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The Contribution of Return on Investment and Investment Opportunity Set toCorporate Value

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Abstract: *The aim of this research is to determine the effect of investment opportunity set and company performance as measured by return on investment on corporate value. The method used in this research is quantitative. The investment opportunity set in this research is measured by (Number of outstanding shares multiplied by Closing share price) divided by total equity. Return on investment is measured by (Net profit after tax divided by Total Assets) multiplied by 100%. Company value is measured by (Market Value per Share divided by Book Value per Share) multiplied by 100%. The population of this research is all 30 Food and Beverage companies listed on the Indonesia Stock Exchange. The research sample was 25 companies selected using a purposive sampling technique with the criteria of food and beverage sector companies listed on the Indonesia Stock Exchange in 2020-2022 and companies that had an IPO before 2020. This research uses SmartPls to analyze the data. The research results state that the investment opportunity set has a significant effect on company value, while return on investment does not have a significant effect on company value.*

Keywords: *Investment Opportunity Set, Return on Investment, Corporate Value, Food and Beverage Companies.*

1. INTRODUCTION

Evaluation of a company's worth is a crucial factor that affects how stakeholders, such as managers, investors, and regulators, make decisions. The Investment Opportunity Set (IOS) and Return on Investment (ROI) are two primary variables that are frequently concerning when determining a company's value. A thorough comprehension of the ways in which these two elements affect a company's value can aid in the development of more successful investment and business plans.

The term "IOS" describes the range of potential investments that a business may have in the future. These opportunities consist of different undertakings or financial commitments that might yield gains down the road. IOS is a reflection of the business's capacity to develop and grow through fresh investments. Businesses with a large IOS typically have more promising growth possibilities, which can raise the value of the business. IOS is frequently used by investors as a gauge of a business's potential for growth and as a foundation for determining how well a business can take advantage of investment possibilities.

ROI is a metric of financial performance that is used to compare the effectiveness of many investments or assess how efficient an investment is. The net profit from an investment is divided by the investment's cost to determine ROI. A high return on investment (ROI) indicates that the business is getting a good return on its investment, which can boost earnings and add value to the business. On the other hand, a low ROI can suggest that the investment is less effective and might not have a big impact on raising the value of the company.

How the business handles IOS and generates ROI has a big impact on enterprise value. A company's worth will often rise when it can effectively manage its numerous attractive investment opportunities (high IOS) and achieve high ROI on those investments. Businesses that can show that they can expand and provide strong returns on investment typically pique the interest of investors.

Studies on the connection between IOS, ROI, and business value also demonstrate that these two variables work in concert in addition to having an effect on each other separately. For instance, a

business with lots of investment options but insufficient return on investment would not experience a big boost in value. On the other hand, businesses with strong returns on investment but little room for growth may also find it difficult to raise their market capitalization.

Research conducted by (Hakim, 2019) show that return on assets and investment opportunity set influence company value LQ45simultaneously. The study also proves that return on assets does not influential in increasing company value, but investment opportunity setsignificantly effects in increasing company value. Baihaqi & Murtanto (2023)investigate the influence of investment opportunity set, company growth, profitability and earnings quality on company value in transportation, logistics and infrastructure sector companies listed on the Indonesia Stock Exchange for the 2017-2021 period. The results of their research show that investment opportunity set and profitability have a positive effect on company value. Related with investment opportunity set, result of study conducted by (Andaswari et al., 2017) shows that investment opportunity set has a positive and significant effect on the value of registered construction companieson the Indonesian Stock Exchange

It is vital for diverse stakeholders to discern and comprehend the influence of ROI and IOS on the overall value of the organization. These insights can assist firm management in developing more effective resource management plans and more sensible investment selections. Investors can evaluate a company's growth prospects and make better-informed investment decisions by using this information. Lastly, this study adds to the body of knowledge on the variables influencing corporate value and creates new avenues for investigation in the area of financial and investment management, which is beneficial to scholars and researchers alike.

This context informs the research, which will concentrate on a detailed examination of the ways in which Return on Investment and Investment Opportunity Set enhance the value of a company, particularly in the case of food and beverage companies listed between 2020 and 2022 on the Indonesia Stock Exchange, as well as the strategic implications that can be deduced from the results.

