AKRUAL: Jurnal Akuntansi *Vol 14, issue 2, April 2023*
p-ISSN: 2085-9643 DOI: 10.26740/jaj.v14n2.p262-275
e-ISSN: 2502-6380 https://journal.unesa.ac.id/index.php/aj

Innovation and Firm Performance in Indonesian Companies: Is Management Experience Important?

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Abstract

Innovation is needed to support achieving organizational goals with a satisfactory level of performance. This study aims to analyze the moderating role of corporate managerial Experience, which results in the influence of Innovation on firm performance. The research uses a moderation model, or often a path analysis model tested using SPSS. This study uses 504 samples of companies listed on the Indonesian stock exchange for five years. The study results show that successful managers can be seen from their ability to innovate with creative ideas. Several references indicate that ability can be assessed from seven dimensions: collaboration, environment, finance, knowledge, senior management, risk, and staff.

Keywords: *company performance; innovation (R&D); managerial experience*

JEL Classification: M21; M41

Article History: Received: February, 14th 2023 Revised: March, 27th 2023 Accepted: April 2nd 2023 Published: April 2nd 2023
How to cite: Suwandi et al. (2023).Innovation and Firm Performance in Indonesia Companies: Is Management Experience Important?. *AKRUAL: Jurnal Akuntansi, 14(2), 262-275 DOI: 10.26740/jaj.v14n2.p262-275*
Conflict of Interest Statement: There is no conflict of interest in the articles resulting from this research.

INTRODUCTION

Performance results from the quantitative and qualitative work of all employees throughout the year, supporting the achievement of the company's vision, mission, goals and strategies. This can be done using any method or approach. Parameters that are usually used to assess a company's performance are carried out through an approach where financial information is taken from financial reports or other financial reports. In addition, there are also weaknesses in using internal performance as a basis for measurement.

Innovation is the result of the productivity of human resources; company performance can be seen from the creativity of ideas from resources that produce Innovation; it will impact company performance if all companies innovate and excel. This will affect a country's economic growth. Not only that, companies that invest in Innovation can be better prepared to face dynamic and challenging economic conditions. Innovation is

proxied by *Research and Development (R&D);* with R&D work, companies can obtain new knowledge, ideas, ideas and creativity that may be used to create new technologies, products, services or systems to be used or sold (Adam, 2018; Sain, 2021).

Based on *the 2019 global innovation index,* Indonesia, as a developing country, is ranked 85th with a score of 29.72. *Energizing the World Innovation* said Indonesia was ranked 85th out of 126 countries. Indonesia's ranking has increased by two positions from 2017. However, for Asian countries, this position is still below Singapore (ranked eighth), as explained in the *energizing world innovation ranking table.*

Table 1 . Global innovation index 2019 Encouraging world innovation

No	Country	World Ranking	Asian rating
1	Singapore	8	1
2	Hong Kong	13	2
3	China	14	3
4	Japan	15	4
5	Malaysia	35	5
6	Vietnamese	42	6
7	Thailand	43	7
8	Brunei Darussalam	71	8
9	Indonesia	85	9

Source: *Energizing the world innovation 2019*

A successful Indonesian airline company that shows improved performance and has a higher level of Innovation. (Fernandes & Solimun, 2017) The results of this study can determine a company's ability to overcome delays in Innovation by maximizing innovative resources to achieve the expected targets.

A global innovation index is an essential tool for a company's progress so that the company can survive in the increasingly competitive global industry. (Dekoulou & Trivellas, 2017; Jones & Kaul, 1996; Lopes, Vieira, Barbosa, & Parente, 2017; Yoshikuni & Albertin, 2018) . Companies need Innovation to increase product sales and productivity by increasing the effectiveness and efficiency of the company. Companies also need Innovation to create products, increase product value and enable product reduction. Support from the government is expected to increase Innovation in companies in Indonesia. However, the Innovation itself is constrained by differences in a company manager's work experience or educational background. The influence of the Experience of foreign managers or foreign education graduates will increase corporate Innovation in emerging markets, such as Indonesia. Managerial Experience in a leadership position is an essential value for the company.

