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Financial Performance Evaluation: The Role of ROA and ROE in Increase Company Value

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Abstract

This research aims to evaluate the financial performance of companies that go public in the banking sector by prioritizing the role of profitability variables in determining the value of the company. The indicators used are ROA and ROE which are important indicators used to measure the level of profitability and efficiency of a company in managing its assets and equity. In this study, quantitative data was obtained from the financial statements of several banks listed on the Indonesia Stock Exchange (IDX) in a certain period. To test the relationship between Return on Assets (ROA), Return on Equity (ROE), and company value, multiple regression analysis was used. The results show that ROA has a significant effect on company value, while ROE does not show a significant influence. These findings emphasize the importance of the role of banking management in optimizing ROA to increase the company's value in the eyes of investors.

Keywords: Return on Assets (ROA), Return on Equity (ROE), Company Value, Economic Uncertainty

1. Introduction

Financial performance can be evaluated through various methods, one of which is by analyzing the company's financial statements. Financial performance plays a crucial role for investors when deciding to engage in investment activities (Halimu et al., 2024). For financial performance in this study, profitability is used. Profitability can be utilized as an pointer in surveying the degree to which a company is able to create benefits from its operations. Expanding productivity can reflect the company's progressively shinning prospects. This appears that the company is getting to be more effective in running its commerce, so its execution is getting way better. Speculation in companies that have great execution can be measured by their benefits, so that it can increment the certainty of financial specialists who are seeking out for benefits from their speculations (Oktaviani et al., 2024).

A company's high value reflects market confidence in the company's ability to generate profits in the future. Increasing the company's value is an achievement that is in line with the wishes of the shareholders. This is due to the fact that the higher the value of the company, the greater the welfare that will be obtained by the shareholders. Investment decision-making can be done by understanding the ratio that shows the comparison between the stock price and the company's book value, namely the price to book value. Company value can be interpreted as investors' view of the level of success of management in managing the company's resources, Price to book value (PBV) is a measurement or comparison between the market value and the book value of a stock (Tantra et al., 2022).

Along with the increasing conflict between Iran and Israel. The current geopolitical condition is that there is still tension and has become a world discussion, because as we know that the background of Iran and Israel has never been allies and has always been hostile. The ongoing conflict between these two countries not only affects political relations, but also has a significant impact on global financial markets. In 2024, as reported (Natalia, 2024) from Jakarta by CNBC Indonesia, the Jakarta Composite Stock Price Index (JCI) experienced a significant decline. JCI had slumped more than 2%. However, at the close of trading, the index managed to narrow its decline to 1.68% and closed at level 7. 164.81. It can be seen that 165 stocks recorded an increase, while 457 stocks declined, and another 175 stocks did not change.

One of the affected sectors is banking, where the market seems to be panicked due to the decline in the share prices of several large banks. Shares of Bank Central Asia (BBCA) were recorded down 3.56% to 9.475, while shares of Bank Rakyat Indonesia (BBRI), which has the second largest market capitalization, decreased by 5.31% to reach 5.350. Similar declines also occurred in the shares of Bank Mandira (BMRI) and Bank Negara Indonesia (BBNI), which declined by 2.93% and 1.89%, respectively. In addition, the shares of Bank Tabungan Negara (BBTN) and Bank Negara Indonesia Agroniaga (BNGA) also fell dramatically, namely 6.67% and 3.81%.

Therefore, before buying stocks or other investment instruments, it would be better for an investor to do an analysis first. There are many analysis methods that can be used, but there are two bases of analysis that we must pay attention to, namely technical and fundamental analysis of the company's value. According to Gumanti (2011), fundamental analysis is a method to determine the value of a stock by conducting an in-depth analysis of the company's financial data, which are considered as the basic factors that affect the value. Understanding fundamental analysis is very important and should be mastered by investors first so that they can make the right decisions in allocating funds. For other capital market participants such as managers, this is also useful in order to make the right decisions for the company and can attract investors to invest their money in the company. According to (Sekenda, 2023), there are 5 financial performance ratios, namely: Liquidity, Profitability, Solvability, Activity, and Investment.

Fundamental factors such as profitability are believed to have a significant effect on the Company's value. The profitability ratio reflects the company's ability to generate profits, while the liquidity ratio indicates the company's ability to meet its short-term obligations. Profitability refers to a company's ability to generate profits related to sales, assets, and capital owned. In practice, the profitability indicators that investors pay the most attention to are Return on Assets (ROA) and Return on Equity (ROE) (Putri & Sari, 2024). Financial performance is a crucial aspect of financial management, as it provides an overview of how a company manages their financial resources.

