

Conference Paper

Innovation Organization and Free Float on Financial Performance: Empirical Study from Listed Company at Indonesia Stock Exchange

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Abstract

The aim of this research is to determine the effect of innovation organization and free float on financial performance with firm size as a moderating variable. Data collection techniques are used to conduct interviews and distribute questionnaires to the management of financial companies listed on the Indonesia Stock Exchange. The analytical method used in this study is structural equation modeling using software data processing Smart PLS. The research results of the Innovation Organization have a negative and significant effect on Financial Performance, Free Float has a positive and significant effect on Financial Performance, and Free Float has a positive and significant effect on Financial Performance by being moderated by Firm Size.

Keywords: Organizational innovation, free float, size of company, financial company, Indonesia Stock Exchange

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1. Introduction

Financial companies listed on the Indonesia Stock Exchange (IDX) experienced rapid development in the last five years. The financial sector index in 2014 stood at 731.64 in 2018, increasing to 1,175.67 [21]. Market capitalization for financial sector companies is 31.05% of the total capitalization of all shares recorded in 2018, this indicates the magnitude of the influence of the financial sector in the capital market in Indonesia.

The growth of the financial industry needs to be supported by the application of innovation, discussion of innovation can be in a broad sense, including the application of new technologies and new ways of doing things for companies. Innovation is a tool and means to exploit change as an opportunity to do business both products and services, innovation is presented as a discipline with the ability to learn and be able to be practiced [30]. Furthermore, Monks and Minow [29] suggest there is an opportunity for companies to adapt to various provisions according to the circumstances of the company, thus supporting the occurrence of innovation.

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Innovation as the application of dynamic creative ideas to the company to be able to adapt, by producing innovative services. Innovation transforms the financial industry with the change, so the financial industry has the ability to create business enhancements, such as service development which is the main challenge of national banking, in the face of competition in the future. Innovation is what most companies in the financial industry already know, the problem lies in the company's willingness to innovate and the company's ability to quickly adapt.

Organizational change is the adoption of new ideas or a new behavior by the organization that can encourage organizational innovation, according to Daft [12] organizational innovation is the adoption of new ideas or behaviors for the industry, market or general environment of an organization. Tidd and Bessant [41] provide a definition of organizational innovation as a process that integrates components - components that can work together to form an environment that can support the development of innovation. Definition of organizational innovation we can get an idea that an organization also needs innovation in an organization.

Innovation that occurs in an organization is a process for the development of the organization. By understanding the innovation process in the organization, the benefits obtained are that it can reduce the organization's shock in carrying out innovations that have been set by the company's management. The level of investment made by the company includes expenses for research and development costs supporting the company's innovation activities.

Research conducted by Zahra and Das [43] suggests that the dimensions contained in an innovation affect the company's financial performance, but different companies take a different approach to the use of innovation to improve the company's financial performance [13]. Investments made by companies to support research and development and other innovation activities will affect the company's financial factors [17].

The discussion of shares held by the public in research uses a free float or the number of shares circulating on the stock. Free float is a share owned by shareholders who are not the main shareholders and are not controlling shareholders. Share ownership in the exchange can be divided into two groups, namely internal shareholders or controlling shares, and external shareholders or shares owned by the public. The controlling shareholders have a greater interest in controlling the management of the company when compared to public shareholders.

In accordance with the Indonesia Stock Exchange regulations for free float for companies that have been recorded, a minimum of 50 million shares and 7.5 percent of the total paid up capital shares. Enacting regulations regarding free float can increase stock

liquidity and provide added value for shareholders and companies. The more shares owned by the public, the company will be more transparent and accountable, so that the bias has a positive impact on the company's performance.

The increasing number of free floats can support management actions to try to improve company performance and increase the value of shareholders [3, 23]. The research conducted by Da Silva and Leal [11] concluded that the higher the number of outstanding shares will affect the disclosure of information conveyed by management so that it can affect the company's performance.

