The Effect of Financial Risk on Financial Performance in the Non-Cyclical Consumer Industry Listed on the BEI

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ABSTRACT
Financial performance refers to the assessment of a company's accomplishments concerning its overall health within a specific timeframe. This study aimed to investigate the impact of financial risk on the financial performance of non-cyclical consumer sector companies listed on the Indonesia Stock Exchange. The objective was to analyze how financial risk influences operational risk, market risk, liquidity risk, credit risk, solvency risk, and control variables, namely company size and leverage, on return on equity—a key metric for measuring financial performance. The study focused on the 52 non-cyclical consumer industry companies listed on the Indonesian Stock Exchange for the period spanning from 2018 to 2022. Employing a quantitative approach, the research utilized secondary data collected from audited annual reports. Panel data regression models were employed for testing purposes. The findings revealed that market risk and credit risk exerted a negative influence on financial performance, whereas liquidity risk, solvency risk, and operational risk demonstrated no significant impact on financial performance. The implications of this research provide financial managers with insights into optimizing financial performance to attain organizational objectives, particularly in enhancing shareholder welfare.

KEYWORDS
Financial Performance, Market Risk, Credit Risk, Liquidity Risk, Solvency Risk, Operational Risk

INTRODUCTION
The consumer non-cyclical sector covers goods and services, including products such as food, beverages, healthcare, and utilities that are considered basic necessities that consumers continue to purchase regardless of economic conditions. Compared to the cyclical consumer sector, the performance of the non-cyclical consumer sector tends to be less affected by...
economic fluctuations. This can be seen in the chart of the consumer non-cyclical sector over the past 5 years, despite some downturns, the sector has managed to rebound. Companies in this sector often maintain strong and positive cash flow, and have a stable dividend payout record. This is an advantage for investors looking for a reliable source of income and a safer investment, especially in times of economic uncertainty.

Companies in the non-cyclical consumer sector continue to require investment in infrastructure, technology and innovative product development. While this sector tends to be more stable and less susceptible to economic fluctuations, financial risks remain relevant. If companies are unable to adapt their products to changing consumer preferences, there is a threat of declining sales and profits, which increases the company's financial risk. Therefore, constant efforts to update and improve product portfolios, as well as keeping up with market trends, are key to managing financial risks and maintaining the competitiveness of companies in this sector.

According to BEI Channel's report in 2021, the non-cyclical consumer stocks sector or primary consumer goods sector experienced a less encouraging start to the year with a decline of 11.29% in the year to date period. However, as time went on, the sector started to show encouraging growth. In the period June 16-23, 2022, the index recorded a growth of 3.15%, which is the highest growth since the federal open market committee (FOMC) meeting. The uncertainty of changes in the business environment can impact productivity and overall company performance. This highlights the importance of effective risk management in reducing a company's vulnerability to uncertainty. Financial risks faced by companies include operational risk, market risk, liquidity risk, credit risk and solvency risk.

Financial performance is used to describe the state of a company (Ardiansyah & Quan, 2020). Measuring financial performance accurately is an aspect that must be done by a company and has become the focus of attention for every stakeholder who obtains information from financial ratios in financial statements. Financial performance analysis is able to provide an overview of the financial position, whether in profit or loss, how much the tariff should be out, and the level of industry competition within the company. Therefore, the financial performance of a company has a central role in understanding the financial health of the company.

Operational risk occurs due to incompetence and abuse of power, failure of information processing, transmission, data retrieval, and inaccurate output (Mwanja 2021). Operational risk has the potential to cause direct financial losses, such as repairing physical damage. After facing operational risk, companies need to allocate additional funds to upgrade infrastructure or implement corrective actions. Therefore, these costs can affect the company's financial performance.

Market risk includes losses due to market fluctuations, such as changes in stock prices, interest rates, foreign exchange rates, or commodity prices. When local and international markets change, a company's financial results can affect its products. Market fluctuations cause loss of income from capital, resulting in poor financial performance Kahihu et al. (2021) especially market risk, is the main component of financial risk which is a systematic risk, this risk cannot be eliminated through diversification.

Liquidity risk is important to maintain and improve financial performance. Liquidity risk can arise in various situations, such as the company's inability to pay off its debts on time, difficulty in obtaining additional funds, or even being forced to sell assets at below-market values. Financial management is fundamental to the functioning of the financial sector and the ability of businesses to meet expected and unexpected financial needs at any time is called liquidity risk (Njiru 2020) The inability to manage liquidity risk situations properly can hamper company operations, affect its relationship with creditors, and can even threaten business continuity.

