Muthanna Journal of Administrative and Economics Sciences
مجلة المثنى للعلوم الادارية والاقتصادية

IMPACT OF RETURN ON ASSETS (ROA) AND RETURN ON EQUITY (ROE) ON THE COMPANY'S VALUE: A STUDY ON A SAMPLE OF BANKS LISTED IN THE IRAQ STOCK EXCHANGE

Hussein Jaleel Mohsin[*a]

a Middle Technical University/ Institute of Administration Rusafa /Baghdad, Iraq.

Abstract

The current study aims to find out how Return on Equity (ROE) and Return on Asset (ROA) affect a company's worth in banks listed on the Iraq Stock Exchange between 2017 and 2020. The study uses a quantitative descriptive method. The purposive sampling technique uses secondary data from the four banks (International Development Bank, National Bank of Iraq, Iraqi Middle East Investment, and Ashur Bank. The researcher used standard deviations to analyze the data. Return on Equity (ROE) and Return on Assets (ROA), two profitability factors that affect the value of companies in banks listed on the Iraq Stock Exchange, are used in the study's findings to analyze financial performance.

Information

Received:24/11/2024
Revised: 21/12/2024
Accepted: 29/12/ 2024
Published: 31/12/2024

Keywords:
Return on Assets (ROA)
Return on Equity (ROE)
Profitability Indicators
Financial Sustainability
profitability ratios

Introduction

Numerous factors contribute to the nation's success. Every one of these components has an essential pillar that supports life. The backbone supporting the financial movement and channels it into the streams that concurrently provide the financial returns on the bank and the nation's economic systems is the banking sector, the cornerstone of any nation with a free and competitive economy. Scholars and researchers have dedicated considerable efforts to focusing on the quality of accounting earnings. The bank plays an intrinsic role in attracting domestic and foreign investments in financing small and large projects that positively affected Iraqi banks after 2003, increasing and expanding its activity and efficiency inside and outside the country. One of the financial institutions that influences how a nation's economy moves is banking (Mohsin,2023). A bank is a company that helps gather and disburse money through credit from one community to another. It raises the community's standard of living. In order to influence the other sectors, banks also serve as payment circulation providers and operate as middlemen between connected parties. The company's valuation for the 2017–2020 fiscal year varied and occasionally declined, particularly for those in the banking industry. These circumstances are inextricably linked to internal and external influencing elements that stem from internal businesses, such as liquidity, capital structure, and profitability. (Ali & Flayyih,2021).

Ratio analysis is used in the company's financial statements to explain or show the company's value or both positive and negative situations. The profitability ratios of return on equity (ROE), return on assets (ROA), and a company's value are used in this analysis. An assessment of the company's financial performance through the financial ratio analysis shows the company's economic development, which assesses the company's achievements in the past and forecasts future performance (Jaradat & Alkhazaleh,2018).

Problem Formulation

The current study formulates the following problem statements when conducting the investigation.
1. How does Return on Assets (ROA) affect the company's value on the Iraq stock exchange?
2. How does the Return on Equity (ROE) affect the company's value on the Iraq stock exchange?

Research Hypotheses

- **H1: Return on assets (ROA) affects the company's value.**
- **H2: Return on Equity (ROE) affects the company's value.**

[*] Corresponding author: E-mail addresses: Hussein.mohsen.mtu.edu.iq.
2024 AL – Muthanna University. DOI:10.52113/6/2024-14-4/234-241

Research Objectives

Based on the above background, the researchers set the following objectives:

1. To determine the effect of Return on Assets (ROA) on the company's value on the Iraq stock exchange.
2. To determine the effect of Return on Equity (ROE) on the company's value on the Iraq stock exchange.

1. Literature Review

1.1 Return on Asset (ROA)

One measure of profitability is the return on assets (ROA). The financial statements emphasize the ratio in the analysis since it shows how well the business generates money. Return on assets (ROA) calculates the company's historical profitability and forecasts its future performance. Tamuntuan (2015) states that assets are the total firm properties acquired or converted from foreign capital into company assets to ensure corporate sustainability. Purnamasari (2015) states that the bank compares the available net profit for common shareholders to the total assets to determine the return on asset (ROA).

