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COMPETITIVE ADVANTAGES OF FINANCIAL COMPANIES ON THE INDONESIAN STOCK EXCHANGE

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Abstract

This research aims to determine the effect of e-business, innovative organisation and free float on the competitive advantage of financial companies listed on the Indonesian Stock Exchange. Interviews and questionnaires with the management of financial companies were used to collect the required data. The data were then subjected to structural equation modelling using Smart PLS. The results indicate that e-business, innovative organisations and free float have positive impacts on competitive advantage.

INTRODUCTION

The implementation of the AEC (ASEAN Economic Community) launched in 2016 will affect Indonesia's economy by integrating local companies into the regional and global economy thereby increasing the need to improve competitive advantage. In general, a company's management knows the importance of enhancing its competitive advantage to survive and be competitive in the global market.

Competitive advantage is defined as a superior position based on the provision of superior customer satisfaction, achievement of cost efficiency, higher market share, and the profitability performance of a company. A competitive advantage is related to the way a company chooses to implement generic strategies in the company's operations. It is a subject addressed in strategic management literature (Ismail, Rose, Abdullah and Uli, 2010).

Barney and Hesterly (2015) state that two measurements are often used to measure the competitive advantage of a company – accounting performance and economic performance. Accounting performance is measured using various ratios calculated from the company's profit or loss and the company's balance sheet. The company's accounting performance is then compared to the average level of accounting performance in its industry. The company's economic performance compares the profit rate to the company's capital cost.

In an attempt to improve the competitiveness of companies in the financial industry, it is necessary to develop e-business that supports the company's operations. Prasad (2008) stated that for a company to gain a competitive advantage, it needs to maintain the quality of its e-business and invest in information technology. Research conducted by Troshani and Rao (2007) suggests that e-business in the financial sector will provide a competitive advantage. Bauer, Hammerschmidt and Falk (2005) conclude that e-business in the banking industry will have an impact on competitive advantage and firm performance. Phillips (2003) states companies that apply e-business with suppliers have decreased transportation and logistics costs.

In the banking sector, Chou (2000) provides an overview of the implementation of internet banking which provides cost-saving banking services such as various bill payments and fund management 24 hours a day and seven days a week. By using internet banking, the difference between serving small and large numbers of customers seems insignificant.

A company can use innovation to improve its competitive advantage. Innovation in the broadest sense includes the application of new technologies and new ways of doing things (Anggoro, & Simamora, 2019). It is a tool used by employers to exploit change. Innovation can be presented as a discipline, ability to learn, and able to be practised (Madsen & Leiblein, 2015). The financial industry landscape has changed due to innovations. Innovations by banks will continue to strengthen services in the future. The main problem lies in the willingness to innovate and the ability to quickly adapt.

In January 2016 the Indonesian Stock Exchange enforced rules regarding the free float which stated the number of outstanding shares at a minimum of 7.5% of company paid up capital. The number of free float shares affecting management to improve the company's financial performance is driven by management actions to increase shareholder value (Kaserer & Wagner, 2004; Alves & Shastri, 2011). Da Silva and Leal (2005) suggest that the higher number of shares in circulation will affect the disclosure of information submitted by management. This would affect the company's performance as more shares of publicly owned companies support transparency and accountability.

Nag, Hambrick and Chen (2007) suggest companies need to improve resource-based competitiveness and assess the company's internal and external environment. Bowman, Singh and Thomas (2002) concluded that increasing competitiveness could improve the company's performance. Management must adjust the competitive structure and changing market conditions by continuing to develop the resources, capabilities, and core competencies of the company (Kuratko, 2009). Cooper, Markman, and Niss (2000) emphasised that the power advantages of competitiveness influence a company's performance.

This research will discuss the effect of e-business, innovative organisation and free float on competitive advantage. The results are expected to provide benefits to the development of science, as well as to companies in the financial industry. This research contributes to enriching theories related to competitive advantage and as a reference for managers of financial companies listed on the Indonesian Stock Exchange to improve their competitive advantage.

LITERATURE REVIEW

Strategic management is an activity that the company does differently than its competitors or a similar activity performed in different ways. The formulation of plans to capitalise on external opportunities and threats related to internal strengths and weaknesses is a major component of strategic management. This planning component includes defining the corporate mission, setting goals, developing strategies, and setting policy guidelines (Hitt, Ireland & Hoskisson, 2009).

