MIX: Jurnal Ilmiah Manajemen

Management Scientific Journal

ISSN (Online): 2460-5328, ISSN (Print): 2088-1231

https://publikasi.mercubuana.ac.id/index.php/jurnal_Mix

The Effectiveness of Liquidity, Solvency, and Profitability Ratios against the Stock Returns of the Company

Hedwigis Esti Riwayati[1)]; Markonah Markonah[2*)]; Maratus Sholeha[3)]

[1)] hedwigis.esti@perbanas.id, Perbanas Institute, Jakarta, Indonesia

[2)] markonah@perbanas.id, Perbanas Institute, Jakarta, Indonesia*

[3)] maratussholeha20@gmail.com, Perbanas Institute, Jakarta, Indonesia

**) Corresponding Author*

ABSTRACT

Objectives*: A company's bottom line analysis is one of the essential factors that should be done by the shareholders when deciding to invest their shares in the company. It gives a clear view of whether shares will be bought, sold, or retained. This research aims to reveal the effectiveness of liquidity which is represented by current ratio (CR) solvency in the form of debt-to-equity ratio (DER) and profitability proxies by return on equity (ROE) towards Stock returns in service sector Industries.*

Methodology*: The research population used consists of 76 service sector firms that are active in the property, real estate, and building construction sectors that are registered at the Indonesia Stock Exchange. The purposive method is used as the sampling technique with a total sample of 22 service companies. The data used in this study were gathered from financial reports during 2016-2020. Panel data regression is performed while the analysis technique is processed through E-views 9.*

Finding *The results indicate the implementation of the fixed effect model has found that liquidity in this case is the current ratio and profitability which is represented by ROE showed that variables do not affect stock returns while solvency which is represented by debt-to-equity ratio has an impact on the stock returns. The current ratio does not affect the return on equity, while the debt-to-equity ratio has a negative effect on return on equity. The current ratio and debt-to-equity ratio mediated by return on equity do not affect stock returns.*

Conclusion*: High liquidity indicates an increase in company performance but in this case, liquidity is still not considered as a determining factor for investors in investing because investors are more focused on the use of capital and debt.*

Keywords*: Current Ratio; Debt to Equity Ratio; Return on Equity; Stock Return.*

Submitted:	Revised:	Accepted:
2023-04-30	2023-10-24	2023-10-24

Article Doi:
http://dx.doi.org/10.22441/jurnal_mix.2023.v13i3.006

p-ISSN: 2088-1231
e-ISSN: 2460-5328

INTRODUCTION

The primary objective of investing is to achieve high returns. Profitability, in terms of returns, plays a pivotal role in attracting investors' interest in a company. A high rate of return often signifies the sound performance of a company (Fahmi, 2020). Such companies tend to have an impact on their market value with shares or stocks being in high demand among investors. This demand subsequently drives up share prices and consequently, stock returns (Bintara & Tanjung, 2019). The performance of a company is frequently used as a benchmark by investors when determining the purchase price of its shares with investors typically favoring companies with a strong reputation.

Return can be used as a measure of a company's success (Saratian, 2023). Investors aim to buy stocks to gain returns on their investments. Stock return is the profit received by investors from their investment in a company that issues stocks. The more investors buy stocks, the stock price and stock returns increase. According to Harmono (2016), the value of the stock return is an indicator of a company's value by considering the price in the form of capital gains and dividends. According to Hanafi & Halim (2018), it is the profit received by shareholders in addition to capital gains. Capital gain itself is the profit obtained from the difference between the selling and buying prices. Therefore, a high stock return indicates good financial performance of the company. In turn, this will attract investor attention and increase the demand for stocks.

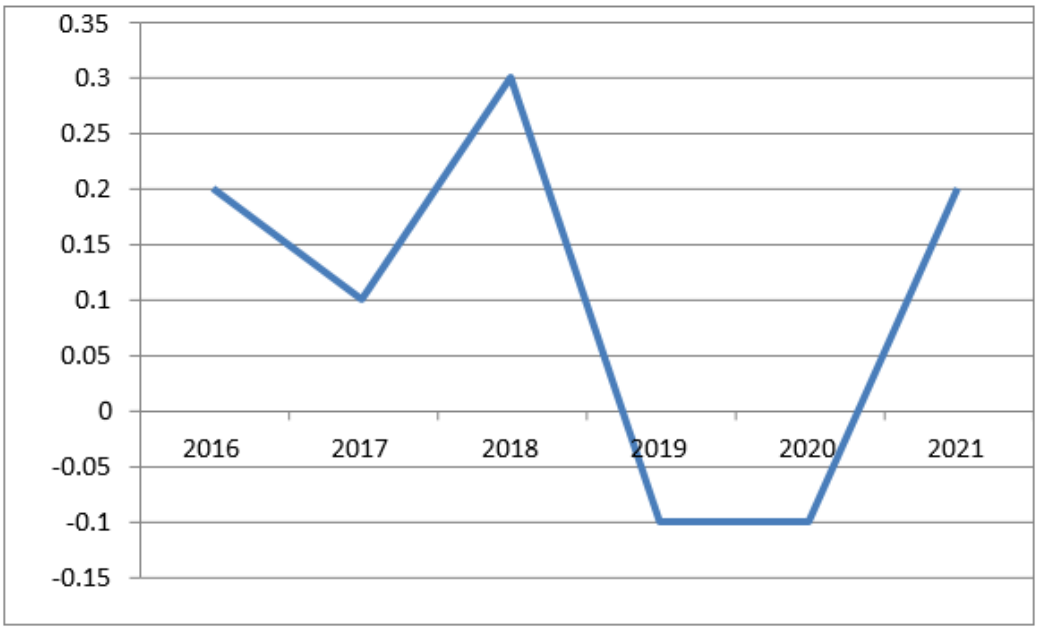

Figure 1. The average Stock Return of Real Estate and Construction Services Sector Companies Listed on the Indonesia Stock Exchange for the Period 2016-2021