The size of the company is related to the company's financial performance, according to Papadogonas [32] a large company can negotiate a better interest rate or discount to get a better price because of the large number of transactions, thus companies that have large sizes generally have financial performance that well. Research conducted by Muigai and Muriithi [28] concluded that company size has an influence in moderating the relationship between capital structure and corporate financial performance.

The market capitalization is used as a proxy in measuring Company Size [1], market capitalization is the number of outstanding shares multiplied by the stock price. Muigai and Muriithi [28] argue that companies that have large size companies have lower credit risk than companies that have small company sizes.

Research conducted by Price, Stoica, and Boncella [33] concluded that company size has an influence in moderating the application of innovation to company performance. The application of innovation to companies is a unique process and resource that can be a factor in predicting company performance, companies that implement innovations such as research and development have an impact on corporate earnings and increased productivity. Innovation in organizations related to business practices and allocating company resources in implementing processes and practices [4, 7].

This study aims to determine the effect of organizational innovation and free float on the company's financial performance by being moderated by company size. The results of the study are expected to contribute to the theoretical aspects, by enriching the theory in the discussion of organizational innovation, free float and company size, and contributing to the practical aspects of improving the company's financial performance.

The company's financial performance is the result of the efforts made by management to realize the company's business goals. The use of financial performance measures is a way of knowing company performance [6]. Management as a company manager and shareholder as the owner of the company seeks to improve the company's financial performance, in general when the company's financial performance increases, the company's value will increase [40].

Company value is the present value of the net cash flow that the company obtains in the future [18]. According to [36] cash flow is the difference between the amount of money coming in compared with the amount of money coming out, the company's cash flow consists of three elements, namely operational cash flow, changes in net working capital and capital expenditure.

Company value can be calculated using the free cash flow approach, in the future free cash flow, the calculation of the present value is called company value, Cheung and Jiang [9] state that free cash flow has a relationship with the level of return on shares issued by the company. Free cash flow is used to explain how management decisions determine the level of returns to shareholders [2].

Return on assets (ROA) is a measurement of profitability ratios, ROA measures a company's ability to generate profits by using the company's total assets. The results of greater ROA measurements increasingly show good corporate performance [5]. Santos and Brito [37] suggest that financial performance can be reflected in the company's ability to generate returns or profits.

The company's financial performance reflects the economic goals of the company, which is indicated by ratios such as return on assets (ROA), and return on capital (ROE) [19]. According to Ross, Westerfield, and Jordan [36] ROE is a measure of the results obtained by shareholders throughout the year because providing profits to shareholders is a company goal, then ROE is a measure of the actual results of company performance.

Total asset turnover (TATO) is a measurement of operational ratios. TATO shows the level of efficiency of the overall use of company assets in generating sales. The TATO ratio as a measure of the turnover rate, shows how efficiently a company uses its assets to create sales [36], the greater the value of the TATO ratio, the better for the company.

Innovation carried out by companies is basically to meet market demand, innovation as a particular device used by entrepreneurs, a means for them to exploit change as an opportunity to do business both products and services, innovation is able to be presented as a discipline, the ability to learn and able to be practiced. The innovation approach can be in a broad sense, including the application of new technologies and new ways of doing things.

Innovation as the application of creative ideas that succeed in the company. The company is expected to be able to adapt, by producing innovative new products and services. Measurement of innovation according to Tidd and Bessant [41] can be divided into five dimensions, namely strategy, relationship, process, learning, and organizational innovation.

Innovations come in many types and vary greatly in the complexity and scope of the company, companies that try to generate profits cannot continue for a long time without innovating, this is because customers will leave the company to switch to more up-to-date products or services, observing the fact that the company different people take a different approach to the use of innovation in an effort to improve the company's financial performance.

