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# THE EFFECT OF FINANCIAL PERFORMANCE ON INVESTOR RESPONSE BEFORE AND AFTER STOCK SPLIT IN COMPANIES LISTED ON THE INDONESIA SHARIA STOCK INDEX

Achmad Rofi<sup>1</sup>, Dra Rahma Yudi Astuti<sup>2</sup>, (2023)\*

Affiliation 1; University of Darussalam Gontor, Ponorogo, Indonesia, arofii069@gmail.com

Affiliation 2; University of Darussalam Gontor, Ponorogo, Indonesia [rahma.yudi@unida.gontor.ac.id](mailto:rahma.yudi@unida.gontor.ac.id) id

Correspond-ence

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THE EFFECT OF FINANCIAL PERFORMANCE ON- VESTOR RESPONSE BEFORE AND AFTER STOCK SPLIT IN COMPANIES LISTED ON THE INDONESIA SHARIA INDEX PERI- ODE 2016 - 2018

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**Abstract:** The good or bad financial condition of a company can be seen through the financial performance of the company. Financial performance can affect the response of investors in investing their funds in the company. Against the company. The high investor interest in the company's securities will affect the high share price owned by the company so with the high share price, there will also be high risks that investors are concerned about. Information related to corporate actions is needed by companies to overcome the problems that occur in companies that affect the optimization of company-owned securities. Stock Split is one of the corporate actions that can be implemented by the company to optimize the company's shares. This study aims to determine the effect of financial performance as measured by ROA, ROE, and PER on investor response. And whether there are differences in financial performance and investor response represented by stock returns before and after doing a Stock Split. This study uses secondary data, namely the financial statements of companies listed in the sample on the Indonesia Stock Exchange (IDX). This study uses purposive sampling with a total of 28 companies. The data analysis method used is multiple linear regression and ANOVA test in SPSS. The results of this study indicate that there is no effect of ROA and ROE on investor response as measured by stock returns. However, there is a significant effect of PER on investor response as measured by stock returns. The results of the difference test conducted show that there are differences before and after the stock split.

**Keywords:** Financial Performance, Investor Response, Stock Split.

## Introduction

The capital market has an important role as an alternative source of corporate financing to increase capital, this is because the capital market can function as a means to minimize funds from individuals (investors) from various countries to companies.

- companies listed on the stock exchange (Ronald Sukwadi;2006). The role of the capital market can be seen from two sides, apart from the need for business funding, the capital market also plays an important role in fulfilling the need to invest in the community (Hendy M. Fakhruddin;2008). The capital market is also one of the important instruments in the development of a country's economy.

Investment is literally an investment that is expected to generate additional funds in the future (Francis;1991). A person who is expected to invest funds is also known as an investor. Companies can sell their securities in the capital market to obtain additional funds. In Islam, investment is one of the muamalah activities, because there is a relationship between individuals who benefit each other. Islam views investment as an obligatory thing to do so that wealth becomes productive and can be more beneficial to others, and Islam strictly prohibits hoarding wealth (Hanif;2012).

يَوْمَ يُحْمَىٰ عَلَيْهَا فِي نَارِ جَهَنَّمَ فُتْكُوىٰ بِهَا جِبَاهُهُمْ وَجُنُوبُهُمْ وَأَطْهُورُهُمْ ۗ هٰذَا مَا كُنْتُمْ لَآنْفُسِكُمْ  
فَدُوًّا مَا كُنْتُمْ تَكْتُمُونَ

Meaning: "On the day when the gold and silver will be heated in the Hellfire, and their foreheads, their stomachs, and their backs will be burnt with it (and it will be said to them): "This is your treasure which you have kept for yourselves, so feel now the consequences of what you have kept "(Qur'an Surah At-Taubah;35).

