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Does Innovation Affect Firm Value Study On Compas100 Index Companies For The 2016 - 2020 Period

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ABSTRACT

The purpose of this study is to determine whether innovation has an impact on company value in the Kompas100 case study for the years 2016 to 2020. This study used purposive sampling to select 31 businesses for its sample. Secondary data were used, including annual reports and financial statements for each Kompas100 company from 2016 to 2020. Innovation using rnd costs is the independent variable in this study. The Tobin's Q proxy's value, on the other hand, serves as the study's dependent variable. This study found that innovation has no effect on company value.

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INTRODUCTION

In the current era of globalization, the progress experienced is often associated with progress in the realms of technology, information and communication. This development and progress has unknowingly affected all aspects of human life. The existence of rapid developments in the realm of technology, information, and communication makes all activities carried out by humans easier. This development goes hand in hand with the process of transformation of society towards a more modern one.

One way to be able to take full advantage of technological developments is to innovate. For companies, innovation is not just a process to create new products, but innovation is part of company development. According to Smajlović et. al. (2019), Innovation is the basis of technological progress and economic development in the sense of replacing old technology with new ones. Innovation is the company's potential to introduce new products/services or new production processes. Therefore, innovative activities are usually

considered as a valuable capability of an organization, as it is required to develop new business models, products, and procedures, which are essential for achieving a sustainable competitive advantage.

Innovating is an important thing for companies to do, because companies can continue to grow, and can also face challenges in the business world that sometimes arise unexpectedly, one of which is the Covid-19 Pandemic. This is realized by the company, one of which is PT Unilever Indonesia Tbk. In 2020, Unilever has realized 40 product innovations. This is intended to consider shifting customer and consumer needs, particularly in terms of demand and purchasing patterns. In addition, household consumption is still the basis for the highest economic growth, reaching 57.6% of GDP. In addition, consumer behavior has also changed due to the Covid-19 pandemic. Therefore, Unilever has developed a number of digital platforms, such as Sahabat Warung, Unilever Professional, and Unilever Home Delivery (Octaviano, 2021).

Companies that demonstrate innovative actions that ultimately contribute to company profitability usually receive positive feedback from investors. Investors will have a favorable impression of companies with higher future profit growth. The value of the company will increase as a result of this positive feedback, which will also increase its share price.

Management work is what determines the value of the company. Since company value is a measure of the total market value of a company as a whole, it is an important concept for investors. According to Glova & Mrazkova (2018), the company's goal is high corporate value because it shows shareholder wealth and business success.

The company's performance is reflected in its company value, which can have an impact on investors' perceptions of the business. The company will achieve better results the higher the value. As a result, the company's ability to increase shareholder wealth is closely related to the value of the company which can generate large profits for shareholders when stock prices rise (Lusiana & Agustina, 2017). The good company performance of a company attracts many investors and ultimately increases the company's capital because many investors invest their money in the company.

Companies can encourage innovation to maintain a healthy balance between their values. A study by Mursalim et al. shows that this is true. Al. (2015) and Nicolau & Santa-Maria (2013), who found that innovation can increase business value. Based on the findings of this study, it can be concluded that the value of the company increases in proportion to the amount of money allocated for innovation activities. Setiono & Hartomo (2016) and Rahayu &

Widyawati (2018) found that innovation has a negative impact on firm value, but their findings are contradictory.

Based on some of the descriptions that have been explained by previous researchers, this research was written with the aim of measuring the effect of Innovation on Company Value An Empirical Study of the Kompas 100 Index Companies for the 2016-2020 period. This research has novelty compared to previous studies, where this research focuses on companies that are included in the Kompas 100 Index as research subjects, compared to other studies that tend to use companies in a particular industry as a subject. This is because the companies included in this index have good liquidity and large market capitalization, so they are believed to have sufficient capital and greater responsibility to continue to innovate compared to other companies.

RESEARCH METHODE

Descriptive and associative research methods are used in this study. Descriptive research method is a method that focuses on explaining the nature of phenomena, both happening now and in the past. The purpose of associative research is to find and explain causal relationships between variables. This study uses quantitative analysis because the data is in the form of numbers and is analyzed using the panel data regression method. Observations cover a number of businesses (cross section) and last several years (time series). An overview of the research subject will be obtained by analyzing the data collected.

