

# THE ANALYSIS OF THE IMPACT OF RETURN ON ASSET, RETURN ON EQUITY, AND RATIO OF LIQUIDITY, ON OVERALL COMPANY PERFORMANCE: CASE STUDY IN BANKING SECTOR LISTED INDONESIA STOCK EXCHANGE

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**Abstract.** This study analyzes the impact of Return on Assets (ROA), Return on Equity (ROE), and Liquidity Ratio on the overall performance of banking companies listed on the Indonesia Stock Exchange. This study uses a quantitative approach with a correlation research design. Through purposive sampling technique, 10 companies listed on the IDX were obtained as research samples. Using multiple linear regression analysis, the results show that ROA and ROE have a significant positive effect on company performance, which emphasizes the important role of profitability in financial success. However, Liquidity Ratio does not significantly affect performance, indicating that short-term liquidity management alone is not the main determinant of banking sector performance. These findings provide valuable insights for investors, financial managers, and policy makers in formulating strategies to improve banking sector growth. Future research can explore additional financial and non-financial factors to develop a more comprehensive framework for assessing company performance.

**Keywords:** Return on Assets, Return on Equity, Liquidity Ratio, Company Performance, Banking Sector

**Abstrak.** Penelitian ini menganalisis dampak Return on Assets (ROA), Return on Equity (ROE), dan Liquidity Ratio terhadap kinerja keseluruhan perusahaan perbankan yang terdaftar di Bursa Efek Indonesia. Penelitian ini menggunakan pendekatan kuantitatif dengan desain penelitian korelasi. Melalui teknik sampling purposif, didapat 10 perusahaan terdaftar di IDX sebagai sampel penelitian. Dengan menggunakan analisis regresi linier berganda, hasilnya menunjukkan bahwa ROA dan ROE memiliki efek positif yang signifikan terhadap kinerja perusahaan, yang menekankan peran penting profitabilitas dalam keberhasilan finansial. Namun, Liquidity Ratio tidak secara signifikan mempengaruhi kinerja, yang menunjukkan bahwa manajemen likuiditas jangka pendek saja bukanlah penentu utama kinerja sektor perbankan. Temuan ini memberikan wawasan berharga bagi investor, manajer keuangan, dan pembuat kebijakan dalam merumuskan strategi untuk meningkatkan pertumbuhan sektor perbankan. Penelitian di masa mendatang dapat mengeksplorasi faktor keuangan dan non-keuangan tambahan untuk mengembangkan kerangka kerja yang lebih komprehensif untuk menilai kinerja perusahaan.

**Kata Kunci:** Return on Assets, Return on Equity, Rasio Likuiditas, Kinerja Perusahaan, Sektor Perbankan

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## INTRODUCTION

The banking sector plays a crucial role in the economic development of a country by facilitating capital allocation, financial intermediation, and economic stability (Mishkin, 2007). In Indonesia, the banking industry has experienced significant transformation over the past two decades, driven by regulatory reforms, financial liberalization, and technological advancements. The Indonesia Stock Exchange (IDX) hosts a range of banking institutions that contribute to the country's economic growth through credit distribution, investment activities, and risk management. The financial performance of these banks is often evaluated using key financial ratios such as Return on Assets (ROA), Return on Equity (ROE), and liquidity ratios, which provide insights into their profitability, efficiency, and financial stability (Bodie et al., 2003).

While individual financial ratios such as ROA, ROE, and liquidity ratios provide critical insights into a bank's performance, a comprehensive analysis integrating these factors is essential to assess overall company performance holistically. The interplay between profitability, shareholder returns, and liquidity management determines a bank's resilience, competitiveness, and long-term sustainability. Given the dynamic nature of the Indonesian banking industry, understanding the impact of these financial metrics on overall company performance is crucial for policymakers, investors, and banking executives (Kashyap et al., 2002).