Thus, the calculation of Return on Assets is as follows:

Return on Assets = Net profit / Total Average Assets

A higher ROA value indicates better company performance because it obtains a higher return on investment rate. "Such value reflects the company's return on all assets (or funding) provided to the company." The factors affecting return on assets include the liquidity ratio, which measures the company's ability to meet its short-term liabilities. This ratio is calculated by comparing its current assets with current liabilities. Asset Management Ratio measures the company's effectiveness in managing its assets, and Debt Management Ratio indicates the extent of the company's ability to meet its long-term obligations (debt). These factors affect the activities of the finance company (Nurlia & Juwari,2018). Supriyadi (2021) views ROA as a ratio that states the return on the number of assets utilized in the company. ROA shows the effectiveness of the company's overall operations. The large ratio indicates the company's ability to use its assets effectively to bring profit. (Mohsin et al., 2020).

1.2 Return on Equity

Return on equity is a metric investors and business executives use to quantify and evaluate the owner's capital's profit. The return on equity analysis is crucial for investors because it establishes the advantages of the investments made. The analysis is crucial to the business as a motivator for investors to invest. The earnings (income) available to the business owners as standard or preferred shareholders is measured by return on equity. It shows how well the money they put into the business has performed. A more significant return or money received indicates a better position for the business owner (Heikal & Khaddafi, 2014). Return on equity, also known as the business's profitability, indicates how profitable own capital is. The debts of large or small firms influence the percentage. The ratio rises when the amount of debt is significant (Al-Zubaidi et al., 2021).

The rentability of one's capital or shares is known as return on equity (ROE) or return on common equity. Investors are drawn in by the profitability ratio or the portion of total profitability given to shareholders. The remaining claims to the company's profits belong to shareholders. However, before distributing the earnings to the common shareholders, the business pays the interest on its obligations. The profitability statistic used to assess a company's capacity to produce a profit on the capital invested in its shares is called return on equity, or ROE. Akbar (2021) suggests the calculation for Return on Equity as follows:

Return on Equity= Net Income After Tax

Total Equity

Shareholders determine investment returns on the amount they invested using the Return on Equity ratio. ROE measures the net profit ratio after deducting the tax of its capital and displays the company's prospects by indicating the profit increase. ROE demonstrates the efficiency of its capital use (Kasmir,2016).

1.3 Company's Value

The sum of the firm's assets, which establishes its market worth, is its company value. It shows how wealthy all of the stockholders and investors are. Capitalist firms primarily aim to increase stock value and profit to maximize shareholder wealth. Future performance, financial leverage and returns, net earnings, asset kinds, and capital structure are the only variables that affect a company's worth. A number of elements, including profitability, capital structure, stock return, and financial leverage, determine the firm's worth. These characteristics determine firm value in multiple ways (Widyakto et al., 2021). Managing the company's finances is the primary responsibility of financial management. According to Awan et al. (2018), raising the company's value is the goal of firm financial management. The worth of the companies listed on public exchanges indicates a rise in the company's book value, earnings ratio, or share price. Nonetheless, the book value of the corporations is how the shareholders determine the worth of unlisted businesses. The company's value is raised by a number of initiatives, including enhancing shareholder prosperity, competitive position, profit, and business efficiency. (Sukesti et al., 2021).

The value of a company reflects the assets owned by the company and acts as an essential security for the company's management. It relates to the company owner's interests in maximizing its welfare. Company value reflects the company's strength and sustainability, attracting potential investors. On the contrary, poor value puts the company at stake. The cooperation between the management, the shareholders, and the stakeholders in making financial decisions increases the company's value and maximizes the working capital (Endri, 2018). Maximizing company value is crucial because its primary goal is improving the shareholders' prosperity. The stock market price reflects the company's value: the higher the company's value, the more profitable returns for the company owner. The share price traded on the stock exchange indicates the company's value in the capital market (Haryadi,2016). In making financial decisions, financial managers need to determine achievable goals. The right financial decisions maximize the company's value and increase the prosperity of the company's owner. Its value is the prospective price buyers will pay if the owners sell the company. Reschiwati et al. (2020) state that the stock price reflects the company's value. The investors request and offer to form the share prices, and the stock price is a proxy for the company's value. High stock prices indicate a high company's value. Such value gains the market trust in the company's current performance and the company's prospects in the future. The equity value and the financial sources, such as debts and preferred shares, maximize the company's value (Marfuah & Nurlaela, 2019).

