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The effects of innovation strategy and good corporate governance on sustainable company performance: The mediating role of value chain

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ABSTRACT

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This research investigates how value chains mediate the relationship between innovation strategies and GCG to company performance. The research method used in this study uses an explanatory quantitative approach. The sample used in this study was 60 manufacturing companies in Indonesia. Each questionnaire represents a manufacturing company as a respondent in the survey. Primary data from survey distribution results that passed a validity and reliability test were used in this study. The data obtained were tested using Partial Least Square (PLS). The results show that the value chain acts as a mediator for the influence of innovation strategies and GCG on company performance.

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1. Introduction

A company will strive to maintain and improve its performance under various conditions. Performance is the result that the Company has successfully achieved during a specific period to accomplish the Company's long-term goals (Tomic, Tesic, Kuzmanovic, & Tomic, 2018). To achieve its long-term goals, the Company will maintain its Performance (Rabadán, González-Moreno, & Sáez-Martínez, 2019), Although the Company is faced with conditions of uncertainty (Claveria, 2021).

The Company must be ready to face any changes that occur. One of the consequences of uncertainty is the advancement of technology and information which also adds to the increasingly fierce competition. Due to technological and communication advances, customers can quickly get information and compare product quality with competitors' products in terms of price and quality (Gentile, Spiller, & Noci, 2007). Companies may lose their market segments if they cannot respond quickly to these changes (Kothler, 2017). With limited resources, a company must maintain its sustainability performance by utilizing tangible and intangible assets (Xu & Wang, 2018).

Problems in manufacturing companies in Indonesia show that industrial growth and the proportion of manufacturing value added tend to decrease in Indonesia. Existing data shows that the manufacturing industry contributes the most to the Gross Domestic Product (GDP) (Badan Pusat Statistik, 2017). However, it turns out that the growth rate of the manufacturing industry sector tends to decline, which began before the Covid-19 pandemic, and there is also a decrease in the proportion of added value in the processing industry sector (Badan Pusat Statistik, 2018).

Based on the phenomenon of emerging data, it is predicted that one of the possible problem factors is a decrease in performance due to problems in the production process activities of the products it produces that have received less serious

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attention so that it has the potential to endanger the sustainability of its business because its effects cannot compete due to not having a competitive advantage. Based on the results of previous research shows that innovation strategy (Hajar, 2015; Hilman & Kaliappen, 2015) and GCG (Bhatt & Bhatt, 2016; Rodriguez-Fernandez, 2016; Ngatno et al., 2021). Being a factor that might affect the Company's Performance.

The innovation strategy is an essential aspect that drives company performance. This is supported by several studies that innovation strategies positively affect company performance (Hajar, 2015; Taghizadeh, Jayaraman, Ismail, & Rahman, 2017). But studies by Kusuma et al. (2021) and Puryantini et al. (2017) Finding contrary results where innovation strategies do not affect company performance. Innovation that is carried out requires time to be implemented and produce positive results for the Company (Guldmann & Huulgaard, 2020). In addition, innovation can be a burden if it is not appropriately managed. However, investment requires the expenditure of company resources that are not cheap (Bocken & Geradts, 2020).

On other issues, corporate governance is also often the primary concern to pursue improving company performance. It is indicated that the Company's level of commitment to achieving GCG determines financial Performance (Hamdani, 2016). GCG will affect sustainability performance (Anik, Chariri, & Isgiyarta, 2021) However, according to Murni & Nengzih (2018), GCG does not affect the Company's Performance because the Company does not implement governance correctly.

Previous inconsistent research findings imply that other factors may be involved. In this study, the value chain became the main topic. Any business activity that has the potential to contribute value is part of the value chain. Each stage of the manufacturing process must be designed to add value by executing a value chain strategy, leading to higher quality and more competitive goods that attract customers to purchase the product (Vurro, Russo, & Costanzo, 2014). Business performance will be affected by increasing sales levels. According to the explanation above, the value chain will likely require innovation strategies and good corporate governance to improve company performance.

This study adds a new perspective to the literature on the mediating function of value chains. Because there are differences in research findings on the influence of innovation strategies and good corporate governance on business performance, this paper theoretically expands the debate over Resource Base View (RBV) theory.

2. Literature review

2.1 Theoretical framework

The research relies on developing theoretical frameworks on Resource Base View (RBV) theory. RBV has examined how resources and capabilities play a role in product innovation, as well as how product innovation connects to overall corporate performance (Jyoti & Efraxia, 2023). RBV concentrates managerial attention on the Company's internal resources to discover assets, capabilities, and competencies that can create a stronger competitive edge. (Ray, Barney, & Muhanna, 2004).

