2007). The concept of stewardship theory can be applied to the context of banking institutions and their financing products. Islamic banks, in their role as principals who delegate the management of funds to customers as stewards, possess the inherent capacity to effectively address the shared interests of both principals and stewards. This is achieved through the provision of services that are designed to foster cooperative behavior, thereby facilitating collaboration within organizations, promoting collective behavior, and cultivating groups that exhibit a high degree of utility, rather than relying solely on individual willingness to serve (Widiastuty, 2017).

Islamic Bank

According to Indonesian Law No. 21 of 2008 and Law No. 4 of 2023, the concept of Islamic banking encompasses all aspects pertaining to Islamic banks and Islamic business units. This includes the establishments themselves, their business operations, as well as the methodologies and procedures employed in conducting their commercial endeavors (Otoritas Jasa Keuangan, 2008). According to Supriadi & Ismawati (2020), the administration of Islamic banking will adhere strictly to the principle that transactions must be devoid of maysir, gharar, usury, haram, and unjust practices, in accordance with the principles outlined in Indonesian Law No. 21 of 2008. This will be achieved through the implementation of contracts that have been mutually agreed upon without any form of coercion, and by fostering an environment of trust and prudence (Ilyas, 2018).

Liquidity

Liquidity refers to a company's capacity to fulfill its short-term financial commitments, typically within a time frame of less than one year (Parmitasari & Hasrianto, 2017). It is a crucial aspect that investors take into account when making investment choices, as it signifies ease and cost-effectiveness with which assets can be converted into cash (Batten & Vo, 2019). This study uses Financing to Deposit Ratio as an indicator of liquidity.

Leverage

The concept of leverage refers to the capacity of a corporation to meet its financial obligations, as demonstrated by a proportion of its own capital that is allocated towards debt repayment (Parmitasari &

Hasrianto, 2017). The excessive use of high leverage by banks exposes them to a precarious situation that jeopardizes the stability of the banks (S. Hidayat et al., 2019), hence it is important for the investor to take account of the company leverage when making investment choices. This study uses Debt to Equity Ratio as an indicator of leverage.

Profitability

According to Lase et al. (2022), profitability refers the capacity of a company to generate profits by utilizing its various capabilities and sources such as sales activities, cash flow, capital, workforce size, a number of branches, and other relevant factors. The measurement of profitability in Islamic banking is based upon the evaluation of the rate of return on non-interest transactions and direct investment (Zarrouk et al., 2016). With the aim of earning a return on their investment, investors allocate their financial resources by purchasing shares of a company. This study uses Return on Asset as an indicator of profitability.

Operational Efficiency

Operational efficiency refers to a quantitative measure that assesses the extent to which a company's spending or operating costs compare to its operational profits within a specific time frame (Tanan, 2020). According to Iqbal & Anwar (2022) the smaller the operational efficiency value, the smaller the expenditure of operational costs, the more likely it is for banks to earn high profits, which shows that banks are not in a problematic condition.

Firm Value

The concept of firm value refers to the investors' perceptions of certain issuers and is always associated with stock prices as well as a reflection of the public's assessment of the company's performance in real terms (Nurwulandari et al., 2021). The optimization of a firm's value holds significant importance as it directly correlates with the enhancement of shareholder prosperity, which serves as the primary objective for the company (Muslimah et al., 2018). This study uses Price to Book Value as an indicator of firm value.

METHODOLOGY

Population and Sample

The population during research in this study encompasses all Islamic banking institutions in Indonesia, comprising a total of 33 entities. These include 13 Islamic commercial banks (BUS) and 21 Islamic business unit banks (UUS). The research used a purposive sampling technique. Purposive sampling is a sampling method that is used based on specific criteria or characteristics of the population in the study. The sample consists of 13 Islamic commercial banks. It is important to note that Islamic commercial banks operate independently from conventional banks, with distinct legal and operational frameworks that grant them autonomy in their decision-making processes. Islamic commercial banks chosen must fulfill these criteria: operating from 2018 to 2022; issue a comprehensive disclosure of financial reports throughout the designated study period; encompass all factors that are subject to the study; and there was an absence of any observed losses throughout the duration of the study.

Data Sources and Instruments

The data collected in this study is secondary data, in the form of supporting documents collected through document searches in the form of financial reports, theses, dissertations, literature books, and journal articles. The secondary data collected includes annual financial reports pertaining to Islamic banks for the period of 2018-2022. These reports were sourced from the official websites of the Financial Services

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Authority (OJK) and each Islamic banks.

Method of Analysis

The research methodology employed in this study involves the use of panel data analysis. Panel data analysis often refers to datasets that contain both time series and cross-sectional observations of several individuals, which assisted using SPSS to facilitate the processing of this data.