2. Theoretical Framework and Hypothesis Development

The current researchers formulate the hypotheses based on several factors.

2.1 ROA with Company's Value

Return on Assets (ROA) gauges how well a business uses its assets to generate revenues, claims Djazuli (2021). The ratio shows the impact of either good or bad management on implementing cost control or property management. After deducting taxes and interest costs, the return on assets (ROA) calculates the return on total assets. The business gains from the high Return on Assets (ROA) (Calamar, 2016). The ability of the business to make comparatively large earnings on its assets is indicated by a high Return on Assets (ROA) score. Investors anticipate a high Return on Assets (ROA) number to increase business earnings. A financial ratio called return on assets (ROA) is used to gauge how profitable assets are. A corporation with a higher Return on Assets (ROA) is doing more optimistically. A higher rate of return on investment means that the business makes a lot more money. Harahap asserts that a company's profitability dictates its capacity to produce profits over a specific time frame (Hagel et al., 2018).

ROA assists businesses in using sound accounting procedures to gauge how well their operating capital works. The company's financial situation and industry standing are impacted by this delicate circumstance. It is a step in the strategic planning process. The main objective of evaluating company accomplishments, particularly in banking, is profit. Achieving significant earnings in the banking industry depends on meeting shareholder duties, assessing the performance of the leadership, and luring new investors to expand their capital. High profits allow the bank to raise capital and win the public's trust. As a result, the bank can extend its lending (Tantra, 2021).

2.2 ROE with Company's Value

The capital invested by the corporation as assets generates a profit and an ideal business outcome. The available income of the business owners who made the capital investment is gauged by the return on equity (ROE). Through the company's revenue or profit, the ratio seeks to determine and quantify the return on the capital itself from the invested shares. The business's ability to generate earnings accessible to shareholders is gauged by return on equity (Dwi Sihono & Widarti, 2021). A standard metric for assessing profitability to determine a company's worth is the return on equity (ROE). High ROE numbers indicate the performance of the company. Because the more significant the ROE creates, the higher the market price, which positively correlates with the company's value. The ROE's magnitude indicates the reversal that investors receive. A high ROE encourages investors to purchase additional equities, which raises the price of stocks on the market (Akbar, 2021).
Tantra (2021) claims that ROE calculates the yield reward rate of equity, also known as the rate of return. The ratio is typically closely monitored by stock collectors and securities experts—the stock price increases as the company's ROE increases. According

to Rachmania (2016), ROE calculates the return on stock collectors' investments. Consequently, the advantages of the ROE and its impact on specific company-related parameters are presented.