2. LITERATURE REVIEWS AND HYPOTHESES DEVELOPMENT

2.1. Corporate Value

Corporate value is the price that buyers are willing to payif the company is sold.Various policies taken by management in an effort to increase value of company through the prosperity of its owners and shareholders that reflected in the share price. The company's values illustratehow well or poorly management manages its wealth, this can be seenfrom the financial performance measurements obtained. A company willstrives to maximize the value of the company.Theprice of a company will be revealedan overview to investors of the company's condition, especially its performance, prospects and capabilitiesin the future. The basis is that the value of a company's shares increases,is directly proportional to the increase in the value of the company.According to Husnan (2000), company value is the price that a company is willing to paypotential buyers if the company is sold. Meanwhile, according to Keown et al. (2004), company valueis the market value of the company's outstanding debt and equity securities. The value of the companyis an investor's perception of the company's level of success which is often associated withhigh dividend distribution.

2.2. Return on Investment

Return on investment is a measure used to evaluate the profitability or efficiency of an investment. It is often expressed as a percentage or ratio between the net profit from an investment and the initial investment costs. According to Sutrisno (2013), return on investment is the company's ability to generate profits which will be used to cover the investment made. Factors that influence ROI, such as market fluctuations, investment risks, policy changes, technological innovation, and other factors that can affect investment results.Return on investment, according toFahmi (2014), is an examination of returns on capital investment that contrasts the amount and sources of a company's funding with its earnings or other performance indicators. This research establishes the company's potential for profitability, funding, debt repayment, and owner incentives.

Return on Investment (ROI) is a measure of an organization's ability to generate profits in proportion to the number of active employees it has. Return on Investment (ROI) is a ratio that compares the amount of active capital used in an enterprise to the result (Return). Return on Investment (ROI) is another measure of a manager's effectiveness in managing their investments. The smaller the rasio,

the less favorable it is, and vice versa. This ratio is used to reduce the effectiveness of the company's entire operation. The results of research by Nurhayati (2013) and Cahyanto (2014) indicate that return on investment (ROI) has a significant impact on a company's value. Based on this description, hypotheses 1 can be defined as follows:

H1: Return on Investment has a significant impact on corporate value

2.3. Investment Opportunity Set

Investment opportunity set is a choice for future investment opportunitieswhich can affect the growth of company or project assetshas a positive net present value. So investment opportunity set has a very important rolefor the company, because investment opportunity set is an investment decision ina combination of assets owned (assets in place) and investment options inthe future, where the investment opportunity set will influence the value of acompany.Mulyadi (2016) defines an investment decision as a choice to release capital now in the hopes of creating a future cash flow that exceeds the capital released at the time of the first investment. Making an investment selection entails selecting a business sector to enter because there are numerous investment options that can be used to boost the owner's anticipated wealth.

Proper use of the firm's assets will result in optimal performance, sending a favorable signal to investors and driving up share prices and company value if the company can make wise investment decisions (Prasetyo, 2011). The investments a firm makes will define the earnings it will make down the road. An alternative for businesses to use their net income is investment opportunity set. Businesses may choose to pay dividends out or reinvest their revenues. Investors' evaluation of the firm's worth will be impacted if the company makes poor investment decisions, which could endanger the company's existence.Studies by Sudiani&Darmayanti (2016) and Hariyanto&Lestari (2015) demonstrate that the investment opportunity set has a substantial and favorable impact on the value of the company. Drawing from the findings of this study, a tertiary hypothesis can be proposed, specifically:

H2: The investment opportunity set has a significant impact on corporate value

3. RESEARCH METHOD

Thirty food and beverage firms that were listed between 2020 and 2022 on the Indonesia Stock Exchange (BEI) comprise the population under study.Purposive sampling was employed in this study's sample selection process. Based on the criteria of purposive sampling, 25 companies have met the criteria. Using the time series and cross section for three years, year 2020 until 2022, the sample of this study is 75 financial reports.The variables in this research consist of independent variables (Investment Opportunity Set and Return on Investment) and dependent variable (Corporate Value).Investment opportunity set, the MBVE, or number of outstanding shares multiplied by the closing stock price and divided by the total equity, is used to measure the set in this study. Net income after taxes is divided by total assets to determine return on investment. Price Book worth (PBV) is used to calculate corporate worth.In this study, partial least squares (PLS) are used as the analysis technique. There are three steps involved in doing a partial least square (PLS) analysis: outer model analysis, inner model analysis, and hypothesis test. Software from SmartPls was utilized to analyze the study's data.

