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The Effect Of Trust On Financial Performance; Mediated By Innovation

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Abstract

This study aims to examine the effect of trust on financial performance, examine the effect of trust on innovation, examine the effect of innovation on financial performance and examine the role of innovation in mediating the effect of trust on financial performance. The research population is a manufacturing company listed on the Indonesia Stock Exchange. The size of the sample was determined using a purposive sampling method, thus the research sample totaled 42 companies for five years or as many as 210 observations. The data collection method uses secondary data in the form of the company's financial statements for 2017 – 2021. The research model is structural because there are latent variables and data testing is carried out to determine direct and mediating effects, thus the research data is analyzed using smart PLS version 3. The results showed that: trust has a positive and significant effect on financial performance, trust has a positive and significant effect on innovation, innovation has a positive and significant effect on financial performance and innovation plays a positive and significant role in mediating the effect of trust on financial performance. Thus, the mediating nature of the innovation variable is partial mediation.

Keywords: trust, innovation, financial performance.

1. Background

Team and group performance in an organization is influenced by trust (Crossley et al., 2013). Theoretical arguments support the relationship between trust and performance. The principal-agent model, by considering the trust between the two parties, guides the prediction of the relationship between trust and performance (Müller & Turner, 2005; Whitener et al., 1998). Likewise with the norm of reciprocity in social exchange theory ((Cook et al., 2013; Gouldner, 1960). Trust theory, which is derived from social exchange theory (Whitener et al., 1998) suggests that the exchange of benefits between parties generates trust. Better performance in the form of better profitability allows companies to invest in employee training and development, which increases future earnings and creates a moral obligation for employees to see that the organization earns returns (Tzafrir, 2005). Companies with a high level of trust have employees who are willing to invest in employee training and development (Tzafrir, 2005).

The current level of confidence is related to increased future performance (Xu et al., 2019). The interaction between a company's willingness to invest in employee training and employee loyalty to the company is a source of trust, which influences company performance. Company performance and trust in company culture are important company characteristics. Previous studies have also found that trust affects the efficiency and productivity of firms (Chami et al., 2002; Lane & Bachmann, 1998). This is because trust will reduce transaction costs, trust fosters cooperation which in turn reduces opportunism and lowers transaction costs (Bromiley & Harris, 2006).

Trust positively affects company performance (Gundlach & Cannon, 2010). Trust acts as an important facilitator of close interfirm relationships because it reduces the perceived vulnerability between partners (Zhang et al., 2003) and leads to shared trust and shared concern (Sarkar et al., 2001). As a result, trust creates stability in relationships and helps in developing and building healthy and collaborative relationships (Doney & Cannon, 1997). For this reason, it is expected that an exchange relationship that is characterized by a high level of trust will itself act as an intangible resource for the firm.

Such trust-driven exchange relationships are not only valuable but also difficult for competitors to imitate. Relationship trust can also encourage companies to pool their resources with those of their channel partners, and thereby generate and gain access to resources that were not previously available. By reducing perceived relational risk and fear of opportunistic behavior, trust can lower the degree of protection against knowledge spillover (Nielsen et al., 2007), thereby creating a free and open environment for the two-way exchange of critical and proprietary information and expertise (Ngo & Liu, 2020). Relationship trust can also increase the perception of the correctness of information, which increases knowledge absorption from exchange partners(Corsten & Kumar, 2005). Hence, when exchange relationships are characterized by trust, firms' access to external knowledge increases and they are able to integrate it with existing resources and capabilities in innovative and efficient ways (Nielsen et al., 2007). As a result, firms generate sustainable competitive advantages and thereby enhance their strategic performance (Morgan & Hunt, 1999).

However, several studies reveal contradictory results, and exactly how trust affects performance in channel relationships remains inconclusive (Palmatier et al., 2007; Selnes & Sallis, 2003). Likewise with the study of (Klingenberg et al., 2013) found that company performance, especially financial performance, is influenced by innovation in company operations. . This is because a company's profitability is affected by at least two factors: the results of its operations, and how these are financed (eg the use of cheap debt, which increases profitability). The impact of an individual operating strategy is difficult to isolate from other company activities, such as its financial management.

