

TATO and ROA Influence on Stock Returns: Evidence from the Jakarta Islamic Index

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Abstract

This study examines how Total Asset Turnover (TATO) and Return on Assets (ROA) influence stock returns in companies listed on the Jakarta Islamic Index (JII). Within Islamic capital markets, conventional financial ratios are used cautiously, as they must align with Shariah principles. Using a qualitative and conceptual method, the study reviews relevant academic, regulatory, and doctrinal sources to assess the role of these indicators in a Sharia-compliant context. Findings show that ROA consistently correlates positively with stock performance, indicating its robustness as a profitability measure within Islamic frameworks. TATO, by contrast, shows a more variable influence, dependent on industry and asset deployment. The study proposes that these financial indicators must be interpreted through ethical filters to reflect compliance and value-based performance. Implications include the need for Islamic-adjusted financial metrics and enhanced investor education to ensure both profitability and religious conformity in stock evaluation.

Keywords: TATO, ROA, stock return, Jakarta Islamic Index, Shariah-compliant finance.

INTRODUCTION

The growing prominence of Islamic capital markets has sparked renewed interest in the financial performance of Sharia-compliant companies, especially those listed on indices such as the Jakarta Islamic Index (JII). As investors increasingly seek instruments aligned with Islamic principles, understanding the determinants of stock returns in this niche becomes imperative. Conventional financial ratios, notably Total Asset Turnover (TATO) and Return on Assets (ROA), are widely utilized as indicators of operational and profitability efficiency in corporate finance (Ross et al., 2016, p. 121; Brigham & Houston, 2016, p. 233). However, the application of these metrics in an Islamic financial context introduces unique interpretive and evaluative challenges.

TATO reflects a company's efficiency in utilizing its assets to generate revenue. It is a ratio that assumes importance in sectors where asset intensity correlates with revenue cycles. In contrast, ROA captures the net profitability relative to total assets and is often used as a comprehensive measure of managerial performance (Bodie et al., 2014, p. 204). Both these metrics serve as proxies for fundamental performance, which investors interpret as cues for future returns. Yet, within Islamic finance, where interest-bearing debt and speculative instruments are restricted, the implications of such ratios warrant critical reevaluation (Sole, 2008).

Several empirical studies have affirmed the relevance of these indicators in predicting stock returns in developed markets (Fama & French, 2015; Chen et al., 2010). However, fewer analyses focus on Sharia-compliant companies in emerging economies like Indonesia, where religious compliance, corporate governance, and investor behavior differ significantly. Studies on the JII remain relatively sparse, and existing ones often rely on regression analysis without integrating the doctrinal framework of Islamic economics (Nasih et al., 2018). This disconnect poses

limitations in interpreting financial ratios within a Shariah-aligned value system.

Moreover, literature has shown mixed results regarding the influence of TATO and ROA on stock performance, especially in sectors with varying capital structures and cash flow cycles (Haniffa & Hudaib, 2007; Ajanthan, 2013). While ROA consistently correlates with profitability and investor valuation, the role of asset turnover appears contingent on external factors like industry dynamics, asset liquidity, and macroeconomic stability (Ibrahim, 2015). In the Islamic context, these factors are further nuanced by compliance requirements, risk-sharing structures, and stakeholder orientation.

Given this backdrop, the research aims to investigate how TATO and ROA influence stock returns in companies listed on the JII. Specifically, the study asks: (1) How does TATO affect stock returns in Sharia-compliant companies? (2) What is the relationship between ROA and stock performance in the JII? (3) How can conventional indicators be contextualized within Islamic finance frameworks for improved investor analysis? This inquiry is significant not only for financial decision-makers but also for scholars interested in reconciling conventional performance models with Islamic economic principles.

LITERATURE REVIEW

Previous literature on stock return determinants has primarily focused on traditional financial ratios such as ROA, ROE, and TATO in conventional markets. Fama and French's three-factor model (1993) established profitability as a central factor influencing stock returns. Empirical research has consistently shown ROA to be positively associated with market valuation (Chen et al., 2010). However, studies specific to Islamic finance emphasize that financial performance should also reflect ethical operations, Shariah compliance, and equitable risk sharing (Haniffa & Hudaib, 2007). These values are often overlooked in purely financial analyses, which may compromise their relevance in Islamic equity evaluation.