Based on Figure 1, the stock returns in the textile and garment sub-sector listed on the Indonesia Stock Exchange (IDX) for the period 2016-2021 show that the average stock return has experienced fluctuations over the years. The textile and garment sector exhibited a significant decrease from year to year, ranging from 0.2 to -0.1. In 2017, there was a decrease of 0.1, however, in 2018, it saw the highest increase at 0.3. However, from 2019 to 2020, it experienced another decrease, returning to -0.1. For investors, high stock returns are the desired outcome

p-ISSN: 2088-1231
e-ISSN: 2460-5328

and the investor's return rate represents the amount of opportunities an investor can gain. According to Tandelilin (2017), the return rate is one of the factors that motivate investors to engage and is also the reward for the investor's courage in bearing the risk of their investments.

In addition to returns, the financial health of a company is often assessed through its financial reports, prepared following established guidelines. These financial statements reflect management's decisions and serve as vital indicators of the company's financial well-being over a specific period. A favorable assessment of a company's financial performance enhances its visibility and competitiveness. Financial reports are especially crucial for shareholders when deciding whether to invest substantial funds in the company. This analysis is essential for investors to determine whether to buy, sell, or hold shares. A lack of information concerning financial statements can lead to investment failures due to a limited understanding of factors related to a company's value.

The financial performance indicated in a company's financial reports, comprising annual reports, income statements, and cash flow statements, is influenced by several factors. Key among these are liquidity ratios, profitability ratios, and solvency ratios. Liquidity ratios assess a company's ability to meet short-term debts promptly (Fahmi, 2020). These ratios gauge liquidity by comparing asset and liability components. A company that can meet its obligations is considered liquid while one that cannot is deemed illiquid. Profitability ratios reflect a company's capacity to generate profits, signifying management's effectiveness in generating returns from sales and investments (Fahmi, 2020). Solvency ratios, as defined by Fahmi (2020), and Halim & Sarwoko (2016), depict a company's ability to service its debts according to agreed-upon terms, indicating the extent of external debt.

Financial performance varies depending on the type of business a company operates. For example, companies in the goods production sector may differ from those in the service sector. This study delves into the effectiveness of liquidity, solvency, and profitability ratios in measuring financial performance in the context of stock returns in the service sector, particularly among companies in the construction and building sub-sector listed on the IDX. Shareholders often scrutinize these financial statistics as part of commercial reports and assess them using various ratios.

Based on research results of Bintara & Tanjung (2019), Chaerunisa et al. (2016), Fuad & Al Mughni (2018), and Piralanasih & Mustafa (2018), shows that the proportion of liquidity proxied by the current ratio has a positive and significant effect towards stock returns. Mayfi & Rudianto (2014) stated that CR has a significant negative impact on stock returns. Meanwhile, quoted from Bisara (2015), Sucipto & Chasanah (2019), and Marjohan (2023), the Current ratio has no impact on stock returns. The influence of liquidity proxied by the debt-to-equity ratio according to Bisara (2015), Nestanti (2017), Putra et al. (2018), and Sucipto & Chasanah (2019) indicates that the DER ratio has a negative effect on stock returns. Meanwhile, Cited from the research results of Mayfi & Rudianto (2014), Fuad & Al Mughni (2018), Nalurita (2015), Piralanasih & Mustafa (2018), and Marjohan (2023), DER does not influence stock returns. Cited from Fuad & Al Mughni (2018), Nalurita (2015), and Nestanti (2017), ROE proxied by profitability ratio has a significant positive effect on stock returns. Meanwhile, according to Chaerunisa et al. (2016), Sucipto & Chasanah (2019), and Marjohan (2023), ROE has no impact on stock returns.

p-ISSN: 2088-1231
e-ISSN: 2460-5328

This study has the purpose to analyze the effectiveness of liquidity which is represented by the current ratio, solvency which is represented by debt-to-equity ratio, and profitability which is represented by return on equity towards stock returns in service sector companies. This research was conducted to assist potential investors in considering which companies are worth investing in. This research has an update because there are still very few researchers who research stock returns directly affected by liquidity and solvency mediated profitability, especially for the service industry sector in the near future.

