Company Value Analysis Driven by the Performance of the Company's Return on Assets and Return on Equity Ratio

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Abstract— Measurement of the company's financial performance is by using financial ratios. The company provides financial statement information to outside parties such as the capital market and the company provides signals to users of financial statements. This study was conducted to determine the effect of financial performance on company value both partially and simultaneously in manufacturing companies listed on the Indonesia Stock Exchange for the period 2020 to 2022. The limitation or scope in this study is the effect of financial performance on company value in manufacturing companies listed on the IDX. The financial performance in question is seen from the financial ratios, namely ROA and ROE during 2020 to 2022. Using quantitative methods, it was found that ROA had no effect on company value. This can be seen from the t test that has been done, which shows that the independent variable, namely ROA, has a Sig. value of 0.154 which is greater than 0.05. Another case with ROE which has a Sig. value of 0.015 which is less than or less than 0.05, this indicates that only the independent variable ROE has an effect on the value of the company. The influence caused by these two ratio roles has a very low influence on the value of manufacturing companies on the IDX, which is 23.5%. From the test results, it can be seen that there are other factors of 76.5% that are used simultaneously have greater potential in influencing company value.

Keywords— Company Performance, Finance, Corporate Value, ROA, and ROE..

I. INTRODUCTION

Every company is certainly established with the aim of making a profit (Bhanot et al., 2020). After making a profit, the company wants existence. The sustainability of the company has a big influence from investors. The presence of investors can improve the company's financial performance (Utama, A. N. B., 2023). In the company's annual report, it will be seen the good or bad condition of the company's financial condition, and whether the company has an effective and efficient performance in managing funds sourced from inside and outside the company in a certain period (Utama & Syarif, 2023).

Performance is the level of achievement and goals of the company, the level of achievement of the company's mission, the level of achievement of the actual implementation of tasks (Kijkasiwat et al., 2022). Performance can also be interpreted as achievements that can be achieved by the company in a certain period that reflects the level of health of the company. Defining a company's performance in relation to the objectives of the financial statements, namely: "Net income (profit) is often used as a measure of performance or as a basis for other measures such as return on investment or earnings per share. From the above understanding, performance is the company's achievement in meeting company targets throughout a certain time which describes the quality of the

company. The company's financial performance can be seen from the financial statements (Swathi, 2022). These financial statements are prepared and interpreted for the benefit of management and other parties who are concerned or have an interest in the Company's financial data (Daud et al., 2023) .

Measurement of the company's financial performance is by using financial ratios. Financial ratios show changes in the company's financial condition as well as the company's potential in managing company wealth in increasing the Company's value (Mukhsin & Suryanto, 2022). Company value shows investors' view of the company's achievements in managing its resources. The more investors who buy company shares, the price of these shares will increase then the value of the company will rise. The rise and fall of a company's stock price determines the value of the company in the eyes of investors.

This research uses data from manufacturing companies listed on the IDX from 2020 to 2022. The years 2020 to 2022 were chosen because they describe the latest conditions in Indonesia. In addition, in this study financial performance as an independent variable measured by financial ratios, which in this study consists of ROA (Return on Asset) and ROE (Return on Equity). ROA is used to measure the efficiency of the company in managing its assets and ROE is used to measure the effectiveness of the company managing its capital. The variables used in this study are financial performance as an independent variable and company value as a dependent variable.

The company provides financial statement information to outside parties such as the capital market and the company provides signals to users of financial statements (Utama & Efrina, 2023). Signal theory shows information asymmetry between company management and parties interested in the information.

To reduce information asymmetry, financial information is given to outside parties. With reduced information asymmetry, the value of the company may increase. Company value is market value (Wahyudi, 2020). Market value is used because the value of the company can provide maximum shareholder prosperity if the company's stock price increases. The higher the stock price, the higher the shareholder prosperity (Rahman & Shamsuddin, 2019). To achieve company value, investors generally leave their management to professionals.

Professionals are positioned as managers or commissioners in the Company (Tetteh et al., 2019). Company value is the price that prospective buyers are willing to pay if the company is sold. Enterprise value (EV) or firm value is an important concept for investors, as it is an indicator for the market to value the company as a whole (Utama, A. N. B., & Suryani, A. I., 2023).

