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THE INFLUENCE OF RETURN ON EQUITY (ROE) ON PRICE TO BOOK VALUE (PBV) IN FOOD AND BEVERAGE SUB-SECTOR MANUFACTURING COMPANIES LISTED ON THE INDONESIAN STOCK EXCHANGE

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Abstract

This research aims to determine and analyze the effect of Return On Equity (ROE) on Price To Book Value (PBV) in manufacturing companies in the Food and Beverage sub-sector listed on the Indonesian Stock Exchange. The population in this research is the food and beverage subsector manufacturing companies totaling 47 companies listed on the Indonesia Stock Exchange (BEI) for the 2020-2022 period. The sampling method in this research used a purposive sampling technique, so that 13 samples were obtained from 47 companies. The data collection method uses documentation. The research uses a quantitative approach with data analysis methods using simple regression analysis with the help of the IBM SPSS 25 application. The results of this research show that Return On Equity has a significant positive effect on Price to Book Value in Food and Beverage companies listed on the Indonesia Stock Exchange (BEI) in 2020-2022.
Keywords: *Return On Equity, Price To Book Value,* Management Accounting

Abstract

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1. INTRODUCTION

The capital market or what is usually called the capital market can be interpreted as a market that contains various financial instruments that are usually used in the long term which can be traded, for example, some of them are debt securities or what are usually called bonds, equity or shares, mutual fund derivative instruments, and other financial instruments. -other instruments. The capital market is a means that is a source of funding for companies or other institutions, for example the government, and as a means of investing activities. This means that it can be said that the capital market provides various kinds of facilities, including facilities and infrastructure that are useful for buying and selling activities and other activities related to instruments on the capital market. Financial instruments marketed on the capital market include instruments with a relative term of more than one year, for example warrants, shares, mutual funds, bonds, rights and various derivative instruments such as futures, options and others. (Wardhani, et al, 2021).

Management plays a role in making decisions regarding the results of financial reports. If the company's financial performance is in a state of decline or even financial difficulties, managers need to make decisions quickly to avoid bankruptcy. To see the condition of the company which is currently worrying or see the level of risk of bankruptcy. One way to see a company's financial performance is by using financial ratios (Ismanto, 2019).

Company value can be an illustration of the company's condition which can influence investors' perceptions of the company in question. The better the company value, the greater the level of confidence of potential investors. One ratio to measure company value is to use Price to Book Value (PBV). This ratio provides an indicator for management about how investors view the company's risks and prospects in the future (Pasando, 2018).

Profitability is a factor that should receive important attention because in order to survive, a company must be in a profitable condition (Sulistiyo & Suartini, 2017). One of these ratios is Return on Equity (ROE). Profitability described by the ROE Ratio is a ratio that can be used to measure a company's profit after tax with its own capital. This ratio shows efficiency in using own capital. This shows that the higher this ratio, the better the company (Kasmir, 2017).

According to Kasmir (2015:204), Return On Equity can be said to be a financial ratio which aims to measure net profit after deducting taxes and own capital. This ratio shows efficiency in the use of own capital. The higher the company's Return On Equity value, the better the company is in condition than before. This means that the situation of investors or company management is getting stronger, and vice versa. According to Return On Equity (ROE) is a ratio that shows how much the company's ability to generate net profits for return of equity to shareholders, or in other words Return On Equity (ROE) is the income available to company owners for the capital they invest in in the Company (Sinaga, 2022).

With increasingly widespread investment activities in the capital market, many companies are taking advantage of this opportunity to further accelerate their company's growth, namely by issuing shares and other securities. Shares are one of the most popular instruments in the capital market and are in great demand by investors. This is because shares are able to provide very attractive levels of profit. Shares are proof of company ownership (Samsul, 2015). When investing in shares, the thing that an investor must consider is the share price, a price that is relatively stable and has a movement pattern that tends to rise, reflecting that the company has good value and business performance and it is profitable to invest in it.