Companies improving their performance require Innovation which is the company's strategy to achieve organizational goals and maintain its competitive advantage. Due to the importance of Innovation for corporate competitiveness, several studies have explored the characteristics of firms that stimulate healthy behaviour, such as research by (Bereskin, 2013; Bernstein, 2015; Cornaggia, Mao, Tian, & Wolfe, 2015; Xuefeng Jiang, Petroni, & Yanyan Wang, 2010). More recently, financial economics has focused on the impact of specific managerial characteristics on firm Innovation. These characteristics include

p-ISSN: 2085-9643 DOI: 10.26740/jaj.v14n2.p262-275
e-ISSN: 2502-6380 https://journal.unesa.ac.id/index.php/aj

managerial ability (Chen & Liao, 2015), managerial incentives (Lin et al., 2012), CEO *overconfidence*, CEO turnover (Bereskin, 2013) and general CEO skills ((Custódio, Ferreira & Matos, 2017). However, none of these studies has systematically tested whether (foreign) managerial Experience can drive firm Innovation.

Literature Review and Hypothesis Development

The agency problem is the possibility of a conflict of interest between managers and shareholders (Handayanu & Agustono, 2009; Watts & Zimmerman, 2006). *Agency problems* arise because of information asymmetry. Information asymmetry is when managers know more about the company's internal conditions than shareholders. These conditions can trigger managers to act according to personal desires and interests and sacrifice the interests of shareholders, thereby triggering agency problems.

In this study, agency problems arise because managers have an aversion to change which is reflected in R&D. Managers tend to avoid new and relatively risky projects to maintain their reputation as decision-makers (Bayo-Moriones, Galdon-Sanchez, & Martinez-de-Morentin, 2020; Hirshleifer, Low, & Teoh, 2012), whereas shareholders prefer high risk because can increase its stock return. Thus, with foreign Experience, a manager can reduce agency problems and increase shareholder confidence to maintain the company's image.

Like research (Bukhori & Raharja, 2012; Ismail et al., 2015; Pramesti et al., 2019), company managers choose accounting procedures with reported profit changes from the coming period to the current period. This hypothesis seems entirely plausible; company managers want high rewards. If their rewards depend on increasing net income, then to get bonuses, they will report the highest possible net income (Watts & Zimmerman, 2006).

Upper echelon theory (Donald C Hambrick & Mason, 1984) states that managerial background characteristics, such as career experience, education, *socioeconomic roots*, financial position, and group characteristics, foreign managerial Experience, partly predict organizational outcomes, strategic choices and levels of performance. Positively related to firm Innovation. In this regard, (DC Hambrick & Mason, 1984) adds that managers who have received formal education abroad can handle more complex management challenges (such as Innovation) than managers who have yet to receive formal education abroad. (Hirshleifer et al., 2012; Lerro, Linzalone, & Schiuma, 2014) Argues that innovation results from discovering new ideas or spreading the meaning of these discoveries into general usage in society. Innovation does not have to come from top management's will but is also the responsibility of all parties involved in the process—innovation results from creativity and the implementation of a combination of brilliant ideas. Innovation means the development of the implementation of something new. (Custódio et al., 2017) Pointed out that innovation and motivation compensation schemes for managers must demonstrate tolerance for initial failures and work towards long-term success.

Therefore, a manager's risk-taking behaviour is crucial for inventive activity in improving performance (Artaya, Purbawangsa, & Artini, 2014; Suriyani & Sudiartha, 2018). Subsequent research related to financial economics focuses on the impact of specific managerial characteristics on corporate Innovation. These characteristics include managerial ability (Mustikawati & Kurniawan, 2014; Suardana, 2014); managerial incentives tend to concentrate on innovation activities, such as scientific, technological,

organizational, financial and commercial endeavours, the hope that they will lead to the application of Innovation. (Hariyati & Tjahjadi, 2017; Miharja, 2018) . Unlike routine tasks that must be carried out, all parties must be creative and innovative in every job, such as mass production and marketing; Innovation involves a long multi-stage process full of uncertainty.