Research by (Cegarra-Navarro et al., 2016) found that companies using innovation results are able to utilize economic achievements effectively to obtain higher financial performance. Innovation is increasingly considered as one of the main drivers of the long-term success of a company in today's competitive environment (Bruni & Verona, 2009; García-Morales et al., 2008). Companies with the capacity to innovate are able to respond to environmental challenges faster and better than companies that are unable to innovate (Brown & Eisenhardt, 1995). Innovation as a way to transfer learned knowledge to offer better solutions that meet new requirements, unarticulated needs (W. W. Powell, 1998), or existing social needs, and implement innovative ideas and decisions so as to have an impact on improving financial performance.

Covin & Miles (1999) suggest that companies innovate and engage in entrepreneurship to pursue competitive advantage. By offering innovative products/services, companies can sometimes avoid price competition, access new markets and create new demand, as well as improve the company's business performance as indicated by financial metrics such as turnover, profit and share price; and/or develop strengths in strategic metrics such as reputation, loyalty, and satisfaction (Gupta & Zeithaml, 2006). Through successful innovation, customers will pay a premium price and buy more frequently increasing customer loyalty when the product/service purchased meets their specific needs (Anderson & Narus, 1990; Moreau & Herd, 2010). In addition, innovation supports the efforts of companies to prevent competitors from entering the market, strengthening their positional advantage thereby increasing their resilience (Porter, 1980). More recent studies have shown a positive relationship between innovation and business performance (Cheng et al., 2014; Grissemann et al., 2013).

Study of Bigliardi & Galati (2014) found that the level of innovation can improve financial performance. The relevance of innovations developed to meet customer needs as well as innovations developed to differentiate from competitors in improving financial performance. A key component in the success of industrial companies is their level of innovation. Since the last decade, as a result of intense international competition, fragmented and demanding markets and rapidly changing technologies, innovation has become one of the most relevant factors for enterprises. In particular, it is widely recognized that innovation impacts financial performance (Hult et al., 2004). It is therefore not surprising that the effect of innovation on performance has been the subject of classical analysis, with a number of empirical studies providing evidence of a positive effect (Damanpour & Evan, 1984; Schulz & Jobe, 2001). Innovation results, in fact, providing a temporary competitive advantage that allows companies to earn returns on innovation, such as higher sales and company growth.

2. Literature Review

2.1. Trust

Trust is a resource of social capital – a resource that is 'embedded' in human relations (Misztal, 2001; Nahapiet & Ghoshal, 1998). It is socially constructed according to a certain ontology of relations, purpose and meaning. Thus, it is generated and utilized through social interaction. Trust can also be seen as a mental model – an assumption (or set of assumptions) about 'how relationships work' (either relationship specific or relationships in general) – tacitly acquired through life experiences (Senge & Sterman, 1992). As a complex phenomenon with cognitive, emotional, cultural, and situational dimensions, it provides individuals or groups with mental schemes for interpreting the social environment while simultaneously influencing interpretation through emotionally charged motivation, identification, and affiliation.

While trust is critical to generating ideas in a business organization, it is equally important in the realization practices that turn those ideas into new products, services and/or work practices. The dynamics of the development of trust occur at the macro and micro levels of social life. Ranging from a preoccupation with 'self-security' (no trust) to a 'selfless' identification with the trust of 'others' (uncritical trust) is manifested when an individual or group takes for granted the respect for their behavior and intentions expectations by others. Abstract trust in organizations is built over time, as organizational practices (management behaviour, incentive systems, promotion schemes, etc.) are progressively experienced as reliably independent of individual wishes and/or assistance. In this way, some leaders elevate the concept of trust in on the level of individual special relationships and establish it as a cultural norm and part of the organizational 'way of life'.