$FV = \alpha + \beta 1LIQ + \beta 2LEV + \beta 3P + \beta 4OE + e$

Where:

FV = Firm Value

LIQ = Liquidity

LEV = Leverage

P = Profitability

OE = Operational Efficiency

e = error

DISCUSSION AND FINDINGS

Descriptive Statistics

As described in the methodology section, SPSS software was used to evaluate the data gathered from annual financial reports on the variables selected for the study using five observations. Tables 1.0 and 2.0 following show the findings of descriptive statistic and multiple linear regression analyses:

Table 1.0

	N	Minimum	Maximum	Mean	Std. Deviation
Liquidity	40	.7256	.8544	.794592	.0178818
Leverage	40	6.0006	6.4582	6.209653	.1148625
Profitability	40	.0202	.0293	.024275	.0026341
Operational Efficiency	40	.8412	.8486	.843885	.0019582
Firm_ Value	40	.81	.83	.8174	.00578
Valid N (listwise)	40				

Source: authors own processed data (2023).

Liquidity of Islamic banks in Indonesia has an average or mean value of 0.794592, which explains that the companies that are in the research sample have liquidity of 0.794592, or 79.45% of the total funds collected from the public. The minimum value of liquidity is 0.7256, and the maximum value is 0.8544. The results of the standard deviation, which shows the spread of the data, are 0.0178818, the standard deviation value is lower than the average value, so it is known that the variability of liquidity during the study period tends to be small.

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Leverage of Islamic banks in Indonesia has a mean value of 0.16098, which explains that the company that is the sample of the study carries out a leverage of 6.209653, or 620% of the total liabilities held by the Islamic commercial banks that are the sample of the study. The minimum value of leverage is 6.0006 and the maximum value is 6.4582. The standard deviation results, which show the spread of data, are 0.1148625. The standard deviation value is higher than all average values, so it is known that the variability of leverage during the study period tends to be large.

Profitability of Islamic banks in Indonesia has an average value or mean value of 0.024275, which explains that the companies that are in the research sample have 0.024275, or 2.42%, of the overall ability of Islamic commercial banks to generate profitability. The minimum value of profitability is 0.222, and the maximum value is 1.000. The results of the standard deviation, which shows the spread of data, are 0.0026341, the standard deviation value is lower than the average value, so the variability of profitability during the study period tends to be small.

Operational efficiency of Islamic banks in Indonesia has an average value or mean value of 0.843885, which explains that the companies that are in the research sample have 0.843885, or 8.43%, of the overall ability of Islamic commercial banks to carry out efficiency in their activities. The minimum value of operational efficiency is 0.8412, and the maximum value is 0.8486. The results of the standard deviation, which shows the spread of data, are 0.0019582, the standard deviation value is lower than the average value, so the variability of operational efficiency during the study period tends to be very small.

Firm value of Islamic banks in Indonesia with an average value or mean value of 0.8174, which explains that the company that is the research sample has 0.8174, or 8.17% of the total value of Islamic commercial bank companies. The minimum value of the firm value is 0.8412, and the maximum value is 0.83. The results of the standard deviation, which shows the spread of data, are 0.001958, the standard deviation value is lower than the average value, so the variability of firm value during the study period tends to be small.

Multiple Linear Regression Analyses

Table 2.0

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.140	.196		16.000	.000
	Liquidity	.005	.022	.016	.244	.809
	Leverage	-.009	.004	-0.18	-2.257	.031
	Profitability	.492	.173	.224	2.844	.007
	Operational Efficiency	-2.708	.219	-.917	-12.370	.000

a. Dependent Variable: Firm_ Value

Source: authors own processed data (2023).

From the results of the regression equation, it can be concluded liquidity, leverage, profitability and operatinal efficiency that the constant value is 3,140. If the variables X1, X2, X3, and X4 are 0, then the Y value is 3,140. The value of the X1 variable is 0.005, which indicates that if there is an increase in units ofthe X1 variable, it will increase the Y variable by 3,140. Likewise, with the X2 variable having a value of - 0.009, the X3 variable having a value of 0.492, and the X4 variable having a value of -2,708, it will increase the Y variable, assuming the other variables have the same and constant values.

T test statistics

Table 3.0

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.140	.196		16.000	.000
	Liquidity	.005	.022	.016	.244	.809
	Leverage	-.009	.004	-.18	-2.257	.031
	Profitability	.492	.173	.224	2.844	.007
	Operational Efficiency	-2.708	.219	-.917	-12.370	.000

a. Dependent Variable: Firm_ Value

Source: authors own processed data (2023).

