

## CHAPTER I

### INTRODUCTION

#### 1.1 Background

In these days, which is the era of globalization, innovation has become a solid investment for companies to make it into a competitive advantage to sustain in the market which is resulting in innovation. Large company strategy and state competitive performance have long placed a high priority on R&D activities. Innovation and R&D have recently become crucial for maintaining both company and national competitiveness due to a significant shift in the competitive environment of businesses (including, for example, competition with new emerging countries, aggressive innovation policies, changes in customers' expectations, and transformation of business models). (Gilbert et al.,2018).

Innovative companies become the trend and make innovation strategy superior to get into a nice competitive advantage. Innovation has become the key factor to create a new and competitive product. A firm's innovation and the role of R&D inside a firm are closely related, especially in terms of strategy. Remember that innovation is not only an invention—it is the outcome of a design process that the market has accepted. In the end, it comes down to effectively delivering lucrative requests (products or services) to the market, for which the business shuffles its current knowledge and skill set to offer new products or services. The sector,

competitive strategy, and market characteristics of the organization all influence where R&D is conducted. (Gilbert et al,2018).

There is one company on Indonesia, which is Unilever Indonesia that has innovation and become a competitive advantage in the global market. Quoting on PT Unilever Indonesia Tbk. Sustainability Report 2019, 2019 was a difficult year for the whole company, as we all know. Their company's brand, Rinso, stressed the significance of controlling Utilize "Plastic Responsible" to dispose of garbage appropriately. The program, in which Rinso motivated and involved customers and Unilever staff members to join this effort. Regarding advancements, Pepsodent has released its bamboo toothbrush. The plastic used in brand-new packaging is entirely recycled. Through these actions, we want to maintain the value of plastic substances in the economy. While they created efforts to promote responsible plastic usage, they also continued to bring value to our brands by encouraging women's empowerment, healthy eating habits, and economic possibilities for farmers. Almost 95% of the brands that Unilever Indonesia now produces and markets have a purpose. This proportion is the greatest among Unilever's international businesses, demonstrating Unilever Indonesia's innovation capacity to show how purpose drives business development. Unilever Indonesia did, nevertheless, manage to post a respectable financial result. The company reported sales of Rp42.9 trillion, up 2.7% from a net profit of Rp7.4 trillion the previous year which is 2018.

According to GII 2020, Indonesia ranks 85th among the 131 Economies featured in the GII 2020. The Global Innovation Index (GII) ranks world economies according to their innovation capabilities. Consists of roughly 80 indicators,

grouped into innovation inputs and outputs. Indonesia also shows promising innovation and development improvement. With that in mind, we must know that this R&D expenditure is important for competitive advantage.

Additionally, low levels of innovation and technical change are seen in Indonesia, a developing nation (Aminullah, 2007, quoted by Anjelina et al., 2019). R&D spending in Indonesia in 2007 was only 0.04 percent of GDP, compared to over 2 percent in neighbouring Malaysia and Singapore (The Jakarta Post, 2007, quoted by Natasha & Hutagaol, 2009). It only makes sense that the Indonesian government and businesses be aware of the significance of R&D given that it has become one of the most crucial activities in today's world of intense competition. The goal of this research is to gather data to show if the Innovation with R&D efforts of Indonesian businesses have a substantial influence on market value (Anjelina et al., 2019). According to Anjelina et al. (2019), quoting Mohamad Nasir, Indonesia's Minister of Research and Technological, a lack of innovative competition will make it more difficult for enterprises and industries to adopt Indonesian technology goods. Businesses must encourage R&D expenditure on new goods to increase innovation.

R&D expenditure is one of the significant accounts since it is a big activity. One of the hardest expenses to assess and explain in financial statements is R&D expenditure. Due to the uncertainty of R&D, costs may be spent earlier than anticipated, increasing expenses. That may be one of the methods used by managers to smooth out their income or profits, such as income smoothing. R&D should also be viewed as an asset because it is an investment, similar to how plants and

equipment are. However, since R&D payoffs are less definite than those from investments in plant and equipment, current accounting standards, which are based on IAS and PSAK, call for recording it as a cost (Wild, 2007, quoted by Natasha & Hutagaol, 2009). This leads to a distortion of reliability, which might cause investors to make the wrong decision. (Natasha & Hutagaol, 2009).

Another metric used as a stand-in for company value is the stock price. When companies announce plans to expand their R&D expenditures, the stock market often responds favourably, according to scholars (Woolridge and Snow, 1990, quoted by Natasha & Hutagaol, 2009). Additionally, several studies have looked into how reported R&D expenses affect stock returns (e.g., Chan et al 1999; Xu and Zhang, 2004, quoted by Natasha & Hutagaol, 2009).

## **1.2 Research Question**

This study was driven by the finding of multiple studies that used innovation determinants on business value, including research and development (R&D) spending. According to Anjelina et al. (2019), Prihadyanti and Laksani (2015) looked at R&D and innovation in businesses in the manufacturing sector between 2010 and 2011, with innovation variables defined by the number of scores for the presence of defective product decreases, reduction in the use of raw materials and energy, and so on. Anjelina et al. (2019) stated that firm value can also be shown through innovation. Innovation and firm value are correlated. So, the research in this study is does firm innovation have positive affect on the firm value.

### **1.3 Research Objective**

To give empirical evidence whether firm innovation having positive impact for the firm value to majority of companies especially manufacturing companies in Indonesia that already have R&D expenditure.

### **1.4 Research contribution**

#### **Theoretical Contribution:**

This research is expected to be used as a reference source for future researchers who want to research relating on Innovation affecting the firm value and can become the driver to subsequent similar research.

### **1.5 Writing Structure**

#### **CHAPTER I INTRODUCTION**

Chapter I consists of the research background, research question, research objective, and research contribution.

#### **CHAPTER II LITERATURE REVIEW**

Chapter II consists of theories and literature as the basis and hypothesis to support this study. First off, the chapter will introduce the literature review. Second, past research that has been done in the same or a similar topic by other scientists. The evolution of the hypothesis will then be discussed.

#### **CHAPTER III RESEARCH METHODOLOGY**

Chapter III consists of the type and source data, population sample, data collection method, theoretical framework, research variables, hypothesis testing, and data analysis method.

#### **CHAPTER IV RESULTS AND ANALYSIS**

Chapter IV consists of descriptive statistics, the results of data analysis, the results of hypothesis testing, and a discussion.

#### **CHAPTER V CONCLUSION**

Chapter V consists of the conclusion of the research, research limitations, and suggestions for future research