Trust is defined as the degree to which a company believes that its exchange partner is honest (belief that partner keeps promises, stands by his word, and is reliable) and/or benevolent (belief that partner is interested in one's well-being and mutual benefits) (Geyskens et al., 1998). The presence of trust implies that exchange partners will perform actions that produce positive results for the firm (Anderson & Narus, 1990) and will not exploit its vulnerabilities (Hald et al., 2009). Trust is a subjective belief that individually or collectively makes social activities expected and the parties are confident to exchange resources (W. Powell, 2003; Rogan & Sorenson, 2014). Trust is characterized in certain social relationships that occur in a network to increase the speed of value created from and result in the exploration of new business opportunities. Trust is defined as a mutual trust between parties in an exchange that neither of them will engage in opportunistic behavior that will exploit the other party's vulnerabilities, and thereby violate the values, principles, and standards of behavior that they have internalized as part of the exchange (Molina-Morales et al., 2011).

2.2. Innovation

Innovation is the implementation of an idea, which can be a new product, service, process, marketing method or new organizational method. Organizational innovation is the implementation of a method that has never been used before in an organization, which is the result of strategic decisions taken by management. (Meroño-Cerdán & López-Nicolás, 2017) revealed that organizational innovation can be administrative or technical, radical or incremental.

Innovation is the implementation of new or completely different ideas that bring value to customers and consequently enhance organizational growth. Innovation is considered to provide a competitive advantage for companies and can improve their business performance (Jaiswal & Dhar, 2015). This can be either a bottom-up approach that is process-based and driven by organizational culture, which should enable creative thinking and tolerance for risk, or it can be a top-down approach that follows a vision-based managerial approach (Deschamps, 2005).

The most common goals for innovation in the public sector are increased efficiency (cost per service, reduced administration), increased transparency, increased service quality, and increased user satisfaction. But there are also more specific goals, such as addressing social challenges (aging population, health care, education, public safety, environment and reduction of greenhouse gas emissions), complying with new regulations, policies or other politically mandated changes, improving working conditions for employees (Bloch, 2011).

An innovative public sector is one that offers high quality services, especially new services or new aspects, ease of use, access, timeliness, actions to strengthen the relationship between the public sector and citizens in areas such as public information, taxation, education, health, etc. (Bloch, 2011). To achieve the goals of public sector innovation, motivational factors must be present. A number of economic, industrial, political, relational and personal factors can motivate public sector innovation. The economic motivator is cost-effective and productive administration and management of civil servants (eg, financial management, services health, tax collection, and education services). Political motivators refer to the political support and votes one gets for being seen to perform better than the opposing political actor. Personal factors refer to policy makers, managers and working professionals who can gain satisfaction, motivation and personal status among their professional community and society by improving public services (Agolla & Lill, 2013; Bloch, 2011).

The motivational factors for innovation in the public sector may differ between individuals and within organizations as a whole, but many individual factors are also relevant for organizations. For example, the motivations for innovation for individuals in the public sector are career, idealism, professional recognition, power, self-fulfillment and money. On the other hand, motivators of innovation for public sector organizations include dissemination of policies, ideas or reasons, increased funding, problem solving, more staff and public relations (Bloch, 2011).

Kim et al. (2016) argue that innovation is often seen as a race, but companies can strategically wait until more information becomes available so as not to lose investment in R&D. For example, market convergence to a single technology standard can harm financial performance, even if a company's innovations are technically better than competitors' innovations. Santos et al. (2014) concluded that innovation is related to organizational efforts to innovate, and is not a direct result of the innovation itself. Therefore, even though a company can allocate resources to produce innovative products, the effective impact of this effort may not occur due to the very risky nature of innovation. However, once innovation efforts bear fruit, such as patents or new product market share, in contrast to Artz et al. (2010), we expect companies to experience superior performance. Liao & Rice, (2010) measure innovation using constructs related to R&D intensity, training, and production technology.

