



GROWTH ANALYSIS ROE AND ROI IN ASSESSING THE FINANCIAL PERFORMANCE OF REGIONAL DRINKING WATER COMPANIES IN THE CITY OF MADIUN

By:

Danik Karyawati¹, Supriyatun², Marsana³
^{1,2,3} Tantular Cooperative Management Academy
Email: dhanik.karyawati@gmail.com¹

ABSTRACT

This research analyzes the growth of return on equity (ROE) and returns on investment (ROI) to assess the financial performance of the Madiun City Regional Drinking Water Company (PDAM). ROE is calculated as net profit divided by equity, while ROI is calculated as net profit divided by total investment. Secondary data was obtained from the annual financial report of PDAM Madiun City for the 2018-2020 period. The analysis method used is descriptive and trending to identify ROE and ROI growth patterns. The research results show fluctuations in ROE and ROI, with some years experiencing significant increases reflecting improved financial performance, while other years show declines due to challenges in maintaining financial stability. The increase in performance was mainly driven by operational efficiency and good resource management, while the decrease was caused by an increase in operational costs and a decrease in revenue due to external factors. This research highlights the importance of a stable and sustainable management strategy for PDAM Kota Madiun, as well as efficient resource management and investment optimization to ensure consistent financial growth. These findings provide insight for PDAM management in monitoring and evaluating financial performance using ROE and ROI, as well as helping policymakers formulate policies that support improving the company's financial performance.

Keywords: Return on Equity (ROE); Return on Investment (ROI); Financial performance; Madiun City PDAM

INTRODUCTION

The government always carries out national development which aims to improve the welfare of the Indonesian people. One form of implementing development is the formation of State-Owned Enterprises. Development as a planned and continuous process is intended to create a prosperous life that can be enjoyed by all levels of society.

As an embodiment of the 1945

Constitution, namely Article 33 in paragraph 2 that "branches of production which are important for the State and which affect the lives of many people are controlled by the state and used for the prosperity of the people." In paragraph 3 which reads "The water and natural resources contained therein are controlled by the State and used for the prosperity of the people," the government, in carrying out this mandate, forms State-Owned

Enterprises and Regional-Owned Enterprises. One of the regional companies formed by the regional government which is engaged in distributing clean water to the community is the Regional Drinking Water Company (PDAM).

In an effort to provide clean and healthy water, provide excellent service to the community, PDAMs are required to be able to finance their short-term needs in operating their business. Therefore, PDAM's goal must also be to make a profit, which is one measure of the company's health as a profit-oriented business entity to increase Regional Original Income (PAD). To maintain the health of the company, PDAM must always try to improve company management so that it can maintain and even develop its business (Rozak et al., 2021). Whereas In dealing with this, the company must have sufficient funds to provide the company's operational needs and to be able to generate profits, where profit is one measure of operational activity. To see how big the company's profits are, the company presents information in the form of financial reports (Kartika et al., 2020).

To measure the financial performance of a company, you can use a financial ratio analysis. According to Munawir (2014) the ratio describes a relationship or balance between a certain amount and another amount, and by using an analytical tool in the form of this ratio, you will be able to explain or give an idea to the analyst about the good or bad condition or financial position of a company (Sugiharti et al., 2023).

One of the ratios to measure financial performance is Return On Equity (ROE). According to Kasmir (2012) Return On Equity (ROE) or return on equity is a ratio to measure net profit after tax with own capital. This ratio shows the efficiency of using own capital. The higher this ratio, the better, meaning the company's position is stronger and vice versa. Apart from that, the profitability ratio is measured, namely the Return on Assets Ratio. This ratio is used to

measure how much net profit will be generated from each fund embedded in assets (Kasmir, 2012).

With the reasons and basis for the theoretical explanation above, the author analyzes the financial performance of Madiun City PDAM with the title "Growth Analysis of Return on Equity and Return on Assets in assessing the Financial Performance of Madiun City Drinking Water Company".

LITERATURE REVIEW

Contingency theory explains that companies do not only have an interest in obtaining maximum profits. Companies must pay attention to the interests of society so that the company will have good value in society. With these good values, the company's performance will be good (Khan & Ismail, 2009).