Table 1 Return on Equity and*Price to Book Value*Food and Beverage listed on the IDX 2020-2022

No	Issuer Code	*Return On Equity*			*Price to Book Value*(PBV)		
		2020	2021	2022	2020	2021	2022
1	GOOD	8.47	16.26	15.57	3.24	6.39	5.78
2	ADES	19.38	27.40	27.34	1.23	0.89	3.17
3	MLBI	19.93	60.58	86.18	1398.9	1568.6	1797.9
4	ULTJ	23,21	24.85	16.58	38660.4	35304.3	29268.6
5	CLEO	14.84	18.04	16.5	670.6	47157.2	635.9
Average		**16.75**	**26.17**	**27.81**	**8205.56**	**16855.86**	**6393.68**

Source: BEI Financial Report 2020-2022 (Processed 2023)

Based on table 1, it shows the relationship between ROE and PBV. From the previous description, it has been explained that if the ROE ratio increases, it can increase the net profit of the company concerned so that it can be taken into consideration by investors or the public. Therefore, ROE has a unidirectional relationship with PBV. In 2020-2021, the same situation occurs, which shows that ROE is in the same direction as PBV, ROE has increased the same as PBV, so ROE and PBV show a gap. In 2021-2022, ROE and PBV show the same situation, namely ROE has increased while PBV has decreased, this means that there is a gap.

Based on the explanation of the research phenomenon, it can be concluded that ROE to PBV does not always show a unidirectional relationship so that things that are not in the same direction can result in a gap phenomenon. This is in accordance with the results of research conducted by previous researchers regarding Price to Book Value, with various variables such as: Profitability Ratios, Solvency Ratios, Liquidity Ratios, and many more variables that have been used as research variables. Research that has been conducted includes: Partially, the Return on Equity variable has a significant effect on Price to Book Value (Fitri Melati Sukma, 2021). However, this differs from research conducted by (Ria Susanti Johan, Septariani, 2020) which states that ROE has no effect on PBV. Likewise, the Return On Equity variable partially influences Price To Book Value (Sondakh, Saerang, & Samadi, 2019).

This research aims to examine the effect of return on equity on price to book value.

2. THEORETICAL BASIS AND HYPOTHESIS

Signal Theory or signaling theory was first introduced by Spence in 1973. This theory explains how signals or signals indicate certain relevant information, which can be utilized by the recipient. A signal is an action taken by a company to provide guidance to investors regarding the company's prospects. Signals provide information about the desires of the company owner. Investors and business people really need this information for decision making when deciding to invest. If the company's profits increase, it shows a positive signal regarding the company's prospects in the future, if the company experiences a decrease in profits, it will be a bad signal for investors. Thus, signal theory aims to reduce or minimize information asymmetry between the company and external parties. Through these financial reports, external parties will get the information they want and in accordance with the company's conditions. External parties will have more trust and reduce uncertainty if the company provides information through financial reports. These financial reports will later be used as a reference by investors in making decisions.

Management accounting is an accounting system where information is intended for internal parties in the organization, including financial managers, production managers, and marketing managers, and so on in order to return to the organization's internal decisions (Rudianto, 2013). The aim of management accounting is to produce financial information for the benefit of management in an effort to achieve company goals (Purwanti, Nugraheni, & Indah, 2011). This information is needed by management as material for consideration in making management decisions and to assess the results that a company has obtained.

Financial reports are recording information about a company's finances, starting from recording, grouping, reporting and interpreting which is useful for the sustainability of a company. The objective of financial statements is to provide financial information about the assets, liabilities, equity, income and expenses of a reporting entity that is useful to users of financial statements in assessing the prospects for future net cash inflows to the reporting entity and in assessing management's stewardship of the entity's economic resources (IAI, 2019). Financial reports provide information about the financial position, financial performance and cash flow of an entity which is useful for most users of financial reports in making economic decisions (Hans, 2016).