Shares or Stock is a proof or token of ownership of a share of capital in a limited company (Andri Soemitra;2017). The difference with Sharia shares is that Sharia shares are issued by issuers whose business activities and management methods do not conflict with Sharia principles (*Ibid*). In recent times, although Sharia stocks have experienced a decline, Sharia stocks have begun to show their development again. The development of Sharia stock trading is indicated by the value of the Indonesian Sharia Stock Index (ISSI), ISSI is needed to describe the performance of all Sharia stocks listed on the Indonesia Stock Exchange (IDX), while the Jakarta Islamic Index (JII) is only represented by 30 issuers whose determination involves the Supervisory Board of PT Danareksa Investment Management (Hanif;2012). The development of ISSI and JII can be shown in the following table:

Figure 1: Market Capitalisation

Tahun	Jakarta Islamic Index	Indeks Saham Syariah Indonesia	Jakarta Islamic Index 70
2016	2.041.070,80	3.175.053,04	-
2017	2.288.015,67	3.704.543,09	-
2018	Januari	3.854.741,68	-
	Februari	3.821.640,52	-
	Maret	3.584.600,83	-
	April	3.535.242,35	-
	Mei	3.481.101,67	2.575.667,69
	Juni	3.427.582,42	2.510.032,86
	Juli	3.518.381,21	2.526.844,32
	Agustus	3.555.000,10	2.543.420,16
	September	3.543.321,48	2.554.251,94
	Oktober	3.477.677,45	2.477.197,98
	November	3.566.557,20	2.542.055,39
	Desember	3.666.688,31	2.715.851,74

Source: Financial Services Authority ([www.ojk.go.id](http://www.ojk.go.id))

Market capitalization is the value of the company calculated from the total number of shares of the company outstanding multiplied by the stock market price, thus the more expensive the share price, the higher the capitalization value (*Ibid*). In terms of market capitalization, Islamic stocks have decreased, but it does not rule out the possibility that the growth of the Islamic capital market in Indonesia has decreased. The circulation of Islamic shares in Indonesia in 2018 has increased from the previous years. When viewed from the shares outstanding, the development of Islamic stocks can be seen in the following graph:

Figure 2: Number of Shares in the Sharia Securities List



Source: Financial Services Authority ([www.ojk.go.id](http://www.ojk.go.id))

From the graph, we can see that the level of company awareness of the potential of Sharia shares is increasing. With this, the company is more flexible in offering shares, because the company can enter the realm of Sharia and Conventional investors.

Financial performance is one of the important instruments that investors need to pay attention to before investing. Because in a financial report, there will be various information needed for basic considerations in decision-making for an investor (Komang Ayu Setia Dewi;2007-2001). Companies that have good financial performance are likely to have good profits, so they are able to get a positive response from investors. Before investing their funds, investors will carefully assess how much profit and risk they will get before investing.

One of the other information that is important for investors before making an investment is information related to corporate actions carried out by companies listed on the stock exchange that affect the condition of shares in a company. Some forms of corporate actions consist of strategic alliances, divestments, acquisitions, mergers, consolidations, rights issues, reverse stock, stock splits, private placements, tender effects, cash dividends, and dilutions. Corporate action decisions made by companies usually aim to optimize investment, so that companies can more easily obtain additional funds from investors.

The higher the share price of an issuer, the greater the risk for investors, resulting in a lack of investor interest in investing. In this problem, one of the company's efforts is to deal with the problem by implementing corporate action, namely Stock Split. Stock Split is a split of the nominal value of shares into smaller nominal values (Mawar Nilasari;2010). In other words, companies that do stock splits have a smaller nominal value of shares, but the number of shares is increasing.

The purpose of a stock split is to increase the sale of the company's shares so that the company can maximize the acquisition of investment funds from investors. In other words, the company conducts a stock split so that its shares are in an optimal trading range so that the distribution of shares becomes wider and the purchasing power of investors increases, especially for individual investors with limited funds (Sulistiyono Budi and Princess Diana Lidharta;2011). During the period of 3 years starting from 2016 to 2018 from 399 issuers listed on the ISSI, there were approximately 30 issuers that carried out stock split corporate actions recorded therein.