Hanafi (2012) states that "Profitability is a ratio that measures a company's ability to generate profits (profitability) at certain levels of sales, assets and share capital". The profitability ratio will show the combined effects of liquidity, asset management and debt on operating results. Where profitability ratios can be used to measure financial performance (Rozak et al., 2023). Meanwhile, according to Rudianto and Rudianto (2013), financial performance is the result or achievement of company management in carrying out the company's asset management function for a certain period of time.

Return on Equity (ROE)

According to P. Sugiyono (2017) Return on Equity (ROE) can measure the level of return from a business or all existing capital. Return on Equity (ROE) is one of the indicators used by shareholders to measure the success of their business. This ratio can also be called Own Capital Rentability. Hariyanto (2014) said that *Return on Equity* (ROE) is the return on equity, a ratio that shows how much equity contributes to creating net profit.

Return on Equity (ROE) is the ratio between net profit to total equity. The

higher the Return on Equity (ROE), the more efficiently the company uses its own capital to generate profits or net profits (Ardimas & Wardoyo, 2014). The Return on Equity (ROE) formula is as follows:

$$ROE = \frac{Laba\ Bersih}{Total\ Ekuitas}$$

Return on Assets (ROA)

According to Hanafi (2012) Return on Assets is the company's ability to achieve profit after tax by using all its assets. This is very important for companies or company management to manage all company assets.

Return On Assets (ROA) is a ratio that measures the level of return from a business on all existing assets. This ratio describes the efficiency of funds used in the company (Ardimas & Wardoyo, 2014). This ratio can be calculated as follows:

$$ROA = \frac{Laba\ Bersih}{Total\ Asset}$$

RESEARCH METHODS

The types of data in this research are quantitative data and qualitative data. This quantitative data in the form of numbers or figures can be collected and read. The quantitative data in this research are the financial reports of PDAM Madiun City

Qualitative Data is data obtained by interviews in the form of verbally or in writing, not in the form of numbers or numbers. Qualitative data in this research was obtained such as the history of the establishment, the company's vision and mission, organizational structure, and the division of tasks and responsibilities of each section in PDAM Madiun City (D. Sugiyono, 2017).

The data used in this research is primary data, namely original data collected by the researcher himself to answer his research problem, specifically Sunyoto (2013). Researchers conducted in-depth interviews with related parties.

Secondary data used in this research is data sourced from existing records at the company and from other sources. The data sources are in the form of a brief company history, organizational structure, company financial reports, as well as books that are references related to this research.

The analysis carried out in this research is quantitative descriptive analysis, namely a method carried out by collecting, classifying, analyzing and interpreting data so that it provides complete information for solving problems in research.

The analysis technique used in this research is to describe the data that has been obtained from the company's financial reports and processed according to measurement indicators and then draw conclusions from the results of the data processing.

Data analysis uses *Return on Assets* (ROA) and *Return On Equity* (ROE) which are elements of the Profitability ratio. The formula used for data analysis is as follows:

Return on Equity (ROE)

$$ROE = \frac{Laba\ Bersih}{Total\ Ekuitas}$$

Return on Assets (ROA)

$$ROA = \frac{Laba\ Bersih}{Total\ Asset}$$

RESULTS AND DISCUSSION

Table 1. Balance Sheet and Profit and Loss of PDAM Madiun 2018-2020

| KET | 2018 | 2019 | 2020 |
|---------------------|----------------|----------------|----------------|
| Total assets | 69,676,500,352 | 72,345,348,488 | 85,431,449,468 |
| Total Amoun of debt | 5,007,075,534 | 5,506,744,408 | 7,974,961,218 |
| Total Equity | 64,677,699,816 | 66,838,604,078 | 77,456,488,248 |
| Net Profit/Loss | 9,095,699,000 | 9,331,353,460 | 18,419,566,406 |