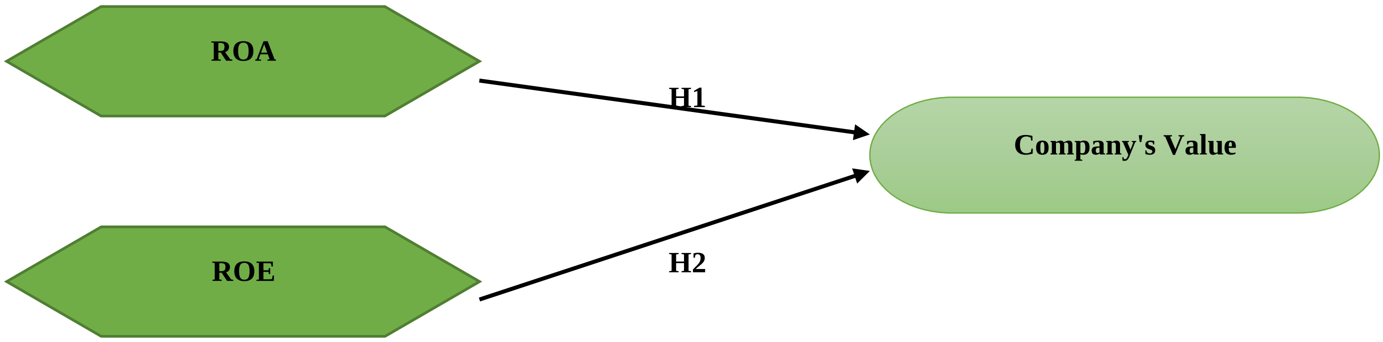

Figure (1) Conceptual Framework

3. Research Methods

The design of the current study is explanatory. By evaluating the hypotheses to support or refute previous research findings, the method seeks to explain the link between two variables using a single variable. The study sample is four banks: International Development Bank, National Bank of Iraq, Iraqi Middle East Investment, and Ashur Bank in Iraq. Companies in the banking industry that are listed on the Iraq Stock Exchange between 2017 and 2020 make up the sample. The study uses secondary data from several sources, such as the websites of each bank and the Iraq Stock Exchange, which are based on the company's financial statements and annual reports. The samples come from the four banks listed above, and a purposive sampling technique was used. In Iraq, these banks post their yearly reports online. The valuation of businesses is one of the study's dependent variables, whilst return on equity (ROE) and return on assets (ROA) are its independent variables. By utilizing standard deviations, the analysis employs regression analysis tests to elucidate the impact of Return on Equity (ROE) and Return on Assets (ROA) on the value of businesses.

4. Data analysis

The selected banks listed on the Iraq Stock Exchange (International Development Bank, National Bank of Iraq, Iraqi Middle East Investment, and Ashur Bank) from 2017 to 2020 provide the data in the study. The researchers calculate the return on equity (ROE) and return on assets (ROA). The following table shows the results:

Table 1 Four years of ROE and ROA data for selected banks

Banks		2017	2018	2019	2020
International Development Bank	ROE	4.6%	1.8%	2.8%	4.5%
	ROA	1.41%	0.7%	1.1%	1.9%
National Bank of Iraq	ROE	8.0%	3.6%	-3.1%	2.1%
	ROA	2.6%	1.2%	1.6%	0.99%
Iraqi Middle East Investment	ROE	-0.6%	0.1%	-0.9%	0.2%
	ROA	-0.3%	0.03%	-0.3%	0.1%
Ashur Bank	ROE	5.5%	1.801%	1.782%	5.1%
	ROA	3.4%	2.192%	1.134%	3.6%

Based on the previous data, the researchers investigate the reliability of the ROE result according to the following statistical standards.

* ROE = Net profit/ Total equity

* ROA = Net profit / (asset for current year + assets for previously year) /2

Table 2 Different statistical standards for ROE of selected banks

Banks	N	Mean	Median	Std.Deviation ROE
International Development Bank	4	3.41%	3.62%	1.35%
National Bank of Iraq	4	2.63%	2.81%	4.55%
Iraqi Middle East Investment	4	-0.30%	-0.28%	0.53%
Ashur Bank	4	3.54%	3.43%	2.02%

Table 2 indicates that the Ashur Bank has the highest percentage in ROE, followed by the International Development Bank and the National Bank of Iraq. The Middle East Bank has the lowest rate (-0.28%). Figure 2 clarifies the standard deviations of the bank.