TATO has been widely regarded as a measure of operational efficiency, especially in asset-intensive industries. Ajanthan (2013) and Ibrahim (2015) found a sector-specific influence of TATO on profitability and valuation. However, few studies have extended this inquiry to Islamic capital markets. Nasih et al. (2018) suggested that while profitability indicators retain predictive validity in the JII, asset efficiency ratios like TATO require further contextual interpretation. Moreover, conventional accounting measures may not fully reflect the unique risk-return profiles of Islamic firms, necessitating tailored evaluative models.

In the Indonesian context, stock returns on the JII have been shown to fluctuate with macroeconomic trends and sectoral performance. Research by Rahmawati et al. (2016) emphasized the role of firm fundamentals in sustaining investor confidence in Sharia-compliant equities. However, a research gap persists in integrating conventional financial indicators within a Shariah-aligned evaluative framework that considers both performance and compliance. This study contributes by filling that theoretical void through a synthesis of financial analysis and Islamic ethical standards.

Theoretical Framework

The theoretical foundation of this research is rooted in both conventional corporate finance and Islamic economic principles. The efficient market hypothesis (EMH) posits that stock prices reflect all available information, including financial performance indicators like ROA and TATO (Fama, 1970). According to this theory, investors react to signals from these ratios in valuing shares. ROA, as a return metric, reflects managerial competence and asset utilization effectiveness (Ross et al., 2016, p. 252). It thus holds explanatory power for predicting stock returns.

TATO, from a financial accounting perspective, indicates how efficiently a firm converts assets into sales. This measure is particularly relevant in industries where asset base size directly correlates with revenue potential. However, in Islamic finance, asset deployment must avoid prohibited activities, thus influencing how asset efficiency is perceived (Usmani, 2002, p. 175). A firm may maintain high TATO but still be non-compliant if the asset use involves haram elements. Islamic economics emphasizes the concept of al-adl (equity) and al-maslahah (public interest), which guide the interpretation of financial performance beyond mere profitability. The stakeholder-oriented view inherent in Islamic finance repositions financial indicators within an ethical matrix (Chapra, 2000). ROA and TATO, under this lens, must not only denote efficiency but also adherence to value-based operations.

Thus, the theoretical framework integrates the EMH with maqāsid al-sharī'ah (objectives of Islamic law), providing a dual-layered lens. This hybrid model allows the study to evaluate whether these ratios influence investor decisions in ways that harmonize profitability with compliance. It also creates a foundation for proposing adjusted metrics suitable for Islamic equity screening.

Previous Research

In 2008, Sole analyzed financial ratio screening in Islamic equity indices and noted inconsistencies in how profitability and leverage ratios were applied across jurisdictions. This study highlighted the importance of aligning financial metrics with Shariah standards. Haniffa and Hudaib (2007) emphasized ethical identity disclosure in Islamic firms and its correlation with market performance, concluding that Shariah-compliant firms require distinct performance models.

Ajanthan (2013) investigated TATO's influence on profitability in Sri Lankan firms and found varying significance depending on industry type. This contextual nuance underscores the need to examine TATO's impact within specific sectors like those represented in the JII. In contrast, Ibrahim (2015) found a strong relationship between TATO and ROA in Nigerian manufacturing firms, suggesting interdependence between operational and profitability indicators.

Nasih et al. (2018) focused on Indonesian Islamic stocks and confirmed the positive impact of ROA on stock returns but found inconclusive evidence for TATO. Rahmawati et al. (2016) echoed this finding in a broader sample, asserting that profitability metrics outperform operational efficiency in predicting investor behavior. The literature thus supports ROA's predictive validity while questioning TATO's role.

Despite these insights, a gap remains in modeling these relationships within a dual framework of conventional finance and Islamic values. This research addresses that void by examining TATO and ROA not only as predictors of stock return but also as ethical indicators of firm conduct in the JII.

METHOD

This study adopts a qualitative-exploratory approach, focusing on conceptual analysis rather than empirical quantification. The data used are textual, encompassing peer-reviewed journal articles, authoritative books, Shariah standards, and official financial publications. These materials were selected to explore how Total Asset Turnover (TATO) and Return on Assets (ROA) relate to stock returns in companies listed on the Jakarta Islamic Index (JII) within a Shariah-compliant framework (Creswell, 2013, p. 72; Yin, 2014, p. 20).

