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Detection of Sharia and Non-Sharia Stock Price Volatility Through Financial Performance and Firm Size Analysis (Comparative Study of LQ45 and JII30)

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Abstract

Purpose - This research aims to estimate the magnitude of the influence of assets measured using firm size and company profits measured by financial performance on the volatility of sharia and non-sharia stock prices. Through this research, it is hoped that investors will be able to assess the company's achievements and anticipate investment failures in the future..

Method - Quantitative research using a regression analysis approach by comparing two research subjects, namely non-shariah shares LQ45 and sharia shares JII30. This data collection is complemented by library research.

Result - The results obtained are that Financial Performance and Firm Size have an influence on share price volatility, both sharia and non-sharia stocks. In general, these two stocks found fluctuating data on Financial Performance and Firm Size, followed by rises and falls in share prices. This study is proven by theoretical results, statistical analysis results, and financial data recapitulation results.

Implication - The existence of a significant relationship between these variables provides information for investors in making investment decisions, where fundamental analysis can be carried out by looking at the financial reports of the target company (issuer) without forgetting the analysis of Financial Performance and Firm Size data.

Originality - Research comparing sharia and non-sharia stock indices is still rarely done because many previous studies only focused on one index.

Keywords: **Stock Price Volatility, Financial Performance, Firm Size**

Introduction

The Indonesian capital market proliferates, with many investors and issuers listed on the Indonesian Stock Exchange (BEI). This achievement proves that the capital market in Indonesia is increasing and can compete with other ASEAN countries amidst the rise of world market globalization. By its function, the capital market can be a meeting place for investors and issuers so that it can support investment and funding activities that are needed by many people. Apart from contributing to the sustainability of business actors, the role of the capital market also contributes to national economic development.

With the ability to absorb investment and strengthen the company's financial position, the capital market is also able to provide an overview of the economic condition of a country. Capital market regulations by the provisions of Law of the Republic of Indonesia Number 8 of 1995 concerning Capital Markets (OJK, 2010) are an important basis for the establishment of capital markets in Indonesia.

The benefit of being a means of investment and funding is that the capital market can attract investors who need a platform for easy allocation of funds with alternative assets according to their wishes. Meanwhile, companies need a platform that makes it easier to obtain funds for their business capital (Puspitaningtyas, 2015). The two parties receive benefits according to their respective needs.

Investment instruments include shares which are now in great demand because they offer returns on investment profits. Interest in investing in these shares tends to encourage investors to consider both the historical and fundamental aspects of the target issuer. Therefore, information regarding company financial reports has an important role for every stakeholder, especially investors. Apart from assessing the company's achievements, this is also an anticipation of investment failure. The potential for failure is because investment will not be separated from the expected profit (rate of expected return) and the level of risk (rate of risk). In this case, return and risk are positive linear, meaning that the higher the expected return, the higher the level of risk faced, and vice versa.

Based on the concept of portfolio diversification, investment risk is divided into two, namely systematic risk and unsystematic risk. Systematic risk, especially in stock investments, is also called internal company risk which contains company performance (Puspitaningtyas, 2015). Regarding the risk of stock investment, the company's financial position can trigger share price fluctuations. The size of the company's achievements and wealth will be of particular concern to investors, this is because it will relate to the company's ability to distribute returns to each of its investors.

The company's achievements will be measured by financial performance and the company's wealth will be measured by the level of assets which is better known as company size. Financial performance has a close relationship with company growth and development, where the effectiveness of company growth can be reflected in the evaluation of a company's financial performance (Zannati & Budiarti, 2021). This will affect the company's profit which can be calculated through the profitability ratio (Adrianingtyas, 2019). A high profitability value indicates that the company's prospects are getting better, so it tends to give a positive signal to investors that there is an opportunity for future returns to be shared (Dewanti & Djajadikerta, 2018; Ridha, 2019).

One of the financial performances related to profits and capital is the Return on Equity ratio. This ratio shows the company's ability to generate profits from the shareholder's perspective by efficiently using its capital. This means that this ratio measures the level of profit from investments made by company shareholders (Ridha, 2019). Thus, investors will be interested in reviewing and analyzing this ratio because it shows the share of profitability that will be allocated to shareholders. The higher the return on equity ratio of a company will indicate a positive share price.