LITERATURE REVIEW

Financial Ratios

Financial ratios are one of the tools used to estimate the condition of a company in a specific period, namely the proportion of liquidity, profitability, and solvency. In economic reports, the interpretation or analysis of the financial data of a company or organization needs to be done through the implementation of financial ratios (Markonah & Prasetyo, 2022). According to Tandelilin (2017), ratio analysis is an analytical technique to reveal the combination of certain items in the balance sheet or commercial statement or the mixing of these two reports. According to Sugiono & Untung (2019), the definition of analysis on ratio is a various number that shows a correlation on each element in a balance sheet that is expressed in a simple mathematical form. Financial ratio analysis is a technique that is applied to process those numbers contained in annual reports (current and income statements) to demonstrate if there is a link to the condition with the financial statements. The results of these financial ratios are used to calculate management's performance in a period of time whether it reaches the target as set or not. Financial ratios are often used to review the management's ability to empower the company resources effectively. Besides that, financial ratios are always referred to as an evaluation of things that need to be done in the future so management performance can be improved or maintained following the company's targets. Financial ratios are comparisons of the number of activities between components in financial reports, either in one period or several periods. These comparison results are applied as a barometer in estimating the condition of economic detail of a company which later can be put to use as consideration in the process of decision-making for management in the future.

Liquidity

Liquidity is a crucial factor that needs to be considered in making decisions because liquidity is closely related to the capacity of a company in order to fulfill its debts (Jacoub et al., 2020). Noted by Harahap (2015), liquidity could be defined as a proportion that could measure the credibility of a company to pay back its temporary obligations promptly. This proportion is used to estimate liquidity capacity by seeing the current assets of a company as well as its current liabilities (Fahmi, 2020). To determine liquidity, it can be measured using both one-dimensional and multi-dimensional measures (Endri, 2016; Fitriani et al., 2020). One-dimensional liquidity measurement only considers a single variable whereas multi-dimensional measurement is performed by calculating using several different variables (Fitriani et al., 2020). In fulfilling its obligations from time to time, the company should have the means to pay in the form of current assets and the amount of asset should be greater than its ongoing debt that needs to be paid straight away. Liquidity ratio in other word is the ability of a company to overcome the problems of short-term liabilities which is incurred periodically based on the current assets

p-ISSN: 2088-1231
e-ISSN: 2460-5328

of firms. There are 3 types of liquidity which famously known, namely current ratio, quick ratio, and cash ratio.

Solvency

The solvency of a company shows its capability to pay back all the company's debts in a specific period if the company is liquidated. The firm is said to be solvable if it has enough credit to pay all its debts. Based on Harahap (2015), the solvency ratio is the proportion used to estimate the capacity of a company to pay off its long-term debts once the company is liquidated and to review how far the company assets are made up from debts. This means to deep dive into how much debt that company has if it is compared to current assets. This proportion has the purpose of investigating spending in the form of the composition of debt and equity as well as the company's capacity to pay interest and other fixed expenses (Sugiono & Untung, 2019). From these various understandings it can be said that the solvency ratio is often used to assess a company's ability From these various understandings solvency ratio could be defined as a ratio which useful to calculate the capability of a company to pay back all debts once it's liquidated. This proportion is used to estimate based on long-term items such as fixed assets and long-term debt. Cited from Handoko (2019) the solvency ratio consists of 1) Debt to Equity Ratio which explains the amount of Capital that a company has to pay back all its debts to outsiders; 2) Debt Service Ratio, this ratio describes how far the profit after deducting interest and depreciation and non-cash costs can cover interest and loan obligations; 3) Debt to Total Assets ratio, this ratio shows the magnitude of debts which can be coverage by total assets of company.

Profitability

The profitability ratio reveals the capability of a company to generate profits by the use of all existing capacity and its sources, including sales activities, cash, capital, number of employees, number of branches, and such on. The profitability ratio consists of two types of ratios which are profitability in relation which reflects on investment and the other one reflects on sales (Arief et al., 2023; Fahmi, 2020). These two types of ratios show the overall operational effectiveness of the company. The use of profitability ratios can be accomplished through comparison between various components in the financial reports (Arief et al., 2021). The main purpose is to detect the company's progress in a specific period, either decreasing or increasing, as well as looking for the causes of these changes. Based on Fahmi (2020) the profitability ratio explains how far a company uses its resources to encourage company activities. This ratio gives a clear view regarding the efficacy of the company's management (Sugiono & Untung, 2019). This is indicated by the existence of profits earned by the sales and income of investments made by the company. Numerous types of profitability ratios cited by Handoko (2019) could be written as follows: 1) Gross Profit Margin, a ratio that shows the amount of gross profit that could be obtained from selling products; 2) Net Profit Margin, a proportion that indicates on how much net profit obtained by the company from sales; 3) ROI will illustrate the results (return) from total assets used by the company; 4) ROE often use to estimates the rate of business return from all existing capital.

p-ISSN: 2088-1231
e-ISSN: 2460-5328

Stock Returns

One purpose on why investors are attracted to investing their money, relies on the fact, that they could obtain high returns. Without high profit offered by an investment, the activities of investment won't happen. Stock return can be referred to as the profit rate of return which is offered to the investors in return for the investment they make. According to Handoko (2019), stock returns are often called stock income which is indicated by the interchanges in the share price value from period t to t-1. Meaning the higher progress in share prices will increase the share return by the shareholder. Quoted from Tandelilin (2017), stock return is one of the elements that motivates the investor to fund their own money to Produce benefits and these benefits are known as a mutual reward for the investment they make in a company. Stock Returns are distinguished by two elements, such as capital gains and yields. Capital gains are profits earned once the current selling price of their owned stocks is higher than the purchase price. Conversely, if it selling price is lower than the buying price then the investor will experience a loss. Yield is one of the components of the return variable which is presented by cash flow or profits gained periodically in return on investment such as dividends. Dividends are the share of profits that investors get at the end of the year due to stock ownership, usually once a year after the dividend value is decided at the general meeting of stockholders (GMS).