According to Sulistiyo & Suartini, (2017) the Profitability Ratio is the main ratio in all financial reports, because the company's main goal is operating results/profits. Profitability is the ability to generate profits with all company resources (Raharjo, 2016). Profitability will show how much profit the company can obtain. This proves that the company's performance is worthy of generating profits for the company (Sutrisno, 2013). Based on the understanding of the various experts above, it can be seen that the profitability ratio is a ratio that shows a company's success in managing all its resources so as to generate profits. Based on the amount of profit obtained by the company during a certain period, these profits can be used to improve the performance of the company's activities. The profitability ratio used by the author in this research is Return On Equity.

*Price Book Value*is one of the variables considered by investors in determining where investors will invest or which shares to buy. Maximum shareholder profits can be seen from the company value. If the company's share price increases, the higher the share price, the higher the profits that shareholders will get (Harmono, 2017). Price to Book Value (PBV) shows how far a company is able to create firm value relative to the amount of equity invested, thus the higher the Price to Book Value ratio shows that the more successful the company is in creating value for shareholders. The standard value of Price to Book Value for a company is >1, which indicates shares that are worthy of consideration (Gitman, 2012).

Return on equity(ROE) is the total return from net profit on equity/capital and is expressed in percent. Net income (Net Profit) is very important for the continuity of a company's business because it is a source of funds obtained from the company's operational activities because it is a source of funds obtained from the company's operational activities and Equity is the amount of capital that describes a person's ownership rights over company assets. , from this equity it is known how much ownership a person has in a company. The research results of Rusdi Raprayogha (2020) suggest that the Return On Equity Ratio variable has a positive and significant effect on Price To Book Value (PBV). This means that the hypothesis which states that the Return On Equity Ratio has an effect on Price To Book Value (PBV) is accepted. Based on the research above, it is formulated:

Ha: Return On Equity affects Price to Book Value

3. RESEARCH METHODS

The location of this research was carried out at the Indonesian Stock Exchange (BEI) which provides financial report information for the 2020-2022 period which can be accessed via the website(http://www.idx.co.id). BEI was chosen as the research site because BEI is the first stock exchange in Indonesia, which is considered to have complete data and is well organized. The objects used in this research are Return On Equity as an independent variable and Price to Book Value as a dependent variable in manufacturing companies listed on the BEI in 2020-2022.

The population in this research is the food and beverage subsector manufacturing companies totaling 47 companies listed on the Indonesia Stock Exchange (BEI) for the 2020-2022 period. In this research, the sampling technique used was purposive sampling. The total samples obtained were 39 samples from 13 companies during the 3 years of research, which can be seen in table 2.

Table 2
Sample Selection Process

NO	INFORMATION	AMOUNT
	Food and beverage sub-sector manufacturing company listed on the Indonesia Stock Exchange	47
1.	Food and beverage sub-sector manufacturing companies listed on the Indonesia Stock Exchange that did not publish financial reports during the 2020-2022 period.	(34)
	Total Research Sample	13
	Total 3 Year Observations: 3 x 15	39

Source: Data processed by researchers, 2023

The data source used in this research is secondary data, where data is obtained indirectly and is already available in the form of data. The data source used in this research is the publication of annual financial reports classified as manufacturing companies listed on the Indonesia Stock Exchange (BEI) for 2020-2022 which were obtained from the official website of the Indonesia Stock Exchange (www.idx.co.id). The data collection method used in this research is the documentation method.

4. RESULTS AND DISCUSSION

Descriptive analysis is analysis used to analyze data by describing or illustrating the data that has been collected as it is without intending to make generally accepted conclusions or generalizations (Sugiyono, 2020). The results of descriptive statistical tests can be seen in the following table:

Table 3
Descriptive Statistics Test Results
Descriptive Statistics

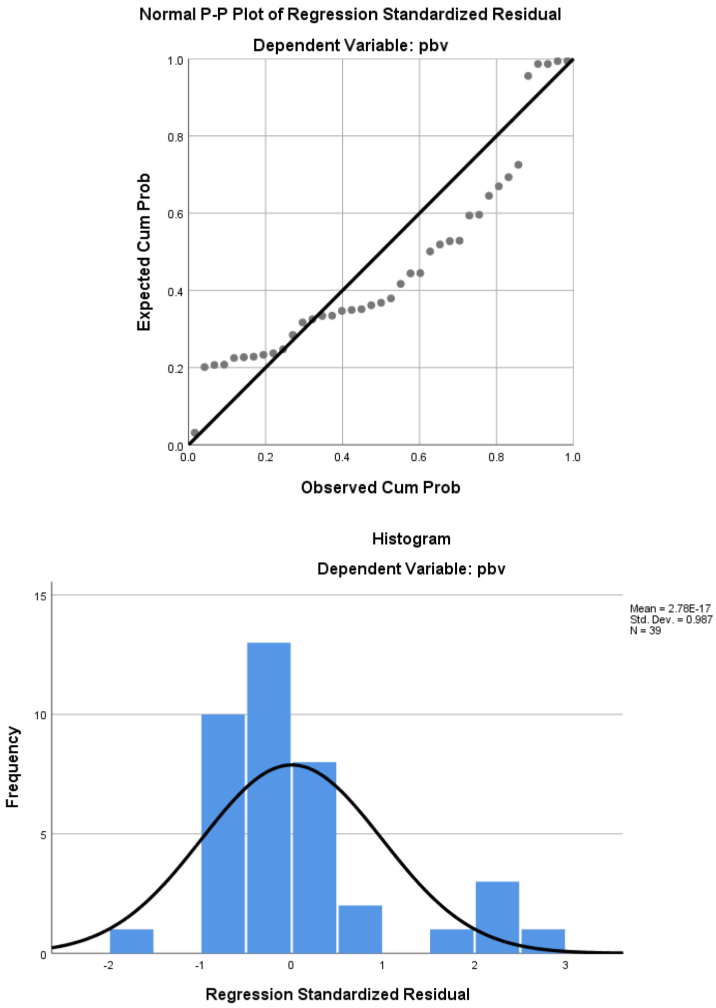
	N	Minimum	Maximum	Mean	Std. Deviation
roe	39	2.19	86.18	19.0595	15.30841
pbv	39	61.69	3848.45	1087.8438	1163.69083
Valid N (listwise)	39				

Source: Processed secondary data, 2023 (Eviews 12)

The dependent variable Price to Book Value (PBV) for the 2020-2022 period is between 61.69 and 3848.45. The average value (mean) is 1087.84 and the standard deviation is 1163.6. The company with the highest Price to Book Value (PBV) is PT. Ultra Jaya Milk Industry & Trading Company Tbk (ULTJ) in 2020. The independent variable Return On Equity (ROE) for the 2020-2022 period is between 2.19 and 86.18. The average value (mean) is 19.05 and the standard deviation is 15.30. The company with the highest Return On Equity is PT. Multi Bintang Indonesia Tbk in 2022.

Meanwhile, the results of the classical assumption test can be seen as follows:

Figure 1 Normality Test Results

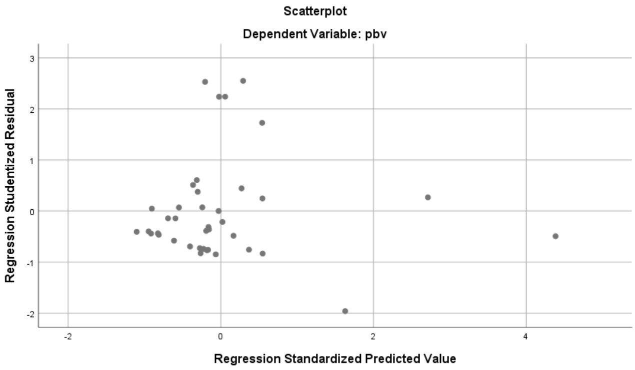


Source: Processed Secondary Data (SPSS 25), 2023

The histogram graph data shows that the residuals are normally distributed, indicated by a symmetrical pattern that does not deviate to the right or left. Thus, the regression model meets the normality assumption.

