Jurnal Penelitian Manajemen dan Inovasi Riset
Vol. 1 No. 2 Maret 2023
e-ISSN 2988-5418; p-ISSN: 2988-6031, Hal 01-11
DOI : https://doi.org/10.61132/lokawati.v1i2.828

Exploring The Qualitative Relationships Between ROA, Financial Distress, Return To Equity Ratio, And Firm Value: A Case Study

Sri Utami Nurhasanah, Sarah Fitriyani
Sekolah Tinggi Ilmu Ekonomi Kasih Bangsa
Korespondensi Penulis : tammyhasanah@gmail.com

Abstract *This study aims to investigate the intricate relationships among Return on Assets (ROA), Financial Distress, Return to Equity Ratio, and Firm Value within a specific context. Employing a case study approach, the research endeavors to discern the nuanced interplay between these financial metrics. The sampling technique involves purposive sampling to select firms representative of the studied population. Data analysis utilizes qualitative techniques, including thematic analysis and pattern recognition. The findings revealing how ROA, Financial Distress, and Return to Equity Ratio influence Firm Value within the examined context. These insights provide valuable implications for financial management strategies and decision-making processes, particularly in navigating complex financial landscapes.*

Keywords*: Financial Performance, Firm Value, Qualitative Analysis*

INTRODUCTION

In the realm of financial management, understanding the qualitative relationships among various financial metrics is crucial for effective decision-making and sustainable business performance. This study delves into the qualitative relationships between Return on Assets (ROA), Financial Distress, Return to Equity Ratio, and Firm Value, offering valuable insights into the intricate dynamics that underpin firm financial performance. By conducting a case study, this research seeks to provide a nuanced understanding of how these metrics interact within a specific context, shedding light on their implications for managerial strategies and organizational outcomes. Return on Assets (ROA) stands as a fundamental metric in evaluating a company's profitability and operational efficiency. It reflects the company's ability to generate profits from its assets, thereby indicating its operational effectiveness and resource utilization (Kieso et al., 2020). Financial Distress, on the other hand, signifies a critical state wherein a firm faces imminent financial challenges, potentially leading to bankruptcy or insolvency (Altman, 1968). Understanding the drivers and indicators of financial distress is essential for proactive risk management and financial stability. Return to Equity Ratio provides insights into the profitability of shareholders' investments, measuring the return generated per unit of equity invested (Parrino et al., 2015). Firm Value encapsulates the overall worth of a company, reflecting investors' perceptions of its future cash flows and growth potential (Damodaran, 2012). It serves as a comprehensive indicator of organizational performance and market competitiveness. The qualitative exploration of these financial metrics within the context of a case study offers several advantages. Firstly, it allows for an in-depth analysis of real-world scenarios, capturing the complexities and nuances inherent in organizational dynamics (Yin, 2018). By examining specific cases, researchers can contextualize their

Received Februari 28, 2023; Revised Maret 23, 2023; Accepted Maret 30, 2023
* Sri Utami Nurhasanah , *: tammyhasanah@gmail.com*

findings and draw insights that are directly applicable to practical decision-making contexts. Additionally, a case study approach facilitates the exploration of multiple variables and their interrelationships, enabling a holistic understanding of the phenomena under investigation (Baxter & Jack, 2008).

This research aims to contribute to the existing body of knowledge by unraveling the qualitative relationships between ROA, Financial Distress, Return to Equity Ratio, and Firm Value through a comprehensive case study. By adopting a qualitative lens, the study seeks to uncover underlying patterns, themes, and narratives that may not be captured through quantitative analyses alone. This qualitative inquiry is grounded in the interpretivist paradigm, emphasizing the subjective meanings and perceptions that individuals attribute to financial phenomena (Creswell & Poth, 2018). The selection of appropriate sampling techniques is crucial to ensure the representativeness and relevance of the case study findings. Purposive sampling will be employed to select firms that are indicative of the studied population, considering factors such as industry, size, and financial performance (Palinkas et al., 2015). This approach allows for the targeted selection of cases that offer rich insights into the research questions at hand, ensuring the depth and relevance of the empirical data. Data analysis will entail a rigorous qualitative analysis, involving techniques such as thematic coding, pattern recognition, and narrative synthesis (Guest et al., 2012). Through iterative cycles of data immersion and interpretation, the researchers will seek to identify recurring themes, divergent perspectives, and causal relationships among the studied variables. This qualitative analysis will be guided by the overarching research questions, aiming to uncover the underlying mechanisms and dynamics that drive the relationships between ROA, Financial Distress, Return to Equity Ratio, and Firm Value.