Innovations carried out by companies need to be supported by the application of a culture of innovation. The culture of innovation is the aim of the organization to be innovative, by providing infrastructure, value-oriented and corporate environment to implement innovation. Furthermore, Sharifirad and Ataei [38] in their study concluded that innovation can occur when a company supports the implementation of an innovation culture.

Villalonga [42] stated that in implementing innovation through research and development companies get financing from equity and debt. Regarding the expenditure of research and development carried out by companies, Tidd and Bessant [41] provide an example that companies that allocate funds for research and development will have better innovation resources than companies that do not allocate funds for research and development. Top management support is very important, by conducting research and development the company will continue to innovate.

Research on innovation based on the diffusion theory of innovation. Diffusion of innovation is a theory of how new ideas and technologies become widespread [35]. An innovation is communicated through various ways and a certain time period in a social system, while innovation is an idea, practice, or object that is considered new. The diffusion theory of innovation believes that innovation can be diffused throughout society in predictable patterns. Some community groups will adopt innovation as soon as they hear the innovation. While some other community groups need a long time to then adopt the innovation. When innovation is widely adopted by some people, it is said to be exploded or experience mass use.

The study conducted by Lemmons and Lins [26] studied the effect of ownership structure on changes in shareholder value during the financial crisis that occurred in Asia that began in July 1997. The crisis gave a negative shock to the company's investment opportunities in the market, thereby increasing shareholder incentives controller to take over minority shareholders. In addition, the large separation between cash flow ownership and control rights arising from the use of pyramid ownership structures in the market indicates that people have incentives and the ability to be involved in taking ownership of the company.

Claessens and Fan [10] further confirmed the limited protection of minority rights in Asia, which allows controlling shareholders to take over minority shareholders. Agency issues have been weakened by low corporate transparency, which is associated with a broad group structure. The controlling shareholders bear agency costs in the form of discounted share prices, monitoring expenses, and reputation. The Asian financial crisis further shows that conventional and alternative corporate governance mechanisms can have limited effectiveness in systems with weak institutions and low ownership rights.

Research conducted by Gibson [14] shows that minority investors in emerging market companies in Asia, which are controlled by large shareholders, must be aware that company management can support large shareholders at the expense of minority shareholders.

In research on the condition of the company, company size is generally used as an important and fundamental company characteristic. Firm size measurements can use different proxies, namely total assets, total sales, and market capitalization, the choice of measurement for firm size requires theoretical and empirical support. Research conducted by Paladino [31] shows that the size of the company supports higher company performance, the performance of the company targets the quality and profitability of goods and services as well as the return on the investment made by the company. The hypothesis proposed in the study is as follows:

H1: There is the influence of the Organizational Innovation on Corporate Financial Performance.

H2: There is the influence of Free Float on Corporate Financial Performance.

H3: There is the influence of Free Float on Corporate Financial Performance moderated with Firm Size.

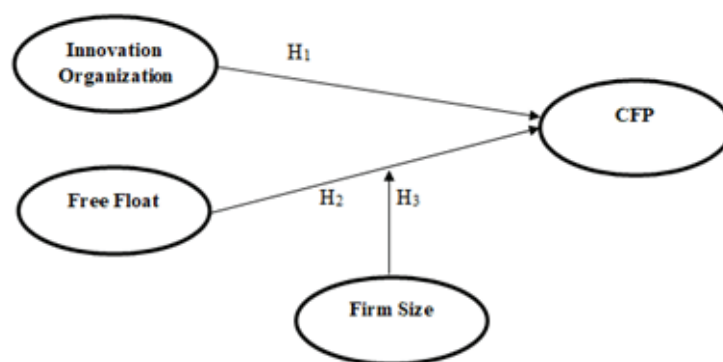


Figure 1: Research Construct.

2. Materials and Methods

The sampling method used is probability sampling, the determination of probability sampling method allows the representation of the entire population when using all population, it will take a long time, the costs and energy are quite large. Data collection is carried out through surveys in a cross-sectional time span. The cross-sectional method was carried out with data that was only once collected in a given period, to answer questions in the study [39].