Hypothesis Development and Conceptual Framework

Based on Jogiyanto (2017), returns are divided into two types which are realized returns and expected returns. Realized return could be defined as an ongoing return where this return is estimated by historical data. Realized return is crucial due to its functions as an estimation of company performance. Realized return is often useful to discover expected return as well as future risk. Expected Return is often referred to the profit wishes of investors in the future.

Several components that affect the share prices and returns could be macro and micro, originating from external and internal companies. Based on Samsul (2015), stock returns affected by various macroeconomic and microeconomic factors, come from within and outside the company. Macroeconomic factors are components that come from outside the company, namely: 1) macroeconomic factors which include general domestic interest rate, inflation rate, foreign exchange rates, and international economic conditions; and 2) non-economic macro factors that come from domestic political events, wars, demonstrations, masses, and environmental cases. Micro factors are the components that come from within the company, such as Information obtained from the company's internal conditions in the form of financial information, non-financial information such as earnings per share, book value per share, debt to equity ratio, and other financial ratios.

The liquidity ratio could be referred to as the capacity of a firm to pay all current or temporary liabilities by the use of its current assets at maturity (Sugiono & Untung, 2019). The greater the value of the liquidity ratio, the better the performance of a company. An increase in the capability to cover its ongoing liabilities through current assets could mean that the performance would be better. This certainly gives a positive and attractive signal for investors to invest more, to increase the value of the firm (Brigham & Houston, 2011). According to the research results by Bintara & Tanjung (2019), Chaerunisa et al. (2016), Fuad & Al Mughni (2018), and Piralanasih & Mustafa (2018), it is indicated that the ratio of Liquidity which is represented by current ratio has a significant effect towards stock returns.

p-ISSN: 2088-1231
e-ISSN: 2460-5328

In this study, the Solvency ratio refers to the magnitude of comparison between total liabilities and total equity managed by the firm (Harahap, 2015). The greater the value of the solvency ratio, the poorer the performance of the company. This is because debt under management is greater than the equity owned by the company to cover the cost when the company faces a financial crisis, thereby increasing the risk of bankruptcy faced from this failure. This ratio gives a negative alert to the investors to avoid the company's stocks in question and result in a decrease in company value (Brigham & Houston, 2011). According to research by Bisara (2015), Nestanti (2017), Putra et al. (2018), and Sucipto & Chasanah (2019), the solvency ratio explained through the use of debt-to-equity ratio, negatively affects the stock returns.

The proportion of profitability indicates the capacity of firms to produce profits through controlling the assets invested. The value of profitability ratio has a bigger value shown when the companies are capable of managing their total assets in generating profit. Most investors will choose companies that have high profitability ratios. This condition refers to a sign that a company's value will go further and enhance (Halim & Sarwoko, 2016). Based on previous research from Fuad & Al Mughni (2018), Nalurita (2015), and Nestanti (2017,) the profitability ratio means the return on equity has a significant positive impact on stock returns. From hypotheses and results from prior research, the hypotheses could be concluded as below:

H_1: Liquidity ratio affects stock returns
H_2: Solvency ratio affects stock returns
H_3: Profitability ratio affects stock returns
H_4: Liquidity ratio affects profitability
H_5: The solvency ratio affects towards profitability
H_6: Profitability ratio mediates the influence of liquidity ratio on stock prices
H_7: Profitability ratio mediates the influence of solvency ratio on stock prices

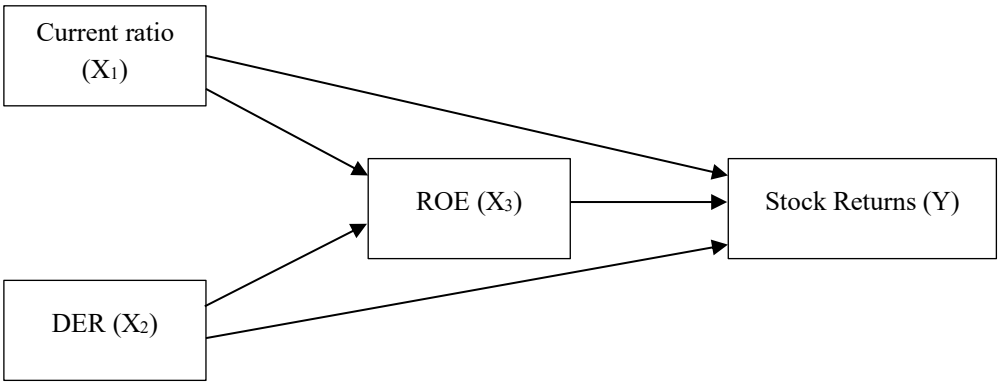

Figure 2. Conceptual Framework Model

p-ISSN: 2088-1231
e-ISSN: 2460-5328

METHOD

Research Design

The quantitative method is a research method where the research is conducted with full numbers. This research is recognized due to the use of explanation level which builds of research investigation in exploring the connection between variables (Sugiyono, 2019). The dependent variable is a variable whose value could be impacted by the independent variable. Stock returns are referred to as a dependent variable in this research. The proportion of liquidity, solvency, and profitability are included in this research as independent variables. The research objects that are going to be analyzed are those companies that are active in the property, real estate, and building construction service industry, listed at the IDX which also publishes its complete financial reports during the research period.

