

# The Effect of Business Strategy, Market Orientation, and Innovation Capability on Vehicle Rental Business Firm Performance in Indonesia

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## Abstract

*The purpose of this study was to determine the effect of business strategy, market orientation, and innovation capability on firm performance. The object of this research is all permanent employees of XYZ firm Jakarta branch. The data collection technique is by distributing questionnaires to all permanent employees of XYZ firm as many as 43 respondents. This data analysis method uses multiple linear regression analysis using IBM SPSS 22. The results of this study show that business strategy has a positive and significant effect on firm performance, market orientation has a positive and significant effect on firm performance, innovation capability has a positive and significant impact on firm performance and business strategy, market orientation, innovation capability have a positive and significant impact on firm performance.*

## Keywords

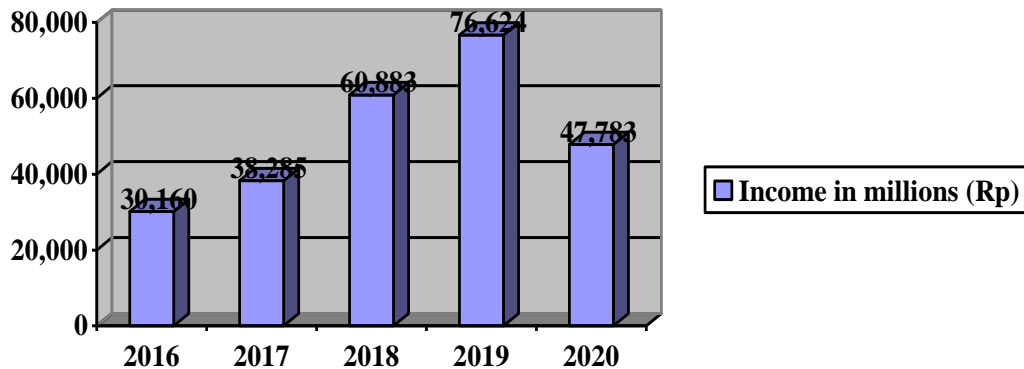
business strategy; market orientation; innovation capability; firm performance



## I. Introduction

The vehicle rental business or vehicle rental has been known for a long time, the business is growing rapidly with thousands of units of various types of vehicles and spread in various regions in Indonesia. In 2020, the COVID-19 pandemic caused the vehicle rental business in Indonesia to decrease drastically due to the number of vehicle rental cancellations, but the existence of a new order of life or a new normal in the midst of the COVID-19 pandemic that the government had begun to implement made the vehicle rental business or vehicle rental start to rise again although not 100% recovered.

One of the companies engaged in vehicle rental and still surviving during the COVID-19 pandemic is XYZ firm. XYZ firm was founded in 1986 and has services in the field of vehicle rental, including corporate car rental, daily car rental, bus rental, and fleet management solutions. XYZ firm has a vision, which is to become a company that innovates and has a good reputation, through sustainable growth, human resource development, product development, and upholding work safety ethics and culture and a mission to achieve optimal customer satisfaction by providing the best solutions in the field of transportation solutions. This company has quite big competitors. Therefore, to be able to survive and compete with competitors, companies need good firm performance (Debora & Dewi, 2020). Firm performance is the company's overall performance to gain revenue and financial performance growth such as return on investment, profit margin, and sales growth (Chan et al., 2017). The following is XYZ firm's revenue data from 2016 to 2020.