2.3. Financial performance

Researchers have investigated business performance measures used in the field of strategic management. A seminal study by (Venkatraman & Ramanujam, 1986), cited by Lyu & Ji, 2020; Stam et al., 2014 argue that the business performance domain scheme consists of three areas: financial performance, financial-operational performance, and organizational effectiveness. The financial performance approach is the result of using the goals achieved by a company, as measured by financial indicators. Financial performance only refers to indicators, such as sales growth, profitability, earnings per share, and others (Khan et al., 2021). Several authors investigated the business success of companies through asset growth (Bilan et al., 2020) and asset return (Shkodra, 2019) along with the above-mentioned indicator system.

The next area of business performance includes comprehensive financial and operational performance indicators. Within this framework, measurement of operational performance includes indicators such as market share, new product introduction, product quality, marketing effectiveness, manufacturing added value, and other indicators of technological efficiency. Ultimately, business performance is in a broader concept, which is framed in terms of diverse and conflicting organizational objectives and the influence of various stakeholders and demonstrates organizational effectiveness (Venkatraman & Ramanujam, 1986).

Performance is defined as the level of achievement of work-related goals (Zafar et al., 2016). (Cascio, 2006) shows that when employees become successful in achieving their goals related to work then the organization becomes successful in achieving superior performance because employees strive to achieve organizational goals. Performance defined as task accomplishment. Stannack (1996) also pointed out that many researchers use the term performance to measure input and output efficiency. Hefferman & Flood (2000) explore that Organizational Performance does not only define problems but also provides solutions to those problems. defined as task accomplishment. Stannack (1996) also pointed out that many researchers use the term performance to measure input and output efficiency. Hefferman & Flood (2000) explore that Organizational Performance does not only define problems but also provides solutions to those problems.

According to Bastian & Muchlish (2012), performance is a description of the achievement of the implementation of an activity or program or policy in realizing the goals, objectives, mission and vision of the organization. Continuous performance measurement will provide feedback, so that continuous improvement efforts will achieve success in the future.

Performance is a description of the level of achievement of the implementation of an activity or program or policy in realizing the goals, objectives, mission and vision of the organization contained in the strategic planning of an organization. An organization it is known that there are three types of performance that can be distinguished as follows: Operational performance; administrative performance; and Strategic performance. The purpose of these performance measures is to provide evidence of whether the desired results have been achieved or not and whether the workload in the workplace produces these results.

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3. Hypothesis Development

3.1. The effect of trust on financial performance

Trust reduces agency costs and lubricates the principal-agent relationship, thus motivating the agent's efforts towards better performance. The modified agency theory is consistent with the view of Sako & Helper (1998) that trust produces a motivational force that increases efficiency. Moreover, according to Chami et al. (2002) analytical model, trust is a better way to minimize agency problems than standard solutions such as monitoring or incentives. Their model predicts higher job satisfaction, lower labor costs, and higher profits driven by trust among co-workers. As a result, trust creates stability in relationships and helps in developing and building healthy and collaborative relationships (Doney & Cannon, 1997). For this reason, it is expected that an exchange relationship that is characterized by a high level of trust will itself act as an intangible resource for the firm. Such trust-driven exchange relationships are not only valuable but also difficult for competitors to imitate.

Relationship trust can also encourage companies to pool their resources with those of their channel partners, and thereby generate and gain access to resources that were not previously available. By reducing perceived relational risk and fear of opportunistic behavior, trust can lower the level of protection against knowledge spillover (Nielsen et al., 2007), thus creating an environment free and open two-way exchange of critical and exclusive information and expertise. Relationship trust can also increase the perception of the correctness of information, which increases knowledge absorption from exchange partners (Corsten & Kumar, 2005). Hence, when exchange relationships are characterized by trust, firms' access to external knowledge increases and they are able to integrate it with existing resources and capabilities in innovative and efficient ways (Nielsen et al., 2007). As a result, firms generate sustainable competitive advantages (Morgan & Hunt, 1999) and thereby enhance their strategic performance. Previous research found that trust has a positive and significant effect on financial performance (Jain et al., 2014; Oláh et al., 2021; Xu et al., 2019). Based on the findings of previous studies, the research hypothesis is:

H1: trust has a positive and significant effect on financial performance.