ROA is a ratio used by a company to measure how much the company is able to generate net profit from its asset management. The higher the value of a bank's Return on Assets (ROA), the greater the level of profit generated, which indicates that the bank is better at utilizing its assets. In other words, an increase in ROA reflects better business performance, as it is directly related to a high rate of return (Rakhman et al., 2023). Return on Equity (ROE) is a measurement tool used to assess how efficient a company is in generating profits from the equity invested by shareholders. The higher the value of this ratio, the better the position of the company owner, while conversely, a low value can indicate greater potential risk (Mahadianto et al., 2020).

Previous research on variable Return on assets conducted by Handayani et al. (2023). concludes that ROA has a negative effect on the company's value. But it is different from the results of the research conducted by Anggraeni Puspitarini & Tati Fitria (2023) shows that ROA has a positive effect on the Company's value.

Previous research on variable Return on equity conducted by Tantra et al. (2022), that ROE has a positive and insignificant effect on the Company's value. Meanwhile, according to Simanullang et al. (2021) ROE has no effect on the Company's value.

2. Literature Review

2.1. Signaling Theory

The significance of the data the company offers to external entities making investment choices. is highlighted by signaling theory (Panjaitan & Supriyati, 2023). Data presents a depiction of records and pictures of the past, show and future for companies and capital markets. Total and important and precise and opportune data is required by capital showcase financial specialists as a apparatus to analyze some time recently choosing on contributing (Talunohi & Bertuah, 2022). Signaling theory describes how companies share information about financial statements with the public, with a primary focus on investors interested in investing. The signals conveyed by the company have an important role, because they can influence investment decisions made by external parties. The stronger and clearer the signal conveyed, the better the company's performance. Signaling theory in a company may be able to use audited financial statements as a "signal" to show the company's financial stability and health. With the audit process, it can increase the credibility of the information without having to reveal every detail about their business operations

2.2. Company Values

Fundamentally, the value of the company plays an important role, because a high value will be directly proportional to the prosperity for shareholders. The value of a company reflects the results of the work that has been done, which can be seen from the value of shares in the market (Aggareksa et al., 2024). When the value of a company is high, investors' interest in buying shares of the company also increases. The higher the value of the company, the greater the profits that can be achieved by the shareholders, thus providing significant benefits to the shareholders.

The Company Value Ratio to be used is PBV, according to Brigham & Joel F. Houston (2020:20), price book value (PBV) is a measure that reflects the market value of a company based on its book value. The use of PBV as a reference to assess the company is carried out because PBV can measure how well the company is in optimizing the value generated from the invested capital. Price to Book Value reflects a company's ability to create value in proportion to the total capital that has been invested (Maghfiro, 2022). The higher PBV value reflects market confidence in the company's prospects. However, keep in mind that a high PBV value does not always reflect good company quality. When the PBV is high, it could indicate a positive outlook or performance of the company. However, it could also mean that the company has been overpriced or overvalued. Conversely, if the PBV is low, especially below 1, it indicates that the company is undervalued or considered cheap, as its stock market price is below its book value.

2.3. Return on Assets to Company Value

Return on Assets (ROA) is a ratio that describes the extent of the ability of the assets owned by the company to generate profits (Adnyana, 2020:20). The higher the ROA value, the greater the potential profit that can be generated by the company. This high profit will certainly attract investors to invest their capital. Thus, an increase in the value of ROA can drive profit growth, which in turn will increase the demand for the company's shares. This is often followed by an increasingly significant increase in stock prices (Maryani & Zakaria, 2020).

The results of the tests that have been carried out by Sari & Hwihanus (2023), ROA is partially positive and has no significance on PBV. Meanwhile, according to Akbar (2021), the ROA variable Return On Asset (ROA) has a significant effect on the Company's Value.

H_1 : Return On Assets affects the value of the company

2.4. Return on Equity to Company Value

Return of equity, otherwise known as Return on Equity (ROE), is a ratio used to measure net profit after tax to own capital. This ratio reflects efficiency in the use of capital. on the off chance that ROE esteem in each the period appear change, at that point matter This may shown that company able oversee equity it possesses For deliver benefit additionally shows that execution company the more Great or increment (Nurjanah & Prasetyo, 2024).

Results of the researcher Tjahjadi & Sitorus (2024), finding a return on equity has a significant effect on the value of the company. But it is different from the results of the research conducted by Simanullang et al. (2021) Return On Equity (ROE) has no effect on the value of the company.