The role of credit risk has great significance in maintaining the safety of deposits and capital for customers and shareholders. Its function is not limited to maintenance, but also
involves increasing the company's competitive advantage, increasing capital investment, improving risk recovery, and reducing costs. Effective credit risk management can help companies manage financial risk and financial performance (Weerasinghe & Ekanayake, 2023).

The novelty in this study adds the independent variable solvency risk. Solvency risk can be a critical issue in corporate finance, as the inability to meet financial obligations can lead to bankruptcy. The solvency ratio is used to evaluate the extent to which the value of assets can cover future payment obligations (Kindangen, Saerang, and Maramis 2021). Solvency risk can include consideration of how much debt the company has in relation to its equity, the level of income generated to meet these obligations, and current market and industry conditions that can affect the company's solvency.

Previous literature findings conducted by Weerasinghe & Ekanayake (2023) that operational risk & liquidity risk have a positive influence on financial performance, credit risk has a significant negative effect on financial performance. Meanwhile, market risk has no influence on financial performance, but other studies by Desiko (2020) and Dermawantika et al. (2020) results that market risk has a significant positive effect on financial performance. In the Weerasinghe & Ekanayake (2023) study, it is said that size has a significant positive effect on financial performance and in the study conducted by (Weerasinghe and Ekanayake 2023) which reflects that leverage does not have a significant effect on financial performance, but another study by (Isbanah 2015) results that leverage has a significant positive effect on financial performance.

The problem restrictions in this study are non-cyclical consumer sector companies listed on the Indonesia Stock Exchange (BEI) in 2018-2022. The purpose of the study is to see the effect of financial risk (operation risk, market risk, liquidity risk, credit risk, & solvency risk) on financial performance (ROE).

LITERATURE REVIEW

In the theoretical basis, financial risks such as operation risk, market risk, liquidity risk, credit risk and solvency risk are believed to have the potential to influence the financial performance of companies in the non-cyclical consumer sector. The results of previous studies produce mixed findings. Based on previous research, the results of a study conducted by (Weerasinghe and Ekanayake 2023) show that there is a statistically significant positive effect of operation risk and liquidity risk on the company's financial performance, while the results on credit risk on financial performance show that there is a significant negative effect, and the results of the study on market risk on financial performance have statistically insignificant results on financial performance. While the two control variables, namely size, show a statistically significant negative effect, but in contrast to leverage which shows a statistically insignificant effect on financial performance. The novelty variable takes solvency risk, from the results of the study (Pervetica and Ahmeti 2023) the solvency risk variable has a statistically significant positive effect. So the framework in this study can be reflected in Figure 1:

Figure 1 Framework of Thought
HYPOTHESIS DEVELOPMENT

The results of the study conducted by (Weerasinghe & Ekanayake 2023) show that operation risk has a significant positive effect on financial performance, the same as the results of the study from (Bastomi et al. 2017) and (Cahyaningrum & Atahau 2021) the results of the study show that operation risk has a significant and positive effect. This shows that low operation risk can improve financial performance. Based on the discussion above, a hypothesis is drawn:

\[ H_1 \quad \text{Operation Risk affects Financial Performance} \]

Studies that have been conducted by (Desiko 2020) and (Dermawantika et al. 2020) show that market risk has a significant positive effect on financial performance. Likewise, the results of studies from (Rahmandatika et al. 2023) (Kahihu and Wachira 2021) and (Kassi, Dilesha and Ding 2019) that market risk has a significant negative effect on financial performance. Based on this discussion, a hypothesis is drawn:

\[ H_2 \quad \text{Market risk affects Financial Performance} \]

The study conducted by (Weerasinghe & Ekanayake 2023) found that liquidity risk is significantly positive on financial performance. The results of the study by (Korompis et al., n.d. 2020) show that liquidity risk has a significant effect and has a negative relationship with financial performance, while the results of the studies (Rudhani & Balaj 2019), (Muhammad, Sindhu 2021) and (Njiru, 2020) show that liquidity risk has a positive effect on financial performance, the same is the case with the study of (Elizabeth Sugiaro Dermawan 2019) the result is that liquidity risk has a positive and significant effect on financial performance. The results of these diverse studies require further study of this issue. Based on this discussion, the hypothesis taken is:

\[ H_3 \quad \text{Liquidity risk affects Financial Performance} \]