The object of the research is the Corporate Financial Performance and the research context are Top Management and company management with functional positions in accordance with the research, in the financial industry sector in the Indonesia Stock Exchange. The population in this study were 87 companies listed in the financial industry sector on the Indonesia Stock Exchange.

Operationalization of variables aims to measure the variables used in the study. In the research conducted there are four variables, namely organizational innovation, free float, Corporate Financial Performance, and company size moderator variables.

Organizational Innovation variable is a process of integrating components that work together to form an environment that enables innovation to develop. Organizational innovation has the dimensions of application, organizational structure, company activities, information systems, goals, mobilization, and external relations. The Free Float variable is shares owned by shareholders not controlling and not major shareholders. The Free float has a dimension of the number of outstanding shares of a company on the Indonesia Stock Exchange.

Variable Company Performance is an evaluation of the efforts made to realize the company's business goals. The company's performance has a return on asset dimension, return on equity, free cash flow, and total asset turn over. Company Size variable is a measurement of company value based on the company's market capitalization on the Indonesia Stock Exchange. The size of the company has a stock price dimension multiplied by the number of shares outstanding.

Based on the Guidebook of the Indonesia Stock Exchange [20] Stock Price Index, all companies listed on the IDX are classified into the industrial sector according to the industry classification named JASICA (Jakarta Industrial Classification). The financial sector consists of several sub-sectors, namely banks and non-bank financial institutions, financial institutions, securities companies, and insurance.

Likert scale is used in measuring opinions or perceptions of a person or group of people, regarding social events or symptoms. The preparation of the Likert scale is

carried out in stages, in the first stage the construction of the construct that you want to measure must be clearly defined and know what you want to measure. The second step is to determine the scale format of the choice of answers and directions to the respondents. In the third stage, a pilot test was carried out in the initial version with a small number of respondents being asked to criticize the initial scale, then the Likert scale must be revised based on criticism and suggestions from respondents in the pilot test.

The fourth stage analyzes the question items, by selecting a set of question items that form an internal consistency or reliability test using the Composite Reliability calculation, the Composite Reliability value ≥ 0.7 . The fifth stage is to test the validity of the Likert scale. The indicator used to measure the validity of an indicator is a loading factor of ≥ 0.5 . On the Likert scale, the respondent was asked to give a statement on the object of research or construct. The likert scale used consists of a scale of 1 to 5.

The analytical method used in the research conducted was descriptive statistics and multivariate analysis. The use of descriptive statistics on research conducted to provide an overview of Organizational Innovation, Free Float, Corporate Financial Performance and Company Size in the financial industry sector in the Indonesia Stock Exchange. Descriptive analysis was conducted to get respondents' perceptions related to the research conducted. Testing the hypothesis in the study using Structural Equation Modeling (SEM) with the Partial Least Square (PLS) approach.

3. Results and Discussions

Based on data obtained from questionnaires filled out by respondents, the participation rate was 67 out of 87 companies or 77% of the population. From the results of the research carried out descriptive statistics, the results of data testing using Analysis of Variance (ANOVA) using the Minitab data processor, then carried out hypothesis testing using structural equation modeling (SEM) analysis. SEM analysis using Smart PLS data processor which consists of an analysis of the outer model, namely test validity and reliability test, and analysis of inner models, namely test structural models.

The ANOVA test was conducted to find out whether there were clear differences between the calculated averages of several data groups. Data obtained from respondents were divided into four industrial sectors namely Bank (37 companies), Insurance (11 companies), Securities (10 companies) and Multifinance (9 companies). In accordance with the results of data processing, the calculated F value in each research variable, namely Organizational Innovation and Financial Performance has a value lower than

the F table value. The F table value used in the study was 2.76 [27] and the Multiple Comparisons test using the Tukey test had the Sig. > 0.05.