Table 1. Illustrates the operationalization of variables

Variables	Definition of Variables	Measurement	Scale
Current Ratio	Explaining a company's ability to meet its short-term obligations before they come due.	$CR = \frac{Current\ Assets}{Current\ Liabilities.}$	Ratio
Debt to Equity Ratio (DER)	Describing a company's ability to meet its short-term and long-term obligations before experiencing bankruptcy.	$DER = \frac{Total\ Liabilities}{Total\ Equity}$	Ratio
Return on Equity (ROE)	Describing a company's ability to manage its resources to generate profit.	$ROE = \frac{Net\ income}{total\ Equity}$	Ratio
Stock Return	Illustrating the level of profitability for shareholders when investing in stocks.	$Return = \frac{P_t - P_{t-1}}{P_{t-1}}$	Ratio

Source: Processed by the author (2023)

Sample of Research Population

There were 76 service companies used as the research population. These companies are active in the property, real estate, and building construction sectors and are already registered at IDX. These companies are required to comply with annual statements to the public. The purposive sampling method is used as the sampling technique as taking samples is based on consideration to get samples that are common to specific criteria. Several criteria were used as benchmarks for this research, such: 1) The service companies have specifications at property, real estate, and building construction sectors that already named the Indonesian Stock Exchange during this study time span; 2) Service companies that issued and published yearly reports during examination days; 3) Service firms that accomplished its financial ratios based on the sources used. With the specified sample criteria, 22 service companies were obtained for this study.

Data Collection Techniques

Secondary data is used as a source of data which shaped public data of financial reports during the research period which conformed by the company and could be traced from IDX's official website, namely http://www.idx.co.id. Documentation is referred to as a data collection technique through book reviews, journal financial reports, and papers likewise to the

p-ISSN: 2088-1231
e-ISSN: 2460-5328

commercial reports gathered from the IDX's website during the research period. Documentation is a method used through selecting secondary data out of annual balance sheet reports that have been published on the Indonesia Stock Exchange (IDX) Website.

Data Analysis

Panel data analysis combines Scatterplot and Random sample data. This examination is used to reveal the influence that occurs between variables of independent and dependent one through the level of significance. The method used to evaluate the research data is a quantitative method that uses mathematical and statistical models which are classified into certain categories. In order to facilitate the process of data, the use of E-views program version 9.0 and Microsoft Excel software is used frequently.

RESULTS AND DISCUSSION

Results

The construction industry is an industry that involves all parties that connect to the process of constructing a building, such as skilled workers, construction facilitators, and providers in meeting the needs of industry players. Construction Services are services that involve physical facilities and infrastructure. In this case, we also observe companies related to building activities and their maintenance. Progress in the real estate and construction sectors makes it a sector as being unbeatable and would be able to survive in the macroeconomic conditions of Indonesia.

Table 2. Presents the Descriptive Statistics

Variable	Mean	Median	Maximum	Minimum	Std.Deviasi
CR	2.469053	1,843750	12.76860	0.879100	1.910480
DER	1,132309	0,906550	5.833200	0.043300	0.986862
ROE	0,095099	0,087200	0.322900	0.004300	0.063596
Stock Return	0,002046	-0,00238	0.197229	-0.08923	0.033116

Source: Processed by the author (2023)

Based on descriptive statistics results, it is acclaimed that the minimum stock return value was -0.089 owned by PT PP Properti Tbk in 2016 and the maximum value was 0.197 which belongs to PT Bumi Citra Permai Tbk in the same year. This indicates that the number of stock returns in service companies including property, real estate, and construction sectors ranged from -0.089 to 0.197 with an average value of 0.0020 and by standard deviation of 0.033. While CR ranged from the minimum value of 0.88 and maximum value of 12.77. The average value of this variable was 2.47 through a standard deviation of 1.91, the average capability of the company in paying its short-term liabilities was 24.69 percent from its total current assets. The highest CR was owned by PT Intiland Development Tbk in 2017 while the lowest one belonged to PT Pura delta Lestari Tbk in 2018. DER shows a minimum value of 0.043 owned by PT Pura Delta Lestari Tbk in 2018 with a maximum value of 5.83 owned by PT Adhikarya (Persero) Tbk. The average value of this variable was 1.13 through a standard deviation of 0.99, meaning the average liability of the company was 11.32 percent of the total capital owned. ROE in this research indicates a minimum value of 0.004 and a maximum value of 0.32. The average value of this variable was 0.095 by a standard deviation of 0.063 meaning that the average profit earned by the company was 9.50 percent from the total equity owned. The highest ROE was

p-ISSN: 2088-1231
e-ISSN: 2460-5328

possessed by PT Metropolitan Kentjana Tbk in 2016 while the lowest one belonged to PT Adhi Karya (Persero) Tbk in 20200.

This research has gone through the stages in the regression analysis that include, the classical assumption test, model selection, estimation of the regression equation, interpretation of results, significance test, and discussion. The research data used was panel data, so a panel data regression model was chosen. The selecting stage of this process was performed with the purpose of choosing which model is appropriate between Common Effect, Fixed Effect, or Random Effect. In an effort to estimate panel data, these 3 (three) tests have been done to select it, such as the tests of Chow, Hausman, and Langrange Multiplier (LM). Results from the Test above using E-views 9 software are choosing the Fixed Effect model.