The acquisition of a study from (Weerasinghe & Ekanayake 2023) the result is that credit risk has a significant negative effect on financial performance, the same is the result of a study from (Yimka et al. 2015) that credit risk has a significant positive effect on financial performance and the acquisition of studies from (Saleh and Abu Affa, 2020), and (Kioko, Olweny and Ochieng 2019) reflects that credit risk has a significant negative effect on financial performance. The acquisition of these diverse studies requires further study of this issue. Based on this discussion, the hypothesis taken is:

\[ H_4 \quad \text{Credit Risk has no effect on Financial Performance} \]

According to a study conducted by (Agnesa Krasniqi Pervetica & & Ahmeti 2023) has a significant and positive influence on financial performance because entities with high solvency will have a large effect on the risk of loss, but there are also large profits. The nominal amount of assets applied needs to be accompanied by an optimal turnover rate, so as to ensure that the company’s income reaches a high level. Previous studies conducted by (Mardiana Ningsih, Ridwan, and PRZ Putri 2023) stated that solvency risk has a significant positive effect on financial performance. In contrast to the results of a study conducted by (Hendayana & Anjarini 2021), it shows that solvency risk has a negative and significant effect on financial performance.

\[ H_5 \quad \text{Solvency risk affects Financial Performance} \]

The results of the study from (Weerasinghe & Ekanayake 2023) show that firm size has a large and negative influence on financial performance while the study from (Meiyan and Aisyah 2019) outlines that company size has a positive influence on financial performance, this shows that the larger the size of the company, the better the company’s performance.

The acquisition of a study from (Isbanah 2015) describes that leverage has a significant positive effect on financial performance. The study from (Shella Ekawati 2014) the result is that leverage has a significant positive effect on financial performance, the same thing with the study conducted by (Tambunan 2018) outlines that leverage has a significant positive effect on financial performance. Based on the results of the researchers above that size and leverage have an influence on financial performance.

\[ H_{6A} \quad \text{Size affects Financial Performance} \]
H_{6B} : Leverage affects Financial Performance

METHODS

Variable and Variable Measurement

In this study, the measurement of each variable in this study is designed to understand the relationship between the independent variable and the dependent with control variables. The independent variables in this study consist of operation risk, market risk, liquidity risk, credit risk, solvency risk, while the dependent variable is financial performance assessed by return on equity. and the control variables are size and leverage. The measurements of these variables are described respectively in Table 1.

Table 1 Operational Definition of Variables

<table>
<thead>
<tr>
<th>Variable Type</th>
<th>Variable Name</th>
<th>Symbol</th>
<th>Definition of Operational Variables</th>
<th>Reference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dependent Variable</td>
<td>Return On Equity</td>
<td>ROE</td>
<td>( \frac{\text{Net Profit}}{\text{Total Equity}} )</td>
<td>Weerasinghe &amp; Ekanayake (2023)</td>
</tr>
<tr>
<td>Independent Variable</td>
<td>Operation Risk</td>
<td>OR</td>
<td>( \frac{\text{Operation Profit}}{\text{Net sales}} )</td>
<td>Weerasinghe &amp; Ekanayake (2023)</td>
</tr>
<tr>
<td></td>
<td>Market Risk</td>
<td>MR</td>
<td>( \frac{\text{EBIT}}{(\text{EBIT} - \text{Tax})} )</td>
<td>Weerasinghe &amp; Ekanayake (2023)</td>
</tr>
<tr>
<td></td>
<td>Liquidity Risk</td>
<td>LR</td>
<td>( \frac{\text{Current Assets}}{\text{Current Liabilities}} )</td>
<td>Weerasinghe &amp; Ekanayake (2023)</td>
</tr>
<tr>
<td></td>
<td>Credit Risk</td>
<td>CR</td>
<td>( \frac{\text{Total Debt}}{\text{Equity}} )</td>
<td>Weerasinghe &amp; Ekanayake (2023)</td>
</tr>
<tr>
<td></td>
<td>Solvency risk</td>
<td>SR</td>
<td>( \frac{\text{Total Equity}}{\text{Total Asset}} )</td>
<td>Agnesa Krasniqi Pervetica &amp; Ahmeti (2023)</td>
</tr>
<tr>
<td>Control Variables</td>
<td>Size</td>
<td>SZ</td>
<td>( \ln(\text{Total Assets}) )</td>
<td>Weerasinghe &amp; Ekanayake (2023)</td>
</tr>
<tr>
<td></td>
<td>Leverage</td>
<td>Lev</td>
<td>( \frac{\text{Short term Debt}}{\text{Total Assets}} )</td>
<td>Weerasinghe &amp; Ekanayake (2023)</td>
</tr>
</tbody>
</table>