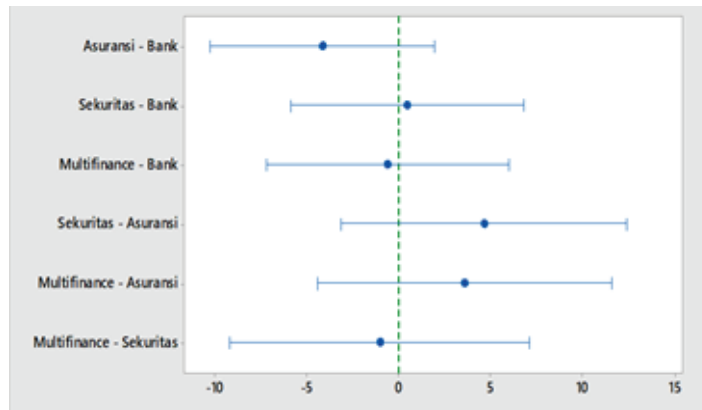


Figure 2: Analysis of Variance Inovasi Organisasi.

The ANOVA test on the Organizational Innovation variable obtained F-Value 1.21 <2.76 and 0.315 P-Value> 0.05 so that the fourth conclusions of the data obtained in the Organizational Innovation variables obtained from industry types namely Bank, Insurance, Securities and Multifinance were the same.

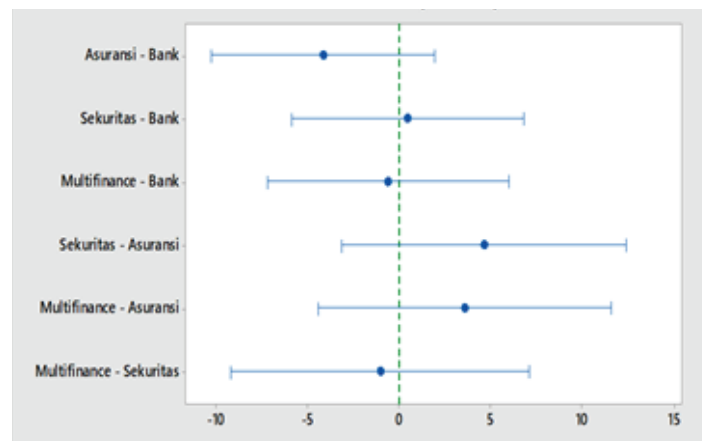


Figure 3: Analysis of Variance Free Float.

ANOVA test on Free Float variable has F-Value 1.21 <2.76 and P-Value 0.315> 0.05 so that the conclusion of the four data in the Free Float variable obtained from industry types namely Bank, Insurance, Securities and Multifinance is the same.

The ANOVA test on the Financial Performance variable has an F-Value of 1.35 <2.76 and P-Value of 0.265> 0.05 so that all four data conclusions obtained in the Financial Performance variable obtained from industry types namely Bank, Insurance, Securities and Multifinance are the same.

Hypothesis testing uses SEM analysis at a 10% significance level. SEM analysis using the help of Smart PLS software version 3.0, consists of an analysis of the outer model,

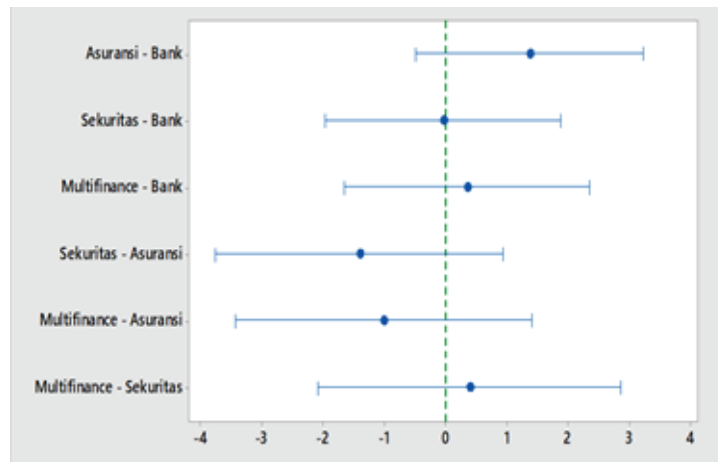


Figure 4: Analysis of Variance Financial Performance.

namely the validity test and reliability test based on data obtained from respondents, and the inner model analysis that is a test of structural models based on research constructs.