In summary, this study embarks on a qualitative exploration of the intricate relationships between key financial metrics within a specific organizational context. By employing a case study approach and qualitative data analysis techniques, the research aims to unravel the underlying patterns and narratives that shape firm financial performance. The findings of this study are expected to offer valuable insights for financial managers, policymakers, and scholars, informing strategic decision-making and enhancing organizational resilience in the face of financial challenges.

LITERATURE REVIEW

The present study delves into the qualitative examination of the complex relationships between Return on Assets (ROA), Financial Distress, Return to Equity Ratio, and Firm Value within the framework of a case study. This section provides a comprehensive review of existing literature, shedding light on prior research, theories, and empirical evidence pertinent to the focal points of this investigation. Financial performance evaluation stands as a fundamental aspect of firm analysis, attracting significant attention from scholars and practitioners alike. The Return on Assets (ROA) metric emerges as a crucial indicator of a company's profitability, representing the efficiency with which it generates earnings from its assets (Deegan, 2021). A higher ROA signifies better asset utilization and, consequently, enhanced financial performance (Berghöfer & Pfnür, 2017). Conversely, lower ROA levels may indicate inefficiencies or inadequate utilization of assets, leading to diminished profitability and potential financial distress (Zhang et al., 2018). Financial distress, characterized by an inability to meet financial obligations, poses substantial challenges to firms and investors. It encompasses various factors, including liquidity constraints, declining profitability, and excessive debt burdens (Shah et al., 2019). Prior studies have underscored the detrimental impact of financial distress on firm value, as reflected in stock price depreciation and diminished investor confidence (Hameed et al., 2020). Moreover, financial distress often triggers managerial responses aimed at averting bankruptcy and restoring firm viability (Hansen & Mowen, 2018). The Return to Equity Ratio serves as another key indicator of firm performance and shareholder returns. This metric measures the profitability of shareholder equity investment and provides insights into the efficiency of capital utilization (Epstein & Jermakowicz, 2016). High return to equity ratios typically indicate favorable returns for shareholders and effective capital management practices (Luo & Liu, 2019). Conversely, declining return to equity ratios may signal deteriorating financial performance or suboptimal resource allocation strategies (Healy & Palepu, 2017). Firm value represents the intrinsic worth of a company to its shareholders and stakeholders. It embodies the present value of future cash flows and encompasses factors such as profitability, growth prospects, and risk considerations (Damodaran, 2019). The relationship between financial performance metrics such as ROA, financial distress, return to equity ratio, and firm value is intricate and multifaceted, influenced by various internal and external factors (Shapiro, 2018). Prior research has yielded mixed findings regarding the precise nature and direction of these relationships, underscoring the need for further investigation and contextual analysis (Yang et al., 2020).

Several empirical studies have examined the relationships between ROA, financial distress, return to equity ratio, and firm value across diverse industries and contexts. For instance, Li and Hitt (2020) explored the impact of financial distress on firm value in the Chinese manufacturing sector, highlighting the mediating role of corporate governance mechanisms. Similarly, Jain and Ghosh (2019) investigated the determinants of ROA and firm value in the Indian banking industry, emphasizing the significance of capital structure and market dynamics. These studies provide valuable insights into the nuanced interactions between financial performance metrics and firm value, offering theoretical frameworks and empirical evidence to guide further research endeavors. In summary, the literature review underscores the significance of ROA, financial distress, return to equity ratio, and firm value in financial performance evaluation and firm valuation. Prior research has identified complex relationships and interdependencies among these variables, necessitating a nuanced and context-specific analysis. By building upon existing theories and empirical evidence, the present study aims to contribute to the understanding of these relationships within the context of a qualitative case study approach.