Sampling method

This study used purposive sampling method for sampling. The data collection approach applied is the secondary method, where information is obtained from sources that have published the data. Data sources came from the BEI (https://www.BEI.co.id) and the official website of each entity that became the research sample. Observations were made on 52 companies in the non-cyclical consumer industry sector listed on the Indonesia Stock Exchange during the 2018-2022 period, with a total number of observations of 260.
Table 2 Sampling Criteria

<table>
<thead>
<tr>
<th>Description</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Companies listed in the non-cyclical consumer industry listed on the BEI during the period 2018 - 2022</td>
<td>123</td>
</tr>
<tr>
<td>Companies that went public after 2018.</td>
<td>(52)</td>
</tr>
<tr>
<td>Companies that do not present their annual reports in full.</td>
<td>(18)</td>
</tr>
<tr>
<td>Companies that experienced delisting in the 2018-2022 time span.</td>
<td>(1)</td>
</tr>
<tr>
<td>Companies that are eligible to be sampled</td>
<td>52</td>
</tr>
</tbody>
</table>

**Chow Test**

The use of the Chow test is to determine the more appropriate model, between common effect or fixed effect. The Chow test is based on the null hypothesis that there is no heterogeneity among individuals, while the alternative hypothesis implies that there is heterogeneity in the cross-section.

**Hausman Test**

The Hausman test results are used to select a more suitable model, whether it is fixed effect or random effect. The Hausman test also serves to assess whether the model used shows the non-uniformity (heterogeneity) of each selected model, whether it is a fixed effect or random effect model.

Based on the results in Table 3, which contains the Chow test and Hausman test, it is found that the Chi-square value for cross-section profitability in the three models is 0.0000, which is smaller than 0.05. So, the decision that can be taken is to reject the null hypothesis (H0), as a result the optimal model is fixed effect. If the fixed effect model is chosen, the next step is to carry out the Hausman test to determine whether the model used should be fixed effect or random effect. From the Chow test, the probability value reaches 0.0001, which is again smaller than 0.05. So, the decision taken is to reject the null hypothesis (H0), as a result the model used is the fixed effect model. Meanwhile, the Hausman test results reflect a probability value of 0.9062, which is greater than 0.05. This means that the decision taken is to reject the alternative hypothesis (Ha), so that the more appropriate model is the random effect model.

Table 3. Chow Test and Hausman Test Results

<table>
<thead>
<tr>
<th>Dependent Variables</th>
<th>Chi-square</th>
<th>Probability</th>
<th>Decision</th>
</tr>
</thead>
<tbody>
<tr>
<td>ROE</td>
<td>92.588812</td>
<td>0.0001</td>
<td>H0 is rejected, Fixed Effect is selected</td>
</tr>
<tr>
<td>ROE</td>
<td>2.761261</td>
<td>0.9062</td>
<td>H0 is rejected, Fixed Effect is selected</td>
</tr>
</tbody>
</table>

Source: Data processed using E-views

**Data Analysis Method**

**Goodness of Fit Test (R2)**

Goodness of Fit (R2) testing has the intention of measuring the extent to which the independent variables can describe variations in the dependent variable. This analysis uses the adjusted R2 score because there is more than one independent variable. If the adjusted R2 score is close to 1, this indicates that the independent variables are able to provide a high explanation of the variation in the dependent variable.

From the goodness of fit test results, the adjusted R2 value for ROE reached 0.127905. This means that the independent variables used can explain about 12.79% of the variation in ROE as
the dependent variable, while about 87.21% of the remaining variation cannot be explained by this model. This shows that ROE can be influenced by other factors that are not included in this model. This means that it can be concluded that the relationship between the independent variables and ROE is less strong.