According to RBV, the organization possesses resources that can offer it a competitive edge and help it achieve long-term solid Performance (J. B. Barney & Arikan, 2001). Valuable and uncommon resources can be used to gain competitive advantages, ensuring that the resources one has persisted for a long time and are difficult to copy, transfer, or replace (Barney, 1991).

2.2 Hypothesis Development

The Company carries out an innovation strategy to rethink the Company's existence in an industry by creating new consumer values and generating new profits for stakeholders (Hamel, 1998). They use resources to create added value through innovative strategies for consumers and stakeholders to achieve organizational goals (Qiu & Yu, 2020) and maintain corporate sustainability (Popa, Soto-Acosta, & Palacios-Marqués, 2022). Several studies show that innovation strategies affect company performance (Hilman & Kaliappen, 2015; Wang, Guo, & Zhang, 2021).

H₁: *Innovation strategy has a positive effect on company performance.*

A company must be responsible for all its activities and performance to all parties interested in the Company, namely management, investors, creditors, suppliers, government, and the community (Tjahjadi et al., 2021). Transparency, accountability, independence, justice, and equality are fundamental values. will be upheld by companies that prioritize GCG.. A well-managed company is one of the efforts to maintain the sustainability of the Company (Murni & Nengzih, 2018; OECD, 2004). In a company that carries out the right GCG, every activity follows established procedures to run correctly and smoothly and improve the Company's Performance (Singh & Rastogi, 2022) (Singh & Rastogi, 2022). Several studies show that GCG affects company performance (P. R. Bhatt & Bhatt, 2016; Kabir & Thai, 2017; Wahyudin & Solikhah, 2017).

H₂: *GCG has a positive effect on company performance.*

The value chain comprises several activities that enhance each manufacturing stage and give customers high-quality goods (Porter, 1985). The value chain shows how a product is produced from the raw material stage to the ultimate customer and may add value without incurring significant costs. (Stonehouse & Snowden, 2007). Products with competitive advantages will influence customers' purchasing decisions, boost sales, and impact business performance. The findings indicated that the value chain impacts the Company's success (Vurro et al., 2014).

H₃: *Value chain has a positive effect on company performance.*

Changes to the Company's business plan are made to innovate for the Company and its consumers. Innovation strategies are essential for success or survival in dynamic markets and may also provide a competitive edge in more stable industries (Kaliappen & Hilman, 2017). The outcomes of implemented innovations will impact the performance of businesses (Goffin and Mitchell, 2010).

GCG will support the implementation of business process activities carried out in the main and supporting activities (Nengzih, 2016). With GCG in its business activities, companies can improve the coordination of various activities and put pressure on those involved in business processes (Adu, 2022). Implementing GCG will impact company performance through operational activities (Agyei-Mensah, 2018).

H_{4a}: *Value chain mediates the impact of innovation strategy on company performance.*

H_{4b}: *Value chain mediates the effect of GCG on company performance.*

3. Research methodology

3.1 Data and Sample

The unit of analysis used in this study amounted to 60 manufacturing companies in Indonesia. Purposive sampling is a technique used in sample selection. Data were collected from the results of questionnaire distribution using the Likert scale. Each questionnaire represents a manufacturing company filled out with a minimum of having a position as a manager directly involved under the object studied at the Company. According to Roscoe (1982), the minimum number of studies using multivariate analysis is ten times the number of research variables. This study has four research variables consisting of 2 independent variables, one intervening variable, and one dependent variable, so there are four variables in total. The number of samples that must be used based on calculations is 40, while the examples used in this study amounted to 60 companies. So that number has qualified. The manufacturing companies sampled in this study came from the subsectors of primary and chemical industries, consumer goods, and various industries. Figure 1 presents the relationship between variables based on the hypotheses built in this study.