H_2 : Return On Equity affects the value of the company

3. Materials and Methods

3.1. Materials

This study uses a quantitative approach with an associative method. Aim to find out the relationship or influence between two or more variables. To find out how much ROA and ROE affect PBV as an indicator of the value of banking companies.

The bunch of people or components from which the test is drawn and to which the discoveries will be summed up (Willie, 2024). The population in this study is all banks classified as Books 4 Banks listed on the Indonesia Stock Exchange (IDX) in 2021-2024. Some of the criteria used are Banks that are classified as Books Banks 4 according to the OJK classification, Banks listed on the Indonesia Stock Exchange (IDX) and have complete data related to ROA, ROE and PBV during the 2021-2024 period and Banks that are not in the process of mergers, acquisitions, or liquidations during the research period.

3.2. Methods

Table 1. Operational Variables

No.	Variable	Measurement	Scale
1.	Return On Assets (X_1)	ROA = Net profit: Total assets	Ratio
2.	Return On Equity (X_2)	ROE = Net profit: Capital	Ratio
4.	Price to book value (Y)	PBV= Stock price: Book value	Ratio

3.2.1. Structure

Hypothesis testing using multiple regression analysis, the formula of multiple regression analysis is as follows:

$$PBV = c + b_1 ROA + b_2 ROE + \epsilon \tag{1}$$

Information:
Y = Company Value
X_1 = Return on Asset
X_2 = Return on Equity
c = Constant
b_1 = Variable regression coefficient X_1
b_2 = Variable regression coefficient X_2
ϵ = Influence of other factors.

4. Results and Discussion

4.1. Descriptive Statistics

Descriptive analysis was carried out to provide an overview of the research data profile and explain the existing variables. This includes the minimum and maximum values, mean, and standard deviations of return on assets, return on equity and company value for the period 2021-2024 in the following Table 2:

Table 2. Descriptive Statistics of Variables

	N	Minimum	Maximum	Mean	Std. Deviation
ROA	40	0.57	3.84	1.8003	0.80612
ROE	40	3.43	22.45	11.6315	5.62360
PBV	40	0.41	4.78	1.4155	1.24922
Valid N (listwise)	40				

Source: Secondary Data processed by IBM Statistics 25

Based on table 2, the company's value measured by the lowest price to book value of 0.41 occurred at PT Bank Panin Indonesia, Tbk in 2021 and the highest value of 4.78 occurred at PT Bank Central Asia, Tbk in 2023 with an average PBV of 1.4155. The minimum value of 0.41 is because the PBV value of PT Bank Panin Indonesia, Tbk is below 1, indicating that the share price is cheaper than its book value. A maximum value of 4.78 means that the stock price is 4.78 times more expensive than its book value. Meanwhile, the average value of PBV is 1.4155, which means that the average value of all banks in the sample has a more expensive share price of 1.4155 than the book value of the company.

4.2. Multiple Linear Regression

The researcher aims to analyze the influence of independent variables on dependent variables. In this study, the statistics used to test the hypothesis are multiple linear regression methods, with the following formula:

Table 3. Multiple Linear Regression Analysis Test

Variable	Coefficient regression	Stuttgart	Sig.
Constant	-0.911		
X1	1,338	4.124	0.000
X2	-0.007	-0.152	0.880
Calculation	42.577		
R Square	0.697		

Source: Secondary Data processed by IBM Statistics 25

The results of the multiple regression calculation can be found in the following formulation:

$$Y = -0.911 + 1.338X1 - 0.007X2 + \in$$

The regression coefficient for the Return on Assets variable (X_1) has a value of 1.338, which illustrates the significant influence of X_1 on the value of the company (Y). With a positive regression coefficient, this shows that an increase in X_1 of 1% will increase the company's value by 133.8%. Conversely, a decrease in X_1 will have an impact on a decrease in the value of the company by the same proportion.

On the other hand, the regression coefficient for the Return on Equity (X_2) variable was recorded at -0.007. This value indicates the negative influence of X_2 on the value of the company (Y). This means that every 1% increase in Return on Equity will trigger a 0.7% decrease in the company's value, and the opposite situation also applies.

In this analysis, the value of the determination coefficient (R square) reached 0.697. This shows that the Return on Assets and Return on Equity variables contribute 69.7% to the company's value. Meanwhile, the remaining 30.3% of the company's value is influenced by other variables outside the scope of the study, such as liquidity and solvency.

4.3. T Test

Table 4. T Test Results

Coefficient						
Type		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-0.911	0.276		-3.298	0.002
	ROA	1.338	0.324	0.864	4.124	0.000
	ROE	-0.007	0.047	-0.032	-0.152	0.880
a. Dependent Variable: PBV						

Source: Secondary Data processed by IBM Statistics 25

Based on the table above, the research results for the T Test show the following:

ROA (X_1) has a significant value of 0.000 < 0.05 with a T value $_{calculated}$ as 4.124, then it can be stated that H_1 is accepted that ROA has an effect on the Company's Value.