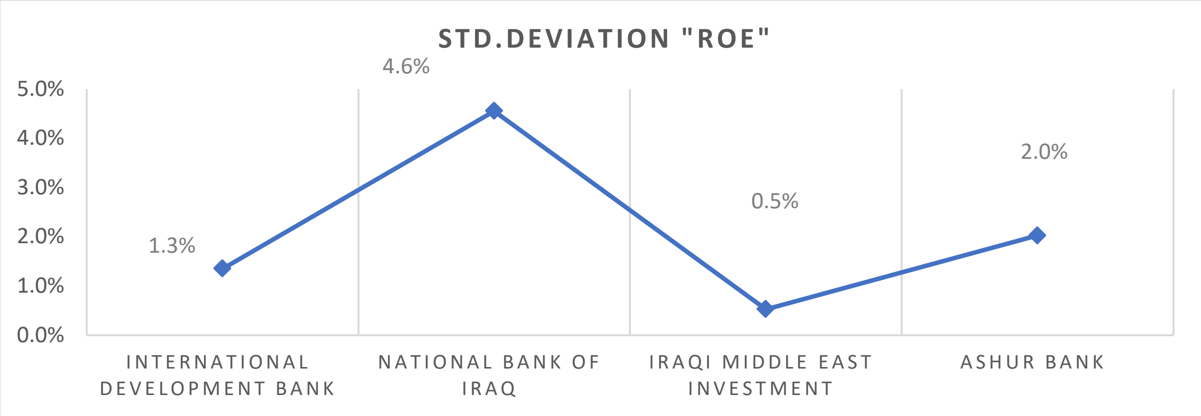

Figure (2) The Standard Deviations of the Bank for ROE

The chart shows the standard deviation of the International Development Bank and Iraq Middle East Investment, which has a lower percentage (1.3 %, 0.5 %) than the other two banks showing higher rates. The International Bank of Iraq offers 4.6%, and the Ashur Bank indicates 2%.

The research uses the same statistical standard in ROE to evaluate ROA results' reliability, as indicated in Table 3.

Table 3 Different statistical standards for ROA of selected banks

Banks	N	Mean	Median	Std.Deviation ROA
International Development Bank	4	1.26%	1.26%	0.49%
National Bank of Iraq	4	1.60%	1.40%	0.72%
Iraqi Middle East Investment	4	-0.11%	-0.12%	0.19%
Ashur Bank	4	2.56%	2.78%	1.13%

The previous data shows that Ashur Bank has the highest rate of return on assets at 2.56% compared to the National Bank of Iraq (1.6%), the International Development Bank (1.26%), and the Iraqi Middle East Investment (0.11%). Figure 3 clarifies the standard deviations of the bank.

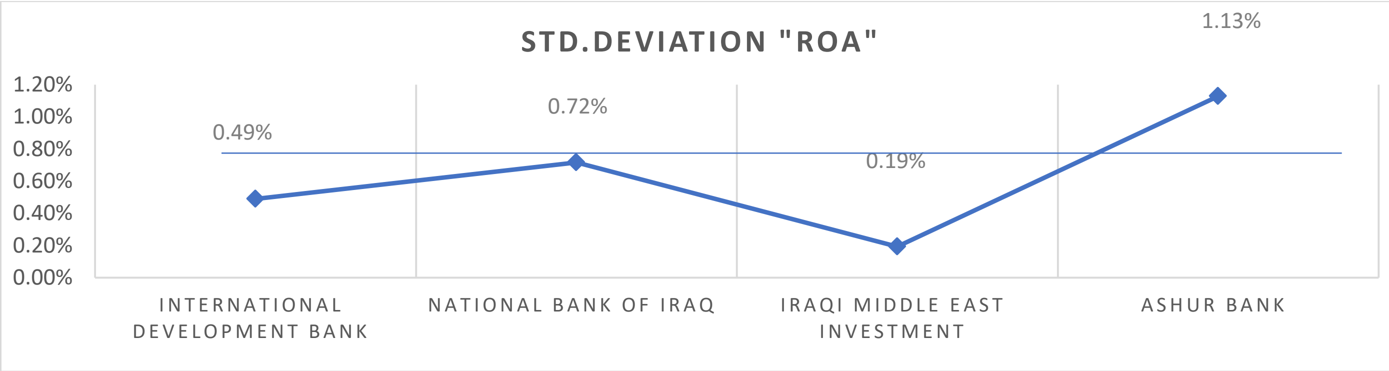

Figure (3) The Standard Deviations of the Bank for ROA

The chart shows Iraqi Middle East Investment has the highest standard deviation (0.19%). The standard deviation of the International Development Bank is 0.49%, and the National Bank of Iraq is 0.72%. The Ashur Bank has the lowest standard deviation rate of 1.13%.

ANOVA					
	df	SS	MS	F	Significance F
Regression	1	0.005858174	0.005858174	13.24715027	0.002679199
Residual	14	0.0061911	0.000442221		
Total	15	0.012049274			

The results of the ANOVA analysis indicate a statistically significant impact of Return on Assets (ROA) and Return on Equity (ROE) on company performance, as the **Significance F** value is less than 0.05 (0.0027). This confirms the validity of the research's central hypothesis that the studied factors significantly affect company performance. Additionally, the **F** value (13.25) indicates a strong relationship between the variables, enhancing the model's strength and ability to explain the relationship between the studied factors.

