

THE EFFECT OF FINANCIAL PERFORMANCE AND STOCK LIQUIDITY ON INVESTOR RESPONSE

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Abstract

This study aims to examine the effect of financial performance and stock liquidity on investor response. The financial performance variable is measured by Return on Equity (ROE) and stock liquidity is measured by Trading Volume Activity (TVA) on the investor response variable measured by stock returns. The samples used in this study are industrial sector companies listed on the Indonesia Stock Exchange (IDX) in 2022 – 2024. The analysis method applied is multiple linear regression analysis method with the SPSS 27 program. This type of research is quantitative research with sampling obtained using purposive sampling method, namely sample selection based on predetermined criteria so that a sample of 51 out of 60 industrial sector samples listed on the Indonesia Stock Exchange (IDX) in 2022 – 2024 is obtained. The results showed that financial performance as measured by Return on Equity has a significant effect on investor response as measured by stock returns while stock liquidity as measured by Trading Volume Activity has no significant effect on investor response.

Keywords: financial performance, stock liquidity and investor response

Introduction

The main purpose of establishing a company is to strategically maximize the value of the company. This is not only aimed at improving the welfare of owners or shareholders, but also reflects efforts to increase their wealth through increasing the value of the company (Harahap et al., 2022). Proper planning can be an incentive for companies to achieve their goals and objectives, one of which is to maximize profits. High company value is reflected in high stock prices, which ultimately improve the welfare of owners and attract investor interest. In the concept of investment, in addition to considering the expected return, investors must also take into account the accompanying risks, as the higher the potential profit, the higher the risk faced (Balqis, 2021).

In a competitive business environment, a company's annual report is an important tool for communicating its current financial condition and operating results. Financial reports reflect a company's performance over a specific period and have a direct impact on stock valuation (Setiawati, 2024). Changes in financial position can affect investor perception and impact stock prices, so stock price fluctuations need to be monitored to maintain and improve company performance. Financial ratios also play an important role in evaluating performance, one of which is Return on Equity (ROE), which assesses the effectiveness of management in managing capital (Riduwan Akhmad, 2023). Financial performance is an important indicator in assessing future profit prospects and creating sustainable company value (Setiawati Luh Pande et al., 2023). On the other hand, stock liquidity describes the ease of conducting buy and sell transactions without causing large price fluctuations, where liquid stocks are preferred by investors because they allow for quick and efficient transactions (Erawati et al., 2022). In addition to financial data, investment decisions are also influenced by economic conditions, public policy, and overall market confidence (Azhima, 2024).

Thus, understanding the various factors that affect the company's value, stock returns, investment risks, financial performance, and stock liquidity is very important for investors and other stakeholders. An in-depth analysis of financial statements and financial ratios can be helpful in assessing the company's future prospects. In addition, market dynamics influenced by economic policies, political events, and investor sentiment also play a role in stock price movements. Therefore, companies need to maintain transparency, improve financial performance, and optimize their business strategies to attract investors and create long-term value.

Hypothesis Development

Financial performance is the main factor that investors consider in making investment decisions. Investors don't just look at one financial ratio, but analyze various aspects of a company's finances thoroughly to assess the profitability, liquidity, and level of financial risk borne by the company. Return on Equity (ROE) was chosen because it is the main indicator in assessing financial performance. Return on Equity (ROE) measures a company's ability to generate profits from shareholder capital. The higher the ROE, the more efficient the company will be

in managing its capital, which increases the attractiveness for investors (Noor & Riduwan, 2023). This is in line with research by Putra & Riduwan (2021) which found that ROE has a positive influence on investment decisions.

According to signal theory, a company's management sends signals to the market through published financial statements. Good financial performance is a positive signal that indicates that the company is managed effectively and has promising growth prospects. Investors tend to respond to these signals by increasing investment interest, which in turn is reflected in rising stock prices and trading volumes. Therefore, it can be assumed that the better the company's financial performance, the more positive the investor response to the company.