The implementation of a stock split can change the stock price and the trading volume of the company's shares. These changes can affect financial performance which also has an impact on investor responses to their interest in investing their funds in the company. Therefore, the researcher intends to test how much influence financial performance has on investor response as measured by stock returns and empirically test the difference between financial performance before and after a stock split. Conceptualization

### Literature Review

The theoretical basis of this study is Financial Performance and Stock Returns which will be described as follows:

#### Financial Performance

3 indicators affect financial performance:

- ROA (Return On Asset)

ROA or return on assets has been proven to be able to present the financial performance of a company. The higher the ROA, the better the return of a company. ROA is obtained by comparing net profit after tax to total assets, the greater the ROA, the better the company's performance, because the level of return is greater (Prasetyo, Allan D, and Akhmad Riduwan;2015).

The formula for calculating ROA :

$$\text{ROA} = \frac{\text{Net Profit After Tax}}{\text{Total Assets.}}$$

- ROE (Return Of Equity)

ROE or return on equity has been proven to present the financial performance of a company. The higher the ROE, the better the company's return on its equity. If the company has a very high ROE, then investors will assume that the company has used its capital Efficiently (*Ibid*).

- PER (Price Earning Ratio)

PER is a ratio used by investors to determine the fair price of company shares. Companies that have the opportunity to grow and develop more are companies that have a high PER (*Ibid*). The higher the PER ratio, the higher the profit growth expected by investors. If the company's PER is high, the company can provide high returns for investors (Hanafi and Halim, 2007). PER is calculated by comparing the share price per share with the share earnings per share.

The formula for calculating PER:

$$\text{PER} = \frac{\text{Share Price per Share}}{\text{Earnings per Share.}}$$

### Stock Return

Stock Return is the current share price minus the previous period's share price. In accordance with the results of Prasetyo and Riduwan's research, 2015 uses stock returns as an indicator of representation of investor response.

There are 2 types of return components:

a. Dividends, Dividends are benefits provided by the company that come from the company's profits every year (Iswi and Serfianto, 2010).

b. Capital Gain/Loss is the profit/loss received as a result of the difference between the selling price and the buying price of shares.

According to Jogiyanto (2017), the formula for calculating stock returns is

$$\text{(Jogiyanto;2017) StockReturn} = \text{Pt} - \text{Pt-1}$$

Pt-1

Pt = Current Period Stock Price Pt-1 = Last Period's Share Price

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### **Research Methodology**

The method used in this research is the quantitative method. The purpose of this study is to analyze the effect of the independent variable, namely financial performance on the dependent variable, namely investor response and compare before and after doing a stock split on companies that do stock split.

which are listed in ISSI in the period 2016 - 2018.

This study used a purposive sample, namely a sampling technique with certain considerations (*Ibid*). The criteria for determining the sample in this study include:

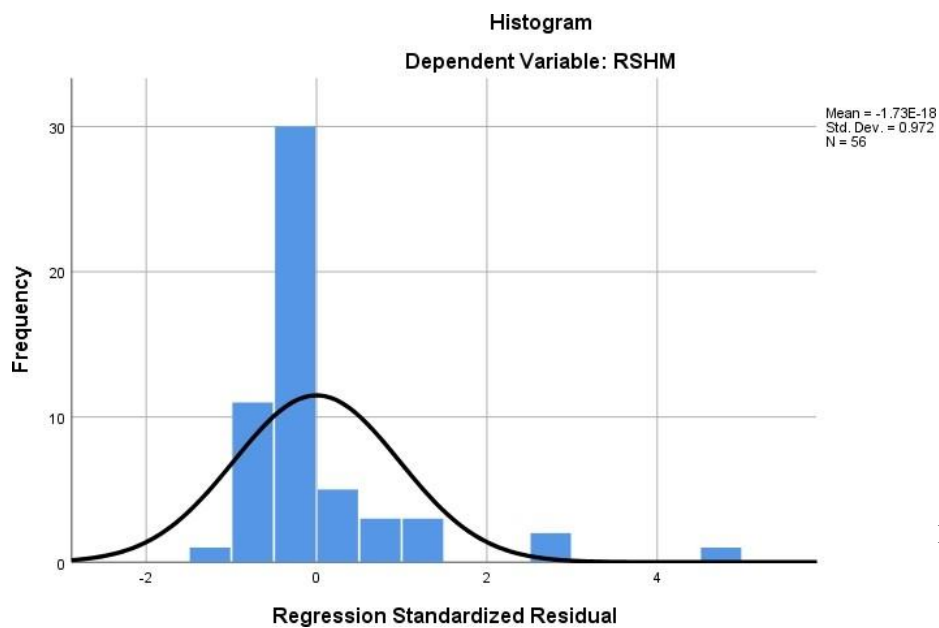
- 1 Companies that do stock splits in the period 2016 - 2018 that are listed on the ISSI.
- 2 Have complete data within the research period for analysis needs.