Conclusions

Based on the current results, the researchers suggest the following conclusions:

1-The ROE of the International Development Bank is the highest (3.62%) over the four years compared to the other three banks. The Ashur Bank shows 3.43%, and the National Bank of Iraq is 2.81%. The results indicate the ability of these banks to manage reconstruction, generate and maximize the value of the institution, and its reflection on the rights of the ownership of the two banks compared to the Middle East Investment, which shows an average return on equity of 0.28%.

2- The International Development Bank shows the lowest standard deviation of ROE at 1.3%, which indicates the bank's stability during the years with the lowest dispersion coefficient compared to the other banks that show high dispersion coefficients.

3- Regarding the return on assets, Ashur Bank has the highest rate of 2.78%. The National Bank of Iraq's rate is 1.4%, and the International Development Bank is 1.26%. It indicates that Ashur Bank can generate returns through an optimal exploitation of the bank's assets. The low percentage of -0.12% obtained by the Middle East Bank indicates the inability of the solvent to exploit its assets to generate returns.

4- Ashur Bank shows the lowest standard deviation rate of ROA at 1.13%, which indicates the bank's stability during the years with the lowest dispersion coefficient compared to the rest of the banks. The results show varying dispersal coefficients during the years of study.

5- Return on Assets and Return on Equity significantly impact the Company's Value in the selected banks on the Iraq Stock Exchange.

References

Akbar, J. S. (2021). The Effect of Return on Assets and Return on Equity on Price to Book Value on Banking Companies Listed on The Indonesia Stock Exchange. *International Journal of Economics, Business, and Accounting Research (IJEBAR)*, *5*(3).

Alfartoosi, A., & Jusoh, M. A. (2021), Review of Scoping Studies on E-accounting, Internal Control System and the Performance of SME in Iraq.

Ali, S. I., & Flayyih, H. H. (2021). The Role of the External Audit in Assessing Continuity of Companies under the Financial Crisis: An Applied

Study in the Iraqi Banks Listed in the Iraq Stock Exchange for the Period 2016-2019 The Role of the External Audit in the Evaluation of the Continue. 39 (November), 1–20. Applied economics studies,*39*(11), 17.

Al-Zubaidi, F. A., Al Baaj, Q. M. A., & Khudhair, D. Z. (2018). The Impact of Accounting Earnings Quality on the Financial Reports: An Applied Study to a Sample of Iraqi Banks Listed in the Iraqi Stock Exchange. *Academy of Accounting and Financial Studies Journal*, *22*(5), 1-15.

Awan, A. G., Lodhi, M. U. L., & Hussain, D. (2018). Determinants of Firm Value: A Case Study of Chemical Industries. *Global Journal of Management, Social Sciences, and Humanities*, *4*(1), 46-61.

Calamar, A. (2016). Return on equity: A compelling case for investors. *Jensen investment management*, 1-15.

Daeli, C. E. (2018). Determinants of firm value: A case study of cigarette companies listed on the Indonesia Stock Exchange. International Journal of Managerial Studies and Research, 6(2), 51-59. http://dx.doi.org/10.2139/ssrn.3649042.

Djazuli, A. (2021). Financial Performance and Firm Value: The Moderating Role of Corporate Social Responsibility Disclosure. *LINGUISTICA ANTVERPIENSIA*, 3841-3853.

Dwi Sihono, r., & Widarti, R. (2021). Effect of Profitability Financial, Ratios Return on Assets, Return on Equity, Gross Profit Margin and Inflation Level of Stock Return Manufacturing Company Recorded Activities in LQ 45. *Research Journal of Finance and Accounting*, *12*(24), 49-64.

Endri, E. (2018). Determinants of firm value: A case study of cigarette companies listed on the Indonesia Stock Exchange. *International Journal of Managerial Studies and Research (IJMSR)*.

Hagel, J., Brown, J. S., Samoylova, T., & Lui, M. (2018). Success or struggle: ROA as a true measure of business performance, Deloitte Insights.