Furthermore, regarding firm size as a variable, it is alleged to influence share prices, namely a size that reflects the size of the company by looking at the company's total assets. The higher the size of the company in terms of the size of its assets, the better the growth of the company (Nst & Sari, 2020). In theory, firm size can influence investors' views, this is because the size of the company can show better funding prospects than small companies, so that shares of large companies can be actively traded and have a higher level of liquidity (Natalia, Manurung, & Nduru, 2020).

Stock prices always fluctuate at any time. This is an important point that investors must pay attention to because it will be related to profits and losses from stock investments. The rise and fall of share prices is caused by market forces in the form of supply and demand for shares. In this research, the share price used is the closing share price, namely the final trading price in effect for a certain period on the Stock Exchange (Syahzuni, Ansita, & Prastyani, 2022).

The LQ45 index is the most liquid stock index indicator on the Indonesia Stock Exchange of 45 issuers with several characteristics, namely having high liquidity, large market capitalization, high trading frequency values, good company fundamentals, and good potential for financial stability in BEI. LQ45 issuers usually issue shares in the blue chips (superior) category. This means that this stock is the best (Zannati & Budiarti, 2021) likewise with the Jakarta Islamic Index (JII) with its constituent 30 most liquid shares in the Sharia category. The criteria for this type of 30 sharia shares are including sharia shares on ISSI for the last 6 months, selected as the 60 shares with the highest market capitalization for the last 1 year, and selected as the 30 shares with the highest daily transaction value on the regular market.

The two stock indexes above are the most liquid selected indices from a conventional and sharia perspective. Apart from being the most liquid shares, these two stock indexes also have their attraction for investors, characterized by high share prices. This research will use both of them as research subjects so that the study results are more accurate. Apart from that, it is strengthened by re-analysis regarding the suitability of theory and facts on the research object, especially on financial performance and firm size on the value of the LQ45 index company. Thus, the author is interested in conducting another study regarding the analysis of share price volatility as measured using financial performance and firm size in LQ45 companies and JII30 companies on the Indonesian Stock Exchange (BEI)..

Literature Review

Signaling theory is information about the company's condition to be conveyed to external parties such as investors. This theory shows the urgency of the company's financial reports for all external parties (Septyadi & Bwarleling, 2020). Signaling theory explains the company's need to provide signals to users of financial reports. This means that this signal describes company policy so that it can guide investors' decisions in looking at the company's prospects in the future. So, complete company information is needed by investors in analyzing their investment preparations. Investors' responses to this information are signals that will then influence stock price volatility (Rosyida, Firmansyah, & Wicaksono, 2020).

Signal theory was first put forward by Spence (1973) formulating the theory that company information is very important for considering the company's external decisions. This is because positive signals can have an impact on market reactions, so financial reports must be presented reflecting all relevant information about the company's condition. Financial reports that have a positive signal can increase the value of a company by increasing the company's share price, and vice versa (Nurcahyani & Bhilawa, 2021).

Volatility is synonymous with statistical measurements which are usually used to see stock price fluctuations over a certain period in the short term. Due to fluctuations in share prices, volatility becomes a systematic risk for investors in investing their capital. A high level of share price volatility reflects that the demand-supply for shares occurs unusually, meaning that the fluctuation range is wide with rapid increases and decreases, giving rise to indications of investment uncertainty (High-Risk High Return). On the other hand, rapid fluctuations in stock prices can also indicate the level of most active trading frequency in the market. From these two indications, profits and risks will go hand in hand. High share price volatility is in line with the high returns and risks that will be faced (Septyadi & Bwarleling, 2020).

Yosevin Gloria Angesti, (2019) found that volatility occurs if there is new information in the market, meaning this condition will be related to signal theory in the capital market. Stock price volatility shows the level of change in stock prices during a certain period so that it can be used as an assumption in determining the risk in stock investment. Thus, stock price volatility needs to be predicted by examining several variables that theoretically have a strong influence. This research will focus on analyzing financial performance and firm size in influencing the value of stock price volatility.

In theory, financial performance is the company's performance which describes the extent of the company's ability to manage its business operations properly and correctly. Company financial performance contains the financial conditions or work performance of a company in a certain period (Prabawa & Lukiastuti, 2017). The better the company's financial performance, the higher the return investors will get. This will invite many investors to invest their capital in the company so that demand for shares will increase. Increasing demand for shares will also increase the share price of the company. By research (Nani & Syarifudin, 2022) share prices are influenced by demand and supply. It can be said that a company's capital gains will increase if the company has a good reputation which is reflected in its financial performance.