The stock price is the price determined by continuous auction (Luo, 2022). Stock market prices are formed through demand and supply mechanisms in the capital market. Other factors that can direct stock price movements are external constraints such as economic activity in general, taxes and the state of the stock market (Utama, A. N. B., & Suryani, A. I., 2023).

The factors that affect stock prices are as follows:

1. Fundamental Conditions of Issuers: Fundamental factors are factors that are closely related to the condition of the company, namely the condition of the management of human resource organizations, the company's financial condition which is reflected in the company's financial performance.

2. Law of Supply and Demand: Assuming that once investors know the fundamental condition of the company will make buying and selling transactions. This transaction will affect stock price fluctuations.

3. Interest Rate: High interest will have an impact on the allocation of investment funds to investors. Investor. The simultaneous sale of shares will have an impact on a significant decline in stock prices.

4. Foreign Exchange: The American currency (Dollar) is the strongest currency among other currencies. If the dollar rises, foreign investors will sell their shares and place them in banks in dollars, causing the stock price to rise.

5. Foreign Funds on the Exchange: If foreign investment decreases, then there is a consideration that they are in doubt over the country. These doubts can be classified from socio-political and security conditions. So, the size of foreign fund investment in the stock exchange will affect the increase or decrease in stock prices.

6. Stock Price Index: The increase in the composite stock price index over a certain time brings investment conditions and the country's economy is in good condition.

7. News and Rumors: News of economic, social, political, security issues, to news about cabinet reshuffles cause investors to predict how conducive the country's security is so that investment activities can be carried out. This will have an impact on stock price movements on the exchange.

From the financial statements that are then used, financial ratios can be known whether the company is run efficiently and effectively (Beck & Garris, 2019).

The ratios used in this study, namely ROA and ROE, can be a tool to measure the level of efficiency and effectiveness of a company's financial performance that is influential in increasing company value. The high and low value of the company is a benchmark in investing investors that describes the market value of a company in increasing the attractiveness of investors (Rusnawati, Rusdi. R, 2022).

The value of the company can be measured by Tobin's Q formula. When the stock price increases, the shareholders increase their prosperity. Based on the explanation above, this study was conducted to determine the effect of financial performance on company value both partially and simultaneously in manufacturing companies listed on the Indonesia Stock Exchange for the period 2020 to 2022.

II. RESEARCH METHODS

A. Research Scope

The limitation or scope in this study is the effect of financial performance on company value in manufacturing companies listed on the IDX. The financial performance in question is seen from the financial ratios, namely ROA and ROE during 2020 to 2022.

B. Research Scope

The research design carried out is associative research that aims to determine the relationship between two or more variables with the form of causal relationships (Daniar Pramita et al., 2021). A causal relationship is a causal relationship between an independent and dependent variable.

C. Data Sources

The type of data used is secondary data, namely quantitative data sourced from Indonesia Stock Exchange data for 2020 - 2022 and www.idx.co.id website. The data used is the company's annual financial report for the period 2020 to 2022 on manufacturing companies listed on the IDX.

D. Population and Sample

The population used in this study is manufacturing companies listed on the Indonesia Stock Exchange (IDX). The reason manufacturing companies use is because manufacturing companies have the largest number of companies. The sampling technique in this study uses the purposive sampling method, which is a sampling technique with certain criteria (Djaali, 2021). The sample criteria in this study are manufacturing companies listed on the IDX in 2020 – 2022, companies that publish consecutive annual reports from 2020 – 2022 and companies that have complete ratios such as ROA and ROE and have complete data in measuring company value.

E. Variable Measurement

The variables used in this study consist of two types of variables, namely dependent and independent variables. A dependent variable is a variable that is influenced by an independent variable. In this study the dependent variable used is the value of the company (Y) as measured by Tobin's Q. Tobin's Q was developed by James Tobin (1967) (Grishunin et al., 2022). Tobin's Q is a method used in measuring company value, which shows management's performance in managing the assets owned by the company. If the Q ratio above one indicates an investment in the asset is generating a return that provides a higher value than the investment expenditure. This will stimulate new investment. Conversely, if the Q ratio is brought to one, investment in assets is not attractive."

An independent variable is a variable that can affect the dependent variable. The independent variable in this study consists of financial performance as measured by profitability ratios, namely ROA and ROE. ROA is a ratio that shows the level of efficiency of the company in managing all assets owned to obtain income or profit. This ratio also shows a measure of how much of the company's net profit is obtained from the efforts achieved in using all the wealth owned by the company. Meanwhile, this ratio is obtained by comparing net profit after tax with the total assets owned by the company.