**XYZ Company's Income Period 2016-2020**

Source: XYZ firm, 2021

**Figure 1.** Graph of XYZ's Company Income for the Period 2016 – 2020

Based on Figure 1, it can be concluded that the company's income fluctuates. The decrease in company revenues is one of the impacts of the COVID-19 pandemic (Yamali & Putri, 2020). Based on the results of an interview with Mr. Edbert as the Branch Head of XYZ firm, the efforts made by the company during the COVID-19 pandemic in order to survive are financial discipline and implement efficiency in all operational activities, XYZ firm has also vaccinated all employees in order to provide a sense of security and trust for consumers. XYZ firm also provides employee shuttle services for companies in industries that are still implementing the WFO policy during the pandemic. XYZ firm also provides buses to go to the vaccination site and sterilize the units to be used. Cars are always washed and cleaned with disinfectant before and after use, XYZ firm focuses on cleanliness in all operational and organizational processes referring to Clean and Healthy Living Behavior (PHBS), XYZ firm also apply physical distancing when driving in accordance with applicable rules, resources humans in this case including all employees of XYZ firm both field employees and operational employees, technology in the form of the XYZ To Go application that can be used by consumers anywhere and anytime, target market of XYZ firm before the pandemic was consumers who needed vehicle rental services such as airport pickups and car rentals for holidays, but after the pandemic, they changed their target market to middle and upper consumers to exclusively rent private buses for vacations.

The outbreak of this virus has an impact of a nation and Globally (Ningrum *et al*, 2020). The presence of Covid-19 as a pandemic certainly has an economic, social and psychological impact on society (Saleh and Mujahiddin, 2020). Covid 19 pandemic caused all efforts not to be as maximal as expected (Sihombing and Nasib, 2020).

Business strategy is one of the factors that affect firm performance. The outbreak of the COVID-19 pandemic has forced many businesses to close, causing unprecedented trade disruptions in various industrial sectors (Debora & Dewi, 2020). Business strategy is part of strategic management that companies need to be able to face fierce competition and survive (Nguyen *et al.*, 2019). Business strategy can also improve firm performance (Rodrigues *et al.*, 2021). Business strategy refers to strategic organizational actions designed to gain a competitive advantage in the market (Magerakis & Habib, 2021). Based on the pre-questionnaire, 73.7% answered that they disagreed with the company focusing on quality compared to rental prices and 28.3% answered agreeing that the company focused on quality compared to rental prices. If the business strategy applied by the

company is not optimal, it will have an impact on decreasing revenue (Agustia et al., 2020).

The next factor that affects firm performance is market orientation. Market orientation is the company's commitment to developing products and services that satisfy customer needs and expectations (Ali et al., 2020). Market Orientation is able to identify changing customer demands. So that companies can respond appropriately to changes that have an impact on improving firm performance (Gligor et al., 2019). Based on the pre-questionnaire, the majority of 68.4% answered that employees did not provide clear information about XYZ firm, and 31.6% answered that employees provided clear information about XYZ firm. It can be indicated that if the company is not able to implement market orientation and cannot respond to changes in consumer demand will have an impact on decreasing firm performance (Yadav et al., 2019).

In addition to business strategy and market orientation, the next factor that affects firm performance is innovation capability. Innovation capability describes the overall ability to acquire, develop and transform technology into new innovations (Aljanabi, 2020). According to Ferreira et al. (2020) innovation capability is a complex process and formed through several stages of the market research process to market application. Innovation capability has an important role for companies in improving firm performance because companies that have innovations will meet consumer needs and demands so that consumers will get faster and easier service so as to increase competitiveness (Donkor et al., 2018).

Based on the pre-questionnaire, 71.1% agree XYZ firm did not focus on facing threats from outside the company and 28.9% answered that the company focused on facing threats from outside the company. It can be concluded that the decrease in innovation capability can have an impact on the decrease in firm performance (Andjarwati, 2020). Based on the description of the background above, the researcher decided to carry on further research to better understand the effect of business strategy, market orientation, and innovation capability on firm performance at XYZ.

## II. Review of Literature

### 2.1 Business Strategy

Business strategy is the process of forming a competitive strategy to create a competitive advantage in the market with a focus on each unit in the organization (Arieftiara et al., 2017). Then, Liu and Kong (2020) explain that business strategy is a strategy used by companies to establish competitive advantage and have a big influence on company decision making. According to Suoniemi et al., (2020), business strategy is a company's way of creating more value compared to its competitors based on the intended target market. Business strategy is a long-term plan from a company with a period of 3-5 years that is integrated both internally and externally to achieve goals (Rehman & Anwar, 2019). It can be concluded that business strategy is a strategy used by companies in establishing competitive advantage by focusing on units within the organization and based on the intended target market. According to Rehman and Anwar (2019) indicators of business strategy include new opportunities, market share, discounts, cost control, features, quality, support, overall analysis, planning.