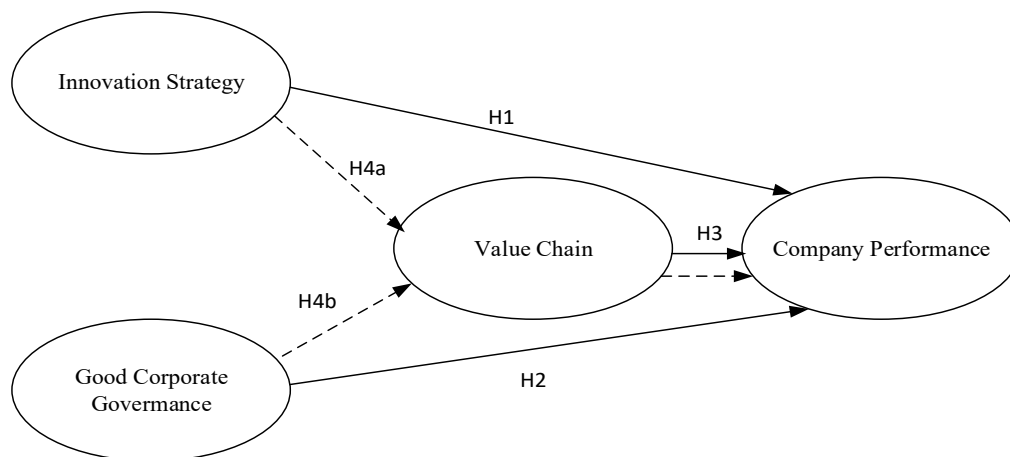


Fig. 1. Research Model

3.2 Variable Measurement

Innovation strategy variables are measured using indicators of Leadership Orientation, Type of Innovation, Source of Innovation, and Level of Innovation (Ciptono, 2006; Zahra & Das, 1993). Transparency, accountability, responsibility, and independence are used as indicators when evaluating the characteristics of excellent corporate governance (Murni & Nengzih, 2018; OECD, 2004). Value chain variables are measured using indicators, namely leading and supporting activities (Porter, 1985). Company performance variables are measured using financial and operational indicators (Jahanshahi, Rezaei, Nawaser, Ranjbar, & Pitamber, 2012).

3.3 Analysis Techniques

This study employed Partial Least Square (PLS) to analyze the data and evaluate the hypothesis. PLS is somewhat acceptable for this investigation because it needs a modest sample size and few data assumptions. (Hair et al., 2017)

4. Results and Discussion

4.1 Sample and Respondent Demographics

Table 1 provides information on the demographics of the respondents who served as research samples.

Table 1

Demographics of the Sample and Respondents

Sub Sector	
a. Basic and Chemistry	9
b. Various Industries	17
c. Consumer Goods	34
Position	
a. Director	6
b. Head of Section	30
c. Manager	24
Length of Work	
a. 3 years \geq Long Working	11
b. 3 years < Working Length \leq 7 years	11
c. 7 years < Working Length \leq 10 years	3
d. 10 years < Length of Work	35

Table 2

Descriptive Statistics

Construct	Mean
Innovation Strategy	4.32
GCG	4.38
Value Chain	3.93
Company Performance	3.89

4.2. Bias Test and Descriptive Statistics

A Common Method Bias (CMB) test was conducted to prevent mistakes while measuring or evaluating data. Based on the analysis results, which account for 49.54% of the variation, the results are still below 50%. The bias does not seriously threaten the outcomes of this study. According to Table 2, descriptive analysis of this study variable attempts to present a quantitative representation of the summary of observations on each variable.

4.3. Validity and Reliability Test

PLS-SEM is used for data processing. The outer loading and average values of the extracted variance (AVE) show the convergent validity test findings. J. F. Hair et al. (2017) state that the AVE value must be ≥ 0.5 and the outer loading value ≥ 0.4 . The outer loading value is ≥ 0.4 , and the AVE value is ≥ 0.5 , respectively, according to the data collected, as shown in Table 3.

Table 3

Convergent Validity Results

Construct	Indicator	Item	Loading	AVE
Good Corporate Governance	Transparency	Transparency relating to company information	0.671	0.611
	Accountability	Effective internal control system	0.840	
	Responsibilities	Carry out social responsibility	0.828	
	Independent	Free from conflict of interest	0.762	
	Reasonable and equal	Provide equal opportunities	0.794	
Innovation Strategy	Leadership Orientation	The Company's attention to innovation	0.743	0.608
	Type of Innovation	Types of innovations applied	0.761	
	Sources of Innovation	Reliable sources of innovation	0.786	
	Level of Innovation	The composition that the Company applies	0.827	
Value Chain	Main Activities	Inbound, process, and outbound logistic	0.834	0.621
		Marketing and sales	0.840	
		Service	0.819	
	Supporting Activities	Purchasing and technology development	0.714	
		Human resource management and enterprise infrastructure	0.7122	
Company performance	Financial Performance	Return on Sales	0.801	0.691
		Able to achieve the targeted level of productivity.	0.786	
		Able to achieve targeted production costs	0.860	
	Operational Performance	Capable of achieving goals to offer new items at the appropriate moment	0.884	
		Capable of achieving goals to offer new items at the proper moment	0.820	

In discriminant tests based on Fornell-Larcker test findings, if the targeted construct's square root value is higher than other constructs' square roots (Ghozali & Latan, 2015), as shown in Table 4, The value in each row is greater than the others.