ROE is used to measure a company's ability to use its equity to earn profits for shareholders. In addition, it is also a measure of the level of profit from investments made by company shareholders. The higher this ratio is, it will be said to be good. That is, the position of the owner of the company is getting stronger. Vice versa, the lower this ratio the worse it will be (Kasmir dan Jakfar, 2003). This profitability ratio measures net profit after tax to total own capital.

F. Analysis Techniques

The data analysis methods used are classical assumption testing, regression analysis, and hypothesis testing (Sugiyono, 2018). In analyzing the data, researchers used the SPSS program. SPSS was chosen as data processing software because existing statistical procedures can be used in business fields ranging from simple to complex. In addition, the SPSS display is equivalent to Ms.Excel, even in graphics processing it has surpassed Microsoft's flagship software. The use of menus in SPSS is easy and simple compared to other software such as Minitab, Eviews, SAS, and others.

G. Analysis Techniques

Descriptive statistics are used to determine the level of disclosure of financial performance and company value in manufacturing companies listed on the IDX. The measurements used in this study are minimum value, maximum value, mean, and standard deviation.

H. Uji Hypoplant

The F-test is performed to test whether all independent variables have a joint influence on the dependent variable. This test is done by comparing F count with F table with the following conditions:

Ho is accepted if F counts < t table for α = 5% Ha is accepted if F counts > t table for α = 5%

The F test can also be done by looking at the significance value of F in the output of regression results using SPSS with a significance level of 0.05 (α = 5%). If the significance value is greater than α then the hypothesis is rejected, which means the regression model is not fit. If the significant value is smaller than α then the hypothesis is accepted, which means that the regression model is fit.

A t-test is performed to test the effect of the independent variable and the dependent variable partially. If t-count < t-table, then the independent variable individually has no effect on the dependent variable (hypothesis rejected), If t-count > t-table, then the independent variable individually has an effect on the dependent variable (hypothesis accepted).

The t test can also be done by looking at the significance value of each variable in the output of regression results using SPSS with a significance level of 0.05 (α = 5%). If the significance value is greater than α then the hypothesis is rejected (the regression coefficient is insignificant), which means individually variabe

Independent has no significant effect on the dependent variable. If the significance value is less than α then the hypothesis is accepted (regression coefficient is significant), meaning that individually the independent variable has a significant influence on the dependent variable.

The correlation coefficient (R) shows how close the point of combination between the dependent variable or free point variable and the independent variable or independent is to the conjecture line The coefficient of determination (R^2) is a measure to determine the suitability or accuracy of the relationship between the

independent variable and the dependent variable in a regression equation. In other words, the greater the value of the coefficient of determination, the better the ability of variable X to explain or explain variable Y. The value of the coefficient of determination is between zero and one. A value close to one means that the independent variables provide almost all the information needed to predict the variation of the dependent variable.

III. RESULTS AND DISCUSSION

Based on the results obtained from descriptive statistics, the minimum value, maximum value, average value and also standard deviation are obtained. The minimum value is the lowest value obtained by each variable, the maximum value is the highest value obtained by each variable, the average value is the average value of several data, while standard deviation is the variation in data distribution where the greater the spread value means the data is more varied. The variable Return on Assets (X1) has a sample (N) is 222, with a minimum (smallest) value of 0.26, a maximum (largest) value of 4.66 and a mean (average value) of 1.12. The Standard Deviation of this variable is 8.08. This variable has a range of values from 0.26 to reach 4.66. The variable Return on Equity (X2) has a sample (N) of 222, with a minimum (smallest) value of 6.38, a maximum (largest) value of 9.56 and a mean (average value) of 1.65. The Standard Deviation of this variable is 1.17. This variable has a range of values from 6.38 to 9.57. The number of samples is 74.

The F test is used in addition to testing whether the model used in this study is a viable model or not. In addition, the F test is also used to determine how much influence the independent variable has on the dependent variable simultaneously (together). This test is done by comparing F count with F table with the following conditions:

H0 is accepted if F counts < t table for α = 5% Ha is accepted if F counts > t table for α = 5%

Through the ANOVA (Analysis of Variance) table, it can be known whether the independent variables, financial performance, namely ROA and ROE simultaneously affect the value of the company (Tobins' Q). From the processing obtained the calculated F value is 18.210 with a significant level smaller than 0.05. Thus, it can be said that the model used is a fit model. The F test result using the F table shows the F value of the table is 3.037088. Therefore, the F value of the table is smaller than the value of F count or the value of F count is greater than the value of F of the table. Thus, it can be seen that the independent variables in this study, namely ROA and ROE, simultaneously affect the value of the company.