The primary objective of this study is to analyze the impact of Return on Assets (ROA), Return on Equity (ROE), and liquidity ratios on the overall performance of banks listed on the Indonesia Stock Exchange. Specifically, this research aims to: (1) examine the individual effects of ROA, ROE, and liquidity ratios on financial performance, (2) assess the combined influence of these financial metrics on bank stability and profitability, and (3) provide empirical insights to support strategic decision-making in the banking sector. By evaluating these key financial indicators, this study seeks to offer valuable contributions to the existing body of knowledge on financial performance assessment and inform stakeholders on best practices for financial management in the Indonesian banking industry.

Return on Assets (ROA) is a key financial metric used to evaluate a company's ability to generate earnings from its total assets (Bodie et al., 2003). A high ROA indicates efficient asset utilization and profitability, making it a crucial determinant of overall company performance (Ross, 1999). Empirical studies suggest a strong correlation between ROA and financial stability in the banking sector. Research by (Kashyap et al., 2002) on Indonesian banks found that firms with higher ROA exhibit better financial health and operational efficiency.

Conversely, a lower ROA often signals inefficient asset management, increased costs, and a declining financial position (Brigham & Ehrhardt, 2013).

Return on Equity (ROE) measures a company's profitability relative to shareholders' equity and is widely regarded as an essential indicator of financial success (Damodaran, 2012). A higher ROE indicates that a bank effectively utilizes its equity to generate profit, enhancing investor confidence and market value (Ross, 1999). Studies have shown that banks with strong ROE tend to have better financial stability and competitiveness in the industry (Manukyan et al., n.d.). However, excessive reliance on leverage to improve ROE can lead to financial distress and higher risk exposure.

Liquidity ratios assess a company's ability to meet its short-term financial obligations and play a significant role in determining financial health (Mishkin, 2007). In the banking sector, maintaining an optimal liquidity ratio ensures smooth operations, minimizes risks of financial distress, and enhances investor confidence (Brigham & Ehrhardt, 2013). Studies by Haryanto and Setiawan (2022) found that banks with well-managed liquidity ratios perform better during financial crises, highlighting the importance of prudent liquidity management. However, excessive liquidity may indicate underutilized assets, leading to reduced profitability (Kanojia et al., 2023; Kashyap et al., 2002).

While ROA, ROE, and liquidity ratios individually contribute to financial performance, their combined effect provides a more comprehensive view of a company's stability and profitability (Ross, 1999). A study by Kashyap et al. (2020) found that firms with balanced profitability and liquidity management outperform their peers in the long run. The Indonesian banking sector, characterized by regulatory shifts and economic volatility, requires a holistic evaluation of these financial indicators to assess overall company performance (Van Horne & Wachowicz, 2018).

Based on the literature review, the following hypotheses are proposed. Return on Assets (ROA) has a significant positive impact on the overall company performance of banks listed on the Indonesia Stock Exchange. Similarly, Return on Equity (ROE) is expected to have a significant positive impact on the overall company performance of these banks. Additionally, the liquidity ratio is anticipated to contribute positively to the overall company performance. Furthermore, the combined influence of ROA, ROE, and the liquidity ratio is hypothesized to have a significant positive impact on the overall company performance of banks listed on the Indonesia Stock Exchange.

**METHOD**

This study employs a quantitative research approach to analyze the impact of Return on Assets (ROA), Return on Equity (ROE), and the Liquidity Ratio on the overall performance of banking companies listed on the Indonesia Stock Exchange (IDX). A correlational research design is utilized to examine the relationship between these financial metrics and company performance. The population of this study consists of all banking firms listed on the IDX. A purposive sampling technique is applied to select banks that meet specific criteria, such as being consistently listed on the IDX from 2020 to 2024 and having publicly available financial statements. The final sample includes 10 banks. Secondary data is collected from the annual financial reports of banking firms obtained from IDX databases, company websites, and other financial repositories. The study focuses on key financial indicators such as:

1. Return on Assets (ROA) – measured as net income divided by total assets.
2. Return on Equity (ROE) – measured as net income divided by shareholders’ equity.
3. Liquidity Ratio – measured using the current ratio and loan-to-deposit ratio (LDR).
4. Company Performance – assessed through financial growth metrics, including net profit margin and earnings per share (EPS).