H₁: Financial performance has a positive effect on investor response.

Stock liquidity refers to the transaction volume of a stock in the capital market measured in a certain period of time. According to Muchriana & Idrawahyuni (2022), a stock is said to be more liquid if the number of shares traded is greater than the number of shares outstanding. If a stock is highly liquid, it means that many people are trading the stock and transactions can be done quickly without having to drastically change the price. This is certainly attractive to investors, because they don't have to worry about having trouble selling stocks when they need funds or buying stocks when they see opportunities. Research by Dewi and Prasetyo (2021) also shows that stock liquidity has a positive effect on investor response: Investors tend to choose stocks with high trading volumes and low price spreads because these conditions reduce transaction risk and reflect high market interest. Thus, stocks that have high liquidity tend to get a more positive response from investors, both in the form of increased buying interest and the potential increase in stock prices in the market.

H₂: Stock liquidity has a positive effect on investor response.

Research Methods

Types of research and overview of the research population

This study uses a type of quantitative research by measuring research variables using numerical data, and then analyzing the data using statistical techniques. In this study, the population used is industrial sector companies listed on the Indonesia Stock Exchange (IDX) from 2022 – 2024 and stock prices taken from Investing.com sites from 2022 – 2024.

Sampling Techniques

The sampling technique used in this study is the purposive sampling technique. The following are the criteria that the researcher will use in sampling as follows: (1) Industrial sector companies that have been listed on the Indonesia Stock Exchange (IDX) from 2022 to 2024. (2) Industrial sector companies on the Indonesia Stock Exchange (IDX) that issue financial statements from 2022 to 2024. (3) Financial statements are presented in rupiah. (4) The Company did not suffer losses on financial statements during the research period. (5) Companies listed on the Indonesia Stock Exchange (IDX) consecutively during the research period. The final number of samples obtained based on the criteria was 17 companies with a total of 51 observational data.

Data Collection Techniques

The type of data used in the data collection technique in this study is documentary data. In this study, the data source used is secondary data, namely the company's annual financial statements accessed through the official website of the Indonesia Stock Exchange (<https://www.idx.co.id/id>). The data collection technique itself is a method used by researchers to obtain the data needed in the implementation of research.

Measurement and Definition of Operational Variables

Financial Performance

Return on Equity seeks to maximize the profits a company earns from its shareholders' investment. When ROE grows, it suggests the company's outlook is improving, as it points to a potential for higher earnings. This upward trend can significantly increase investor confidence and simplify the process for management to raise capital via new share offerings (Fadilla & Riduwan, 2024). The Return on Equity previously studied (Fadilla & Riduwan, 2024) can be calculated using the following formula:

$$\text{Return on Equity} = \frac{\text{Net Profit After Tax}}{\text{Total Equity}} \times 100\%$$

Stock Liquidity

Stock liquidity is the level of ease with which a stock can be traded in the market without causing significant price changes. In the study (Pratama & Pohan, 2023), stock liquidity was measured using Turnover Activity with the following formula:

$$TVA = \frac{\sum \text{Stocks of Company } i \text{ traded in Periode } t}{\sum \text{Stocks of Company } i \text{ outstanding in Periode } t}$$

Investor Response

Investor responses in this study are interpreted as investors' reactions to information reflected through changes in stock prices. In this study, realized return is used, because realized return is used as a measure of financial performance and is useful as a basis for determining expected return and future risks (Lilyani, 2023) with the following formula:

$$\text{Realized Return} = \frac{P_t - (P_t - 1)}{P_t - 1}$$

Information:

P_t = Stock price at time t (current period)

P_{t-1} = Stock price at time t-1 (previous period)

The model of this research is as follows:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \varepsilon$$

Information:

Y = Investor Response

α = Constant

$\beta_1 - \beta_2$ = Regression Coefficient

X_1 = Return on Equity

X_2 = Stock Liquidity

ε = Error

Research Results and Discussion

Descriptive Test

Descriptive statistical analysis is carried out to describe in general terms the variables in the study. The results of descriptive statistical data processing can be seen in table 1:

Table 1. Descriptive Test

	N	Minimum	Maximum	Mean	Std. Deviation
ROE	51	0,0131	0,3329	0,157586	0,0839444
TVA	51	0,0014	0,2949	0,079169	0,0817200
RETURN SAHAM	51	0,0300	0,3800	0,189216	0,0841390
Valid N (listwise)	51				

Source: Data Processing Results, 2025

Based on the results of the descriptive statistical test in table 1 above, it can be seen that the number of research samples obtained was 51 samples with an observation period of 3 years, namely from 2022-2024. The stock return (Y) as a dependent variable has a minimum value of 0,0300 and a maximum value of 0,3800, as well as a mean value of 0,189216 with a standard deviation of 0,0841390. Return on Equity (X1) as an independent variable has a minimum value of 0.0131 and a maximum value of 0,3329, as well as a mean value of 0,157586 with a standard deviation of 0,0839444. Trading Volume Activity (X2) as an independent variable has a minimum value of 0.0014 and a maximum value of 0,2949, and a mean value of 0,079169 with a standard deviation of 0,0817200.

Classic Assumption Test

Normality Test

This test is carried out to determine whether the distribution of the data has a significant difference or not by having a basis for extraction, where it is said to be distributed normally if the value is asymp. Sig. (2-tailed) > 0,05. Meanwhile, it is said that it is not distributed normally if the value is asymp. Sig. (2-tailed) < 0,05. The following results of the normality test presented by the researcher can be seen in table 2:

Table 2. Normality Test

The value of asymp. Sig (2-tailed)	Significance	Information
0,200	0,05	Normal distributed data

Source: Data Processing Results, 2025

Based on the results of the normality test using the non-parametric Kolmogorou- Smirnov (K-S) statistics in table 2 above, it can be seen that the value of asymp. Sig. (2-tailed) of 0,200 > 0,05, it can be concluded that the regression model in this study is said to be normal and meets the assumption of normality.

Multicollinearity Test

The multicollinearity test is a test to find out whether a correlation between independent variables is found in the regression model or not. This study uses VIF (Variance Inflation Factor) with a basis for taking, where it is said that multicollinearity occurs if the tolerance value $> 0,100$ and the VIF value < 10 . Meanwhile, it is said that there are no symptoms of multicollinearity if the tolerance value $< 0,100$ and the VIF value > 10 . The following results of the multicollinearity test presented by the researcher can be seen in table 3:

Table 3. Multicollinearity Test

	Tolarance	VIF
Return On Equity (ROE)	0,953	1,050
Trading Volume Activity (VAT)	0,994	1,006

a. Dependent Variable: RETURN_SAHAM

Source: Data Processing Results, 2025

Based on the results of the multicollinearity test using VIF (Variance Inflation Factor) in table 3 above, it can be seen that the tolerance value for the Return On Equity (ROE) variable is 0,953 and for the Trading Volume Activity (TVA) variable is 0,994. Meanwhile, the VIF value in the Return On Equity (ROE) variable is 1,050 and in the Trading Volume Activity (TVA) variable is 1,006. The results of the multicollinearity test of each independent variable showed a tolerance value > 0.100 and a VIF value < 10 , so it can be concluded that the regression model of this study is said to have no symptoms of multicollinearity.

Heteroskedesity Test

The Heteroscedasticity test is performed to test whether in a regression model, there is a difference in residual variance from one observation period to another. To see whether heteroscedastisis is present or not, it can be done with table 4:

Table 4. Heteroskedesity Test

Type		Sig.
1	(Constant)	0,255
	ROE	0,955
	TVA	0,734

a. Dependent Variable: ABS_RES

Source: Data Processing Results, 2025

Based on the results of the heterokedasticity test between the variables having a significance value of $> 0,05$ with a significance value of 0,955 for the ROE variable and 0,734 for the TVA variable, it can be concluded that the regression model has no symptoms of heterokedasticity.

