Original Article

Return on Asset Mediating Financial Performance in Measuring Stock Return

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Abstract:
The aim of this study is to find out the impact of Current Ratio, Net Profit Margin, and Debt to Equity Ratio on Return on Asset and Stock Return. The data used is a source of data that has been available both internal and external data and data can be accessed through the internet and publication of information. Data used is the financial report of the sub-sector food and beverages companies listed on the Indonesian Stock Exchange period 2018-2022. Analysis methods show that Current Ratio and Debt to Equity Ratio have no influence on Return on Asset and Stock Return. Net Profit Margin has an effect on Returns on Assets and Asset Return. Return On Assets has an influence upon Stock Return. Return on Asset cannot mediate the Current Ratio and Debt to Equity Ratio against the Stock Return. Return on Asset can mediate the Net Profit Margin against the Stock Return.

Keywords: Current Ratio, Net Profit Margin, Debt to Equity Ratio, Return on Asset, Stock Return.

Introduction

In general, investors will be interested in investments that have return shares are high because they are in accordance with the initial objective in investing. If the share price increases, then return the shares that investors will receive are also high. One investment option is investment in a company food and beverages which continues to grow and develop over time. Return Shares in each company generally experience instability, including in sectors food and beverages, this condition is a factor considered by investors in every decision. Investors will analyze how well the company whose shares they want to buy is performing. There are many internal factors that can certainly have an impact on return shares, but in this research it only focuses on several variables that are seen to be involved in influencing return shares, among others Current Ratio, Net Profit.
Margin, Debt to Equity Ratio as well as Return on Assets. The basis for the decision to select the variable in question refers to Oman et al. (2021); Laulita dan Yanni (2022); Rusviana et al. (2022) which provides a convincing statement that these variables have a correlation with return shares.

Contribution Current Ratio in increasing return shares, cannot be separated from the company's success in gaining profits from the process of maximizing assets, including current assets. Oman et al. (2021) strengthens the above statement in their findings that Current Ratio positive influence on return share. Different results were expressed by Fuada (2022). return shares cannot be influenced Current Ratio. Br Tarigan et al. (2021) Current Ratio influence on ROA. The relationship between ROA and positive stock returns is listed in signaling theory (1973). Signal theory strengthens the findings of Rusviana et al. (2022); Sari dan Maryoso (2023), and emphasize the differences with Intan et al. (2022). Investment decisions also need to consider the company's ability to generate profits. Net Profit Margin is the ability to generate profits from a certain level of business volume so that the company can set aside reasonable compensation for shareholders. Laulita and Yanni (2022) Net Profit Margin positive influence on return share. Leonardo and Kharismar (2021) found different results where there was no influence between the two. Hadu et al. (2023) NPM has a positive effect on ROA. From a certain point of view, corporate debt is seen as motivation for management to improve its financial performance so that it can pay off loan principal and interest payments to creditors, but on the other hand it can endanger the company. Irawan (2021) Debt to Equity Ratio influence on return share. In Hutahiruk, (2022); Fuada (2022) find the stock return is not formed Debt to Equity Ratio. Gultom et al. (2020) DER influences ROA. A good conceptual description and previous findings show a correlation between CR, NPM and DER to ROA and return shares. The relationship between these variables confirms that Return on Asset can be positioned as a mediation in measuring return share. On the basis of the description above, this research was designed with the topic "Return Shares in Financial Performance Through Return On Asset".

**Methods**

Path analysis as a method used in data analysis. Path analysis is part of a regression model that can be used to analyze the relationship between one variable and another variable. Path analysis takes into account direct and indirect influences. This research uses tools in the form of the SmartPLS version 3 application. In this research, data collection is in the form of company annual reports food and beverages listed on the Indonesia Stock Exchange for the 2018–2022 period.

**Results**

**Descriptive Statistical Analysis**

Descriptive statistical analysis was carried out to determine the description of the variables studied, namely CR, NPM, DER, ROA and RS using minimum, maximum, mean and standard deviation values.

**Table 1. Descriptive Statistical Test Results**

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>CR</td>
<td>75</td>
<td>73.000</td>
<td>1722.000</td>
<td>356.107</td>
<td>338.360</td>
</tr>
</tbody>
</table>
Analisis Partial Least Square

1. Measurement Model Analysis

Based on the results of data processing with SmartPLS, it shows that the measurement model in this research is formative. Because apart from indicators being able to measure themselves, a loading factor value above 0.6 or 1.0 was found, meaning that this research used a formative research model. The measurement model can also be measured from the significant estimated value (P < 0.05) as seen from loading. The formative factors in Figure 1 are contained in the structural model analysis, so it can be said that this form of research is formative.