Based on the above criteria, there are 30 companies listed in the sample for this study.

Calculation of variables using multiple linear regression analysis models through the SPSS version 25.0 program. Before regression is carried out, classical assumption tests are carried out which include the normality test, Multicollinearity test, heteroscedasticity test, and Autocorrelation test.

**Results And Discussion**

Figure 1, Normality Test Results



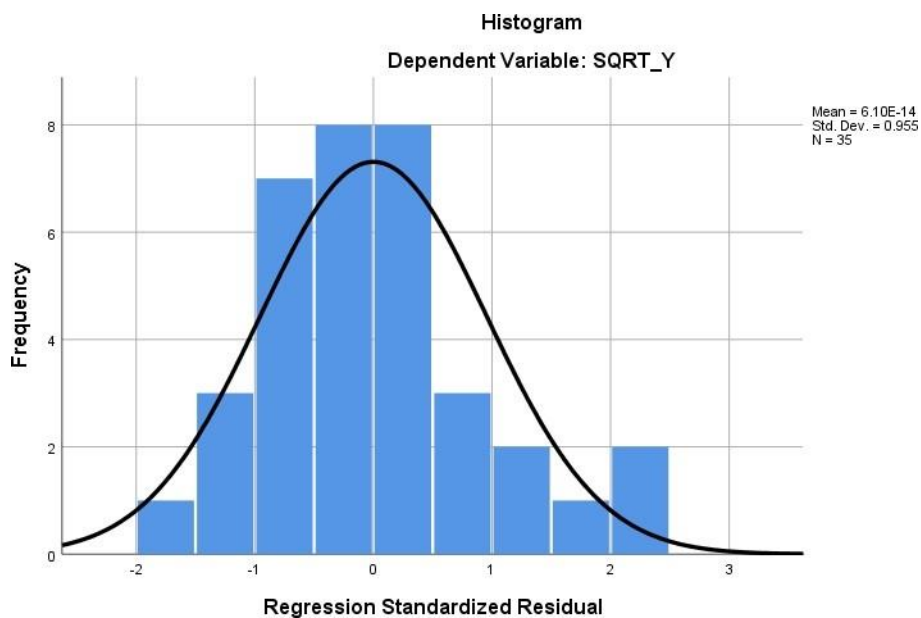
Source: Secondary Data Processed

One-Sample Kolmogorov-Smirnov Test		
		Unstandardised Residuals
N		56
Normal Parameters <sup>a,b</sup>	Mean	0.0000000
	Std. Deviation	85.81152469
Most Extreme Differences	Absolute	0.256
	Positive	0.256
	Negative	-0.164
Test Statistic		0.256
Asymp. Sig. (2-tailed)		.000 <sup>c</sup>

The results of the normality test according to Figure 1 show a probability value of 0.00 < 0.05, which means that the sample data is not normally distributed. To overcome abnormal data can be overcome with SQRT. SQRT is applied to all variable, both

dependent and independent. After SQRT, the results of the normality test can be seen in Figure 4.2.