Experience Role manager and corporate Innovation influential optimistic, and significant to performance companies with proxy ROA compared to managers who do not have experience inside and outside the country. Studying managers in the outside country And experienced Work managers in the outside country significantly impact innovation companies and company performance (Yuan & wen, 2018). Manager Which experience in a manner international company private more innovative than company owned by the country, And managers Which experienced a manner international tend to be more influential And innovative than managers Which experience in a country or region other. Kindly whole, can see that experience management foreign important For innovation company in the market country growing.

Conceptual framework

This research is about managerial Experience, Managers with Experience (foreign) usually Study or Work in countries proceed as America Union, Hong kong, English Raya, Japan, And Canada. Managers These own Skills And experience leadership Which creative, Which possible they For transfer knowledge And Skills technology they For increase productivity organization. Managers with Experience in the outside country, Like choosing project R&D For controlling whole process innovation For increasing opportunity success innovation. Finally, leading on Innovation moderated Managerial Experience can improve company performance as follows:

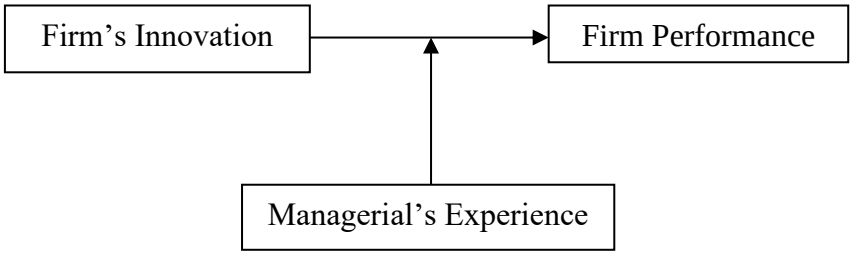

Figure 1. Conceptual Framework

RESEARCH METHOD

Study This uses whole companies on the IDX except sector finance (banks, companies insurance and securities) and explains that the sampling method is *purposive sampling* based on consideration specific. Companies that list mark cost *research and development (R&D)* in the annual report. Considerations made customized with need research in 2016 to the year 2021.

The method that explains the relationship pattern of two or more variables through an equation. In research, this used analysis double using the interaction test, often called

p-ISSN: 2085-9643 DOI: 10.26740/jaj.v14n2.p262-275
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Moderated Regression Analysis (MRA), the application of unique multiple linear regression. Inequality in the regression contains element interaction (Ghozali, 2009). Objective analysis This is for knowing if moderating variable will strengthen or weaken the connection between variable independent and variable applied dependencies _ For test influence variable moderation (Experience manager) against variable independent (*Corporate Innovation*) and variable dependent (Company Performance). Equation models regression can be formulated as follows:

Equation 1 Company innovation on company performance
$P = \alpha + \beta 1In + \varepsilon$
Equation 2 Company innovation and manager experience on company performance
$P = \alpha + \beta 1In + \beta 2PM + \varepsilon$
Equation 3 Manager's Experience strengthens the effect of Innovation on firm performance.
$P = \alpha + \beta 1In + \beta 2PM + \beta 3In*PM + \varepsilon$

Where:
Q: Company Performance
α: Constant
β1, β2, β3: Regression coefficient
In: Innovation
PM: Experience Manager
In*PM: Interaction between Innovation and Manager Experience
ε: *Standard error*

Variable moderation can be said to affect interaction lead come back between variable predictor and variable moderation for predict variable dependent. If the strategy is a variable predictor, managerial Experience is variable moderation (Z = M) with variable PTMA performance dependent (Y). In model regression, the second variable X1 And Z = M are called influence main. In model regression, moderation is influenced mainly. become effect interaction between X1 And Z=M added (X1*Z =X1*M). Influence interaction This differentiate is whether variable Z=M is variable moderation or not (Fernandes & Solimun, 2017; Sharma et al., 1981)