HAMEEDI, K. S., AL-FATLAWI, Q. A., ALI, M. N., & ALMAGTOME, A. H. (2021). Financial performance reporting, IFRS implementation, and accounting information: Evidence from the Iraqi banking sector. *The Journal of Asian Finance, Economics, and Business*, *8*(3), 1083-1094.

Haryadi. 2016. The Effect of Firm Size, Funding Decisions, Profitability and Investment Decisions on Firm Value, Accounting Journal. Vol. 3 No. 2. Juli 2016 ISSN 2339-2436.

Heikal, M., Khaddafi, M., & Ummah, A. (2014). Influence analysis of return on assets (ROA), return on equity (ROE), net profit margin (NPM), debt to equity ratio (DER), and current ratio (CR), against corporate profit growth in automotive on the Indonesia Stock Exchange. *International Journal of Academic Research in Business and Social Sciences*, *4*(12), 101.

Jaradat, M. A., & ALkhazaleh, M. H. A. (2018). The effect of liquidity, administrative efficiency, and capital adequacy on the profitability of Jordanian banks listed on the Amman Stock Exchange. *International Journal of Academic Research in Accounting, Finance and Management Sciences*, *8*(4), 183-194.

Kasmir. (2016). Financial Statement Analysis. King Grafindo.

Marfuah, s, Nurlaela, S (2019). "Effect of Firm size, Asset Growth, Profitability, and Sales Growth on Capital Structure". Journal of Accounting and Tax, 18(1).

Mohsin, H. J. (2023). The Impact of Internal Control on Increasing The Efficiency of The Iraqi Private Banks. Journal Port Science Research, 6(3), 233-239.

Mohsin, H. J., Ahmed, S. A., & Streimikiene, D. (2020). Evaluating the Financial Performance by Considering the Effect of External Factors on Organization Cash Flow. *Contemporary Economics*, *14*(3), 406-415.

Nurlia, N., & Juwari, J. (2019). Pengaruh Return on Asset, Return on Equity, Earning Per Share Dan Current Ratio Terhadap Harga Saham Pada Perusahaan Sub Sektor Otomotif Dan Komponen Yang Terdaftar Di Bursa Efek Indonesia. *Jurnal GeoEkonomi*, *10*(1), 57-73.

Purnamasari, D. (2015). The effect of changes in return on assets, return on equity, and economic value added to the stock price changes and its impact on earnings per share. *Research journal of finance and accounting*, *6*(6), 80-90.

Rachmania, F. (2016). The Effect of ROA, EPS and Size on Stock Prices in Automotive Sector Companies and Their Components Listed on the IDX for the 2011-2014 Period. Economics and Management.

Reschiwati, R., Syahdina, A., & Handayani, S. (2020). Effect of liquidity, profitability, and size of companies on firm value. *Utopía y Praxis Latinoamericana*, *25*(6), 325-332.

SUKESTI, F., GHOZALI, I., Fuad, F. U. A. D., ALMASYHARI, A. K., & NURCAHYONO, N. (2021). Factors affecting the stock price: The role of firm performance. *The Journal of Asian Finance, Economics, and Business*, *8*(2), 165-173.

Supriyadi, T. EFFECT OF RETURN ON ASSETS (ROA), RETURN ON EQUITY (ROE), AND NET

PROFIT MARGIN (NPM) ON THE COMPANY'S VALUE IN MANUFACTURING COMPANIES LISTED ON THE EXCHANGE INDONESIA SECURITIES YEAR 2016-2019.

Tamuntuan, U. (2015). Analyzing the effect of return on equity, return on assets, and earnings per share toward share price: an empirical study of food and beverage companies listed on Indonesia stock exchange. *Jurnal Berkala Ilmiah Efisiensi*, *15*(5).

Tantra, A. R., Ani, D. A., & Jayanti, F. D. (2021). The effect of roa, roe, and roi on company value. *The Accounting Journal of Binaniaga*, *6*(2), 137-152.

Widyakto, A., Nss, R. L. P., & Satya, I. (2021). EFFECT OF ROA, GROWTH AND THE VALUE COMPANIES Study on Manufacturing Companies Listed on Indonesia Stock Exchange In 2017-2019. *Economics and Business Solutions Journal*, *5*(2), 75-88.