3.2. The effect of innovation on financial performance

Cooper & Kleinschmidt (1991) menunjukkan efek positif dari inovasi yang tinggi (dan khususnya inovasi produk) pada keunggulan kompetitif perusahaan. Demikian pula, Calantone et al. (1995) menyelidiki hubungan antara kinerja aktivitas terkait inovasi spesifik dan kinerja bisnis secara keseluruhan dalam industri furnitur, menilai bahwa perusahaan yang sukses dalam suatu industri cenderung berfokus pada aktivitas NPD penting tertentu, that allows them to achieve the best results within their market constraints. (Zahra et al., 2000) demonstrated that innovation is important for effective firm performance, and similar empirical evidence is provided by research by (Lööf & Heshmati, 2002; Mairesse & Mohnen, 2003).

Hult et al. (2004) emphasized that innovation provides the basis for the survival and success of companies. Branzei & Vertinsky (2006) focus on innovative activities and the investment role of R&D, emphasizing their positive impact on the growth, success and survival of the company as a whole. Bigliardi & Ivo Dormio (2009) identified innovation as the main driver for companies to achieve prosperity, grow and maintain high profitability. Similarly, Marques & Ferreira (2009) show how successful innovation activities help build a more positive competitive position for firms, giving them a competitive advantage and, consequently, improved performance.

Through successful innovation, customers will pay a premium price and buy more frequently increasing customer loyalty when the product/service purchased meets their specific needs (Anderson & Narus, 1990; Moreau & Herd, 2010). In addition, innovation supports the efforts of companies to prevent competitors from entering the market, strengthening their positional advantage thereby increasing their resilience (Porter, 1980). More recent studies that demonstrate a positive relationship between innovation and business performance (Cheng et al., 2014; Grissemann et al., 2013). Study of Bigliardi & Galati, (2014) found that the relevance of innovations developed to meet customer needs as well as innovations developed to differentiate from competitors in improving financial performance. Other studies have found that innovation has a positive and significant effect on financial performance (Ho & O'Sullivan, 2017; Klingenberg et al., 2013). Based on the findings of previous studies, the research hypothesis is:

H2: Innovation has a positive and significant effect on financial performance.

3.3. The effect of trust on innovation

In the social capital literature, trust and social interaction are often referred to as interrelated elements. Trust is embedded in relationships, based on interpersonal interdependence, and is often associated with group cohesion and collaboration. Trust is believed to facilitate collective action because it allows for collaboration without sanctions or rewards. Positive experiences from prior social interactions can foster trust by reducing uncertainty about the involvement and involvement of other parties and reducing vulnerability between individuals.

Trust between organizations encourages reliable information to be shared, initiates contracts that can be completed, simplifies the way companies disclose confidential information, and engages business partners within a similarly organized framework. Companies gain better benefits when they expand their networks and strengthen the prerequisites for coordination between and between companies (Majerova et al., 2020). Social capital is characterized by different features, especially trust, norms and networks. It is clear that a high level of trust between a company and its partners induces the possibility of innovation. Business networks develop when actors cultivate reliable and effective communication channels across organizational boundaries (Landry et al., 2002). Other research has also found that trust has a positive and significant effect on innovation (Johan, 2021; Oláh et al., 2021). Based on the findings of previous studies, the research hypothesis is:

H3: Trust has a positive and significant effect on innovation.