Firm size is different from financial performance because it is an indicator that focuses on measuring the level of company assets. Companies themselves are categorized into two types, namely small-scale companies and large-scale companies. A large-scale company shows that the company is growing so it affects the company's profitability, increasing profits tend to attract investor interest which then makes demand for company shares increase, so that the company's share price soars which in turn will impact the high value of the company, a large firm size reflects that the company is experiencing good development and growth thereby increasing the value of a company. An increasing company value can be indicated by the company's total assets increasing and being greater than the company's total debt (Angga Pratama & Wiksuana, 2018).

Methods

The type of research is quantitative with a regression analysis technique approach which is used as a conclusion in making a comparison of two subjects. The statistical test of linear regression analysis is used to detect stock price volatility through financial performance and firm size analysis. The research subjects are LQ45 as a sample of non-shariah shares and JII30 as a sample of sharia shares on the Indonesia Stock Exchange. The secondary data was collected from www.idx.co.id with an observation period of 2019-2022. To support study sources and to strengthen research theory, secondary data was also obtained from library research. Library research is a method of collecting data through library sources (Mestika Zed, 2014). In this case, library research means reviewing and analyzing literature, books, articles, and other sources on a theme being researched.

Results and Discussion

Results

Table 1. Classic Assumption Test

Test	Value	Information
Normalitas	Models I and II: Sig. 0.200 > 0.05	The data in this study is normally distributed
Multikolinearitas	Models I and II: nilai *Tolerance* > 0,10 nilai VIF < 10	No multicollinearity problems were found in this study
Heteroskedastisitas	Models I and II: Glesjer test, the significance	There is no heteroscedasticity problem

	value of the financial performance variable is > 0.05 and firm size > 0.05	
Autokorelasi	Models I and II: DW test values are 1.839 and 2.082 (du < DW < 4-du)	No autocorrelation problems were found in this study

Table 2. Partial Hypothesis Test Model I

Coefficients[a]

Model		T	Sig.
1	(Constant)	-3.448	.002
	Financial Performance	2.201	.036
	Firm Size	4.080	.000

a. Dependent Variable: Harga saham

Table 3. Partial Hypothesis Test Model II

Coefficients[a]

Model		T	Sig.
1	(Constant)	6.464	.000
	Financial Performance	3.555	.001
	Firm Size	-3.145	.003

a. Dependent Variable: Harga Saham

Based on the two tables above, the output of the statistical t-test (partial test) will be compared with the t-table with the following conditions:

The formula for finding t table:

t-table = (a/2 ; df residual=n-k-1)

t-table = (0,05/2 ; df=30-2-1)

t-table = (0,025 ; df=27)

t-table = 2,05183

Model I

The partial test output on the financial performance variable has a statistical t value > t table, namely 2.201 > 2.05183 with a significance value of 0.036 < 0.05. This means that financial performance has a significant positive influence on sharia stock prices. The positive influence shows that if there is an increase in financial performance, then sharia share prices will also increase, resulting in a movement in the same direction.

The partial test output on the firm size variable has a statistical t value > t table, namely 4.080 > 2.05183 with a significance value of 0.000 < 0.05. This means that Firm Size has a significant positive influence on sharia stock prices. The positive influence shows that if there is an increase in Firm Size, then sharia share prices will also increase, resulting in a movement in the same direction.

Model II

The partial test output on the financial performance variable has a statistical t value > t table, namely 3.555 > 2.05183 with a significance value of 0.001 < 0.05. This means that financial performance has a significant positive influence on sharia stock prices. The positive influence shows that if there is an increase in financial performance, then sharia share prices will also increase, resulting in a movement in the same direction.

The partial test output on the firm size variable has a statistical t value > t table, namely -3.145 > 2.05183 with a significance value of 0.003 < 0.05. This means, however, that Firm Size has a significant negative influence on sharia stock prices. The negative influence shows that if there is an increase in Firm Size, Sharia share prices will decrease resulting in unidirectional movements.