The T test is used to determine how much influence each independent variable partially has on the dependent variable. As a determinant is to meet the following criteria, If t calculate > t table or probability < significance level (Sig < 0.05), then Ha is accepted and Ho is rejected which means that the independent variable affects the dependent variable partially. If t counts < t table or probability > significance level (Sig > 0.05), then Ha is rejected and Ho is accepted, the independent variable has no partial effect on the dependent variable.

The results of the t test state that ROA has no effect on the value of the company. This is shown through the value of Sig. 0.154 which is greater than 0.05 and the result of T count 0.929 is less than the result of T table 1.993. While

ROE affects the value of the company. This can be known from the value of Sig. 0.015 less than 0.05 and obtained a calculated T result of 2.854 greater than the T result of table 1.993.

The correlation coefficient (R) shows how close the point of combination between the dependent variable or free point variable and the independent variable or independent to the conjecture line The value of R is 0.368 or 36.8% which means the level of closeness between the value of the company with ROA and ROE is low because high closeness occurs when the value of R is above 39%. If the R number is above 39% or 0.399 then the relationship between the independent variable and the dependent variable is high. The value of the R^2 (coefficient of determination) is 0.235 or 23.5%.

That means the independent variables in this study which are ROA and ROE only have a fairly low influence of 23.5% on company value. While the remaining 76.5% is influenced by other factors, apart from financial performance which in this study uses independent variables, namely ROA and ROE.

The test results above are obtained from data that has been collected and then processed through SPSS and processed so that research results are obtained. The results of research that have been conducted show that the results of the t test state that ROA has no effect on the value of the company. This is shown through the value of Sig. 0.154 which is greater than 0.05 and the result of T count 0.929 is less than the result of T table 1.993. While ROE affects the value of the company. This can be known from the value of Sig. 0.015 less than 0.05 and obtained a calculated T result of 2.854 greater than the T result of table 1.993.

Simultaneously, ROA and ROE affect the value of the company. This is known through tests carried out with the F test. The test results using the F table show the F value of the table is 3.037. From the F count, the value obtained is 18.210. By obtaining a table F value that is smaller than the calculated F value, ROA and ROE simultaneously affect the value of the company.

The two financial ratios above cannot be used as a full reference in assessing the effect of financial performance on company value. This is because the percentage results based on the test results through coefficient determination produce a low percentage of only about 23.5%.

The remaining 76.5% is influenced by other factors. From the results through the processing of the data obtained, it turns out that the financial ratio of ROA and ROE is not enough to represent the effect of financial performance on manufacturing companies listed on the IDX where manufacturing companies are here perusahaan yang has been selected to be a sample. There are many other factors that can affect the value of the company.

The results of data processing show that many of the manufacturing companies have more than one company value. This figure is obtained after calculations are made from the company value formula used in this study, namely the Tobins'q formula. A company value of more than one indicates that management is successful in managing company assets.

IV. CONCLUSION

Based on the results of tests conducted using a sample of 74 manufacturing companies on the IDX from 2020 – 2022, the conclusions obtained are as follows: ROA has no effect on company value. This can be seen from the t test that has been done, which shows that the independent variable, namely ROA, has a Sig. value of 0.154 which is greater than 0.05. Another case with ROE which has a Sig. value of 0.015 which is less than or less than 0.05. This indicates that only the independent variable, namely ROE, affects the value of the company on the IDX. Judging from the coefficient value of determination, the financial ratios used, namely ROA and ROE, simultaneously affect the value of manufacturing companies on the IDX. However, the influence caused by these two ratio roles has a very low influence on the value of manufacturing companies on the IDX, which is 23.5%. From the test results, it can be seen that there are other factors of 76.5% that are used simultaneously have greater potential in influencing company value.

Suggestions that can be taken into consideration for research that will be developed next: Using financial ratios other than ROA because the results of ROA testing have no effect on company value. In addition, researchers can then also add other financial ratios, add independent variables other than financial performance as another factor to strengthen the effect of financial performance on company value, use different company sectors, add the next observation year more than three years.

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