3.4. The role of innovation in mediating the effect of trust on financial performance

Companies must develop innovative products to compete with rivals by collaborating with partners (Corsten & Kumar, 2005). Trust in partners has a positive effect on resource combinations and exchanges between collaborating parties, which in turn influences product innovation value creation (Tsai & Ghoshal, 1998). Trust also results in product improvements (Jean et al., 2014). Trust between organizations has a positive influence on innovation (Corsten & Kumar, 2005; Murphy, 2002). Trust creates innovative processes, increases economies of scale and develops sales (Chao et al., 2011). In addition, trust has a positive and linear relationship with innovation performance (Wang et al., 2011). The positive relationship between trust and innovation is reported by previous results from Corsten & Kumar (2005); Lee (2015). Furthermore, innovation develops product performance which has a positive influence on financial performance in terms of asset specificity (Williamson, 1993).

The concept of innovation starts with knowledge developed as a solitary experience within an internal company, before moving on to a collaborative process through interaction and exchange of knowledge with other interdependent companies and their partners (Szczepańska-Woszczyna, 2020). Innovation opportunity describes the prospect of improving a product or production process. Social network theory argues that companies have innovation opportunities by emphasizing networks and the strategic importance of knowledge. The pressure to turn information into knowledge is a critical development from the concept of technological networks to the insights of social networks. In this context, information relates to the development or improvement of products or production processes (Landry et al., 2002). Innovation develops performance products, which positively affect financial performance. Based on the findings of previous studies, the research hypothesis:

H4: Innovation plays a positive and significant mediating role between trust in financial performance.

4. Data and Measurement

4.1. Data

The research population is a manufacturing company listed on the Indonesia Stock Exchange totaling 585 company data. The size of the sample determination uses a purposive sampling technique, thus the research sample amounts to 210 company data. The number of samples in this study is still larger when compared to other studies such as Salin et al. (2018) who examined the effect of corporate governance on company investment decisions in Malaysia with a total sample of 163. Barros & Di Miceli da Silveira (2007) research on overconfidence, managerial optimism and the determinants of capital structure in non-financial companies in Brazil with a total sample of 153.

4.2. Measurement

The measurement of trust in this study refers to the opinions of Audi et al. (2016); Xu et al. (2019), namely: the use of the word trust in financial reports such as: accountability, ethics, fairness, honesty, integrity, respect, responsibility and benevolence. The measurement of innovation refers to research by de Oliveira et al. (2018), namely: a) internal innovation activities, consisting of: R&D costs, training costs, efforts to introduce and distribute new products, b) external innovation activities, consisting of: acquisition of external R&D and knowledge, acquisition of software, machinery and equipment. Measurement of financial performance refers to research by Oláh et al. (2021) namely: return on assets (ROA), return on equity (ROE), return on capital employed (ROCE), current ratio.

5. Results

In this study there are three latent variables with five indicators. The evaluation of the latent variable measurement model is based on substantive content, namely by comparing the size of the relative loadings and looking at the significance of the size of the loadings. Variables that have more than one indicator are financial performance variables with indicators: ROA, ROE and ROCE. While the variables of trust and innovation each have one indicator. Evaluation of the measurement model for each latent variable of financial performance can be explained as follows:

Table 1: Evaluation of Financial Performance Variable Measurement Models

Indikator	Outer loadings	t-statistic	P-value
ROA	0,963	92,015	0,000
ROE	0,964	84,200	0,000
ROCE	0,986	196,231	0,000

Source: Smart PLS, 2023.

Testing of the structural model is carried out by looking at the value of the coefficient of determination (R2), which is a test for the goodness of fit model. The value of R2 can be presented through the table below:

Table 2: R Square

Variabel	R-Square	Predictive Relevance (Q^2)
Inovation	0,043	
Financial performance	0,306	0,201

Source: Smart PLS, 2023.

The contribution of the trust variable to innovation is 4.3%. The contribution of trust and innovation variables to financial performance is 30.6%. The R2 value of 0.306 indicates a weak closeness level, because it is between 0.25 – 0.50. According to

(Hair et al., 2014) an R2 value of 0.20 is considered high in financial disciplines. The predictive relevance (Q2) value of financial performance is 0.201 or greater than 0.15, thus the trust and innovation constructs have moderate predictive relevance to the financial performance construct.