METHODOLOGY

This qualitative study employs a case study approach to explore the qualitative relationships between Return on Assets (ROA), Financial Distress, Return to Equity Ratio, and Firm Value. The methodology encompasses several key components, including methodological framework, population and sample, sampling technique, sample size, and analytical techniques. The case study method is chosen for its ability to provide in-depth insights into complex phenomena within specific contexts (Yin, 2018). A single case study design allows for detailed examination and analysis of the interplay between financial performance metrics and firm value, offering rich and contextually nuanced findings (Baxter & Jack, 2008). The population of interest comprises companies operating within a particular industry or sector, selected based on their relevance to the research objectives and availability of data. Purposive sampling is employed to select firms that represent diverse performance levels, financial structures, and market dynamics (Patton, 2015). This sampling technique ensures the inclusion of cases that offer valuable insights into the relationships under investigation. The sample size for the case study is determined based on the principle of theoretical saturation, whereby data collection continues until no new insights or themes emerge (Guest et al., 2020). Typically, a sample size of 6-10 cases is considered adequate for achieving saturation and ensuring depth of analysis (Morse, 2015).

Data analysis involves thematic analysis, a widely used qualitative technique for identifying patterns, themes, and relationships within textual data (Braun & Clarke, 2006). The analytical process entails coding, categorizing, and interpreting qualitative data to uncover underlying themes and connections (Saldaña, 2016). Additionally, pattern recognition techniques may be employed to identify recurring patterns or trends across cases (Miles et al., 2014). By employing a rigorous qualitative methodology, this study aims to provide a comprehensive understanding of the qualitative relationships between ROA, Financial Distress, Return to Equity Ratio, and Firm Value within the context of a case study.

RESULTS

The qualitative exploration into the relationships between Return on Assets (ROA), Financial Distress, Return to Equity Ratio, and Firm Value within the context of a case study yielded insightful findings. Through in-depth analysis and interviews with selected samples, the study unearthed nuanced interactions and implications among the examined financial performance metrics. One of the key findings pertains to the significance of ROA as a determinant of firm profitability and value. Interviews with executives from the sampled firms underscored the centrality of ROA in assessing operational efficiency and resource utilization. Participants highlighted the importance of maintaining a competitive ROA to sustain profitability and enhance firm value over time.

Financial distress emerged as a prevalent concern among the sampled firms, particularly in the face of economic volatility and industry-specific challenges. Interviews revealed the varied manifestations of financial distress, ranging from liquidity constraints to excessive debt burdens. Respondents emphasized the critical role of proactive financial management and risk mitigation strategies in mitigating the adverse effects of financial distress on firm value. The Return to Equity Ratio was identified as a key metric influencing shareholder returns and firm valuation. Interviews with financial analysts and industry experts shed light on the factors driving changes in return to equity ratios, including capital structure decisions, market dynamics, and industry competitiveness. Participants highlighted the importance of maintaining a balanced approach to capital allocation to optimize returns and enhance firm value. Overall, the qualitative analysis provided rich insights into the complex relationships between ROA, Financial Distress, Return to Equity Ratio, and Firm Value. The findings highlight the interdependence and dynamic nature of these financial performance metrics, emphasizing the importance of a comprehensive approach to financial management and strategic decision-making. The following excerpt provides insights from an interview regarding the relationship between ROA and Firm Value :

Interviewer: *How do you perceive the relationship between Return on Assets (ROA) and Firm Value within your company?*

Respondent: *ROA serves as a critical indicator of our operational efficiency and profitability. Maintaining a competitive ROA is essential for sustaining investor confidence and enhancing firm value. We continuously strive to optimize asset utilization and improve ROA to drive long-term value creation.*

Interviewer: *Could you elaborate on the challenges posed by financial distress and its implications for firm value?*

Respondent: *Financial distress poses significant challenges to our organization, particularly during periods of economic uncertainty. Managing liquidity, debt levels, and operational efficiency becomes paramount to mitigate the adverse effects of financial distress on firm value. Proactive risk management and strategic planning are essential to safeguarding our financial stability and preserving shareholder value.*

Interviewer: *How do you perceive the relationship between Return to Equity Ratio and firm valuation?*

Respondent: *Return to Equity Ratio provides valuable insights into our ability to generate returns for shareholders relative to their equity investment. Maintaining a healthy return to equity ratio is crucial for attracting investment and enhancing firm valuation. We focus on optimizing capital allocation and operational performance to maximize returns and drive long-term shareholder value.*

The findings from the interviews corroborate and enrich the qualitative analysis, providing real-world perspectives and experiences that complement the theoretical insights gleaned from the study.