Table 3. Illustrates Selection Results of Panel Data Regression Model

Method	Examination	Results
Chow Test	Common Effect vs Fixed Effect	Fixed Effect
Hausman Test	Fixed Effect vs Random Effect	Fixed Effect

Source: Processed by the author (2023)

The outcomes from the Panel data regression equation through the Fixed Effect Model concluded that F-statistic examination is used to examine the model viability under this study. The chance value of these F statistic was 0.000000 (lower than 0.05) meaning these predictor variables that consist of CR, DER, and ROE are feasible to explain stock returns. According to the data processing result by E-views 9.0, the coefficient value of Adjusted R-squared was 0.839924, this illustrates the ability of predictors variables namely CR, DER, and ROE to explain stock returns by 87.51 percent and the remaining 12.49 percent are influenced by other independent variables which is excluded from this study.

Table 4. Explains the Panel Data Regression Sub Structure 1

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0,039511	0,042858	0,921916	0,3592
CR	0,004221	0,005303	0,795882	0,4283
DER	-0,025633	0,007857	-3.262546	0,0016
ROE	0,038989	0,068964	0,565363	0,5733
Adjusted R-squared	0,839924	S.D. dependent var		0,068564
F-statistic	24.83031	Durbin-Watson stat		2.055558
Prob(F-statistic)	0,000000			

Source: Processed by the author (2023)

The hypothesis test result towards the effectiveness of CR, DER, and ROE on stock returns could be defined as follows: The probability value of the influence of CR towards stock returns is 0.4283 > 0.05 (5 percent significance level), resulting in hypothesis 1 (H_1) being rejected. This could mean that the current ratio did not affect stock returns. The value of Probability value of DER influence towards stock returns was 0.0016 < 0.05, resulting in hypothesis 2 (H_2) being accepted. In other words, DER has a significant effect on stock returns. Research results towards the effectiveness of ROE on returns have obtained its probability value around 0.5733 > 0.05, resulting in hypothesis 3 (H_3) being rejected. Thus, ROE did not affect the stock returns.

p-ISSN: 2088-1231
e-ISSN: 2460-5328

Regression of panel data substructure 2 discusses the effect of the current ratio and debt-to-equity ratio on return on equity.

Table 5. Explains the Panel Data Regression Sub Structure 2

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0,622837	0,092728	6.716822	0,0000
CR	0.562346	0,250088	0.248598	0,2857
DER	-0.052747	0,024198	-3.262546	0,0265
Adjusted R-squared	0,839924	S.D. dependent var		0,078593
F-statistic	22.47802	Durbin-Watson stat		2.013287
Prob(F-statistic)	0,000000			

Source: Processed by the author (2023)

The hypothesis test result towards the effectiveness of CR and DER on ROE could be defined as follows: probability value of the influence of CR towards ROE is 0.2857 > 0.05 (5 percent significance level), resulting in hypothesis 4 (H_4) being rejected. This could mean that the current ratio did not affect the ROE. The value of probability value of DER influence towards ROE was 0.0265 < 0.05, resulting in hypothesis 5 (H_5) being accepted. In other words, DER has a significant effect on ROE.

Testing of hypothesis 6 and hypothesis 7 was using the Sobel test. The results of the soil test calculation obtained a z value of 1.084 < 1.96 with a significance level of 0.278 > 0.05, proving that liquidity measured by the current ratio (CR) mediated by ROE does not affect stock returns. The results suggest that hypothesis 6 (H_6) is rejected. Testing hypothesis 7 obtained a z value of -1.78 < -1.96 with a significance level of 0.075 > 0.05, thus proving that solvency, as measured by debt to equity ratio mediated by ROE, does not affect stock returns. The results show that hypothesis 7 (H_7) is rejected.

Discussion

In revisiting the research problem, we aim to ascertain the effectiveness of liquidity, solvency, and profitability ratios in measuring the financial performance of stock returns in the service sector. This study addresses the pertinent question of whether these ratios influence investment decisions and stock returns.

The research findings bear implications for the identified research gap. While the research gap was not explicitly defined in the introduction, it implicitly pertains to understanding the relationship between financial ratios and stock returns in the service sector. The subsequent discussion sheds light on the relevance of the findings to filling this knowledge gap.

The results of this study reveal several noteworthy insights. Firstly, liquidity, as represented by the current ratio (CR), does not significantly impact stock returns. Traditionally viewed as a measure of a firm's capacity to meet short-term obligations, a high CR was expected to correlate with higher stock returns. However, this expectation is not borne out by the findings. It appears that investors may prioritize other factors, such as capital utilization and long-term debt, over short-term liquidity when making investment decisions. The findings align with the research by Bisara (2015), and Sucipto & Chasanah (2019) who similarly found no significant effect of liquidity ratios on stock returns.

p-ISSN: 2088-1231
e-ISSN: 2460-5328

In contrast, the debt-to-equity ratio (DER), representing solvency, is found to have a significant impact on stock returns. This suggests that a higher level of debt utilization positively influences a company's value and attractiveness to investors. Investors may interpret increased debt utilization as a sign of growth and the need for operational funds beyond capital resources. The prudent use of debt can enhance operational efficiency, leading to increased profitability, which turn, heightens stock returns. These results corroborate the research by Fuad & Al Mughni (2018), Nalurita (2015), and Piralanasih & Mustafa (2018) which found a significant effect of DER on stock returns.