RESULTS AND DISCUSSION

Study This uses variable independent that is Innovation (produced _ with mark variable R&D costs dependent, i.e. company performance proxied with *ROA*, as well variable moderation that is Experience managerial with size number of hours worked. This data analysis describes various data characteristics, such as the minimum, maximum, average *(mean)* and standard deviation values resulting from the research variables. The descriptive statistical test of each variable in this study is as follows:

Table 2. Descriptive Statistics

	N	Minimum	Maximum	Means	std. Deviation
PM	504	.00	8.00	2.1052	1.88614
Inv	504	13.84	27.21	21.5569	2.33531
KP	504	-.10	.24	.0596	.05751
Inv_PM	504	.00	197.07	46.3246	43.33791
Valid N (listwise)	504				

Source: data processed by researchers

This study uses the independent variable, Innovation (proxied by R&D). The dependent variable is Company Performance proxied by ROA, and the moderating variable is *Managerial Experience*. Testing this hypothesis uses multiple linear regression analysis, which aims to determine the strength of the relationship between two or more variables and shows the direction of the relationship between the dependent and independent variables. The results of multiple linear regression analysis in this study are as follows:

Table 3. First Equation Test Results

coefficient [a]

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	St. Error	Betas	t	Sig.
1	(Constant)	-.120	022		-5,354	.000
	Innovation	008	001	.338	8059	.000

Dependent Variable: Firm Performance

Source: data processed by researchers

The first regression test equation to test Innovation versus performance

Firm Performance = -0.120+0.008INV+e

The constant in this study was obtained at -0.120, which indicates that if there were no independent variables, Innovation and managerial Experience, then the level of performance (Y) was 0.120. The regression coefficient on the Innovation variable of 0.008 explains that if there is an increase in Innovation of 1 unit, it will increase the performance company by 0.008, assuming other variables are constant.

Table 4. Second Equation Test Results

coefficient [a]

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	St. Error	Betas	t	Sig.
1	(Constant)	-124	022		-5,503	.000
	Innovation	.009	001	.354	8,254	.000
	Managerial Experience	-.002	001	-.073	-1,712	087

Dependent Variable: Firm Performance

Source: data processed by researchers

p-ISSN: 2085-9643 DOI: 10.26740/jaj.v14n2.p262-275
e-ISSN: 2502-6380 https://journal.unesa.ac.id/index.php/aj

The second regression test equation to test Innovation and Managerial Experience on Performance

Performance = -0.124+0.009INV-0.002PM+ e

The constant in this study was obtained at -0.124, which indicates that if there were no independent variables, Innovation and managerial Experience, then the level of performance (Y) was 0.124. The regression coefficient on the Innovation variable of 0.009 explains that if there is an increase in Innovation of 1 unit, it will increase the performance company by 0.009, assuming other variables are constant. The regression coefficient on the managerial experience variable is -0.002, explaining that an increase in Experience of 1 unit will reduce the company's performance by 0.006, assuming other variables are constant.

Table 5. Third Equation Test Results

		coefficient [a]				
		Unstandardized Coefficients		Standardized Coefficients		
Model		B	St. Error	Betas	t	Sig.
1	(Constant)	-.139	.035		-4,032	.000
	Innovation	.009	002	.383	5,888	.000
	Managerial Experience	006	013	.182	.421	.674
	Innovation*Managerial Experience	.000	001	-.264	-.594	.553

Dependent Variable: Firm Performance

Source: data processed by researchers

The third regression test equation to test managerial Experience strengthens Innovation on performance.