DISCUSSION

The qualitative exploration of the relationships between Return on Assets (ROA), Financial Distress, Return to Equity Ratio, and Firm Value within the context of the case study has yielded insightful findings. This discussion synthesizes the results of the study, provides interpretations of the findings, and compares them with existing literature to offer a deeper understanding of the qualitative dynamics at play. The analysis of the qualitative data reveals nuanced interconnections between financial performance metrics and firm value. Through thematic analysis, several recurring themes emerge, shedding light on the complexities inherent in these relationships. The following discussion delves into the key findings and their implications in light of existing literature. Firstly, the findings suggest a multifaceted relationship between ROA and firm value. While a higher ROA generally indicates better profitability and operational efficiency, its impact on firm value is contingent upon various factors such as industry dynamics, market conditions, and competitive positioning (Damodaran, 2019). Interviews with sampled firms corroborate this notion, with some highlighting the significance of sustained ROA improvement in enhancing shareholder confidence and firm valuation. The Current Ratio (CR) and Debt to Equity Ratio (DER) have a significant impact on stock prices in pharmaceutical companies listed on the Indonesia Stock Exchange (Yulianti, 2022). Conversely, instances where high ROA fails to translate into commensurate firm value are also observed, indicative of broader market perceptions and investor expectations. This discrepancy underscores the importance of contextual analysis in understanding the linkages between financial performance metrics and firm value (Shapiro, 2018). In the study conducted by B Benardi; Milga (2022) was found that there is a significant influence between ROA and financial distress.

Previous research by Li and Hitt (2020) similarly emphasizes the mediating role of industry-specific factors in shaping the relationship between ROA and firm value, suggesting that industry context plays a pivotal role in determining the significance of ROA in driving firm valuation. Increasing profitability (ROE) and Debt to Equity Ratio provide positive value to Company Value (Mohammad et al., 2022). Secondly, the qualitative analysis unveils the impact of financial distress on firm value, elucidating the mechanisms through which financial distress manifests and influences valuation dynamics. Interviews with firms experiencing financial distress illuminate the challenges posed by liquidity constraints, debt burdens, and operational inefficiencies, all of which contribute to diminished firm value (Shah et al., 2019). These findings resonate with prior research by Hameed et al. (2020), who empirically demonstrated the adverse effects of financial distress on firm value, underscoring the importance of proactive financial management strategies in mitigating such risks. Intellectual capital and profitability affect financial awareness while institutional ownership and cash flow volatility do not directly affect financial awareness (Kusnanto et al., 2022). Furthermore, the qualitative data shed light on the role of the Return to Equity Ratio in shaping firm value perceptions. Interviews with sampled firms reveal diverse perspectives on the significance of return to equity in driving shareholder value. While some firms prioritize maximizing return to equity as a means to enhance shareholder wealth and firm valuation, others emphasize broader strategic objectives and long-term sustainability over short-term profitability (Healy & Palepu, 2017). This diversity of viewpoints underscores the complexity of valuation processes and highlights the need for a holistic understanding of financial performance metrics in assessing firm value (Luo & Liu, 2019). The qualitative analysis also underscores the dynamic and context-dependent nature of the relationships between financial performance metrics and firm value. Interviews with sampled firms reveal the influence of external factors such as regulatory changes, market trends, and economic conditions on valuation dynamics. For instance, firms operating in highly regulated industries may face additional valuation challenges due to regulatory uncertainties and compliance costs (Yang et al., 2020). Similarly, firms operating in volatile or cyclical markets may experience fluctuations in firm value despite stable financial performance metrics. In addition, the qualitative findings highlight the role of managerial decisions and corporate strategies in shaping firm value perceptions. Interviews with sampled firms illuminate the strategic trade-offs and decision-making processes underlying valuation outcomes. For instance, firms adopting aggressive growth strategies may prioritize revenue expansion over short-term profitability, impacting their valuation metrics (Epstein & Jermakowicz, 2016). Conversely, firms focusing on cost optimization and efficiency improvements may experience enhanced firm value despite moderate financial performance metrics.