According to Arieftiara et al. (2017) as explained above, it can be said that business strategy could help forming a competitive strategy in order to create a competitive advantage in the market. Then, according to Romadhon and Ahmar (2020) business strategy has a positive and significant effect on firm performance. The implementation of

the right business strategy by the company will have an impact on increasing profits and being able to compete with other companies. Another research from Yuliansyah et al. (2017) states business strategy has a positive and significant effect on firm performance. Companies that are able to implement business strategies and can integrate them into all their operational activities will have an impact on increasing firm performance. The first hypothesis in this study is;

H<sub>1</sub>: Business strategy has a positive and significant effect on firm performance.

## **2.2 Market Orientation**

Market orientation is a method used by companies to achieve company performance based on understanding needs, wants and demands (Udriyah et al., 2019). Furthermore, according to research from Ali et al. (2020), market orientation is defined as a way for companies to understand market needs that engage with customers in order to create competitive value. According to Naheed et al. (2018), market orientation is a company's way of understanding market desires to create superior value for consumers and sustainable superior performance. Market orientation is the most effective organizational culture for creating superior customer value (Lim et al., 2017). It can be concluded that market orientation is a method used by companies in understanding the needs, wants and demands of the market to create competitive value for the target market. According to Lim et al. (2017), indicators of market orientation are Strategy, Focus, Feedback, Anticipation, Additional Needs, Solutions, Service Improvement.

According to Udriyah et al. (2019), market orientation is a method used by a company to create superior performance and the behavior needed to improve company performance based on the company's knowledge of understanding market needs, wants and demands. Then, another research from Zehir and Zehir (2019) states market orientation has a positive and significant effect on firm performance. To be able to improve firm performance, companies need to understand customers and create customer value. This statement also supported by Salehzadeh et al. (2017), market orientation has a positive and significant effect on firm performance. Market orientation is the key to helping companies achieve competitive advantage to improve firm performance. Market-oriented companies will explore environmental changes to capture existing opportunities according to consumer needs. The second hypothesis in this study is as follows;

H<sub>2</sub>: Market Orientation has a positive and significant effect on firm performance.

## **2.3 Innovation Capability**

According to Nguyen et al. (2019), innovation capability is an important factor for companies to gain large profits compared to competitors. Innovation capability is the overall ability to acquire, develop, and change a technology so that it becomes a new innovation that will benefit the company (Aljanabi, 2020). Innovation capability is the company's ability to adopt or implement new ideas (Shou & Shao, 2017). It can be concluded that innovation capability is the company's ability to acquire, develop and change technology into new ideas to get a big advantage compared to competitors. According to Shou and Shao (2017), indicators of innovation capability include new ideas, new ways, creative, leading, service introductions.

According to Aljanabi (2020) as mentioned above, innovation capability is the overall ability that will benefit the company. This statement explains further in another research from Abdirahman & Tarique (2020), which proves good innovation capability will give benefits such as a positive and significant effect on firm performance. The application of innovation capability has an important role in the development and growth

of a company. Innovation capability helps companies to create the latest innovations that will have an impact on improving firm performance. The third hypothesis in the study is as follows;