Figure 2 Heteroscedasticity Test Results

The heteroscedasticity test aims to test whether in the regression model there is an inequality of variance from the residuals of one observation to another.



Source: Processed Secondary Data (SPSS 25), 2023

Based on Figure 2 scatter plot above, it can be seen visually that the residual values and predicted values do not form a particular pattern (random), so it can be interpreted that the regression model in this research is free from heteroscedasticity problems and this model is suitable for use to predict the Profitability variable based on the input variable Asset Quality Productivity and Company Size.

The panel data regression results from this research are shown as follows:

Table 4
Results of Panel Data Regression Analysis
Coefficientsa

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.	Collinearity Statistics Tolerance	Collinearity Statistics VIF
1	(Constant)	387,801	266.127		1,457	.153		
	roe	36,729	10,941	,483	3,357	,002	1,000	1,000

a. Dependent Variable: pbv

Source: Processed Secondary Data (SPSS V25), 2023

From the results of the regression analysis, the following equation is obtained:

$$\mathbf{Y = -5.355543 + 5.953688X1 + 0.645773X2 + \mathcal{E}}$$

A constant value of 387.8 can be interpreted as if Return On Equity has a constant value or zero, then Price to Book Value has a value of 387.8. variable

The regression results show the calculated t value which appears in the following table:

Table 6 Partial Test Results (T Test)

Model	Unstandardized Coefficients B	Std. Error	Standardized Coefficients Beta	t	Sig.
(Constant)	387,801	266.127		1,457	.153
roe	36,729	10,941	,483	3,357	,002

a. Dependent Variable: pbv

Source: SPSS V25 processing results

The Return On Equity variable has a tcount of3,357> t_{table} 1.979 with a significance value of 0,153< 0.05. This shows that Return On Equity has a significant positive effect on Price to Book Value. Thus, the hypothesis which states that Return On Equity has a significant positive effect on Price to Book Value, is accepted.

Table 7 Results of Determination Coefficient (R^2)

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.483a	,233	,213	1032.51417

a. Predictors: (Constant), roe

b. Dependent Variable: pbv

Source: Processed Secondary Data, 2023

Based on the Model Summary table above, the R Square figure is 0.233 or 23.3%. This shows that 23.3% of the influence of Return on Equity is Price to book value while the remaining 76.7% is explained by other variables not included in the research model such as return on assets, return on investment and debt to ratio.

Based on the research results, it shows that the Return On Equity Ratio variable has a positive and significant effect on Price to Book Value. This means that the hypothesis which states that the Return on Equity Ratio has an effect on Price to Book Value is accepted. In this case, Return On Equity is often translated as the profitability of the shares themselves (share capital profitability). Investors who want to buy shares will be interested in Return On Equity, which is the part of total profitability that can be allocated to shareholders. Therefore, the higher the Return On Equity (ROE), the higher the Price to Book Value (PBV) as a measure of company value. This is supported by Signaling theory, which was first introduced by Spence in 1973. If a company's profits increase, it shows a positive signal regarding the company's prospects in the future, if the company experiences a decline in profits then that will be a bad signal for investors. Thus, signal theory aims to reduce or minimize information asymmetry between the company and external parties. Through these financial reports, external parties will get the information they want and in accordance with the company's conditions. External parties will have more trust and reduce uncertainty if the company provides information through financial reports. These financial reports will later be used as a reference by investors in making decisions.

5. CONCLUSION

*Return On Equity*has a significant positive effect on Price to Book Value in Food and Beverage companies listed on the Indonesia Stock Exchange (BEI) in 2020-2022. This indicates that with increasing Return On Equity, Food And Beverage's Price to Book Value will also increase.

This research still has many limitations caused by various factors. Therefore, the author hopes that future researchers will be able to test and find other variables that are likely to influence price to book value

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