Table 4
Fornell–Larcker Test Result

	CG	IC	CP	VC
CG	0.781			
CP	0.556	0.831		
SI	0.654	0.503	0.780	
VC	0.735	0.741	0.674	0.788

Reliability tests are conducted later in the assessment of measurement models. A reliability test with a composite reliability of ≥ 0.7 examines the Cronbach alpha of all latent variable values. When used as learning aids, surveys have proved consistent and dependable, according to Cronbach's alpha and $\rho_a \geq 0.6$. Lower Cronbach alpha and more significant composite reliability limits are associated with internal reliability consistency. (J. F. Hair et al., 2017). The results of the reliability test in this study are shown in Table 5, where the value of composite reliability ≥ 0.7 , the value of Cronbach's Alpha ≥ 0.6 , and the value of $\rho_A \geq 0.6$. Thus, the data to be used in this study have met the requirements of the concurrent validity test and discriminant validity.

Table 5
Reliability Test

Construct	Composite Reliability	Cronbach's Alpha	Rho A
GCG	0.866	0.839	0.847
Company Performance	0.918	0.889	0.899
Innovation Strategy	0.861	0.788	0.809
Value Chain	0.891	0.846	0.854

An assessment of the structural model follows the estimated model's compliance with the outer model requirements (inner model). According to (J. F. Hair et al., 2017), structural model evaluation (inner model) determines how latent variables will interact, suggesting looking at the value of the coefficient of determination (R-square). The results of the R square test in this study use the value of adjusted R Square because the research model in this study includes having many pathways leading to endogenous and is also quite complex because there are also intervening variables, the value seen is the R-squared adjusted value obtained results for the value chain is 0.592, and company performance is 0.525. The contribution of an independent variable can affect the dependent variable.

The fit model in this study has been qualified since the Standardized Root Mean Square Residual (SRMR) value is less than 0.10, as shown by the SRMR value in this study, which is 0.099 (Joseph F. Hair, Hult, M.Ringle, & Sarstedt, 2014).

4.4 Test the hypothesis

Table 6
Hypotheses Testing Result

Hypothesis	Symbol	Original Sample	T Statistics	P Value	Conclusion
Direct Effect					
H1	SI→CP	-0.000	0.000	0.500	Unsupported
H2	GCG→CP	0.025	0.171	0.432	Unsupported
H3	VC→CP	0.723	5.054	0.000	Supported
Indirect Effect					
H4a	SI→VC→CP	0.244	2.186	0.014	Supported by Fully intervening
H4b	GCG→VC→CP	0.371	2.967	0.002	Supported by Fully intervening

The next step will look at the results of this work. The P-Value, T-Statistic (bootstrapping), and Path Coefficient were used for hypothesis testing. (Hair et al., 2017), as seen in Table 6. According to (Joseph F. Hair et al., 2014) that exogenous variables are said to affect endogenous variables if the P-value is below 0.05 with a 95% confidence interval. Based on the results of data processing that has been carried out show that the P-value has been below 0.05.

Hair et al. (2017) reported that T-statistics (bootstrapping) was employed to determine the significance of differences between constructs. The maximum number of people who may accept and support the idea is ± 1.64 . If the t-statistic values are between -1.64 and 1.64, then the hypothesis will or will not support the null hypothesis (Ho).

4.5. Discussion

The results of the first and second hypothesis tests indicate that Innovation strategies and GCG do not have a real beneficial impact on business performance. The innovation strategy implemented by the Company is not following the problems faced

by the Company that have the potential to threaten the sustainability of the Company. It is not appropriate to choose an innovation strategy because there are obstacles in choosing the leadership orientation of the innovation carried out by the Company, the type of innovation he applies to the Company, the source of innovation selected by the Company, and the level of innovation used by the Company (Ciptono, 2006). Thus, it cannot encourage companies to improve performance, potentially suffer losses due to investment costs incurred in these innovations and threaten the Company's sustainability. The results of testing this second hypothesis align with the research of Kusuma et al. (2021).