However, the return on equity (ROE), representing profitability, does not significantly affect stock returns. Investors may not prioritize ROE as a primary factor in investment decisions. Instead, they may focus on the company's overall performance and the actual returns expected in the near future. ROE, calculated as the ratio of post-tax profit to total capital, does not appear to be a decisive factor for investors. These findings align with the research by Chaerunisa et al. (2016), Nalurita (2015), and Sucipto & Chasanah (2019) which similarly found no significant impact of profitability ratios on stock returns.

To conclude, this study provides valuable insights into the relationship between financial ratios and stock returns in the service sector. While liquidity ratios may not significantly impact stock returns, solvency ratios play a crucial role in influencing investors' decisions and stock returns. Profitability ratios, such as ROE, do not appear to be the primary focus for investors when making investment decisions in this context. Acknowledging these findings, investors and financial analysts can better assess the factors that drive stock returns, ultimately making more informed investment decisions in service sector companies. However, it's important to note the limitations of this study, including its scope and potential external factors influencing stock returns which warrant further investigation.

CONCLUSION

Liquidity could be measured by CR which in turn did not affect the stock returns in service companies (the property, real estate, and construction sectors) that are already registered at the IDX during the research period. High liquidity indicates an increase in company performance but in this case, liquidity is still not considered as a determining factor for investors in investing because investors are more focused on the use of capital and debt. Solvency could be measured by DER which has a positive and significant effect on stock returns of service firms that are registered at the IDX during the research period. As for companies, the use of high debt will increase the company’s ability to manage its operations and to increase productivity which in turn can affect the profits received by the company. Profitability could be measured by ROE which did not impact the stock returns of service sectors that already registered at the IDX. High profitability provides a positive signal for investors to fund their money at the company to improve the company's value through increasing stock prices and high returns. The liquidity of property and real estate companies listed on the IDX does not affect ROE. High company liquidity indicates the company's ability to pay debts but this results in reduced company profitability so investors are not interested in investing which results in low stock prices and decreased stock returns. While shareholders or investors want low or sufficient liquidity, profitability and return must be high. This will certainly attract investors to invest their capital which makes stock prices high and stock returns increase. The increase in the capital structure (DER) indicates the poor performance of management (agents) and this makes shareholders (capital) dislike it. This condition will be accepted by the market as a bad signal that can be a

p-ISSN: 2088-1231
e-ISSN: 2460-5328

negative input for investors in making decisions to buy shares. The demand for shares decreases has an impact on the decline in stock prices and stock returns.

This research is expected to complete additional information regarding high liquidity which was found to not impact the performance of the company but there is a slight risk of too many idle funds. For the use of high debt, it is urged to be more careful to avoid the risk of default and pressure on the companies that are required to increase profits. Through this research, it is hoped that investors can obtain an overview of financial ratios as it is considered to be significant to the movement of stock returns and recognize other aspects that are considered important when deciding to invest especially to those companies that are registered at the IDX. As for the next further research, it is hoped that it can extend its research time used and involve other sectors, By adding the research model it is expected to gain broader insights for the readers.

REFERENCES

Arief, H., Chau, C., Saratian, E. T. P., & Soelton, M. (2023). The influence of sales growth, profitability and activity on financial distress. *Vudicious: Journal of Management, 4*(1), 157–164.

Arief, H., Fauzi, F., Saratian, E. T. P., Ashshidiqy, N., & Kolis, D. N. (2021). Pengaruh Kinerja Keuangan Likuiditas, Leverage dan Profitabilitas terhadap Financial Distress. *Jurnal Doktor Manajemen (JDM), 4*(1), 68–77. https://doi.org/10.22441/jdm.v4i1.12130

Bintara, R., & Tanjung, P. R. S. (2019). Analysis of Fundamental Factors on Stock Return (Empirical Study on the Banking Sector that Go Public in the Kompas Index 100 Year 2012-2016). *Journal of Academic Research in Accounting, Finance and Management Sciences, 9*(2), 49–64.

Bisara, C. (2015). Pengaruh Kinerja Keuangan Terhadap Return Saham. *Jurnal Ilmu & Riset Akuntansi, 4*(2).

Brigham, E. F., & Houston, J. F. (2011). *Dasar-dasar Manajemen.Keuangan (10th ed.)*. Salemba Empat.

Chaerunisa, G. A., Rikumahu, B., & Dewi, A. S. (2016). Pengaruh Likuiditas, Profitabilits dan Solvabilitas terhadap Return Saham (Studi Pada Saham-Saham Sub Sektor Industri Konstruksi Yang Terdaftar di Bursa Efek Indonesia Tahun 2010 – 2014). *E-Proceeding of Management*.

Endri, E. (2016). Dampak Perubahan Satuan Perdagangan dan Fraksi Harga terhadap Likuiditas Saham. *MIX: Jurnal Ilmiah Manajemen, VI*(1), 56–69.

Fahmi, I. (2020). Analisis Kinerja Keuangan. Alfabeta.