Nag et al. (2007) said that strategic management includes the formulation and implementation of the main objectives and initiatives undertaken by the company's management on behalf of shareholders upon consideration of the resources as well as the assessment of the internal and external environments in the field of competitiveness of enterprises. Thus, the strategic management is closely related to the competitiveness of the company because the company needs to implement the strategy to improve its competitiveness.

In connection with the company's competitive advantage, Bowman et al. (2002) opined that management strategies could be conceptualised as a discussion on issues related to the creation and implementation of a competitive advantage in an effort to improve the company's performance. According to Barney and Hesterly (2015), the ultimate goal of the strategic management process is to create a competitive advantage. Surjaatmadja and Adriansyah (2016) examined the differences between Islamic banking and conventional banking from the competitive advantage perspective in Indonesia. They concluded that capital, innovation, and organisational culture could improve competitive advantage.

In the application process, the management of strategies is used to adjust the competitive structure to changing market conditions and continuing to develop the resources, capabilities, and core competencies of the company (Kuratko, 2009). Cooper et al. (2000) emphasised that the application of strategic management influences the performance and competitive advantage of the company. Companies that take advantage of strategic competitiveness and exploit its competitive advantage will be able to achieve its main objectives, namely above-average profit (Hitt et al., 2009).

The Resource-Based View (RBV) as a theory of resource-based strategy has become increasingly influential in recent years. RBV as a basis for the competitive advantage of a company lies in the application of a set of tangible or intangible resources owned by enterprises. Becerra (2009) argued that RBV contributes to understanding the company's performance using the resources including information and competitive advantages possessed by the company. Further, Barney and Hesterly (2015) analysed the condition of the company's resources that can be a source of competitive advantage for the company. The study is based on the assumption that the strategic resources are heterogeneous and stable over time. Four empirical indicators of the potential resources of the company to generate sustainable competitive advantages are valuable, rare, imitability, and substitution.

The RBV approach confirms that the company can obtain and sustain a competitive advantage by developing valuable resources and having the ability to manage supply. RBV can be developed through the measurement capabilities and resources of the company, as well as how far it meets the criteria set out in the theoretical literature to generate a competitive advantage and the size of the company's performance. E-business involves all commercial activities, a set of dynamic technology, applications, and business processes that do a variety of computing devices that connect businesses with customers, suppliers, and other business partners through electronic services. Furthermore, Pilinkiene, Kurschus, and Auskalnyte (2013) stated that e-business is understood as a process and tool that allow companies to use Internet-based information technology in doing business both internally and externally. In addition, e-business can be understood as a strategic option that relies on technology information to create competitive advantage.

The competitive advantage obtained by the company through the implementation of e-business by Troshani and Rao (2007) suggested the application of e-business and related technologies continue to have a major impact on the way organisations do business. Key factors relating to how e-business can generate a competitive advantage for an organisation can be identified through a factor resource-based view. Phillips (2003) argues that the most significant influence of e-business is to decrease interaction costs, for example in searching, coordinating and monitoring corporate management when conducting business activities. It can be an important activity in developed country economies. E-business creates the ability to bring in better ideas and increase the speed associated with dynamic industry changes.

The discussion of innovation in research uses the foundation of innovation diffusion theory. According to Rogers (2003), the diffusion of innovation is the theory of how a new idea and technology become widespread. The theory of innovation diffusion believes that innovation can be diffused throughout society in a predictable pattern. Some community groups will adopt innovation as soon as they hear of it. While other community groups take a long time to adopt the innovation. When innovation is widely adopted by a number of people, it experiences mass use.

The measurement of innovation can be divided into five dimensions: strategy, process, organisational innovation, relationships and learning. Organisational innovation is a process that integrates components that work together to create an environment that enables innovation to flourish (Tidd & Bessant, 2014). Sharifirad and Ataei (2012) concluded that innovation could occur when a company supports the application of an innovation culture.

Free float is a share owned by a non-controlling shareholder and not a major shareholder. Companies that can comply with the provisions of the free float can obtain tax rate reduction. With the incentive to decrease the tax rate, the company's profit can increase so as to have a positive effect on the financial performance of the company.