2. Structural Model Analysis

Path Coefficient shows the relationship between variables, where the correlation coefficient value shows the direction and strength of the variable relationship. The path coefficient value is in the range -1 to 1. In this structural model analysis, direct and indirect effects can be seen. a) Direct Influence

The direct influence between exogenous and endogenous variables in this research will be shown in the image below. Based on this figure, it can be seen how the relationship between variables is, either directly or through ROA mediation, which shows the magnitude of the influence and direction of the relationship through each value.

|     | Original Sample Mean (O) | Sample Mean (M) | Standard Deviation (STDEV) | T Statistics (|O/STDEV|) | P Values |
|-----|--------------------------|-----------------|---------------------------|--------------------------|----------|
| CR -> ROA | -0.027               | -0.028          | 0.050                     | 0.539                    | 0.590    |
| CR -> Rs   | -0.170              | -0.165          | 0.109                     | 1.568                    | 0.118    |
| DER -> ROA | 0.021               | -0.004          | 0.101                     | 0.209                    | 0.834    |
| DER -> Rs   | -0.163              | -0.141          | 0.146                     | 1.114                    | 0.266    |
| NPM -> ROA | 0.839               | 0.837           | 0.038                     | 21.974                   | 0.000    |
| NPM -> Rs   | -0.335              | -0.354          | 0.151                     | 2.210                    | 0.028    |

Source: Processed Data, 2024
Based on the results table from path coefficient, the meaning above can be explained as follows:

1. **Connection Current Ratio to Return on Asset**: has a path coefficient of -0.027. This relationship has a probability value (P-Values) of 0.590 > 0.05, it can be concluded that Current Ratio has no effect on Return on Asset with a negative relationship direction in sub-sector companies food and beverages.

2. **Connection Current Ratio to Return Stocks**: have a path coefficient of -0.170. This relationship has a probability value (P-Values) of 0.118 > 0.05, it can be concluded that Current Ratio has no effect on Return Stocks with a negative relationship direction in sub-sector companies food and beverages.

3. **The relationship between Net Profit Margin and Return on Assets**: has a path coefficient of 0.839. This relationship has a probability value (P-Values) of 0.000 < 0.05, it can be concluded that Net Profit Margin has a significant effect on Return on Assets with a positive relationship in food and beverages sub-sector companies.

4. **The relationship between Net Profit Margin and Stock Returns**: has a path coefficient of -0.335. This relationship has a probability value (P-Values) of 0.028 < 0.05, it can be concluded that Net Profit Margin has a significant effect on Stock Returns with a negative relationship in food and beverages sub-sector companies.

5. **Connection Debt to Equity Ratio to Return on Asset**: has a path coefficient of 0.021. This relationship has a probability value (P-Values) of 0.834 > 0.05, it can be concluded that Debt to Equity Ratio has no effect on Return on Asset with a positive relationship direction in sub-sector companies food and beverages.

6. **Connection Debt to Equity Ratio to Return Stocks**: have a path coefficient of -0.163. This relationship has a probability value (P-Values) of 0.266 > 0.05, it can be concluded that Debt to Equity Ratio has no effect and is not significant on Return Stocks with a negative relationship direction in sub-sector companies food and beverages.

7. **Connection Return on Asset to Return Stocks**: have a path coefficient of 0.471. This relationship has a probability value (P-Values) of 0.002 < 0.05, it can be concluded that Return on Asset influential and significant towards Return Stocks with a positive relationship in sub-sector companies food and beverages.

### a. Indirect Influence

The indirect influence between exogenous variables and endogenous variables in this research will be presented in the following table:

#### Figure 3. Specific Indirect Effects

<table>
<thead>
<tr>
<th></th>
<th>Original Sample Mean (O)</th>
<th>Sample Mean (M)</th>
<th>Standard Deviation (STDEV)</th>
<th>T Statistics</th>
<th>P Values</th>
</tr>
</thead>
<tbody>
<tr>
<td>CR -&gt; ROA -&gt; Rs</td>
<td>-0.013</td>
<td>-0.015</td>
<td>0.027</td>
<td>0.463</td>
<td>0.643</td>
</tr>
</tbody>
</table>
1. Connection Current Ratio to Return Shares through Return on Asset has a path coefficient of -0.013. This relationship has a probability value (P-Values) of 0.643 > 0.05, it can be concluded that Return on Asset unable to mediate Current Ratio in influencing Return Shares in sub-sector companies food and beverages.

2. Connection Debt to Equity Ratio to Return Shares through Return on Asset has a path coefficient of 0.010. This relationship has a probability value (P-Values) of 0.887 > 0.05, it can be concluded that Return on Asset unable to mediate Debt to Equity Ratio in influencing Return Shares of sub-sector companies food and beverages.