Figure 2, Normality Test Results After SQRT Transformation



One-Sample Kolmogorov-Smirnov Test		
		Unstandardised Residuals
N		35
Normal Parameters,b	Mean	0.0000000
	Std. Deviation	3.94409541
Most Extreme Differences	Absolute	0.137
	Positive	0.137
	Negative	-0.064
Test Statistic		0.137
Asymp. Sig. (2-tailed)		.095c

Source: Secondary Data Processed

Normality test according to Figure 2 with a probability value of  $0.095 > 0.05$  so that the data is normally distributed.

**Table 1, Multicollinearity Test Results**

**Table 2, Heteroskedasticity Test Results**

Model		Unstandardised Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-149.535	162.212		-0.922	0.364
	SQRT_X1	-0.544	0.564	-0.383	-0.964	0.343
	SQRT_X2	-0.124	0.557	-0.088	-0.222	0.826
	SQRT_X3	0.205	0.213	0.164	0.966	0.342

Source: Secondary Data Processed

The results of the heteroskedasticity test in Table 2 show a significance for SQRT\_X1 of  $0.343 > 0.10$ , which means that there is no heteroskedasticity problem in the ROA variable. Likewise, the results shown in the SQRT\_X2 and SQRT\_X3 variables with a significance value of 0.826 and 0.342 respectively, both of which show numbers above 0.10, which means that there is no heteroscedasticity problem in the ROE and PER variables.

**Table 3, Autocorrelation Test Results**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.587a	0.345	0.281	4.13053	1.933

. Source: Secondary Data Processed



The results of the autocorrelation test in Table 3 show that the DW value in this study of 1.933 > 1.6528 is greater than the DU value and smaller than 4 - DU 1.933 < 2.3472 which means there is no serial autocorrelation problem.

**Table 4, Multiple Linear Regression Test Results**

Model		Unstandardised Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1066.190	270.041		3.948	0.000
	SQRT_X1	-0.700	0.939	-0.257	-0.746	0.461
	SQRT_X2	-0.247	0.927	-0.092	-0.267	0.791
	SQRT_X3	-1.393	0.354	-0.580	-3.937	0.000

Source: Secondary Data Processed

Based on Table 4 which has undergone data transformation in the form of SQRT, multiple linear regression analysis can be formulated:

$$\text{SQRT\_Y} = 1066.190 - 0.700 \text{ SQRT\_X1} - 0.247 \text{ SQRT\_X2} - 1.393 \text{ SQRT\_X3} + 270.041$$

Where:

Y = Investor Response

X1 = Return On Asset

X2 = Return On Equity

X3 = Price Earning Ratio

SQRT =

**Hypothesis Test Results**

**Table 5, T-test Results**

Model		Unstandardised Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1066.190	270.041		3.948	0.000
	SQRT_X1	-0.700	0.939	-0.257	-0.746	0.461
	SQRT_X2	-0.247	0.927	-0.092	-0.267	0.791
	SQRT_X3	-1.393	0.354	-0.580	-3.937	0.000

Source: Secondary Data Processed

It can be seen in Table 5 that SQRT\_X1 of 0.461 > 0.05 means that ROA has no significant effect on investor response. SQRT\_X2 of 0.791 > 0.05 means ROA has no significant effect on investor response. 0.05 means ROE has no significant effect on investor response. In contrast to SQRT\_X3 of 0.00 < 0.05 which means PER has a significant effect on investor response.

**Table 6, F Test Results**

Model		Some of Squares	df	Mean Square	F	Sig.
1	Regression	278.119	3	92.706	5.434	.004b
	Residuals	528.900	31	17.061		
	Total	807.019	34			

Source: Secondary Data Processed

Table 6 shows the probability f statistic of 0.04 < 0.05, which means that the independent variables together have an effect on the dependent variable.

**Table 7, Multiple Determination Coefficient Test Results (R2)**

**Table 8, Test Of Equality Test Results**

		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	PRE	5.7214	28	7.45720	1.40928
	POST	8.1779	28	23.59758	4.45952
Pair 2	PRE	10.1657	28	11.01900	2.08240
	POST	13.1582	28	28.19548	5.32844
	PRE	998.5818	28	3606.03612	681.47677
	POST	20619.7461	28	108395.56637	20484.83656
	PRE	46.5353	28	110.32531	20.84952
	POST	28.3435	28	61.22424	11.57029

Source: Secondary Data Processed

Below is Table 9 which shows the results of the ANOVA test using the Welch F- Test method.