Open companies that apply the regulation of the number of outstanding shares will have the advantage of competitiveness. A larger number of outstanding shares will increase public scrutiny of the company. In addition, the company will be increasingly recognised by the public and investors. Mousa (2017) said that free float can improve the company's competitive advantage. Gagalyuk (2017) stated that free float could influence transparency in a company so that it can improve the company's competitiveness.

MATERIALS AND METHODS

This study used convenience sampling. The data were collected from participants at one point in time or also known as cross-sectional (Sekaran & Bougie, 2013). The sample in this study is 67 companies in the financial industry sector listed on the Indonesian Stock Exchange.

The operationalisation of variables aims to quantitatively measure the variables used. Competitive advantage is the capabilities and resources owned and controlled by the company, which has dimensions such as efficiency, service quality, cost flexibility, the range of online transaction services, barriers from duplication and learning organisation. E-business is a process and tool that enables companies to use information technology in doing business internally and externally. The dimension of e-business is the e-business alignment of business strategy, the quality of online systems, the drivers of investment in e-business, the commitment and support of management, and the support of transaction services.

Organisational innovation is a process of integrating components that work together to create an environment that enables innovation to flourish. Organisational innovation has dimensions of application, organisational structure, corporate activity, information systems, objectives, mobilisation, and external relationships. Free float is a share owned by non-controlling shareholder and not major shareholder. It has dimensions of the number of outstanding shares of companies in the Indonesian Stock Exchange.

The questionnaires were submitted directly to the respondents as well as by email or mailing. The questionnaires consist of the identity of respondents and a list of questions. Likert scales were used in measuring attitudes, opinions, and perceptions of a person or group of people, of events or social phenomena (Riduwan & Kuncoro, 2012). According to Kusumadewi and Ghozali (2013), Likert scale preparation is done in stages, and the establishment of the construct to be measured should be defined clearly and precisely.

The items using confirmatory factor analysis to choose a set of questions that form the items question' internal consistency or reliability. Cronbach's Alpha coefficient is a statistical calculation and is commonly used to measure the internal consistency reliability. Cronbach's Alpha coefficient value has a positive value from 0 to 1, the value of the coefficient of internal consistency of 0.70 giving a good scale. Validation on the Likert scale is also needed to test the consistency of answers to items that we want to measure. In the validation test using the measurement scale, the construct of the loading value is 0.50 to 0.60.

Likert scale is a scale that is added or summated scales. Summated scale has the following characteristics: scale must have a lot of questions or items, any items in the statement must be quantitatively measurable, continuous, no answer is wrong or right. The respondents were asked to answer or give ratings to each statement. In the Likert scale, respondents were asked to give a statement to the psychological object or constructs consisting of five possible answers: (1) Strongly Disagree, (2) Disagree, (3) Neutral, (4) Agree, (5) Strongly Agree.

This research used descriptive analysis and multivariate analysis. The use of descriptive analysis is to provide an overview of the application of e-business, innovative organisation, free float and competitive advantage in the financial industries listed on the Indonesian Stock Exchange. Descriptive analysis is carried out to obtain the perception of respondents related to the variable competitive advantage in financial companies.

RESULTS AND DISCUSSIONS

Questionnaires that have been obtained are tabulated using SPSS Statistics and SmartPLS. Tabulating the data using SPSS Statistics application program is to test the outlier data while tabulating the data using SmartPLS is a test of structural equation modelling. The research is constructed as follows:

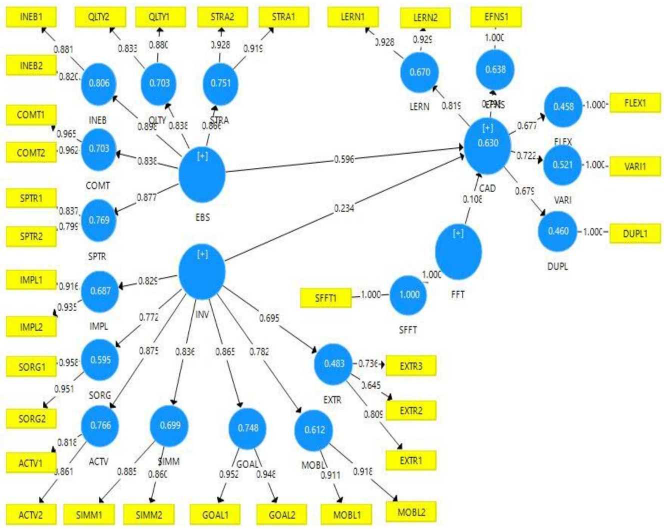

Figure 1. Research Construct

From the validity test, the result shows that the value of outer loadings is higher than 0.7, meaning that all the indicators contained in the research construct are valid.