4. RESULTS AND DISCUSSIONS

Some of the food and beverage firms listed on the Indonesia Stock Exchange that release their corporate financial reports in 2020–2022 are the subjects of this study. Financial reports must be given in rupiah units when used as secondary data in research. Of the 30 Food and Beverage firms listed on the Indonesian Stock Exchange (BEI) in 2020–2022, only 25 companies meet the research criteria, according to the criteria adopted from the idx.co.id website on November 1, 2023.Doing descriptive statistical tests is the initial step in the data analysis process. The average, maximum, minimum, and standard deviation numbers provide an overview or description of the data, which is what descriptive statistical tests are used for. The condition or description of each variable is ascertained using descriptive statistical analysis (Malinda & Pradana, 2022). In this study, the variables of profitability, leverage, liquidity, and tax evasion are examined. The following are the outcomes of descriptive statistical computations performed with SmartPLS:

Table1.*Results of Descriptive Statistical Analysis*

Variable	N	Mean	Min	Max	Standard Deviation
IOS	75	2.827	0.320	17.620	2.778
ROI	75	0.070	-0.216	0.597	0.108
Corporate Value	75	22.696	19.930	26.190	1.681

The variables in this study, which have a N of 75 and describe the mean value, lowest value, maximum value, and standard deviation for the years 2020–2022, can be explained as follows:

1. PT. Tri Bayan Tirta Tbk (ALTO) in 2022 had the lowest value of the independent variable investment opportunity set for food and beverage subsector companies listed on the IDX in 2020–2022, while PT Multi Bintang Indonesia Tbk (MLBI) in 2022 had the highest value of 17,620. The IOS variable yielded an average of 2,827 and a standard deviation of 2,778.
2. For food and beverage subsector companies listed on the IDX in 2020–2022, the independent variable ROI had a maximum value of 0.597 at PT Fks Food Sejahtera Tbk (AISA) in 2020 and a minimum value of -0.216 at Sentra Food Indonesia Tbk (FOOD) in 2022. With a standard deviation of 0.108, the ROI variable's obtained average is 0.070.
3. The corporate value variable of food and beverage subsector companies listed on the IDX in 2020-2022 obtained a minimum value of 19,930 for Wilmar Cahaya Indonesia Tbk (CEKA) in 2021 and a maximum value of 13,309 for Garudafood Putra Putri Jaya Tbk (GOOD) in 2021. The average obtained for the company value variable is 22,696 with a standard deviation value of 1,681.

Inner model analysis is used in this study's model evaluation. To forecast the causal links between the variables investigated in the model, inner models are employed. The Variance Inflation Factor (VIF) and Determination Coefficient (R^2) are the evaluation criteria for the structural model, or inner model. The purpose of the multicollinearity or variance inflation factor test is to determine if the regression model detects a correlation between the independent variables.Examining the Colllinearity Statistics values in the Inner VIF Values in the SmartPLS program analysis findings will allow you to do the multicollinearity test. It is said that there is no violation of the classical assumption (multicollinearity) if the VIF value is less than 5. The outcomes of VIF are as follows:

Table2.*Result of Variance Inflation Factor*

	VIF
IOS →Corporate Value	1.238
ROI →Corporate Value	1.238

According to table 2 above, every model—that is, the impact of return on investment and the influence of investment opportunity set on firm value—obtained a VIF value of less than 5. This indicates that there is no multicollinearity issue with the variables in this investigation. As a result, the study's model satisfies the free multicollinearity assumption.