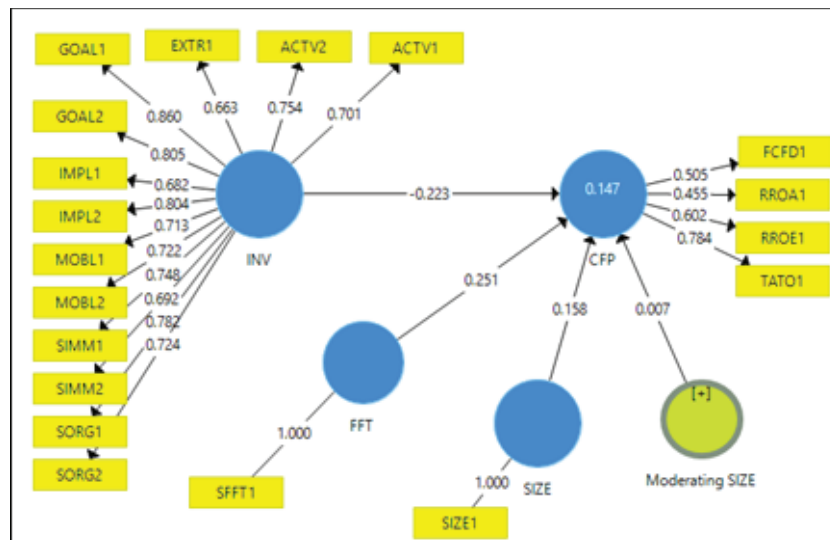


Figure 5: Data Results.

The validity test results show each indicator of the Organizational Innovation variable, namely company activity (ACTV), external relationship (EXTR), company goal (GOAL), implementation (IMPL), mobilization (MOBL), information system (SIMM) and structure organization (SORG), Indicator of Free Float namely Circulating Stock Amount (SFFT1) and Firm Size Indicator, Market Capitalization (SIZE1), and Financial Performance indicators, namely Free Cash Flow (FCFD1), Return on Asset (RROA1), Return on Equity (RROE1) and Total Asset Turn Over (TATO1), which is used in the study has a loading factor value of ≥ 0.5 , so all indicators used in the study meet the validity criteria. The values of loading factors are listed in table 1 as follows.

TABLE 1: Validity Test.

Indicator	Outer Loadings	Indicator	Outer Loadings	Indicator	Outer Loadings
ACTV1	0.7	MOBL1	0.7	SIZE1	1.0
ACTV2	0.8	MOBL2	0.7	FCFD1	0.5
EXTR1	0.7	SIMM1	0.7	RROA1	0.5
GOAL1	0.9	SIMM2	0.7	RROE1	0.6
GOAL2	0.8	SORG1	0.8	TATO1	0.8
IMPL1	0.7	SORG2	0.7		
IMPL2	0.8	SFFT1	1.0		

The reliability test results show that each variable used in the study has a Composite Reliability value of ≥ 0.7 , so all variables used in the study meet the validity criteria. The Composite Reliability values are listed in table 2 as follows:

TABLE 2: Reliability Test.

Description	Composite Reliability
Financial Performance (CFP)	0.7
Free Float (FFT)	1.0
Innovation Organization (INV)	0.9
Firm Size (SIZE)	1.0

In the analysis of the inner model according to the research construct, a structural model was tested, for the significance level using a significance level of 10%, based on the results of the data obtained the data values of variable coefficients and P-values as follows:

TABLE 3: Coefficient Value and P-Value.