**F Test (Simultaneous)**

The hypothesis in the F Test can be formulated as follows:

- Null Hypothesis (H0): There is no significant effect of the independent variable on the dependent, or it can be stated that no single independent variable has a significant effect on the dependent.
- Alternative Hypothesis (Ha): There is a significant effect of the independent variable on the dependent variable, or it can be stated that at least one independent variable has a significant effect on the dependent.

The decision criteria in the F Test can be explained among others:

- If the probability of the F-statistic is less than the significance level $\alpha 0.05$, the null hypothesis (Ho) is rejected. This means that the alternative hypothesis (Ha) is accepted, reflecting that the independent variable has a significant effect on the dependent.
- If the probability of the F-statistic is greater than the significance level $\alpha 0.05$, the null hypothesis (Ho) is accepted. This means that the alternative hypothesis (Ha) is rejected, meaning that the independent variable does not have a major influence on the dependent, so the regression model is not considered feasible.

From the data test results on the three models using fixed effects, it can be seen that the F-statistic value for profitability is 0.000002, which is smaller than the significance level of 0.05. Therefore, the analysis reflects that simultaneously the independent variables have a significant effect on ROE as the dependent variable. Thus, the regression model is considered feasible for use in this study.

**RESULTS**

This study discusses the Effect of Financial Risk on Financial Performance in the Non-Cyclical Consumer Industry listed on the BEI.

**Goodness Of Fit Test (Adjusted R2)**

Based on the acquisition of Goodness Of Fit testing, ROE produces an adjusted R2 value of 0.127905. This can be interpreted that the independent variables can describe the variation of ROE as the dependent variable reaching 12.79% and the remaining 87.21%, this means that ROE can be influenced by other factors that are not in this model. As a result, there is a very strong relationship between the independent variables and ROE.

**Table 4. Descriptive Statistics**

<table>
<thead>
<tr>
<th>Variables</th>
<th>Observations</th>
<th>Mean</th>
<th>Median</th>
<th>Maximum</th>
<th>Minimal</th>
<th>Std. Dev.</th>
</tr>
</thead>
<tbody>
<tr>
<td>ROE</td>
<td>240</td>
<td>0.093859</td>
<td>0.099150</td>
<td>6.860300</td>
<td>-8.0717</td>
<td>0.983603</td>
</tr>
<tr>
<td>MR</td>
<td>240</td>
<td>1.253021</td>
<td>1.235150</td>
<td>5.962200</td>
<td>-1.2042</td>
<td>0.528784</td>
</tr>
<tr>
<td>LR</td>
<td>240</td>
<td>2.096329</td>
<td>1.458900</td>
<td>13.30910</td>
<td>0.152400</td>
<td>2.085014</td>
</tr>
<tr>
<td>CR</td>
<td>240</td>
<td>1.744014</td>
<td>1.030300</td>
<td>24.55910</td>
<td>0.012900</td>
<td>2.963036</td>
</tr>
<tr>
<td>SR</td>
<td>240</td>
<td>0.703923</td>
<td>0.493700</td>
<td>47.13900</td>
<td>0.039100</td>
<td>3.018216</td>
</tr>
<tr>
<td>SIZE</td>
<td>240</td>
<td>11.77455</td>
<td>12.25255</td>
<td>15.68200</td>
<td>6.313700</td>
<td>1.984705</td>
</tr>
<tr>
<td>LEVERAGE</td>
<td>240</td>
<td>0.334896</td>
<td>0.287400</td>
<td>2.850600</td>
<td>0.042500</td>
<td>0.247244</td>
</tr>
<tr>
<td>OR</td>
<td>240</td>
<td>0.324840</td>
<td>0.127750</td>
<td>3.342100</td>
<td>-1.1535</td>
<td>0.539002</td>
</tr>
</tbody>
</table>