Table 3: Summary of Path Analysis Results

Research variable			Path coefficient	t-statistic	P-value	Information
Trust	→	Inovation	0,208	2,535	0,012	Significant
Trust	→	Financial performance	0,110	1,975	0,049	Significant
Inovation	→	Financial performance	0,520	9,623	0,000	Significant

Source: Smart PLS, 2023.

Table 4: Results of Indirect Influence Analysis (Mediation)

Variabel Eksgoen	Variabel Intervening	Variabel Endogen	Path coefficient	P-value	Information
Trust	Inovation	Financial performance	0,108	0,015	Accepted

Source: Smart PLS, 2023.

The results of the structural analysis are presented in the image below:

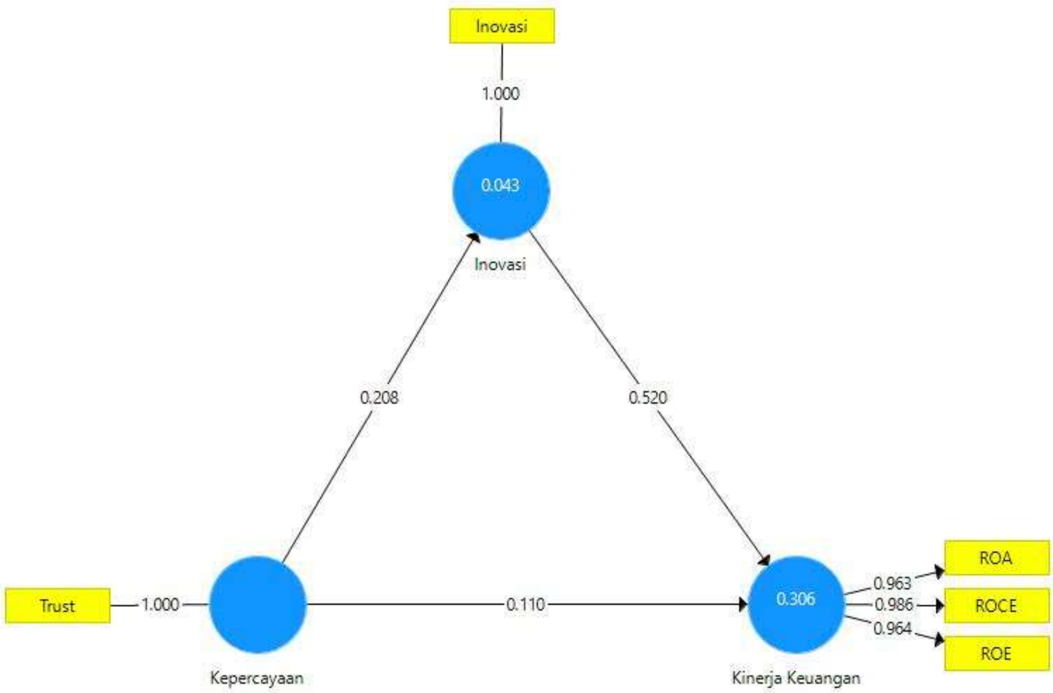

Figure 1. Structural analysis results

6. Discussion

The positive and significant influence of trust on financial performance shows that companies that gain the trust of shareholders have good cooperation between all parties to jointly bring the company to achieve its vision and mission, especially in achieving financial performance. The attitude of confidence with full of optimism by the board of directors can produce a more solid performance with the goals set by the company. Stakeholders' trust in management will strengthen because the company implementing good governance is not only able to balance the various needs of different stakeholders, but also has a significant influence on sustainable long-term business success in the form of increasing corporate profits and increasing corporate value. The research results are supported by the research of Davis et al. (2000) that trust between organizations as a proxy for minimizing costs increases profitability and increases production and sales. Profitability ratios also show how successfully a company can control and use its resources. The results of this study are supported by the findings of previous studies that trust has a positive and significant effect on financial performance (Oláh et al., 2021; Xu et al., 2019).