3. Connection Net Profit Margin to Return Shares through Return on Asset has a path coefficient of 0.395. This relationship has a probability value (P-Values) of 0.004 < 0.05, so it can be concluded that Return on Asset can mediate Net Profit Margin

b. Model Quality Analysis
1. Confidence interval
   Confidence interval used to find the 95% confidence interval. On confidence interval there are upper and lower limits. By checking the confidence interval path coef 95% can be found to be the true minimum and maximum level of influence of each variable.

   **Figure 4. Confidence interval 95%**

<table>
<thead>
<tr>
<th>Connection</th>
<th>Path Coefficient</th>
<th>95% Confidence Interval</th>
<th>Path Coefficient</th>
<th>95% Confidence Interval</th>
</tr>
</thead>
<tbody>
<tr>
<td>CR -&gt; ROA</td>
<td>-0.027</td>
<td>-0.116</td>
<td>0.083</td>
<td></td>
</tr>
<tr>
<td>CR -&gt; Rs</td>
<td>-0.170</td>
<td>-0.360</td>
<td>0.085</td>
<td></td>
</tr>
<tr>
<td>DER -&gt; ROA</td>
<td>0.021</td>
<td>-0.223</td>
<td>0.198</td>
<td></td>
</tr>
<tr>
<td>DER -&gt; Rs</td>
<td>-0.163</td>
<td>-0.454</td>
<td>0.139</td>
<td></td>
</tr>
<tr>
<td>NPM -&gt; ROA</td>
<td>0.839</td>
<td>0.678</td>
<td>0.894</td>
<td></td>
</tr>
<tr>
<td>NPM -&gt; Rs</td>
<td>-0.335</td>
<td>-0.614</td>
<td>-0.015</td>
<td></td>
</tr>
<tr>
<td>ROA -&gt; Rs</td>
<td>0.471</td>
<td>0.802</td>
<td>0.802</td>
<td></td>
</tr>
</tbody>
</table>

Source: Processed Data, 2024

1. The CR variable has a lower limit of -0.116, which means that the opportunity for CR’s contribution to ROA is not only -0.027 but can increase to -0.116 and if the value Current Ratio repaired then it is possible to contribute to Return on Asset of 0.083.

2. The NPM variable has a lower limit of -0.614 which means the opportunity for NPM contribution to Rs is not only -0.335 but can increase to -0.614 and if the value Net Profit Margin repaired then it is possible to contribute to return shares of -0.015.

3. The ROA variable has a lower limit of 0.125 which means that the opportunity for ROA contribution to Rs is not only 0.471 but can
increase to 0.125 and if the value Return on Asset repaired then it is possible to contribute to return shares amounted to 0.802

2. R Square
The R Square result for the endogenous variable is 0.75 which indicates that the model is substantial (good); 0.50 indicates that the model is moderate (medium) and 0.25 indicates that the model is weak (bad). From the table below it is known that the influence of X1, X2, X3, and Z against Y with an R Square value of 0.091 which indicates that the variable value of Y can be explained by variations in the value of X1, X2, X3, and Z is only 9.1% or in other words the model is weak (bad), and 90.9% is influenced by other variables.

<table>
<thead>
<tr>
<th></th>
<th>R Square</th>
<th>R Square Adjusted</th>
</tr>
</thead>
<tbody>
<tr>
<td>Y</td>
<td>0.091</td>
<td>0.039</td>
</tr>
</tbody>
</table>

Source: Processed Data, 2024

3. Q square
The Q Square Predictive Relevance value is used to validate the model’s predictive ability. Hair et al. (2019) interpreted the Q Square value as categories 0 (low influence), 0.25 (moderate) and 0.50 (high influence).

<table>
<thead>
<tr>
<th></th>
<th>Q² (=1-SSE/SSO)</th>
</tr>
</thead>
<tbody>
<tr>
<td>CR</td>
<td>0.672</td>
</tr>
<tr>
<td>DER</td>
<td></td>
</tr>
<tr>
<td>NPM</td>
<td></td>
</tr>
<tr>
<td>ROA</td>
<td>0.672</td>
</tr>
<tr>
<td>RS</td>
<td>0.048</td>
</tr>
</tbody>
</table>

Source: Processed Data, 2024
1. Q Square value for Return on Asset is 0.672. Because Q² = 0.672 > 0, then it can be concluded that Current Ratio, Net Profit Margin, and Debt to Equity Ratio has high predictive relevance for Stock Returns.
2. Q Square value for Return The stake is 0.048. Because Q² = 0.048 > 0, then it can be concluded that Current Ratio, Net Profit Margin, and Debt to Equity Ratio has high predictive relevance for Return Shares.