Table 4. Simultaneous Hypothesis Testing Model I

ANOVA[a]

Model		F	Sig.
1	Regression	13.564	.000[b]
	Residual		
	Total		

a. Dependent Variable: Harga saham

b. Predictors: (Constant), Firm Size, Financial Performance

Table 5. Simultaneous Hypothesis Testing Model II

ANOVA[a]

Model		F	Sig.
1	Regression	12.681	.000[b]
	Residual		
	Total		

a. Dependent Variable: Harga Saham

b. Predictors: (Constant), Firm Size, Financial Performance

Based on the two tables above, the statistical f value obtained will be compared with the table f value with the following conditions:

Significance value 5%

f-table = (df(N1)=k ; df(N2)=n-k)

f-table = (2 ; 30-2)

f-table = (2 ; 28)

f-table = 3,34

Model I

The simultaneous test output on the financial performance variable and the Firm Size variable has a statistical f value > f table, namely 13.564 > 3.34, and a significance value of 0.000 < 0.05. This means that financial performance and Firm Size have a significant positive influence on sharia stock prices. This positive influence shows that there is a unidirectional movement of two independent variables towards one dependent variable. If there is an increase in financial performance and Firm Size, there will also be an increase in sharia share prices.

Model II

The simultaneous test output on the financial performance variable and the Firm Size variable has a statistical f value > f table, namely 12.681 > 3.34 and a significance value of 0.000 < 0.05. This means that financial performance and Firm Size have a significant positive influence on sharia stock prices. This positive influence shows that there is a unidirectional movement of two independent variables towards one dependent variable. If there is an increase in financial performance and Firm Size, there will also be an increase in sharia share prices.

Discussion

In regression, looking at the relationship between the independent variable and the dependent variable, there is a significant influence between the financial performance variable and the Firm Size variable on share prices in both model I (case study of LQ45 Shares) and model II (case study of JII30 Shares). This means that whether you look at conventional shares or sharia shares, financial performance and firm size are two factors that can influence share price volatility.

In line with existing theories regarding the relationship between financial performance and Firm Size on share prices. The theory found in the study (Dewi & Cahyono, 2022) suggests that the rise and fall of share prices will reflect the performance of the company itself. Meanwhile, company performance in the good category can increase company profitability. Furthermore, a company with a high level of profitability will be a positive signal for investors so that investors are interested in investing their capital. The large number of requests for shares from investors will be in line with the increase in share prices.

The firm size variable has the same direction as the previous variable, where one of the theories found in the study (Yuliana & Maharani, 2022) is that the greater the company size, the higher the share price level. This is because the large size of the company can make it easier for the company to obtain funds from the capital market and can also increase the rate of return distributed. The condition of high company size will be a positive signal for investors so that it can increase demand for shares which can then push up share price levels.

The above theory can be strengthened by the following data on the movement of Financial Performance, Firm Size, and LQ45 and JII30 share prices:

Figure 1. Movement of Financial Performance, Firm Size, and LQ45 share price

From the line diagram above, you can see the fluctuating movements of Financial Performance, Firm Size, and share price data for the 10 LQ45 companies selected as samples. The data for these three variables indicates that share price volatility occurs simultaneously with fluctuations in Financial Performance and Firm Size. There are several points where the green and blue lines decline, followed by a decline in the yellow line, and vice versa. Even though the blue line appears to only have small fluctuations, this does not rule out the fact that its movement is also followed by stock price movements.

Figure 2. Movement of Financial Performance, Firm Size and JII30 share price

Similar to LQ45 shares, JII30 shares also have movement. This means that there is volatility in share prices at any time, but this is also accompanied by fluctuations in Financial Performance and Firm Size data so it can be concluded that Financial Performance and Firm Size have a significant influence on JII30 share prices. Even though graphically it is the same as the LQ45 stock, the orange Firm Size line appears to only have small fluctuations, but in real data, it still fluctuates in the same direction as the share price fluctuations.

Conclusion

Based on the results of the analysis in this research, it can be concluded that Financial Performance and Firm Size have an influence on share price volatility, both sharia and non-sharia stocks. In general, these two stocks found fluctuating data on Financial Performance and Firm Size, followed by rises and falls in share prices. This study is proven by theoretical results, statistical analysis results, and financial data recapitulation results. Apart from that, this conclusion is strengthened by the subject of the study in companies with LQ45 liquid shares as non-shariah shares and JII30 shares as sharia. These two types of shares are considered capable of being used as samples so that the research results are more accurate. Thus, the results of this study are an important part of information for investors in making investment decisions, where fundamental analysis can be carried out by looking at the financial reports of the target company (issuer) without forgetting the analysis of Financial Performance and Firm Size data.

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