The positive and significant influence of trust on innovation shows that companies that gain the trust of shareholders have good cooperation between all parties to jointly bring the company to achieve its work program, especially the company's strategic activities, namely winning the market in the long term. The form of stakeholder trust, especially shareholders, towards management is that they are willing to invest their funds in the company when the company is going to expand, make acquisitions to develop company activities and or become a market winner. The research results are supported by the research of Tsai & Ghoshal (1998) that trust in partners has a beneficial impact on the combination and exchange of resources and expertise in between parties who work together, which in turn has an impact on the value creation of innovative products.

This is especially in the field of research and development requiring collaboration between companies because it allows them to gain a competitive advantage (Cygler & Wyka, 2019). The research results also show that a company must create new products to be maintained in a competitive market (Lee, 2015). This study supports the findings of Jean et al. (2014) that trust in business partners increases creativity. Other research has also found that trust has a positive and significant effect on innovation (Johan, 2021; Oláh et al., 2021).

The positive and significant influence of innovation on financial performance shows that companies that have high innovation will operate their activities in an integrated manner so as to produce higher quality products. This will have an impact on increasing market demand for the company's products so that sales will increase. Increased sales will have an impact on increasing company profits. The results of this study are also supported by the research findings of Zahra, Ireland, and Hitt (2000) that innovation is important for effective company performance, and similar empirical evidence is provided by research by Lööf & Heshmati (2002). Hult et al. (2004) emphasized that innovation provides the basis for the survival and success of companies. Branzei & Vertinsky, (2006), focus on innovative activities and the investment role of R&D, emphasizing their positive impact on the growth, success and survival of the company as a whole.

The positive and significant influence of trust in innovation shows that a company that has the trust of stakeholders will establish good cooperation between all parties to jointly bring the company to achieve its work program, especially the company's strategic activities, namely winning the market in the long term. The form of trust from stakeholders, especially shareholders, towards management is that they are willing to invest their funds in the company when the company is going to expand, make acquisitions to develop company activities and or become a market winner. The research findings are supported by research by Oláh et al. (2021) that innovation plays a role in mediating the effect of trust on financial performance. Companies that foster trust between organizations, positively increase innovation, which then has an impact on improving financial performance. According to the notion of social capital, there is an important role for trust in supporting the combination and exchange of resources. The combination and exchange of these resources then generate value for the company by having a substantial and beneficial impact on product innovation (Tsai & Ghoshal, 1998). Quality and cost improvements are significant and related to financial performance (Maiga & Jacobs, 2007). Innovation has the potential to mediate the direction of organizational trust with financial performance.

7. Conclusion

This study aims to determine the role of innovation in mediating the effect of trust on the financial performance of manufacturing companies listed on the Indonesia Stock Exchange. Based on the results of data analysis, the conclusions of the study are: Trust has a positive and significant effect on financial performance, this shows that a company that has the trust of stakeholders establishes good cooperation between all parties to jointly bring the company to achieve its goals so that it has an impact on improving the company's financial performance.

Trust has a positive and significant effect on innovation, this shows that with the trust of shareholders, they are willing to invest their funds in the company for expansion, acquisitions, so the company wins the market in the long term. Innovation has a positive and significant effect on financial performance, this shows that companies that have high innovation will operate their activities in an integrated manner so as to produce quality products that have an impact on increasing company sales and profits. Innovation acts as a partial mediation between trust and financial performance, this shows that companies that have the trust of stakeholders have the availability of funds to conduct acquisitions, research and development, and provide training to employees, thus the work process can run effectively to produce superior products that contribute commercial benefits and become pride for the company, this will encourage increased sales which have an impact on increasing company profits.

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