Table 1. *Outer Loadings Value for Indicators*

Indicator	Outer Loadings	Indicator	Outer Loadings	Indicator	Outer Loadings
STRA1	0.919	IMPL2	0.935	EXTR1	0.809
STRA2	0.928	SORG1	0.958	EXTR2	0.736
QLTY1	0.880	SORG2	0.951	SFFT1	1.000
QLTY2	0.833	ACTV1	0.818	LERN1	0.928
INEB1	0.881	ACTV2	0.861	LERN2	0.929
INEB2	0.820	SIMM1	0.885	EFNS1	1.000
COMT1	0.965	SIMM2	0.860	FLEX1	1.000

COMT2	0.962	GOAL1	0.952	VARI1	1.000
SPTR1	0.837	GOAL2	0.948	DUPL1	1.000
SPTR2	0.799	MOBL1	0.911		
IMPL1	0.916	MOBL2	0.918		

Testing for discriminant validity using the average variance extracted (AVE) value, the requirement of AVE value has to be higher than 0.50. The results of tabulating the data show that all variables and dimensions used in the research have an AVE value bigger than 0.50.

Table 2. *The Value of Average Variance Extracted*

Description	**AVE**	**Description**	**AVE**
Competitive Advantage (CAD)	0.875	Organisation Structure (SORG)	0.912
E-Business (EBS)	0.581	Company Activity (ACTV)	0.706
Innovative organisation (INV)	0.503	Information Systems (SIMM)	0.761
Free Float (FFT)	1.000	Company Goal (GOAL)	0.903
Business Strategy (STRA)	0.854	External Relationship (EXTR)	0.538
System Quality (QLTY)	0.734	Mobilisation (MOBL)	0.836
E-Business Investment (INEB)	0.725	Duplication Barriers (DUPL)	1.000
Management Commitment (COMT)	0.928	Learning Organisation (LERN)	0.862
Service Support (SPTR)	0.669	Service Efficiency (EFNS)	1.000
Implementation (IMPL)	0.856	Cost Flexibility (FLEX)	1.000

For testing reliability, Cronbach's alpha and composite reliability values are used. The constructs used in the research can be stated as reliable if the value of Cronbach's alpha and composite reliability is above 0.7. From the results obtained, the values for Cronbach's alpha and composite reliability are bigger than 0.7, meaning that the variables are reliable.

Table 3. *The Value of Cronbach's Alpha and Composite Reliability*

Description	**Cronbach's Alpha**	**Composite Reliability**
Competitive Advantage (CAD)	0.828	0.875
e-business (EBS)	0.919	0.932
Innovative organisation (INV)	0.926	0.936
Free Float (FFT)	1.000	1.000
Business Strategy (STRA)	0.829	0.921
System Quality (QLTY)	0.739	0.846

e-business Investment (INEB)	0.723	0.840
Management Commitment (COMT)	0.922	0.963
Service Support (SPTR)	0.706	0.802
Implementation (IMPL)	0.833	0.923
Organisation Structure (SORG)	0.903	0.954
Company Activity (ACTV)	0.702	0.827
Information Systems (SIMM)	0.787	0.865
Company Goal (GOAL)	0.892	0.949
External Relationship (EXTR)	0.701	0.776
Mobilisation (MOBL)	0.804	0.911
Duplication Barriers (DUPL)	1.000	1.000
Learning Organisation (LERN)	0.840	0.926
Service Efficiency (EFNS)	1.000	1.000
Cost Flexibility (FLEX)	1.000	1.000
Various Services (VARI)	1.000	1.000

The e-business variables have five dimensions, including the e-business alignment dimension on business strategy (STRA), online system quality dimension (QLTY), investment drivers dimensions on e-business (INEB), commitment and management support dimensions (COMT), and dimension supporting transaction services (SPTR). Based on the results, all data indicators on the e-business variables meet the criteria of validity and reliability.