Source: Data processed
1. ROE has a mean score of 0.093859 with a standard deviation value of 0.983603. The minimum value is -8.0717 owned by WICO in 2022. Meanwhile, the maximum value reaches 6.860300 owned by BWPT in 2021.
2. MR has a mean value of 1.253021 with a standard deviation value of 0.528784. The minimum value of -1.2042 is owned by BWPT in 2021. Meanwhile, the maximum value reaches 5.962200 owned by SIMP in 2018.
3. LR has a mean value of 2.096329 with a standard deviation value of 2.085014. The minimum value of 0.152400 is owned by BTEK in 2021. Meanwhile, the maximum value reaches 13.30910 was owned by TCID in 2020.
4. CR has a mean value of 1.744014 with a standard deviation value of 2.963036. The minimum value of 0.012900 is owned by SGRO in 2021. Meanwhile, the maximum value reaches 24.55910 owned by WICO in 2022.
5. SR has a mean value of 0.703923 with a standard deviation value of 3.018216. The minimum value reaches 0.039100 owned by WICO in 2022. Meanwhile, the maximum value reaches 47.13900 owned by SGRO in 2021.
6. SIZE has a mean value of 11.77455 with a standard deviation value of 1.984705. The minimum value of 6.313700 is owned by WICO in 2022. Meanwhile, the maximum value of 15.68200 is owned by SGRO in 2021.
7. LEVERAGE has a mean value of 0.334896 with a standard deviation value of 0.247244. The minimum value reaches 0.042500 owned by WICO in 2022. Meanwhile, the maximum value reaches 2.850600 owned by DPUM in 2020.
8. OR has a mean value of 0.324840 with a standard deviation value of 0.539002. The minimum value reaches -1.1535 owned by DPUM in 2019. Meanwhile, the maximum value reaches 3.342100 owned by SGRO in 2018.

**Individual Test (T-test)**

**Table 5. Individual Test Results (T-test)**

<table>
<thead>
<tr>
<th>Variables</th>
<th>Coefficient</th>
<th>Probability</th>
<th>Conclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Independent</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Constant</td>
<td>0.638320</td>
<td></td>
<td></td>
</tr>
<tr>
<td>MR</td>
<td>-0.227175</td>
<td>0.0494</td>
<td>Negative Influence</td>
</tr>
<tr>
<td>LR</td>
<td>-0.058294</td>
<td>0.1479</td>
<td>No Effect</td>
</tr>
<tr>
<td>CR</td>
<td>-0.138082</td>
<td>0.0000</td>
<td>Negative Influence</td>
</tr>
<tr>
<td>SR</td>
<td>-0.009097</td>
<td>0.6381</td>
<td>No Effect</td>
</tr>
<tr>
<td>SIZE</td>
<td>0.009459</td>
<td>0.8155</td>
<td>No Effect</td>
</tr>
<tr>
<td>LEVERAGE</td>
<td>-0.064395</td>
<td>0.8367</td>
<td>No Effect</td>
</tr>
<tr>
<td>OR</td>
<td>0.060991</td>
<td>0.6505</td>
<td>No Effect</td>
</tr>
</tbody>
</table>

Source: Data processed using E-views

The test is carried out whether each independent variable has a significant influence on the dependent variable. Terms of decision criteria if sig.t < 0.05, $H_0$ is rejected and if sig.t> 0.05, $H_0$ is accepted.

$H_1$: Operation Risk affects Financial Performance

Operation Risk has a profitability score of 0.6505 > 0.05, which means there is no influence. This means that an increase in operation risk is not followed by an increase in ROE. The results of this study can be concluded that there is no influence between OR on ROE. This result is not in
line with the study of (Weerasinghe & Ekanayake 2023), but in line with the study of Laan, Ndoen & Jati (2022) which describes that operation risk has no significant effect on financial performance.

**H2 : Market risk affects financial performance**

*Market Risk* has a profitability score of 0.0494 < 0.05, which means there is a negative influence. The results of this study can be concluded that there is a negative influence between MR and ROE. That is, if market risk increases, ROE decreases. The results of the study conducted by (Weerasinghe and Ekanayake 2023) stated that market risk has no significant effect on financial performance. But the results of this study are in line with the results of his study (Ria R. N. Korompis, Murni, and Untu 2020), which outlines that market risk has a significant negative effect on financial performance. This is caused when the market experiences instability, it can affect assets which results in a decrease in company value and the resulting profit.

**H3 : Liquidity risk affects financial performance**

*Liquidity Risk* has a profitability value of 0.1479 > 0.05 which means it reflects no influence. This implies that the company may have good enough access to external financial resources to easily overcome liquidity challenges and minimize their impact on financial performance. The results of this study can be concluded that there is no influence between LR and ROE. According to Putri and Gandakusuma n.d. (2020) liquidity risk does not have a big influence on ROE due to the provision of credit without the support of adequate credit quality. Low credit quality will lead to increased risk, especially when lending is carried out imprudently and credit expansion is uncontrolled. This results in banks facing greater risks, especially the risk of bad debts. The results of this study are in line with the study from (Ayu and Wibowo n.d. 2020), the results of which show that liquidity risk has no significant effect on financial performance. In contrast to the study from (Weerasinghe & Ekanayake 2023) where the result is that liquidity risk has a positive influence on financial performance.