**Table 9, ANOVA Test Results**

	Statistica	df1	df2	Sig.
Welch	1869.749	2	92.741	0.000

Source: Secondary Data Processed

The ANOVA test results can be seen in Table 4.13 which shows a probability of

0.0 < 0.05 which means that in this test it is proven that there is a difference before and after the Stock Split.

1.0 Bank Muamalat is selected as the object of this study based on the issue of the problem of slowing growth in financing which has an impact on reducing marginal income and fee base income. The decline in bank performance in the first half of this year was also marked by important ratios that worsened. The ratio of Non-Performing Financing, which was previously successfully suppressed, has soared again. As of June 2019, the gross NPF ratio increased from 1.65% to 5.41%, while the net NPF ratio increased from 0.88% to 4.53%.

## Discussion

### 1. The effect of Return On Asset (ROA) on investor response

Based on the results of the statistical t-test, the ROA variable shows a significant value of

0.461 is greater than 0.05, which means that ROA has no significant effect on investor response.

### 2. The effect of Return On Equity (ROE) on investor response

Based on the results of the statistical t-test, the ROE variable shows a significant value of 0.791 greater than 0.05, which means that ROE has no significant effect on investor response.

### 3. The effect of Price Earning Ratio (PER) on investor response

Based on the results of the statistical t-test, the PER variable shows a significant value of

0.00 is smaller than 0.05 which means that PER has a significant effect on investor response.

### 4. Differences before and after Stock Split

The test results on the paired t-test show that there are differences in financial performance before and after the stock split. The sample used in this study is companies that did stock splits in 2016 - 2018. The results of this test can be seen through the Welch F test which shows 0.00 below 0.05 which shows that this test proves that there is a difference before and after the stock split.

The purpose of the company doing a stock split is so that its shares are in an optimal trading range so that the distribution of shares becomes wider and the purchasing power of investors increases, especially for individual investors with limited funds (Sulistiyono Budi, and Princes Diana Lidharta;2011). This statement is proven in the test of equality by looking at the mean of each independent variable before and after the stock split where the mean of financial performance which includes ROA, ROE, and PER has increased significantly. The mean ROA at the time before the stock split was 5.7214 and after the stock split increased by 8.1779, which means ROA has increased and is getting better. The mean ROE at the time before the stock split was 10.1657 and

after the stock split increased by 13.1582, which means that ROE has increased and is getting better. The mean PER at the time before the stock split was 998.5818 and after the stock split increased by 20619.7461, which means that PER has increased and is getting better.

Investor response as measured by stock returns also has differences before and after stock splits. Before the stock split the stock return showed a number of 46.5353 while after the stock split the stock return showed a number of 28.3435. From these results, there is a significant difference between stock returns before and after stock splits. The difference between stock returns before and after stock splits tends to worsen in the results of this study. There are other factors that make investor responses tend to worsen even though a stock split has been carried out.

### **Conclusions And Suggestions**

The conclusion of the above research is that financial performance as measured by ROA and ROE does not have a significant effect on investor response as measured by stock returns. Meanwhile, financial performance as measured by PER has a significant effect on investor response as measured by stock returns. The results of the t-test conducted in this study provide positive results with differences in financial performance and investor response before and after the stock split. This is because the stock split aims to optimize the shares owned by the company.

For the good of future researchers to get better and more accurate results, the author proposes several suggestions for investors, or potential investors and further research. The suggestions proposed are as follows:

1. For investors or potential investors who will invest in the company, they should look at the company's financial performance first, because the company's financial performance can affect the stock price and stock return of the company.
2. Companies should consider the condition of the shares before making corporate or other action decisions to optimize company profits.
3. For further research, it is expected to conduct research with different objects and these objects influence the Indonesian capital market.

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