Description	Original Sample	P Value	Decision
INV → CFP	-0.22	0.02	Negative, Significant
FFT → CFP	0.25	0.06	Positive, Significant
FFT → CFP ↑ SIZE	0.04	0.01	Positive, Significant

The results of data processing for Organizational Innovation variables on the Financial Performance variable result is a negative effect (coefficient value -0.22) and signed with the value of P-Value $0.02 < 0.10$. Free Float variable towards Financial Performance variable, the result is a positive effect (coefficient value 0.25) and significant with P-Value value $0.06 < 0.10$. Free Float variable towards Financial Performance variable

with moderated Company Size, the result is a positive effect (coefficient value 0.04) and significant with P-Value value $0.01 < 0.10$.

In the testing section of the structural model, we discuss the influence of independent latent variables on dependent latent variables. The measurement of the structural model using bootstrapping on the sample results is obtained as in table 4 as follows:

TABLE 4: Structural Model Measurement.

Variabel	Innovation Organization	Free Float	Financial Performance
R-Square			0.147
Communality	0.554	1.000	0.360
Goodness of Fit	0.306		

The influence model of Innovation Organization, Free Float and Financial Performance, moderated by variable Firm Size, produces a R-square value of 0.147 which can be interpreted that Financial Performance variables can be explained by the variability of the Innovation Organization and Free Float moderated by variable Firm Size of 14,7% while the remainder is explained by other variables outside the study.

In testing the structural model, a measurement of the overall fit index was conducted using the goodness of fit test (GOF) criteria, GOF values were developed to evaluate the measurement of the overall model from the prediction of the research model. The criteria for GOF value, which is the value of 0.10, has a small overall evaluation of the measurement model, for the GOF value of 0.25 is medium, and the GOF value of 0.36 is high (Ghozali and Latan, 2015; Jabbour et al, 2015). The value of Goodness of Fit obtained from the results of the study is 0.306, the evaluation of the overall measurement model has moderate results.

4. Conclusion

Based on the results of data processing between the Innovation to Financial Performance variables, the result is a negative effect. Companies in the financial industry develop products and systems that support company operations, but when companies do that companies can spend more resources and costs [24], imposition of these resources will affect the company's finances, especially if the funding source is obtained from a loan or debt [15]. Research conducted by Robb and Seamans [34] when companies innovate through research and development, the company will use funds obtained from internal companies and through debt, so that it will increase the company's debt

ratio, an increase in debt ratios can have a negative impact on financial performance company.

Companies that make innovations need to pay attention to funding sources owned by the company so that innovations carried out by the company, in the long run, can be met and not overload the company's finances. Companies need to be disciplined in maintaining good financial performance so that the company continues to generate cash flow to finance the company's operations in the short term. The company also needs to approach management performance and risk.

Based on the results of data processing between the Free Float variable on Financial Performance, the result is a positive effect. The results of the study support previous research were conducted by Kaserer and Wagner [23], who suggested that increasing the number of free tools to reduce the problem of corporate management and management. The results also provide evidence that the increasing number of free flooding can be a corporate control mechanism, which has a small amount of free float, company management can affect the company's financial performance.

An increase in the number of shares held by the public can have a positive effect on return on assets produced by the company [8]. The results also support the research conducted by Alves and Shastri [3] who concluded that free floats are related to corporate control, through the mechanism of one share having one vote (one-vote), which would give minority shareholders the right to controlling the company, so that it will improve information disclosure and influence company performance.

Based on the results of data processing, the effect of Free Float on Financial Performance by moderating Company Size variables, the result is a positive and significant effect. The firm size variable is strong in moderating Free Float on the company's financial performance, this gives the conclusion that the larger the size of the company will strengthen the influence of Free Float on the company's financial performance.

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Conflict of Interest

The authors have no conflict of interest to declare.

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