The data sources include reputable international journals, Indonesian Sinta-accredited articles, and official documents from institutions like BPS-Statistics Indonesia and Bank Indonesia. Books and regulatory guidelines from AAOIFI and IFSB were consulted to ground the research in both

financial and Islamic jurisprudential theory. These sources ensure a comprehensive view that integrates both conventional and Islamic analytical lenses (Usmani, 2002, p. 132; Chapra, 2000). A document analysis technique was employed to collect the data. This method is particularly effective for analyzing qualitative relationships between financial ratios and stock performance as reflected in previous academic work, doctrinal interpretations, and regulatory frameworks (Bowen, 2009). The documents were selected based on relevance, scholarly credibility, and publication date (no later than 2018).

For the data analysis, thematic interpretation was used. Themes such as operational efficiency, profitability alignment, investor behavior, and Shariah compliance were identified and categorized. Each document was examined to extract insights on how TATO and ROA influence stock returns, especially in an Islamic equity environment (Braun & Clarke, 2006).

Conclusion drawing was performed through an interpretive synthesis of the analyzed texts. The findings were thematically organized and mapped to the research questions. This process allowed for the triangulation of conventional financial theory and Islamic ethical perspectives, ultimately leading to a nuanced understanding of how financial performance metrics function in Shariah-compliant stock evaluation.

RESULTS AND DISCUSSION

The results reaffirm the relevance of Return on Assets (ROA) as a robust predictor of stock returns in the Jakarta Islamic Index, aligning with both conventional theory and Islamic finance principles. Consistent with the Efficient Market Hypothesis (Fama, 1970), the study finds that profitability signals influence investor valuation positively. ROA, being a measure of how efficiently a company utilizes its resources to generate profit, has high interpretive value in both secular and Islamic paradigms (Ross et al., 2016, p. 255; Usmani, 2002, p. 142).

On the other hand, Total Asset Turnover (TATO) demonstrates a more variable impact on stock returns. In sectors where capital intensity is high, TATO provides meaningful insight into efficiency; however, in Shariah-compliant contexts, where certain revenue streams are prohibited, its utility is conditional (Ibrahim, 2015). The findings suggest that while TATO contributes to stock valuation, it does so under sector-specific and compliance-based constraints.

The study also uncovers new scholarly views that recommend blending financial metrics with Islamic social responsibility measures. This perspective reinforces the theoretical alignment between ROA and *maqāṣid al-sharīʿah*, particularly the preservation of wealth and equitable distribution (Kamali, 2008, p. 231). Such integration underscores the multidimensional nature of financial performance in Islamic capital markets.

1. The Influence of Total Asset Turnover on Stock Returns

This section addresses the first research question regarding the effect of Total Asset Turnover (TATO) on stock returns. The analysis reveals that while TATO is a classical measure of operational efficiency, its explanatory power in Shariah-compliant stocks is highly contingent on the industry and regulatory context. For example, manufacturing and infrastructure firms within the JII demonstrate a positive correlation between TATO and stock returns, as high asset utilization is directly tied to revenue generation (Ajanthan, 2013; Ibrahim, 2015). However, in service-based or technology sectors, where intangible assets dominate, the relevance of TATO diminishes.

Islamic equity evaluation requires that assets and revenues be free of prohibited elements, such as interest-bearing instruments or speculative ventures. Consequently, a high TATO figure derived from impermissible operations would be misleading. Therefore, investors in Islamic markets must interpret TATO not merely as a raw efficiency measure but as a compliance-adjusted indicator (Sole, 2008). This reflects a critical intersection between

financial accounting and Islamic jurisprudence.

Moreover, the research indicates that firms with consistent compliance certifications and transparent asset disclosures experience greater investor confidence, regardless of marginal TATO fluctuations. This aligns with the Islamic principle of *al-amanah* (trustworthiness), which elevates ethical operations over pure numeric efficiency (Haniffa & Hudaib, 2007).

In conclusion, while TATO can serve as a valuable predictor of stock returns in certain sectors, it must be interpreted within a broader framework that includes Shariah compliance and business model analysis. The indicator alone is insufficient without considering how assets are employed within Islamic legal boundaries.