Fitriani, D., Iqbal, S., & Andayani, W. (2020). Efektifitas Free Float Dalam Mendongkrak Likuiditas Bursa Efek Indonesia. *Mix Jurnal Ilmiah Manajemen, 10*(1), 127. https://doi.org/10.22441/mix.2020.v10i1.009

Fuad, M., & Al Mughni, N. (2018). Analisis Pengaruh Rasio Keuangan terhadap Return Saham PT. Adhi Karya (Persero) Tbk. *Jurnal Samudra Ekonomi Dan Bisnis, 9*(2), 116–127. https://ejurnalunsam.id/index.php/jseb/article/view/770

Halim, A., & Sarwoko, S. (2016). *Manajemen Keuangan*. BPFE-Yogyakarta.

Hanafi, M. M., & Halim, A. (2018). *Analisis Laporan Keuangan*. UPP STIM YKPN.

Handoko, T. H. (2019). *Manajemen (2nd ed.)*. BPFE Yogyakarta.

Harahap, S. S. (2015). *Analisis Kritis Atas Laporan Keuangan (12th ed.)*. Raja Grafindo Persada.

p-ISSN: 2088-1231
e-ISSN: 2460-5328

Harmono. (2016). *Manajemen Keuangan Berbasis Balance Score Card Pendekatan Teori, Kasus, dan Riset Bisnis*. PT Bumi Aksara.

Jacoub, Y., Hakim, D. B., Hartoyo, S., & Santosa, P. W. (2020). Karakteristik Bank Target Akuisisi Asing (Cross-Border) Dan Domestik Pada Perbankan Indonesia. *Mix: Jurnal Ilmiah Manajemen, 10*(2), 224. https://doi.org/10.22441/mix.2020.v10i2.006

Jogiyanto, H. M. (2017). *Teori Portofolio dan Analisis Investasi (11th ed.)*. BPFE Yogyakarta.

Marjohan, M. (2023). Influence of Financial Performance and Fair Price of Share on Investment Decisions with Good Corporate Governance as Moderating Variables in Companies in The Indonesia Stock Exchange. *MIX: Jurnal Ilmiah Manajemen, 13*(1), 78–89.

Markonah, M., & Prasetyo, J. H. (2022). The Effect of Corporate Governance on Financial Performance: Evidence from Islamic Banks in Indonesia. *Journal of Asian Finance, Economics and Business, 9*(6), 45–52. https://doi.org/10.2991/aer.k.201221.098

Mayfi, F., & Rudianto, D. (2014). Analisis pengaruh faktor internal dan eksternal perusahaan terhadap return saham. *MIX: Jurnal Ilmiah Manajemen, IV*(3), 348–362.

Nalurita, F. (2015). The effect of profitability ratio, solvability ratio, market ratio on stock return. *Business and Entrepreneurial Review, 15*(1), 73–94. https://www.e-journal.trisakti.ac.id/index.php/ber/article/view/2080

Nestanti, D. D. (2017). Pengaruh Rasio Profitabilitas, Rasio Solvabilitas dan Rasio Nilai Pasar Terhadap Return Saham Perusahaan Real Estate dan Properti. *Manajemen Bisnis, 7*(1). https://ejournal.umm.ac.id/index.php/jmb/article/view/6929

Piralanasih, F., & Mustafa, M. (2018). Analysis of fundamental factors' effect on stock return of property: A case study of property, real estate, and building construction sector of companies listed on the Indonesia stock exchange in 2012-2016. *Russian Journal of Agricultural and Socio-Economic Sciences, 77*(5), 38–47. https://cyberleninka.ru/article/n/analysis-of-fundamental-factors-effect-on-stock-return-of-property-a-case-study-of-property-real-estate-and-building-construction-sector-of

Putra, F. L., Nurlaela, S., & Samrotun, C. Y. (2018). Effect of Return on Asset, Return on Equity, Debt to Equity Ratio to Return Stock Company Property and Real Estate In Indonesia Stock Exchange. *The 2nd International Conference on Technology, Education, and Social Science 2018*.

Samsul, M. (2015). *Pasar Modal dan Manajemen Portofolio*. Erlangga.

Saratian, E. T. P. (2023). Investing in Renewable Energy: Decarbonizing Power Plant Industry with the Feasibility Study of Mini-Hydro Project. *Formosa Journal of Applied Sciences, 2*(7), 1729–1742. https://doi.org/10.55927/fjas.v2i7.5315

Sucipto, A., & Chasanah, N. (2019). Effect Of Liquidity Ratio, Profitability, And Solvency On Stock Returns With Capital Structure As An Intervening Variable (Study On Food And Beverage Sub Sector Listed In Indonesia Stock Exchange (Idx) Period 2013-2017). Ekspektra: *Jurnal Bisnis Dan Manajemen, 3*(1), 52–68. https://doi.org/10.25139/ekt.v3i1.1476

Sugiono, A., & Untung, E. (2019). *Analisa Laporan Keuangan (Panduan Praktis Dasar)*, Cetakan Ketiga. PT Grasindo.

Sugiyono. (2019). *Metode Penelitian Kuantitatif, Kualitatif dan R&D*. Alfabeta.

Tandelilin, E. (2017). *Portofolio dan Investasi: Teori dan Aplikasi (11th ed.)*. PT Kanisius.