Source: PDAM Madiun balance sheet data

The profitability ratio is a ratio that

describes the company's ability to generate profits during a certain period which functions to measure the level of management effectiveness in carrying out operations. Analysis of the results of the calculation of *Return On Equity* (ROE) and *Return On Assets* (ROA) of Madiun City PDAM from this research is as follows:

$$ROE = \frac{Laba Bersih}{Total Equity} \times 100\%$$

$$ROE \text{ tahun } 2018 = \frac{9.095.699.000}{64.677.699.816} \times 100\% \\ = 14\%$$

From the calculation results above, the amount of ROE in 2018 shows a result of 14%, of the total operating equity of Rp. 64,677,699,816 the company was able to generate a net profit of Rp. 9,095,699,000. This means that every Rp.1 of equity contributes to creating Rp.0.140

$$ROE \text{ tahun } 2019 = \frac{9.331.353.460}{66.838.604.078} \times 100\% \\ = 13,95\%$$

Then, from the calculation results above, the ROE in 2019 was 13.96%, of the total operating capital of IDR. 66,838,604,078 the company was able to generate a net profit of Rp. 9,331,353,460. which means every Rp.1 of equity contributes to creating a net profit of Rp.0.1396.

$$ROE \text{ tahun } 2020 = \frac{18.419.566.406}{77.456.488.248} \times 100\% \\ = 23,8\%$$

And from the calculation results above, the ROE generated in 2020 was 23.8%, so the total operating capital was IDR. 77,456,488,248 the company was able to generate a net profit of Rp. 18,419,566,406. which means every Rp.1 of equity contributes to creating a net profit of Rp.0.238.

ROE Growth

From the results of the ROE calculation above, in 2018 the company produced an

ROE of 14%, then in 2019 it produced an ROE of 13.96, meaning it experienced a decrease but not significantly, namely 0.004%, and in 2020 the company's ROE increased by 9.84 %, namely ROE reached 23.8%, which means the growth is quite significant

$$ROA = \frac{Laba Bersih}{Total Aset} \times 100\%$$

$$ROA \text{ tahun } 2018 = \frac{9.095.699.000}{69.676.500.352} \times 100\% \\ = 13\%$$

From the calculation results above, the ROA generated in 2018 was 13%, meaning that the total assets operated amounted to Rp. 69,676,500,352 the company was able to generate a net profit of Rp. 9,095,699,000 which means that every Rp.1 of total assets contributes to creating a net profit of Rp.0.13

$$ROA \text{ tahun } 2019 = \frac{9.331.353.460}{72.345.348.488} \times 100\% \\ = 12,9\%$$

Then, from the calculation results above, the ROA generated in 2019 was 12.9%, meaning that the total assets operated were IDR. 72,345,348,488 the company was able to generate a net profit of Rp. 9,331,353,460_which means that every Rp.1 of total assets contributes to creating a net profit of Rp.0.129

$$ROA = \frac{18.419.566.406}{85.431.449.468} \times 100\% = 21,5\%$$

And from the calculation results above, the ROA generated in 2020 is 21.5%, so the total operating capital is IDR. 85,431,449,468 the company was able to generate a net profit of IDR 18,419,566,406, which means that every IDR 1 of equity contributed to creating a net profit of IDR 0.21

ROA Growth

From the results of the ROA

calculation above, in 2018 the company produced an ROA of 13%, then in 2019 it produced an ROE of 12.9, meaning it experienced a decrease but not significantly, namely 0.01%, and in 2020 the company's ROE increased by 8.8%, namely ROE reached 21.5%, which means the growth is quite significant

CONCLUSIONS AND SUGGESTIONS

The Return On Equity (ROE) ratio of PDAM Madiun city in 2018 was 14%, in 2019 it was 13.96%, in 2020 it was 23.8%. The ratio achieved by PDAM Madiun city showed quite good figures because it experienced a significant increase large in 2020. The higher the ROE obtained, the better the company's financial performance

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As a suggestion from the author, in order to improve the company's financial performance, Madiun City PDAM strives to maintain and improve the supply of clean water and higher quality services so that it can increase customer satisfaction scores every month, as well as with policies to make Human Resources more effective and operational expenditure efficient. can increase ROA and ROE which can be used to measure the company's financial performance. Companies are expected to be able to control business activities and control receivables.

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