The average value of GCG from manufacturing companies is good based on the data obtained. Still, GCG cannot affect company performance directly (Murni & Nengzih, 2018) if the principles of good governance are not applied in a disciplined and consistent manner to every activity of the Company's business processes, disrupting the decision-making process, the balance of the framework and a thorough understanding of company management (Hamdani, 2016). With GCG in business process activities, companies can improve the coordination of various activities and pressure those involved in business processes. The fundamental GCG concepts are regularly applied to Corporate Governance activities. Transparency is the availability of accurate information to all parties with equitable access. Accountability entails transparency on the duties, responsibilities, and roles of the managers and supervisors of the Company to ensure efficient management of the Company. Management based on solid corporate values, adherence to relevant rules and regulations, and sound corporate principles is responsibility. Independence means the management of the Company professionally, free from conflicts of interest, outside interference, or pressure from any party, and based on laws and regulations, regulations, and good business practices. Fairness means treating shareholders and other stakeholders fairly and equally, especially minority shareholders (Efendy, 2016).

The third hypothesis was tested, and the findings indicate that the Company's value chain, which it uses in every business process activity, is connected between primary operations and supporting activities. When supporting activities fully assist the primary activities, the primary activities will function as intended (Xu & Liu, 2020). The Company must pay close attention to the primary tasks performed to generate revenue for the Company's primary business. The maintenance of equipment to keep it in good condition, procurement procedures by selecting reputable suppliers, the availability of information technology that can assist all activities, and having staff with the appropriate expertise are examples of supporting activities that should receive attention from and support from the main activities. (Suharman et al., 2023). Even though consumers are willing to pay more for these products than similar products made by competing companies, the Company will be able to dominate the market if its products are superior and unique compared to those made by other companies (Taghizadeh et al., 2017). This will impact on the Company's ability to function through improved productivity and sales, the introduction of new items, and the ability to satisfy customer demand for those products. (Jahanshahi et al., 2012)

The findings of the H4a and H4b tests reveal that strategy innovation and GCG do not directly impact. They have an effect when examined indirectly through the value chain. The support of these variables examines the value chain's role as a full intervener. This can mean that the value chain is crucial to improving company performance. The Company's efforts to build an Innovation strategy and GCG will be ineffective without effective value chain implementation.

The advantages of a product produced by a company created in the value chain will make consumers choose the product (Kothler, 2017). The value chain will intervene in the achievement of the Company's Performance. Although the Company has GCG, it will not affect its performance if it cannot create added value. Innovation from selecting innovation strategies will not affect the Company's Performance directly if it does not follow what it needs, so it cannot provide added value to the product. The results of this study answer data published by the Central Statistics Agency on the GDP growth of the Manufacturing Industry Sector in Indonesia, which tends to decline, and data on the proportion of the added value of the manufacturing industry, which also tends to decrease. The decreased added value in the manufacturing industry will significantly affect the Company's Performance.

The findings of this research further support the RBV idea that firms need a competitive edge to increase performance and keep their businesses sustainable (Newbert, 2007). According to RBV theory's justification, a firm's resources and skills determine its ability to gain a competitive advantage (Wernerfelt, 1984). Resources are essential for businesses to take advantage of possibilities and guard against the risk of environmental unpredictability (Barney, 1991) and enable them to develop or implement strategies to improve efficiency and effectiveness (Kshetri, 2008). GCG will provide added value if applied in a disciplined and consistent manner to obtain stakeholder support. The support from stakeholders will ensure that operational activities will run effectively and efficiently, impacting the sustainability of the Company's Performance. The arrangement of internal resources must be such that they are precious, rare, cannot be duplicated, and cannot be replaced to seek corporate performance. (J. B. Barney & Arikan, 2006). The value chain is a crucial driver of other characteristics that affect a firm's Performance (Ndlovu, Thamaga-Chitja, & Ojo, 2022).

5. Conclusion

This research looks at how companies' value chain performance is affected by their innovation strategies and GCG. The result of the study is that innovation strategy and GCG do not positively affect company performance. However, innovation strategy and GCG positively affect company performance through the value chain. The value chain contributes to moderating the

impact of innovation strategy and GCG. The value chain is a requirement that must be met to accelerate the achievement of company performance and sustainability.

The study makes significant theoretical and practical contributions. Theoretically, this study supports the resource base theory, in which a firm has to have resources that may offer it a competitive edge and guide it toward long-term solid performance. This research suggests that a company must effectively design its resources if it wants to pursue performance. These resources must be valuable, scarce, and cannot be imitated, and there are no substitute resources. In addition, The findings of this study can serve as a basis for emerging nations to deliberate on how to enhance corporate performance. This study used data only from the results of questionnaire distribution. For future research to produce more specific results by the unit of analysis under study, additional supporting data, such as interviews and observations, are advised.

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