R-Square (R^2), also known as the coefficient of determination, is used to estimate the impact of an independent variable on a dependent variable. A few criteria determine the R-Square result, such as nilai R-Square ≥ 0.75, which indicates a large variance between variables. R-squared ≥ 0,50-0,75 falls into the moderate category, while R-squared ≥ 0,25-0,50 falls into the lemah category. Here are the results of R-Square:

Table3.*Coefficient of Determination (R^2)*

Variable	R-square
Corporate Value	0.240

According to table 3 above, the company value variable's R-Square value is 0.240, or 24%. This indicates that the IOS and ROI factors can have a 24% influence on the company value variable, with other variables not covered in this research accounting for the remaining 76%. The weak category includes the R-Square value of 0.240.

This study employs a number of requirements that must be satisfied in order to test the hypothesis, including the original sample, T-statistics, and p-values. The direction of the hypothesis test is

determined using the first sample value. The hypothesis has a positive direction if the original sample value is positive, and a negative direction if the original sample value is negative.The process of testing a hypothesis involves examining t-statistics and probability values. The p-value for probability values is less than 0.05 when alpha is set at 5%. 1.96 is the t-table value at 5% alpha. Therefore, when the t-statistic > t-table, the hypothesis is accepted. The following are the findings of this study's Path Coefficients:

Table4.*Path Coefficients*

	Original Sample (O)	**Sample Mean (M)**	**Standard Deviation**	**T Statistics**	**P Values**
IOS →Corporate Value	0.499	0.535	0.089	5.635	0.000
ROI →Corporate Value	-0.022	-0.050	0.129	0.171	0.864

Berdasarkantabel di atas, hasil Path Coefficients uji pengaruhdapatdijelaskansebagaiberikut:

1. Influence of Return on Investment on Company Value

According to the computation findings of the hypothesis test, ROI has a T-Statistics value of 0.171 and a p-value of 0.864. With an Original Sample Estimate value of -0.022, the T-Statistics is 0.171 < T-Table (1.96) and the p-value is > 0.05. Thus, the premise is rejected and it can be determined that ROI has no discernible impact on company value.The study's findings demonstrate that, return on investment (ROI) had no discernible impact on the value of food and beverage enterprises. This implies that a rise in ROI cannot raise the value of the company, and a fall in ROI does not imply a fall in company value.This can be seen in a number of the research's observed companies, where the company valuation changed yet ROI values increased (CAMP, MLBI), and in some cases decreased (STTP). The findings of this study run counter to Julianti's (2022) assertion that ROI significantly affects a company's worth.

2. The influence of Investment Opportunity Set on Company Value

According to the computation findings of the hypothesis test, IOS has a T-Statistics value of 5,635 and a p-value of 0.000. An Original Sample Estimate value of 0.499 indicates that T-Statistics 5.635 > T-Table (1.96), and p-value < 0.05. Thus, it can be said that IOS significantly and favorably affects the value of the company. This implies that the value of the company will rise in tandem with an increase in the Investment Opportunity Set. As a result, the theory is approved.

The study's findings demonstrate that IOS significantly and favorably affects a company's worth. This implies that a rise in investment will raise the company's worth, and a fall in investment will likewise raise the company's value. Price Book Value (PBV) is used in this study to measure the value of the company. This ratio shows how much the market values the book value of an organization's stock. In this work, the MBVE proxy was used to measure IOS.This proxy illustrates how the market evaluates a company's future investment return based on the anticipated return on its equity. The market value of the company's shares will be significantly impacted by the expected return from the business, as demonstrated by the metrics used for IOS and company value.The study's findings support the claims made by Putri & Setiawan (2019) and Dharmawan& Riza (2019) that IOS significantly affects a company's worth.

5. CONCLUSION

Based on the background, theoretical basis, data analysis and test results carried out on the hypothesis which aims to test the effect of investment opportunity set and return on investment on company value, it proves that investment opportunity set has an effect on company value, while return on investment has no significant effectto company value.After knowing the results of the research regarding how big the potential value of the company is, and the investment opportunity set of the companies in the sample, the company should focus on the investment opportunity set to increase the value of the company.Prospective investors should consider other factors besides investment opportunity set and ROI in predicting company value.

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