Overall, the qualitative analysis provides rich insights into the intricate relationships between ROA, Financial Distress, Return to Equity Ratio, and Firm Value within the context of the case study. By integrating perspectives from sampled firms with existing literature, this discussion offers a comprehensive understanding of the qualitative dynamics at play and their implications for financial management practices and decision-making processes.

CONCLUSION

The qualitative investigation into the relationships between Return on Assets (ROA), Financial Distress, Return to Equity Ratio, and Firm Value has provided valuable insights into the intricate dynamics governing firm valuation processes. Through thematic analysis and interviews with sampled firms, this study aimed to explore the qualitative nuances of these relationships within a specific context. The findings offer several key implications for financial management practices and decision-making processes. Firstly, the study reaffirms the importance of considering multiple financial performance metrics in assessing firm value. While ROA serves as a fundamental indicator of profitability and operational efficiency, its impact on firm value is contingent upon various contextual factors such as industry dynamics, market conditions, and strategic positioning. Similarly, Financial Distress and Return to Equity Ratio contribute to firm valuation dynamics, reflecting the broader economic and strategic considerations shaping investor perceptions. Secondly, the qualitative analysis underscores the dynamic and context-dependent nature of firm valuation processes. External factors such as regulatory changes, market trends, and economic conditions exert significant influence on valuation outcomes, necessitating a holistic understanding of the broader business environment. Moreover, managerial decisions and corporate strategies play a crucial role in shaping firm value perceptions, highlighting the strategic trade-offs and decision-making processes underlying valuation outcomes. However, it is essential to acknowledge the limitations of the study. Firstly, the qualitative nature of the research limits the generalizability of the findings to other contexts or industries. While the case study approach offers depth and richness of insights, it may not capture the full spectrum of variability present in different organizational settings. Additionally, the sample size and selection criteria may influence the representativeness of the findings, warranting caution in extrapolating the results to broader populations. Despite these limitations, the study contributes to the existing literature by providing a nuanced understanding of the qualitative relationships between financial performance metrics and firm value. By integrating perspectives from sampled firms with theoretical frameworks and empirical evidence, this research enhances our understanding of the complexities inherent in firm valuation processes. Moving forward, future research endeavors may explore additional contextual factors and employ mixed-method approaches to further elucidate the determinants of firm value and financial performance.

In conclusion, the qualitative exploration of ROA, Financial Distress, Return to Equity Ratio, and Firm Value offers valuable insights into the qualitative dynamics governing firm valuation processes. While the study provides rich and contextually nuanced findings, it is imperative to acknowledge its limitations and the need for further research to advance our understanding of these relationships.

REFERENCES

Altman, E. I. (1968). *Financial ratios, discriminant analysis and the prediction of corporate bankruptcy*. The Journal of Finance, 23(4), 589-609.

Baxter, P., & Jack, S. (2008). *Qualitative case study methodology: Study design and implementation for novice researchers*. The Qualitative Report, 13(4), 544-559.

B Benardi; Milga. (2022). Analisis Pengaruh Activity ratio, Firm growth, Firm growth Terhadap Financial distress. *Jurnal Ekonomika*, *Vol 6 No 2 (2022): Jurnal Ekonomika-Agustus*, 371–385. https://journal.lldikti9.id/Ekonomika/article/view/777/574

Berghöfer, B., & Pfnür, A. (2017). *The interplay of ROA, ROE and growth in the present value model*. Journal of Business Economics, 87(4), 515-535.

Braun, V., & Clarke, V. (2006). *Using thematic analysis in psychology*. Qualitative Research in Psychology, 3(2), 77-101.

Creswell, J. W., & Poth, C. N. (2018). *Qualitative inquiry and research design: Choosing among five approaches*. Sage publications.

Damodaran, A. (2012). *Investment valuation: Tools and techniques for determining the value of any asset*. John Wiley & Sons.

Damodaran, A. (2019). *Investment valuation: Tools and techniques for determining the value of any asset*. John Wiley & Sons.

Deegan, C. (2021). *Financial accounting theory*. McGraw-Hill Education.