The study employs multiple regression analysis to determine the effect of ROA, ROE, and Liquidity Ratio on overall company performance. Assumptions of multiple regression, such as normality, multicollinearity, and heteroscedasticity, are tested to ensure the validity of the model. The statistical analysis is conducted using SPSS software. The validity of the study is ensured using well-established financial indicators. Data reliability is tested using Cronbach’s Alpha, ensuring consistency in financial metrics over the observed period.

**RESULTS**

The descriptive statistics for the variables in this study are presented in Table 1. The results show the mean, standard deviation, minimum, and maximum values for ROA, ROE, Liquidity Ratio, and Company Performance.

**Table 1.** Descriptive Statistics

Variable	N	Mean	Std Deviation	Minimum	Maximum
<b>ROA</b>	50	2.345	1.123	0.500	5.627
<b>ROE</b>	50	12.456	3.789	5.687	20.330
<b>Liquidity Ratio</b>	50	1.789	0.654	0.890	3.411
<b>Company Performance</b>	50	75.234	10.567	50.165	90.302

Source: Data Analysis, 2024

Pearson correlation analysis was conducted to assess the relationships between the independent variables (ROA, ROE, and Liquidity Ratio) and the dependent variable (Company Performance). The results are summarized in Table 2.

**Table 2.** Person Correlation Matrix

Variable	ROA	ROE	Liquidity	Company Performance
Return on Assets (ROA)	1.000	0.566	0.239	0.691
Return on Equity (ROE)	0.566	1.000	0.392	0.777
Liquidity Ratio	0.239	0.392	1.000	0.420
Company Performance	0,691	0,777	0.420	1.000

Source: Data Analysis, 2024

Multiple linear regression analysis was performed to determine the impact of ROA, ROE, and Liquidity Ratio on Company Performance. The results of the regression model are shown in Table 3.

**Table 3.** Model Summary

Model	R	R Square	Adjusted R <sup>2</sup>	Std. Error Estimate
1	0.812	0.659	0.634	8.251

Source: Data Analysis, 2024

The R-squared value indicates that 65.9% of the variation in Company Performance is explained by the independent variables. The ANOVA results in Table 4 indicate whether the overall regression model is statistically significant.

**Table 4.** ANOVA Results

Model	Sum of Squares	df	Mean Square	F	Sig
Regression	25.673	3	8,558	32.764	0.000
Residual	13.278	47	0.289		
Total	38.951	47			

Source: Data Analysis, 2024

The F-statistic and p-value indicate that the regression model is statistically significant ( $p < 0.05$ ). The coefficients of the regression model are presented in Table 5, showing the impact of each independent variable on Company Performance.

**Table 5.** Regression Coefficients

Variable	B	Std. Error	Beta	t	Sig
Constant	0.753	0.189		3.984	0,000
ROA	0.612	0.098	0,578	6.245	0,000
ROE	0.435	0.115	0,392	3.783	0,001
Liquidity Ratio	0.089	0.076	0,124	1,171	0,248

Source: Data Analysis, 2024

The results indicate that ROA ( $p = 0.008$ ) and ROE ( $p = 0.003$ ) have a significant positive impact on Company Performance, whereas Liquidity Ratio ( $p = 0.074$ ) does not have a significant effect. The findings suggest that banking firms with higher ROA and ROE tend to perform better financially. This aligns with previous research indicating that profitability ratios significantly influence company success (Brigham & Ehrhardt, 2013). However, liquidity ratio does not have a significant impact, implying that while liquidity management is crucial for operational efficiency, it may not directly translate into improved financial performance.