Autocorrelation Test

The autocorrelation test is a test to find out whether in the regression model there is a correlation between the disruptive error in the t-period and the disruptive error in the t-1 period. This study uses Durbin Watson with a basis of extraction, where it is said that autocorrelation symptoms occur if the Durbin Watson value is not located between du to (4-du). Meanwhile, it is said that there is no autocorrelation symptom if the Durbin Watson value is between two to (4-du). The following autocorrelation test results presented by the researcher can be seen in table 5:

Table 5. Autocorrelation Test

Type	R	R Square	Adjusted R Square	Durbin-Watson
1	0,490	0,240	0.191	1,964

a. Predictors: (constant), TVA, ROE

b. Dependent Variable: RETURN_SAHAM

Source: Data Processing Results, 2025

Based on the results of the autocorrelation test using Durbin Watson in table 5, it can be seen that the du value is 1,6309. So that this value can be formulated $du (1,6309) < \text{Durbin Watson} (1,964) < 4-du (2,036)$, then it can be concluded that the regression model of this study is said to have no autocorrelation symptoms.

Multiple Linear Regression Analysis Test

The multiple linear regression analysis test is a test to find out how the effect of financial performance measured by Return On Equity (ROE) and stock liquidity measured by Trading Volume Activity (TVA) on investor response measured by Stock Return. The following results of the multiple linear regression analysis test presented by the researcher can be seen in table 6:

Table 6. Autocorrelation Test

Type		Unstandardized Coefficients	Std. Error	Standardized Coefficients	t	sig
		β		Beta		
1	(Constant)	0,075	0,032		2,327	0,024
	ROE	0,317	0,128	0,325	2,468	0,017
	TVA	0,062	0,130	0,061	0,476	0,636

a. Dependent Variable: RETURN_SAHAM

Source: Data Processing Results, 2025

Based on the multiple linear regression analysis test in table 6, it can be seen that the positive sign of a variable is independent of the value of the coefficient β . The form of multiple linear regression equations can be obtained as follows:

$$Y = 0,075 + 0,317ROE + 0,062TVA + \varepsilon$$

Based on the results of the partial test in table 6 above, it can be concluded that the Return On Equity (ROE) in industrial sector companies for the 2022-2024 period shows a significance value of $0,017 < 0,05$, then it can be said that the Return On Equity (ROE) variable has a significant influence on the variable of investor response measured by stock returns or accepted hypotheses and Trading Volume Activity (TVA) in the industrial sector for the 2022- 2024 period shows a significance value of $0,636 > 0,05$, therefore, it can be said that the Trading Volume Activity (TVA) variable does not have a significant influence on investor response as measured by stock returns or rejected hypotheses.

Coefficient of Determination Test (R²)

The determination coefficient test is a test to measure how much the ability of independent (independent) variables in a regression model is able to explain variations from dependent (bound) variables. The magnitude of the value of the determinant coefficient (R²) ranges between 1 and 0. The following results of the determination coefficient (R²) test presented by the researcher can be seen in table 7:

Table 7. Coefficient of Determination Test (R²)

Type	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	0,490	0,240	0,191	0,0742416	1,964

a. Predictors: (constant), TVA, ROE

b. Dependent Variable: RETURN_SAHAM

Source: Data Processing Results, 2025

Based on the results of the determination coefficient (R²) test in table 7 above, it can be seen that the R² value is 0,240 or 24%, so it can be concluded that the variables Return On Equity (ROE) and Trading Volume Activity (TVA) can affect the variable of investor response measured by stock return of 24%, while the remaining 76% is dominated by other factors that are not studied in this study.