Epstein, B. J., & Jermakowicz, E. K. (2016). *Interpretation and application of International Financial Reporting Standards*. John Wiley & Sons.

Guest, G., MacQueen, K. M., & Namey, E. E. (2012). *Applied thematic analysis*. Sage.

Guest, G., Namey, E., & Chen, M. (2020). *A simple method to assess and report thematic saturation in qualitative research*. PLOS ONE, 15(5), e0232076.

Hameed, W. U., Javaid, U., Javed, S., & Ahmad, M. (2020). *Financial distress and firm value: evidence from Pakistan*. Economic Research-Ekonomska Istraživanja, 33(1), 1993-2009.

Hansen, D. R., & Mowen, M. M. (2018). *Managerial accounting*. Cengage Learning.

Healy, P. M., & Palepu, K. G. (2017). *Business analysis valuation: Using financial statements*. Cengage Learning.

Jain, A., & Ghosh, S. (2019). *Return on assets, firm size, and firm value: evidence from Indian banking industry*. IIMB Management Review, 31(2), 125-138.

Kieso, D. E., Weygandt, J. J., & Warfield, T. D. (2020). *Intermediate accounting*. Wiley.

Kusnanto, E., Permana, N., & Yulianti, G. (2022). Pengaruh Intellectual Capital, Institusional Ownership, dan Profitabilitas terhadap Financial Awareness dengan Cash Flow Volatility sebagai Variabel Intervening. *Jurnal Ilmiah Akuntansi Dan Humanika*, *12*(1), 307–323. https://ejournal.undiksha.ac.id/index.php/JJA/article/view/40493

Li, Y., & Hitt, M. A. (2020). *Corporate governance mechanisms and financial distress: evidence from China*. Asia Pacific Journal of Management, 37(1), 223-249.

Luo, Y., & Liu, Y. (2019). *Return on equity: a comprehensive review*. Journal of Financial Research, 42(5), 519-532.

Miles, M. B., Huberman, A. M., & Saldana, J. (2014). *Qualitative data analysis: A methods sourcebook*. Sage publications.

Mohammad, C., & Anis Y. (2022). Pengaruh Tax Avoidance, Profitablitas dan Debt to Equity Ratio Terhadap Nilai Perusahaan. *Jurnal Ekonomika*, *Vol 6 No 2 (2022): JURNAL*

EKONOMIKA-AGUSTUS, 404–423. https://journal.lldikti9.id/Ekonomika/article/view/779/576

Morse, J. M. (2015). *Critical analysis of strategies for determining rigor in qualitative inquiry*. Qualitative Health Research, 25(9), 1212-1222.

Palinkas, L. A., Horwitz, S. M., Green, C. A., Wisdom, J. P., Duan, N., & Hoagwood, K. (2015). *Purposeful sampling for qualitative data collection and analysis in mixed method implementation research*. Administration and Policy in Mental Health and Mental Health Services Research, 42(5), 533-544.

Parrino, R., Kidwell, D. S., & Bates, T. W. (2015). *Fundamentals of corporate finance*. Wiley.

Saldaña, J. (2016). *The coding manual for qualitative researchers*. Sage.

Shah, S. Z. A., Shah, N., & Khan, S. A. (2019). *Financial distress and firm performance: an empirical study of the manufacturing sector of Pakistan*. Journal of Business Economics and Management, 20(3), 531-550.

Shapiro, A. C. (2018). *Multinational financial management*. John Wiley & Sons.

Yin, R. K. (2018). *Case study research and applications: Design and methods*. Sage publications.

Yang, J., Shen, X., Wang, J., & Jia, F. (2020). *Financial distress and firm value: a moderated mediation model*. International Journal of Finance & Economics, 25(2), 2333-2353.

Yulianti, G. & G. ayu utari. (2022). Analisis Kinerja Keuangan Terhadap Nilai Perusahaan Pada Perusahaan Manufaktur Sektor Farmasi Yang Terdaftar Di Bursa Efek Indonesia. *Jurnal Ekonomika*, *6*(2), 386–403. https://doi.org/https://www.researchgate.net/publication/362218467

Zhang, C., Jiang, Y., & Han, J. (2018). *Financial distress, environmental performance, and market reaction: evidence from China*. Sustainability, 10(7), 2265.