ROE (X_2) has a significant value of 0.880 > 0.05 with a T value $_{calculated}$ as -0.152, then it can be stated that H_2 is minus that ROE has no effect on the Company's Value.

4.4. Test F

Table 5. F Test Result

NEW ERA						
Type		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	42.426	2	21.213	42.577	0.000b
	Residual	18.435	37	0.0498		
	Total	60.861	39			
a. Dependent Variable: PBV						
b. Predictors: (Constant), ROE, LONG						

Source: Secondary Data processed by IBM Statistics 25

Based on the results of the table above, a significance level of 0.000 was obtained. The significance value of 0.000 is less than 0.05. Therefore, it can be said that ROA and ROE simultaneously have a significant effect on the Company's value.

5. Conclusion

From this study, it can be concluded that ROA has an effect on the value of the company. because the results of the hypothesis test T Test return on assets has a significant value of 0.000 < 0.05 which means that if the ROA increases, the Company's value also increases. then it can be concluded that ROA has an effect on the Company's value. The results of this study support the research Akbar (2021) ROA affects the Company's value. The same results as this study are Anggraeni Puspitarini & Tati Fitria (2023).

From this study, it can be concluded that ROE has no effect on the company's value. because of the results of the hypothesis testing of the T Test return on equity has a significant value of 0.880 > 0.05 which means that if the ROE increases, the Company's value decreases. therefore, it can be concluded that ROE has no effect on the Company's value. The results of this study support the research Simanullang et al. (2021) ROE has no effect on the Company's value.

Based on the results of the research, it can be concluded that Return on Assets (ROA) has a positive influence on the company's value. This is evident from the results of hypothesis testing which shows that ROA has a significance value of 0.000 < 0.05, which means that an increase in ROA will have an impact on increasing the company's value. These findings indicate that the more efficient a company, especially in the banking sector, is in managing its assets to generate profits, the higher the value of the company in the eyes of investors and shareholders. Thus, ROA is an important indicator in assessing the profitability and effectiveness of companies in utilizing their assets to increase economic value.

The practical implication of these findings is that banks should prioritize asset efficiency strategies as part of efforts to increase market value. Then one of the ways that bank management can do to streamline its assets is by managing the asset portfolio to generate optimal income. Bank management can also allocate selective investments, improved credit quality, and operational efficiency. For investors, ROA can be used as one of the main references in assessing the long-term prospects of a bank, so that it can help in making more rational and informed investment decisions.

Instead, this study shows that Return on Equity (ROE) does not have a significant influence on the value of the company. The results of the hypothesis test using the T Test showed a significance value of ROE of $0.880 > 0.05$. This indicates that the increase in ROE is not always directly proportional to the increase in the value of the company. In some cases, an increase in ROE can result in a decrease in the value of the company. This suggests that while ROE reflects the extent to which shareholder equity can generate profits, this ratio does not necessarily reflect an increase in the company's overall value. There are other factors that also play a role, such as capital structure, risk management, and dividend policies, that may affect the relationship between ROE and a company's value.

In the context of global economic uncertainty caused by the Iran-Israel conflict in 2024, ROA and ROE remain important indicators to assess the resilience and competitiveness of banks. Increased geopolitical risks can lead to market volatility, changes in interest rates, and economic instability that impact investor confidence in the banking sector. In the midst of these conditions, banks that have high ROA and ROE tend to be more stable and attractive to investors, as this reflects efficiency in Asset management and a better level of profitability compared to banks with lower ratios.

Thus, although in this study ROE did not have a significant influence on the value of the company, the combination of ROA and ROE remained an important factor in assessing the financial performance of banking companies. Companies with strong ROA will be better able to survive in the midst of economic challenges, while ROE can be an additional indicator in assessing the effectiveness of using equity in generating profits. Therefore, optimal financial management, with a focus on improving asset efficiency and profitability, is a primary key in increasing the value of a company and maintaining competitiveness in the global financial markets.

Based on the results of the study, it is recommended that banks focus on the efficiency of asset management to increase the company's value. In addition, regulators are expected to consider policies that support strengthening efficiency and risk management. Researchers are also advised to explore additional variables, such as NIM (Net Interest Margin), OER (Operational Efficiency Ratio), and NPL (Non-Performing Loan), to gain a deeper understanding of the factors that affect the value of banking firms.

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