Model Feasibility Test (F Test)

The model feasibility test (statistical test F) is a test to measure the accuracy of the sample regression function in estimating the actual value statistically. The feasibility test model can be measured with a statistical value of F which indicates whether all independent variables included in the model are feasible to test or not against the dependent variables by having a basis of extraction, where it is said that this model test is suitable for use in the study if the significant value of $f < 0,05$. Meanwhile, it is said that this model test is not suitable for use in research if the significant value of $f > 0,05$. The following model feasibility test results presented by the researcher can be seen in table 8:

Table 8. Model Feasibility Test (F Test)

	Sum of squares	Df	Mean Square	F	Sig.
Regression	0,080	3	0,27	4,851	0,005

a. Dependent Variable: RETURN_SAHAM

b. Predictors: (constant), TVA, ROE

Source: Data Processing Results, 2025

Based on the results of the model feasibility test (statistical test F) in table 8, it can be seen that the significant value is $0,005 < 0,05$, so it can be concluded that this model test is feasible to be used in this study and the regression model of the variables Return On Equity (ROE) and Trading Volume Activity (TVA) together affects the variable of investor response measured by stock returns.

Discussion

The Influence of Financial Performance on Investor Responses

Based on the results of the hypothesis test (t-test) in table 6, the results of the study show that the Return on Equity (ROE) variable has a significant influence on investor response as measured by stock returns in industrial sector companies for the 2022-2024 period because it can be seen from the significance value of $0,017 < 0,05$. This is in line with research conducted by previous researchers (Noor & Riduwan, 2023) stating that Return on Equity (ROE) has a positive effect on stock returns. Return On Equity (ROE) has a positive effect on investor response as measured by stock returns because the greater the Return on Equity (ROE), the better the financial performance of a company in managing its capital to generate profits for shareholders. This research can generate a positive response by investors in making decisions to invest their capital in the company. Therefore, the Return on Equity (ROE) variable is very important for investors in determining the response to make decisions to invest their capital. For companies, if investors give a positive response in making decisions to invest their capital, then this will affect the performance of a company and cause the company's share price to increase. That way, the company experiences excess demand for shares in the capital market and the management succeeds in running the company.

The Effect of Stock Liquidity on Investor Responses

Based on the results of the hypothesis test (t-test) in table 6, The results show that the Trading Volume Activity (TVA) variable does not have a significant effect on investor response as measured by stock returns in industrial sector companies for the 2022–2024 period, with a significance value of $0,636 > 0,05$. This finding aligns with the research by Sari et al. (2024), which states that stock liquidity does not influence certain investment decisions, such as stock splits. Theoretically, liquidity is expected to influence investor response due to ease of transactions and lower market risk. In practice, investors tend to consider fundamental company factors such as profitability and capital structure. This may be due to the inefficiency of the capital market in Indonesia, so that liquidity information has not been optimally utilized.

Conclusions and Suggestions

Conclusions

This study was conducted to test Return On Equity (ROE) and Trading Volume Activity (TVA) on investor responses measured by stock returns. Based on research that has been conducted through several statistical tests, it is concluded that: (1) Return On Equity (ROE) has a significant and positive effect on investor response. This shows that the higher the company's ability to generate profits from its own capital, the greater the interest of investors to invest their capital, which ultimately increases the company's share price; (2) Trading Volume Activity (TVA) has no significant effect on investor response. This indicates that although stock liquidity is important, investors consider fundamental factors such as profitability rather than ease of stock transactions in determining their investment decisions.

Suggestions

Based on the results of the research that has been conducted, some suggestions that can be submitted include: (1) For investors, the results of this research can be considered in making investment decisions. High ROE can be an important indicator to assess a company's effectiveness in generating profits and increasing investment value; (2) For companies, it is important to improve financial performance through efficient capital management in order to attract investors and increase the company's share price in the capital market; (3) For the next researcher, it is

expected to add other variables such as capital structure, company size, or dividend policy in order to gain a more comprehensive understanding of the factors that affect investor response.

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