Based on the t test table, it can be concluded as follows:

Liquidity of Islamic banks in Indonesia provided by the proxy FDR has a positive but insignificant effect on the firm value of Islamic commercial banks. The results of this study support the findings of Hidayat et al. (2019); Stephanie & Agustina (2019) that founds that liquidity has no significant effect on firm value. The reason behind this phenomenon can be attributed to the utilization of liquidity in Islamic commercial banks solely for the purpose of assessing a company's capacity to meet its short-term financial obligations (Markonah et al., 2020; Saladin & Damayanti, 2019) and as well as to gauge its ability to process customer payments and withdrawals (Alaamsah et al., 2021). This aligns with the stewardship theory, which states that the primary responsibility of firm management is to serve the interests of principal (Pramono, 2013). The findings of this study also are consistent with the sharia enterprise theory, which states that the community or investors, as owners of funds in Islamic commercial banks, delegate the responsibility to the management (mudarib) to effectively manage and allocate resources in accordance with the prescribed guidelines. This obligation is entrusted by Allah, and the resources are to be utilized solely for the purposes defined by the trustee, with stakeholders having limited entitlement to their use (Rini, 2018).

Leverage of Islamic banks in Indonesia provided by the proxy DER has a negative and significant effect on the firm value of Islamic commercial banks. The results of this study support the findings of Ilham et al. (2022); Ismiyatun et al. (2021); Meifida & Hertati (2022) that founds that leverage has a negative and significant effect on firm value. The use of high leverage in these companies will trigger a lack of public interest or investors to save their funds in the company, resulting in a decrease in the value of the company. The negative relationship found in the sampled Islamic commercial banks can be primarily attributed to the economic stagnation experienced during the pandemic Covid-19 period spanning from 2020 to 2022. Islamic commercial banks, in response to such adverse economic conditions, tend to rely more on internal capital rather than debt financing which aligns with the research conducted by Alfaro et al. (2017) that suggests that companies should exercise caution in maintaining high levels of leverage during periods of economic deterioration or crises, as it may impede their ability to meet debt obligations in a timely manner.

Profitability of Islamic banks in Indonesia provided by the proxy ROA has a positive and significant effect on the firm value of Islamic commercial banks. The results of this study support the findings of Aprilyani et al. (2021); Bahraini et al. (2021); Damayanti & Sucipto (2022); Hameeda (2022); Jihadi et al. (2021); Luthfiah & Suherman (2018); Maldina et al. (2021); Mardji (2022) that found profitability has a positive and significant effect on firm value. Despite the prevailing economic stagnation, the selected Islamic commercial banks demonstrated the ability to generate profits. This can be attributed to the effective asset management practices employed by the management of these banks, which enabled them to optimize profit revenue. It is worth noting that the profits obtained by Islamic commercial banks were derived from profit-sharing agreements, rather than interest-based agreements that are subject to fluctuations in accordance with the economic climate. Consequently, during periods of economic instability, individuals tend to exhibit a preference for Islamic banks over conventional ones.

Operational Efficiency of Islamic banks in Indonesia has a negative and significant effect on the firm value of Islamic commercial banks. The results of this study support the findings of Halimah & Komariah (2017); Kansil et al. (2021); Sudarmanto et al. (2021) that found operational efficiency has a negative and significant effect on firm value. The lower the value of operational efficiency, the company's management is considered successful in achieving higher profitability so that the company's operations will be more efficient and have an impact on increasing the company's reputation and firm value. Despite the adverse economic conditions experienced during the Covid-19 pandemic from 2020 to 2022, the management of Islamic commercial banks has demonstrated their ability to optimize and streamline the operational costs. This strategic approach has enabled these banks to maintain favorable financial performance and generate profits, especially Islamic banks in Indonesia.

CONCLUSIONS

The findings of this study conclude a positive and insignificant relationship between liquidity and firm value of Islamic banks in Indonesia; a positive and significant relationship between profitability and firm value of Islamic banks in Indonesia; a negative and significant relationship between leverage and firm value of Islamic banks in Indonesia; a negative and relationship correlation between operational efficiency and firm value of Islamic banks in Indonesia. The findings of this research can be utilized to enhance and sustain the financial performance of the company by taking into account the variables that influence the community, consumers, or investors' decision to participate in Islamic commercial banks. Based on these findings, this study suggested that the management of Islamic banks in Indonesia formulate leverage, profitability, and operational efficiency that maximize firm value. In addition, the process of development should encompass a comprehensive business plan that takes into account both internal and external elements that influence the firm value. Furthermore, this strategy should incorporate certain aspects that have been identified as effective in enhancing the firm value, based on available information pertaining to Islamic banks in Indonesia.

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