**H4 : Credit Risk affects Financial Performance**

*Credit Risk* has a profitability score of 0.0000 <0.05 which means it reflects a negative influence. The results of this study can be concluded that there is a negative influence between CR on ROE. This means that if credit risk increases, ROE will decrease. The study results are in line with Juari & Erawati (2020), credit risk has a major negative influence on financial performance. Not in line with the study from (Weerasinghe & Ekanayake 2023) that credit risk has a positive influence on financial performance.

**H5 : Solvency risk affects Financial Performance**

*Solvency Risk* has a profitability value of 0.6381 > 0.05 which means there is no influence. The results of this study can be concluded that there is no influence between CR on ROE. This means that any decrease in solvency risk is not followed by an increase in ROE. In the study of Agnes Krasniqi Pervetica & Ahmeti (2023) shows that solvency risk has a positive influence on financial performance, but the results of this study with the study of Grediani, Saputri & Hanifah (2022), show solvency risk has no effect on financial performance.

**H6A : Size affects Financial Performance**

*Size* has a profitability value of 0.8155 > 0.05 which means there is no influence. The results of this study can be concluded that there is no influence between SIZE on ROE. It happens because of the mismatch between the large scale of the company and the ability of efficient sales management. So, in this study the size of the entity is not a determining factor that has an influence on the results of financial performance. The results of this study are in line with the
study of Mardaningsih, Nuraela & Wijayanti (2021), which found that size has no significant effect on financial performance, and is also in line with the study of Weerasinghe and Ekankan (2021). (Weerasinghe and Ekanayake 2023) that size has no significant effect on financial performance.

H6b : Leverage affects Financial Performance

Leverage has a profitability value of 0.8367 > 0.05 which means it reflects no influence. From this study, it can be concluded that there is no influence between leverage on ROE. This happens because the use of leverage as a source of corporate funding funded by debt is not done wisely. As a result, these funds cannot be effectively used to support the company's operations and business development, which in turn can affect the company's financial performance. In conclusion, this finding is in line with the results of previous studies that have been carried out (Weerasinghe and Ekanayake 2023) that leverage has no effect on financial performance, this is also encouraged by the study of (Cahyana and Suhendah 2020), which outlines that leverage has no effect on financial performance.

Research Regression Model

This study uses panel data regression analysis techniques, and hypothesis testing. This study uses panel data regression analysis to assess the effect of independent variables (operational risk, market risk, credit risk, liquidity risk, and solvency risk), control variables (size & leverage) on financial performance. The results of the panel data regression equation in this study are:

\[
\text{ROE}_{it} = 0.638320 + 0.060991 \text{OR} - 0.227175 \text{MR} - 0.058294 \text{LR} - 0.138082 \text{CR} - 0.009097 \text{SR} + 0.009459 \text{SZ} - 0.06439 \text{LEV}
\]

Description:

\[
\text{ROE}_{it} = \text{Return On Equity}
\]

\[
\text{OR} = \text{Operational Risk}
\]

\[
\text{MR} = \text{Market Risk}
\]

\[
\text{CR} = \text{Credit Risk}
\]

\[
\text{LR} = \text{Liquidity Risk}
\]

\[
\text{SR} = \text{Solvency Risk}
\]

\[
\text{SZ} = \text{Size}
\]

\[
\text{LEV} = \text{Leverage}
\]

\[
\text{E} = \text{Error}
\]

CONCLUSION

Based on the results of the above study, it can be concluded that the market risk variable has a negative influence on ROE, the liquidity risk variable has no influence on ROE, the credit risk variable has a negative influence on ROE, the solvency risk variable has no influence on ROE, the size variable has no influence on ROE, the leverage variable has no influence on ROE, the operational risk variable has no influence on ROE.

Suggestion

This study has limitations, the study sample used is only 48 companies listed on the BEI during the 2018-2022 period, and the independent variables used in this study are only operational risk, market risk, liquidity risk, credit risk, solvency risk, size, and leverage. For further
studies that will carry out studies related to financial risk, it is recommended to add a novel variable, namely climate risk (Zhang, Zhang, and Fang 2023) because the topic is interesting to research.

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