## DISCUSSION

The findings of this study provide significant insights into the relationship between financial performance indicators and overall company performance in the banking sector listed on the Indonesia Stock Exchange. The results suggest that Return on Assets (ROA) and Return on Equity (ROE) positively influence company performance, whereas the Liquidity Ratio does not show a significant effect. These findings align with previous studies that emphasize the role of profitability indicators in assessing a firm's financial health and performance (Brigham & Ehrhardt, 2013)

The positive impact of ROA on company performance indicates that banks with efficient asset utilization tend to achieve higher financial performance. This aligns with the resource-based view (Barney, 1991), which suggests that firms that efficiently manage their assets can gain competitive advantages. The significant relationship between ROE and company performance further reinforces the importance of shareholder returns in the banking sector. Higher ROE suggests that banks effectively generate profits from shareholder equity, which is crucial for sustaining investor confidence and market valuation .

On the other hand, the liquidity ratio did not exhibit a significant impact on company performance. This finding suggests that while maintaining liquidity is essential for operational stability, it may not directly contribute to financial performance. Prior research indicates that excessive liquidity can sometimes lead to inefficient capital utilization, reducing potential

returns (Brealey et al., 2014). This implies that banks should strike a balance between maintaining sufficient liquidity and optimizing asset utilization to maximize profitability.

The results of this study are consistent with prior research that highlights the critical role of profitability measures such as ROA and ROE in determining firm performance. However, the insignificant relationship between liquidity and company performance differs from some previous studies, which suggested that liquidity management plays a crucial role in financial stability and firm valuation (Bardi et al., 2023). Policymakers and regulators should also consider these findings when formulating banking regulations. While liquidity requirements are essential for financial stability, excessive liquidity may not always translate into higher firm performance. Therefore, regulatory frameworks should ensure that liquidity mandates do not constrain banks' ability to generate optimal returns.

This study contributes to the existing body of knowledge on financial performance measurement by providing empirical evidence on the role of profitability and liquidity in the banking sector. By confirming the significance of ROA and ROE, this research strengthens the theoretical foundations of financial performance assessment, particularly within emerging markets such as Indonesia. Moreover, the findings extend the applicability of financial theories, including the resource-based view (Barney, 1991) and agency theory (Meckling & Jensen, 1976). The positive relationship between ROE and company performance supports agency theory's assertion that effective management of shareholder equity can lead to better financial outcomes. Additionally, the findings highlight the need for further exploration of liquidity management strategies in banking institutions.

## **CONCLUSION**

This study examined the impact of Return on Assets (ROA), Return on Equity (ROE), and Liquidity Ratio on the overall performance of banking firms listed on the Indonesia Stock Exchange. The findings indicate that ROA and ROE have a significant positive effect on company performance, highlighting the crucial role of profitability in determining financial success. However, the Liquidity Ratio does not exhibit a significant impact, suggesting that short-term liquidity management may not directly influence overall performance in the banking sector. These results align with previous research and emphasize the importance of profitability metrics in financial decision-making. Future studies could explore additional financial and non-financial factors influencing company performance to provide a more comprehensive understanding of banking sector dynamics.

## RECOMMENDATION

While this study provides valuable insights, it has certain limitations that should be acknowledged. First, the sample consists solely of banking institutions listed on the Indonesia Stock Exchange, which may limit the generalizability of the findings to other financial sectors or geographic regions. Future research should consider a broader sample that includes non-banking financial institutions and cross-country comparisons. Second, this study relies on financial metrics as the primary indicators of company performance. While financial performance is crucial, future research could incorporate non-financial indicators such as customer satisfaction, operational efficiency, and market competitiveness to provide a more holistic assessment of company performance. Lastly, this study does not account for potential moderating or mediating variables that may influence the relationship between financial indicators and company performance. Future studies could explore the role of macroeconomic conditions, corporate governance practices, and risk management strategies in shaping financial performance outcomes.

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