Research variable

There are three kinds of variables used in this study, namely control variables, independent variables, and dependent variables. By using Tobin's Q as a proxy, firm value will be used as the dependent variable. The amount of R&D spending is used as a proxy for innovation which is the independent variable in this study. Profitability, firm size, and leverage are the final control variables.

Table 1.
Operationalization of Research Variables

No.	Variabel	Definisi	Indikator
1	Firm Value (Y_1)	Investors' perception of the level of success of the company	$Tobin's\ Q = \frac{ME + TL}{TA}$

2	innovation (X_1)	The company's ability to create new aspects of business operations	Inovasi $= \sum Research\ \&\ Development$
3	Profitability (Kontrol, X_2)	The company's ability to generate profits	$Return\ On\ Asset\ (ROA) = \frac{Net\ Income}{Total\ Assets}$
4	*Leverage* (Kontrol, X_3)	How far the company is financed by loan funds	$Debt\ Ratio\ (DAR) = \frac{Total\ Debt}{Total\ Assets}\ x\ 100\%$
5	Company Size (Kontrol, X_4)	Description of how big or how small the company is	$SIZE = \text{Ln}\ (Total\ Assets)$

Population and Sample

Companies that are included in the Kompas 100 Index from 2016 to 2020 are the subjects of this study. As a result, 52 businesses included in the 2020 Kompas 100 Index make up the population of this study.

Purposive sampling method, or sampling based on certain aspects and criteria that have been determined by researchers, is used for research sampling. The criteria used in this study are as follows: 1) All businesses that have been included in the Kompas 100 Index for five consecutive years, from 2016 to 2020 (research period), 2) Businesses that use the rupiah currency to report data in annual and financial reports, and 3) Business actors who report data needed for research in annual and financial reports. With a five-year research period, researchers obtained a sample of 31 businesses using a purposive sampling method, so that 155 observation data were obtained.

Data analysis method

For this study, data were obtained from the annual reports and financial statements of each company for the 2016-2020 period, which were obtained from the websites of each company. The data will then be analyzed using the Eviews software to provide the results of this study. The data analysis method to be used is panel data regression.

According to Ghozali & Ratmono (2017), panel data regression is a technique for analyzing cross-sectional and time series data. One or more variables in a unit of observation over a predetermined time period in time

series data. In contrast, cross-sectional data are collected from several units of observation at once. The probability values and coefficients of all the variables studied will be the final results of the panel data regression. These results can be used to interpret research findings. The panel data regression model will take the form of the following equation:

$$TOBIN'S\ Q_{it} = \beta 0 + \beta_1 INOVASI_{it} + \beta_2 ROA_{it} + \beta_3 DAR_{it} + \beta_4 SIZE_{it} + \varepsilon_{it}$$

RESULT AND DISCUSSION

Multicollinearity Test

The multicollinearity test is a research instrument designed to find out whether the independent variables are correlated or related. The regression model is said to be good if there is no correlation or relationship between the independent variables. The independent variable shows multicollinearity if the correlation coefficient between variables is greater than 0.9.

Table 2.
Multicollinearity Test Results

	Tobin's Q	**Inovasi**	***ROA***	***DAR***	***SIZE***
Tobin's Q	1,000000				
Inovasi	-0,081448	1,000000			
ROA	0,818406	-0,050205	1,000000		
DAR	-0,156447	0,125313	-0,323267	1,000000	
SIZE	-0,241358	0,448597	-0,332662	0,612363	1,000000

From the results of the multicollinearity test above, there is no correlation coefficient between variables that is more than 0.9. So it can be said that there is no correlation between the independent variables used in this study.

Panel Data Regression

Tabel 3.
Panel Data Regression Results

Variabel	**Hasil**	
	Koefisien	**Probabilitas**
Intercept	12,8468	0,5159
Innovation	0,00000	0,9832
ROA	8,4869	**0,0006*****
DAR	-2,0218	0,4384
SIZE	-0,3146	0,6314
Adjusted R-Squared	0,9113	
Observasi	155	

*: signifikan pada nilai <0,1 (10%)

**: signifikan pada nilai <0,05 (5%)
***: signifikan pada nilai <0,01 (1%)

Based on the results of the panel data test in the table above, it can be taken the regression equation of each model. The equation obtained is:

Tobin's Q = 12,8468 + 0,00 Innovation + 8,49 ROA − 2,02 DAR − 0,31 SIZE

The magnitude of the influence of the independent variables and control variables on the research dependent variable can be seen from this equation. The intercept has a constant value of 12.8468. The Tobin's Q value is 12.8468 if the Innovation, ROA, DAR, and Size variables are constant. The innovation variable regression coefficient then has a value of 0.00. This shows that the Tobin's Q value will increase by 0.00 if Innovation increases by one unit and the other variables are constant. The ROA variable regression coefficient then has a value of 8.49. This shows that the Tobin's Q value will increase by 8.49 if the ROA increases by one unit and the other variables are constant. In addition, the regression coefficient of the DAR variable has a value of -2.02. This shows that the value of Tobin's Q will decrease by 2.02 if the DAR increases by one units and other variables remain constant. Finally, the variable Size has a regression coefficient of -0.31. This shows that the value of Tobin's Q will decrease by 0.31 if Size increases by one unit and the other variables remain constant.

Discussion

Based on table 3, it can be seen that innovation has a probability value above 0.05 (0.9832) and has a positive coefficient value (0.0000). With these results, it can be concluded that innovation (through R&D spending), although it has a positive effect, does not have a significant effect on firm value, which is proxied by Tobin's Q.

These results are in line with research from Xu & Jin (2016) which explains that innovation activities (especially research and development processes) are long-term development strategies and investments because it takes a long time to apply the latest technology to product manufacturing. In addition, innovation activities require a lot of money, so that abundant funds are needed to ensure that the resulting innovations are effective for the company. Therefore, even though innovation can have a positive impact on firm value, because innovation activities take a long time and require high capital, innovation does not directly have a positive impact on the company, so innovation does not have a significant effect on firm value.

Chen & Ibhagui (2019) added, there is a threshold in innovation activities with company performance, and this threshold tends to vary between companies. This causes companies with higher R&D intensity not necessarily to

have better performance than companies with low R&D intensity. These thresholds can also vary, especially during an economic crisis. For some companies, the threshold estimate for R&D intensity has increased post-crisis. This crisis caused the positive effect of R&D on company performance to shrink while the negative effect of R&D on company performance increased after the crisis compared to the pre-crisis era. Thus, innovation activities tend to be case-by-case, not only for each company but also for every innovation made within a company, so that innovation does not necessarily have a significant impact on the company.

Finally, Mitrione et al. (2014) explained that innovation activities, especially in terms of R&D, are intensive activities and have a long development cycle, which can increase the risks associated with investment in the industry. On the one hand, R&D spending can be a signal of growth, innovation and technological progress within a company, so that R&D reporting tends to be positive information about the company's future prospects to investors. But on the other hand, there is uncertainty about the final results of innovation activities which causes investors to tend to ignore the innovation aspects of a company. In addition, many factors are needed in innovation activities, such as future economic conditions and the availability of company resources in carrying out innovation activities. Thus, investors prefer to focus on other aspects of the company, which causes innovation to have an insignificant effect on firm value.

CONCLUSION

The purpose of this study is to find out how innovation will affect the company value of the Kompas 100 Index from 2016 to 2020. The conclusion of the study based on these findings states that innovation has a positive but not significant impact on company value. This is because innovation activities take a long time and cost a lot, and are followed by uncertainty of results. So that even though innovation activities are a positive sign for the company's future prospects, the high resources required and the risks that can arise regarding the results of these innovations have an impact The positive impact of innovation activities has no significant effect on firm value.

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Based on the research results, there are also several implications that emerge from this study. Practically, this research has implications that can be applied by the company. This research is expected to be a scientific and informative consideration, especially in making policies regarding innovation

activities, so that the resulting innovations are in accordance with company needs. Then the company is also expected to be able to convince investors of the innovation activities that will be planned and/or being carried out, so that investors can trust the company about the prospects for these innovations.

The main hypothesis of the study, that innovation does not have a significant impact on firm value, is theoretically rejected. Given that the findings of this study are consistent with Chen & Ibhagui (2019), Xu & Jin (2016), and Mitrione et al. (), this has theoretical implications. 2014). However, the research by Zhu et al. contrary to this finding. 2021), Bigliardi et al, 2020), and Nichita (2019), both emphasized that innovation has a significant positive impact on company value.

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