4. SRMR
The difference between the data correlation matrix and the model estimated correlation matrix. Hair et al. (2021) revealed that SRMR values below 0.08 indicate that the model fit is good, meaning that the model has a good fit or acceptable fit. The following table will present the SRMR test results:

<table>
<thead>
<tr>
<th></th>
<th>Estimated Model</th>
</tr>
</thead>
<tbody>
<tr>
<td>SRMR</td>
<td>0.000</td>
</tr>
</tbody>
</table>

Source: Processed Data, 2024
Based on the table above, it can be seen estimated model $0.000 < 0.08$ which indicates that the model has a good fit (acceptable fit).

**Discussion**

Influence Current Ratio To Return on Asset. Current Ratio has no effect on Return on Asset as research findings. The absence of this influence proves that company management has failed to manage the current asset components effectively. The allocation of the company's current assets distributed in cash, receivables and inventories has not contributed to generating profits. Excessive cash results in unproductive fresh funds, improper management of receivables can result in delayed company income, even losses on receivables, as well as low quality inventory management. All of these factors cause current assets to have no effect on ROA. The findings of these results also reject the statement Br Tarigan et al. (2021) which reveals Current Ratio influence ROA. Influence Net Profit Margin to Return on Asset Net Profit Margin influences Return on Assets. This means that the company is able to sell well and efficiently to generate net profits thereby increasing the company’s profitability. Obtaining a large net profit will increase the Return on Assets value. According to the results of this research, the relationship between the two variables also shows a positive relationship or in other words, the higher the Net Profit Margin value, the higher the Return on Assets value.

The findings of both variables are strengthened by Hadu et al. (2023). Debt to Equity Ratio has no effect on Return on Asset. This shows that the company's debt has not been managed effectively or has not been utilized as efficiently as possible so that the opportunity to obtain additional profits from investment returns has not been maximized. Connection Debt to Equity Ratio to Return on Asset also shows a negative direction. The findings of this study prove the statement Gultom et al. (2020) cannot be accommodated. The Effect of Current Ratio on Stock Returns Based on the results obtained from this research, the Current Ratio has no effect on stock returns, meaning it is supportive Fuada (2022). Where the high or low value of the Current Ratio cannot support the company to increase stock returns. Often companies accumulate too many assets in cash, inventory and current debt, which means the company is less able to rotate its assets. So the Current Ratio value cannot be used as the main benchmark before making investment decisions. In view of indirect influence, Return on Asset unable to mediate Current Ratio to return share. This finding confirms that there is a partial negative relationship between current ratio and stock returns, as well return shares experienced positive performance due to contributions Return on Asset, However return on asset still failed to mediate Current Asset to influence return share.

According to the test results specifically indirect effects also shows that influence Return on Asset as a mediator between variables Current Ratio and variables return shares have a negative relationship direction.

1. The Effect of Net Profit Margin on Stock Returns

Net Profit Margin influence on return shares are a discovery, and have a positive direction. This shows that the higher the value Net Profit Margin, the higher the level return shares received. These findings confirm the truth Laulita and Yanni (2022) that Net Profit Margin positive influence on return shares.

Judging from the results of the indirect influence test, positive mediation occurs Return on Asset to Net Profit Margin in influencing return share. This finding
also confirms that the effect of net profit margin mediated by ROA on stock returns is stronger, if we compare it with the effect Net Profit Margin partially towards Return Stock, meaning ROA as a strengthening factor.

2. The Influence of Debt to Equity Ratio on Stock Returns

Debt to Equity Ratio has no effect on return shares, the relationship between these two variables also leads to negative. That is, value Debt to Equity Ratio has no impact on the risk to value return shares that will be received by investors who have invested their capital. High value Debt to Equity Ratio does not necessarily make it a big consideration for investors before buying company shares. However, for small investors who tend to avoid risk, of course this will greatly influence their decisions. This finding is in line with opinion Hutahuruk, (2022); Fuada (2022).

Test result specific indirect effects show that Return on Asset unable to mediate Debt to Equity Ratio in influencing return share. Even though in partial review ROA is able to influence stock returns. Nevertheless Return on Asset only able to encourage relationships Debt to Equity Ratio with return stocks changed in a positive direction.

3. The Influence of Return on Assets on Stock Returns

Return on Assets helps management and investors to see the extent to which the company can convert asset investments into profits. Based on the results that have been researched, Return on Asset positive influence on return share, meaning support Rusviana et al. (2022); Sari dan Maryoso (2023), and reject the findings Intan et al (2022). Return on Asset used by companies to measure the amount of a company's investment which is returned with all the assets owned by the company.

Conclusion

Based on research findings, it can be said that partially Net Profit Margin influences Return on Assets and Stock Returns. Return on Assets succeeded in influencing Stock Returns, while the Curent ratio and Debt to Equity Ratio variables in this research could not influence Return On Assets or Stock Returns. In review, the indirect influence of Net Profit Margin succeeded in mediating ROA in influencing Stock Returns. ROA is seen as a strengthening factor in encouraging Net Profit Margin to form stock returns.

References