Performance = -0.139+0.009INV+0.006PM+0.000INV*PM+ e

The constant in this study was obtained at -0.139, which indicates that if there are no independent variables, Innovation and managerial Experience, then the level of performance (Y) is 0.139. The regression coefficient on the Innovation variable is 0.009, explaining that if there is an increase in Innovation by 1 unit, it will increase *performance* by 0.009, assuming other variables are constant. The regression coefficient on the managerial experience variable is 0.006, explaining that if there is an increase in Experience of 1 unit, it will increase *performance* by 0.006, assuming the other variables are constant. The regression coefficient of interaction between managerial Experience and Innovation as a proxy for R&D is 0.000, explaining that if there is an increase in the relationship between Experience and *Innovation*, it will increase company performance by 0.000, assuming other variables are constant.

Company innovation proxied by R&D *(Research and Development)* with its activities usually future and long-term oriented both in terms of product development to development applied in various fields, meaning that the company can mobilize all of its resources the movement of resources will generate income or profit, the company's performance is proxied by ROA. *Return On Assets* (ROA) is the ratio used to measure a

company's ability to generate profits because this ratio represents the return on the company's activities. Corporate Innovation is highly dependent on the role of the leadership and the managed corporate sector, both product innovation, process and administrative Innovation (Lopes et al., 2017; Orelgau, 2014; Sain, 2021). Company innovation can encourage companies to create efforts to utilize company resources. Efforts that companies can make to mobilize resources that have an impact on results are expected to increase the company, creating the right innovation strategy will produce maximum output so that it will have an impact on improving company performance (Hariyati & Tjahjadi, 2017; Lerro et al., 2014; Samuel, Siagian, & Octavia, 2017).

Innovation is a critical factor that enables the achievement of future growth because it ultimately leads to an increase in the knowledge and ability of companies to deploy potential resources to improve company performance. *Research and Development* (R&D) is often defined as a process or steps to develop new products or improve existing products. Companies continuously make breakthrough creations and new ideas and ideas for the progress and improvement of company performance; Innovation is not always in the form of products but can also be programmed for data processing and procedures or models to develop the company.

For process innovation, the results of this study indicate that the company does not encounter problems in its process innovation, this means that the company has successfully developed its process innovation (Chenhall, Kallunki, & Silvola, 2011; Gausdal & Nilsen, 2011) suggests that Innovation in operating equipment and process technology can be used strategically as a potent competitive tool. These innovations also help companies to achieve scale or scope of savings that can be used for low prices and costs.

It neglected products and dimensions of innovation strategy on the financial performance of manufacturing companies. This study's results align with the research results (Hariyati, Tjahjadi, & Soewarno, 2019; Varadarajan, 2018). This indicates that the company is quite successful in product development (product innovation) and, as expected, namely producing new products that are profitable and liked by consumers, that any form of new product development (product innovation) must meet several criteria, namely meeting the objectives, namely the product profitable new projects, and avoid over-investing in failed projects and products. This research is the addition of innovation implementation variables as a dimension of company innovation (Hariyati et al., 2019) and the use of operational performance to measure company performance. The use of operational performance as a measure of company performance is based on the opinion (Kaplan, 2010) states that financial measures can obscure signs of increased performance and innovation activity.

Managerial Experience does not strengthen the relationship between the influence of Innovation on the performance of companies where Innovation is not only carried out by managers and all company resources. Managerial Experience in foreign companies is only as a government but abroad with conditions in Indonesia that are different in terms of characteristics, culture, resources, customs and religion.

It is hoped that managerial Experience in foreign companies will strengthen Innovation. However, the study results show that Innovation with more effective strategies

p-ISSN: 2085-9643 DOI: 10.26740/jaj.v14n2.p262-275
e-ISSN: 2502-6380 https://journal.unesa.ac.id/index.php/aj

often determines the success and survival of a company, but this is not easy. New product development work requires effort, time and ability, including the high risk and cost of failure. (Fitriadi, 2013; Hariyati & Tjahjadi, 2017; Rahmayati, 2015) Competitive advantage cannot be separated from the development of product innovations, so Innovation can be used as a source of competitive advantage for company performance.