The innovative organisation has seven dimensions, including the Implementation (IMPL), Organisation Structure (SORG), Company Activity (ACTV), Information Systems (SIMM), Company Goal (GOAL), External Relationship (EXTR), Mobilisation (MOBL). Based on the results, all data indicators on the e-business variables meet the criteria of validity and reliability. The free float has one dimension, the number of outstanding shares (FFT). Based on the results, the free float variables meet the criteria of validity and reliability.

The competitive advantage variable has five dimensions: its service efficiency dimensions (EFNS), cost flexibility (FLEX), various services (VARI), duplication constraints (DUPL) and learning organisation (LERN).

Based on the results, all data indicators meet the criteria of validity and reliability.

The goodness of fit test aims to measure the strength of the predicted structural model, which is a representation of the number of the variance of the constructs that can be explained by the research model. The research model on the influence of e-business, organisational innovation and free float on competitive advantage yields R-square value of 0.630 which can be interpreted that competitive advantage variables can be explained by e-business, organisational innovation and free float variability of 63.0% while the rest is explained by other variables outside the study.

In the significance test using the value of $\alpha = 5\%$ or T-Statistics of 1.96, the results show that all indicators used in this research are significant.

Table 4. *T-Statistics Value for Indicators*

	Original Sample	**T Stat**	**P Values**	**Decision**
EBS → CAD	0.596	4.105	0.000	Positive, Significant
INV → CAD	0.234	1.571	0.058	Positive, Not Significant
FFT → CAD	0.108	1.385	0.083	Positive, Not Significant

Based on the results of data between e-business variables on competitiveness advantages, the result is a positive and significant effect. The result shows that e-business has an effect on competitive advantage. It means that e-business in the banking industry influences the competitive advantage of the company and affects company performance (Bauer et al., 2005).

The results also reinforce previous research by Troshani and Rao (2007) concluding that e-business implementation leads to a competitive advantage in the context of the financial services industry. Thus, the results show that the implementation of e-business can improve the competitive advantage thereby allowing the company to provide more effective and efficient service.

Based on the results of the data between the variables of innovation to competitiveness advantage, the result is a positive and not significant impact. The result of the research shows that the innovation of the company affects its competitive advantage. It supports Martovoy, Mention and Torkkeli (2015) who concluded that financial services companies benefit from cooperation for innovation with external partners.

The results also support the fact that the company’s innovation gains its competitive advantage and improves its performance (Hassan, Shaukat, Nawaz, & Naz, 2013). Hana (2013) indicates that companies are placing improvement on innovation as the main source of competitive advantage impacts on the success of the company’s performance.

Based on the relationship of the free float variable to competitive advantage, the result is positive and not significant. The results showed that the number of outstanding shares applied by the company in accordance with the rules of the Indonesian Stock Exchange affects the competitive advantage.

Open companies that apply the regulation of the number of shares outstanding at least 7.5% of the total shares of paid-up capital in accordance with the provisions has the advantage of competitiveness because the number of shares outstanding becomes large thereby increasing public scrutiny of the company. In addition, a large number of outstanding shares in public ownership will increase so that the public and investors will increasingly recognise the company.

CONCLUSIONS

E-business can support a company's activities through e-business alignment of business strategy and improvement of the quality of online systems. By encouraging investment in e-business, there is commitment and management support resulting in wider availability of transaction support services. The resources, capabilities and competencies of the organisation are sources of its competitive advantage, which lies in the application of a set of tangible or intangible resources owned by the company. In conclusion, the condition of the company's resources can be a source of its competitive advantage.

An innovative organisation is very important because the competition is high. Customers are always looking for something new and more than just a standard service or product. Innovative organisations affect its competitive advantage. The company's competitiveness will be determined by the quality of its services, product performance, and risk management.

The company's management supports training and developing employees. Enterprise management supports the company's expenses for expenditure in developing human resources such as training costs and so on. Management has always been committed to perfecting the strategy and policy of learning and development on a regular basis to align with the company's business activities.

Free float has an impact on competitive advantage, whereby the larger number of outstanding shares owned by the public, the company will be more known and supervised by the public, especially investors who own shares of the company.

Based on the conclusion, the researchers suggest that the management company in the financial industry need to pursue the superiority of the company's competitive advantage through the implementation of e-business, innovative organisation and comply with free float regulations in the stock exchange. Future research could examine companies in different industries such as companies engaged in the field of fintech or financial technology.

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