2. The Role of ROA in Predicting Stock Performance

The second research question is addressed in this section, focusing on how Return on Assets (ROA) correlates with stock returns in the JII. The findings strongly affirm ROA's predictive value, making it one of the most reliable indicators of profitability and investor attractiveness in Shariah-compliant firms. Unlike TATO, ROA integrates earnings performance and asset base, providing a holistic view of value generation (Brigham & Houston, 2016, p. 245).

ROA resonates with Islamic finance's emphasis on productive asset utilization. Firms that achieve higher ROA do so through ethical, profit-generating activities, thereby fulfilling the *maqāsid al-sharī'ah* aim of wealth generation through lawful means (Kamali, 2008, p. 220). Furthermore, ROA is less prone to distortion from capital structure manipulation, since Islamic firms avoid interest-based financing, which could otherwise inflate or deflate profitability ratios.

Investor behavior in Islamic markets appears responsive to profitability metrics like ROA, especially when disclosed transparently and accompanied by Shariah board endorsements. Companies with improving ROA figures often experience higher trading volumes and stock price appreciation, reflecting investor faith in long-term sustainability (Nasih et al., 2018).

These results support the theoretical framework that posits financial and ethical alignment as key to investor confidence in Islamic equities. ROA, therefore, not only indicates efficiency but also acts as a proxy for corporate integrity and stewardship.

3. Integrating Conventional Metrics in a Shariah-Compliant Framework

This section addresses the third research question concerning how conventional indicators like TATO and ROA can be adapted for Islamic finance evaluation. The research finds that while these metrics are conceptually secular, they remain functionally relevant in Islamic contexts when recalibrated for compliance sensitivity. For instance, TATO must be interpreted with awareness of the nature of assets involved and their permissibility, while ROA must be contextualized within profit-sharing models and interest-free structures.

Several scholars argue for hybrid performance models that blend financial ratios with ethical benchmarks. Haniffa and Hudaib (2007) proposed adding social performance metrics to standard financial disclosures, thus enhancing their relevance in Shariah-compliant assessment. This integrated approach ensures that the company's financial success is evaluated alongside its ethical and social conduct.

Standard-setting bodies like AAOIFI and IFSB have begun advocating for such multidimensional reporting. Their guidelines suggest adjusting financial ratios with compliance filters to reflect a firm's alignment with Islamic economic values (AAOIFI, 2015). These adjustments could be applied to TATO and ROA to enhance their interpretive clarity for Islamic investors.

In summary, adapting conventional financial indicators to Islamic frameworks does not entail

discarding them but rather reinterpreting them in light of ethical, legal, and stakeholder expectations unique to Islamic finance.

The study has answered its three primary questions by demonstrating the differentiated roles of TATO and ROA in explaining stock returns in Shariah-compliant companies. ROA emerges as a consistently strong predictor of stock performance, aligning profitability with ethical business practices. TATO, while relevant, offers more sector-specific insights and must be interpreted through a compliance-adjusted lens. These findings validate the theoretical framework that integrates efficient market theory with *maqāṣid al-sharī'ah*.

This research offers several contributions. Conceptually, it reframes conventional financial indicators within an Islamic value system, providing a new lens for analyzing firm performance. Methodologically, it bridges corporate finance and Shariah law, proposing interpretive tools for Islamic investors. Practically, the findings can guide regulators, portfolio managers, and corporate boards in designing performance evaluation systems that combine financial rigor with ethical integrity.

Theoretical implications include expanding financial performance theory to accommodate value-based screening. Practical implications involve integrating compliance-adjusted indicators in investor education and corporate reporting. These innovations support the broader goals of financial inclusion and ethical investing in Islamic capital markets.

CONCLUSION

This research investigated the impact of Total Asset Turnover and Return on Assets on stock returns in companies listed on the Jakarta Islamic Index. It concluded that while both indicators are useful, ROA offers more consistent explanatory power within Islamic finance due to its alignment with profitability and compliance values. TATO, though informative, requires contextual interpretation based on asset structure and sector.

The findings affirm that conventional financial ratios remain valuable but must be adapted to reflect the ethical and legal distinctiveness of Islamic equity markets. ROA, in particular, provides insights into both financial performance and Shariah adherence. This dual relevance enhances its utility for investors and regulators alike.

Recommendations include refining financial education programs to incorporate Islamic perspectives, revising reporting standards to integrate compliance filters, and encouraging further research into hybrid models. Future studies may expand this framework to include other financial ratios and explore quantitative validation using broader JII datasets across time periods and economic conditions.

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