Resource-based view theory and Innovation, which explains that the fewer resources needed in an organization, the more likely the organization will look for ways to overcome these weaknesses by seeking external experts (outsourcing) so that internal resources consist of internal resources. physical resources, including all plant and equipment, location, systems and technology, raw materials and machinery, human resources including all employees, training, Experience, intelligence and capabilities and organizational resources including company structure, planning processes and corporate strategy so that it becomes considerable influence to drive higher Innovation to produce innovative and creative products (Hooley et al., 1999; Liao, Liu, & Ma, 2019).

Product innovation is basically to meet market demand so that product innovation can be used as a competitive advantage for companies (Adam, 2018; Lerro et al., 2014). Innovation can affect the success of new products and positively impact market orientation elements on the success of company performance. The product is the result of the innovation process used as a source of company advantage; the company's ability to continue to innovate products will keep the product in line with the wishes and needs of customers. With managerial Experience, it will be able to strengthen Innovation in generating creative ideas in producing superior products that make company performance proxied by ROA. Increasing ROA means increasing company profitability, and financial ratios are used as analytical tools to measure the performance of company management forms in obtaining overall profits. The higher the value of a ROA in a company, the better and more effective the company is in using its assets (Markonah, Cahaya, & Mediterranean, 2016; Sabirin, 2020) so that there is an increase in profitability enjoyed by shareholders. To see the moderation interaction in the second hypothesis, the calculation is as follows:

$$\text{Firm Performance} = -0.139+0.009\text{INV}+0.006\text{PM}+0.000\text{INV*PM} + e$$

From the above equation, the researcher wants to see the derivative equation of the interaction of managerial Experience moderating Innovation on company performance into the equation +0.009INV+0.001INV*PM and to determine the intersection point with the X axis = 0 so that INV = 0.009:0.001; X-axis intersection (9:0). To determine the point of intersection of the Y axis then X = 0; = 0.009; Y-intercept point (0.009:0). So that Innovation as a moderating variable can be determined as follows:

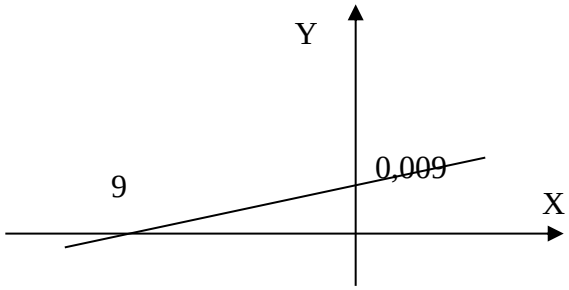

Figure 2. Interaction Moderates Managerial Experience*Innovation

The results of testing the managerial experience variable are predictor moderating variables (*Predictor Moderation Variable*). This means that this moderating variable only acts as a predictor (independent) variable in the relationship model that is formed. Suppose coefficient b2 equations of managerial Experience variable results are stated as significant, and Coefficient b3 equation 3 has no interaction or moderating effect significant in a manner statistics. In that case, it is called the moderating predictor variable *(Variable Moderation Predictor)* (Fernandes & Solimun, 2017). It means variable moderation. This only function as a variable predictor in model connection Which is already in the independent variable.

CONCLUSION

This study finds that managerial Experience does not strengthen the relationship between Innovation and firm performance. Managers with foreign (foreign) Experience will be better able to handle more complex management challenges, such as Innovation, than managers with foreign (domestic) Experience. Variable Innovation in a manner significantly influential to the performance company. Variable Experience managerial influence on the performance company Test results effect moderation shows that Experience managerial No moderate influence innovation to performance company.

Based on the conclusions of this study, company management needs to pay attention to a manager's (foreign) Experience in showing a manager to run a company through an essential tool for company progress, namely Innovation. Future studies are expected to use more independent variables so that the dependent variable can be better explained. Researchers used five years of observation, so research is still limited to years of observation. It is hoped that further research can expand the range of years of observation and that the dependent variable can be better explained. In future research, it is hoped that it can provide updates in research using advanced analytical models in previous studies.

AUTHORSHIP CONTRIBUTION STATEMENT

All authors contributed to this article by compiling content, analyzing data, and making conclusions.

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