CHAPTER II

LITERATURE REVIEW

Theoretical Foundation and Hypothesis Development

2.1 Grand Theories

2.1.1 Stakeholder Theory

According to Rankin et al. (2018), stakeholder theory can be defined as a theory that considers the relationship between stakeholders that affect the achievement of an organization with different interests from society. Stakeholder theory states that all stakeholders have the right to know information about how company activities affect them (Ulum, 2017). Stakeholder theory proposes that organizations should consider stakeholders and should not only concentrate on maximizing profits for the company's interests.

This theory explains the influence of stakeholders on the actions of an organization. The more stakeholder-controlled resources are required for organizational success, the more likely it is that managers will address stakeholder concerns. Therefore, managers need to manage the company's business to reach the optimal point desired by all stakeholders (Rankin et al., 2018). The intended stakeholders are the government, investors, customers, employees, suppliers, and others.

According to Grey et al. (1997), quoted by Firdausya et al. (2020), all parties or groups that have an impact on the business are stakeholders. Stakeholders are the ones that the corporation considers before disclosing any information. This is done because shareholder support is essential to the company's existence.

2.1.2 Signal Theory

Michael Spence, the recipient of the Nobel Prize, created the signal theory and added information asymmetry to the economic decision-making model. If there is an information gap, people with more information will "send signals" to other parties to sway their decisions (Micheli and Gemser, 2016, quoted by Anjelina et al. (2019)). According to Anjelina et al. (2019), In signal theory, it is first presumption that sellers on the markets know more about their goods than purchasers. When a customer lacks specific product knowledge but does possess certain general impressions, they will evaluate all items equally, which is a weighted average of their common perception.

2.2 Empirical Theory

2.2.1 Firm Innovation

Hitt et al. (2019) quoting Joseph Schumpeter asserted that businesses engage in three different sorts of inventive activity in his seminal work, The Theory of Economic Development. The act of generating a novel product or method is referred to as an invention. A commercial product can be made from an invention through the process of innovation. Thus, innovation comes after invention in that it creates something new, whereas invention creates something new for use. In light of this, businesses evaluate innovations using commercial criteria rather than technical ones to assess if they are successful.

2.2.2 Firm Value

Oktarina (2018) said that the company's principal goal is to increase its worth as much as possible. It might be argued that businesses that maximize their worth also maximize the interests of their shareholders. The company's worth is determined by investors' assessments of its likelihood of success, which are reflected in the price of the company's shares (Sujoko & Soebiantoro, U., (2007), quoted by Oktarina, (2018)). High stock prices increase a company's worth and vice versa. This will affect how much the market trusts the firm going forward.

2.2.3 Previous Researches

Prihadyanti and Laksani (2015) researched innovation in Indonesia and looked at R & D and innovation in Indonesian manufacturing companies. This study's goal is to provide an answer to the question of whether or not research and development is a catalyst for innovation. 189 businesses in Jabodetabek's manufacturing industry sector made up the research sample. The study's findings include (1) the existence of innovations varies between organizations that do research and development and those that do not, and (2) the impact of R&D activities on the degree of innovation among businesses in Indonesia's manufacturing sector. The amount spent on R&D has an impact on innovation as well.

The study's findings demonstrate that R&D activities have a significant impact on business innovation in Indonesia's manufacturing sector. R&D is making progress in terms of innovation and market demand. This discussion addresses both the theory of innovation with R&D as well as the theory of innovation without R&D. Further, it may be said that to become a company with a high level of innovation, a company must do R&D, including investing in R&D. The level of R&D spending should be considered with innovation and market demand. Despite this, the level of R&D spending also has to be managed carefully since it is difficult to find the right level of investment to maximize the impact of innovations that have already been made.

Firdausya et al. (2020), The study's findings demonstrate that a company's ability to innovate may raise its perceived worth among investors. Investors are encouraged by the company's high level of innovation to expect future profits to increase. As a result, investors would be interested in increasing their investment in the firm. This raises the investor's value of the company. Investors' perceptions of the value of the company will rise as a result of this circumstance. Since innovation affects both the company's internal and external environments, it has a significant impact on firm value. Innovation has an impact on a company's viability and capacity to compete, in addition to its financial health.

Anjelina et al. (2019), The purpose of their study is to investigate how innovation affects business value. The findings of this investigation led to the following conclusions. The idea that the more a firm innovation, the greater its value is accepted since there is a significant positive impact of innovation on the value of the company. The findings of this study demonstrate that a firm's value increases with the R&D activity they hold, as shown by the high capitalization of the company.

2.3 Hypothesis Development

2.3.1 Firm Innovation affecting Firm Value

Based on Firdausya et al. (2020) quoting Berzkalne and Zegrave (2014), Tabas and Beranova (2014), Rubera and Kirca (2017), Usman et al. (2017), and Warusawitharana (2015), According to stakeholder theory, stakeholders must be supportive of the business for it to survive. Support is gained when the firm can satisfy stakeholders' interests. Investors use business performance as a key metric to assess a firm's success. The company's initiatives to enhance performance include innovation, which will boost market share. Sales will grow and earnings will increase as market share increases. As earnings rise, investors' views of the company improve. Stock prices and company worth will rise as investor perception increases.

According to Srinivasan, Pauwels, Silvarisso, and Hanssens (2009) quoted by Anjelina et al. (2019), investors respond favourably to businesses that provide innovations through stock returns. Innovation is a commercialization activity that has a favourable impact on the rate of return since it signals the company's capacity to compete and grow its product line (Sood and Tellis, 2009, quoted by Anjelina et al. (2019)). Anjelina et al. (2019), also said that the signal theory related to innovation and a firm’s value, which that innovation is "good news" for consumers or investors because, according to the theory of innovation signals, it is a signal of the company's competitiveness, having bargaining power, and preventing the entry of imitators. As a result, it is good news for people to invest in companies that innovate because the benefits of innovation outweigh the costs associated with it. It is also good thing for consumers because they place a premium value on products that have

Prihadyanti and Laksani (2015) quoting Toivanen et al. (2002), mention that R&D may be seen as an investment that can increase a company's profitability and create intangible assets that are thought of as the repository of creative knowledge. Hatfield (2010) quoted by Prihadyanti and Laksani (2015) has also stated that research and development is a component of any innovation.

H_1= Firm Innovation have positive effects on Firm Value.