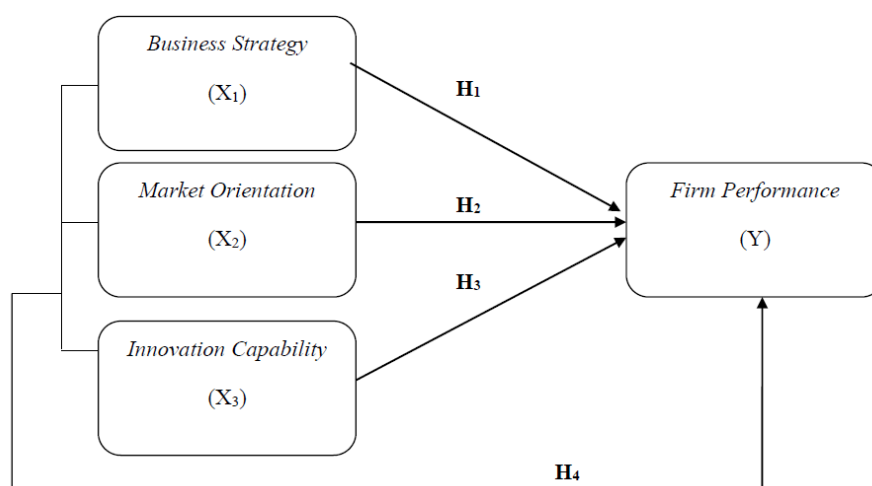
H<sub>3</sub>: Innovation capability has a positive and significant effect on firm performance.

## 2.4 Firm Performance

According to Kurniawan et al. (2020) firm performance is strategic management that aims to achieve increased company performance. Firm performance is the company's overall performance in terms of operational excellence, the relationship between the company and its customers, revenue growth and financial performance within a company (Chan et al., 2017). Firm performance of an organization is well motivated by the existence of economic and organizational factors that are specific to the company and are very important in financial management (Ilaboya & Ashafoke, 2017). It can be concluded that firm performance is a form of overall company performance based on financial and non-financial relationships within a company that the company uses to achieve goals and improve company performance. According to Kurniawan et al. (2020), indicators of firm performance include increased revenue, increased profits, increased cash flow, increased market share, improved service quality, increased customer satisfaction. To improve a company's performance and profit, a company needs a link between business strategy (BS), innovation capability (IC) and market orientation (MO). Business strategy in order to improving company performance, the development of innovations is needed (Zehir & Zehir, 2019). Meanwhile, according to Durie and Shetemam (2018) market orientation is the most effective and efficient aspect to company's performance will continue to run well. According to previous research results above, there is a significant influence between business strategy, market orientation and innovation capability towards firm performance. H<sub>4</sub>: Business strategy, market orientation and innovation capability have a joint effect on firm performance.

## 2.5 Research Model

The conceptual framework is shown in Figure 2



**Figure 2.** Conceptual Framework



### III. Research Method

The research design used in this study was quantitative. According to Leavy (2017), quantitative research is a study whose measurement uses statistical data. The unit of analysis of this research is the individual, the permanent employees of XYZ firm. The time horizon used in this research is cross sectional. Sources of data used are primary data and secondary data. Primary data is using the data that researchers collect directly, while secondary data is using data that already exists that can be analyzed further. Data collection techniques used in this study using a questionnaire. Statements or questions in the questionnaire are measured using a Likert scale type. The population in this study are 43 permanent employees of XYZ Firm. The sampling technique used in this study uses a saturated sample or census because all members of the population are sampled. In this study, the sample used was 43 permanent employees of XYZ firm.

### IV. Results and Discussion

#### 4.1 Respondent Profile

Total of 43 permanent employees were used to analyze and help answer research questions. The majority of respondents, which is 60.2%, are male and because the XYZ firm requires male workers who are considered more familiar with vehicles. Then, the majority of respondents (60.5%) are aged 28-38 years who are in a productive age that will work with responsibility and have rich experience in work. Also, the majority of respondents, which is 76.7%, have a working period of 1-10 years that consider respondents already have work experience that can support the company's performance. And last, the majority of respondents, 86%, have a bachelor's degree in education because this is a requirement to apply for a job at XYZ firm.

#### 4.2 The t-test

A total of 27 question items (9 business strategy items, 7 market orientation items, 5 innovation capability items, and 6 firm performance items) have met the validity and reliability criteria. In addition, the items from the study also met the requirements of the classical assumption and normality tests of good research.

According to Sallis et al., (2021) the *t-test* was used to determine whether the independent variable had a significant effect on the dependent variable. The *t-test* criteria are if *t* calculated > *t* table and significance <0.05, then the independent variable can be categorized has a significant effect on the dependent variable.

**Table 1. t-test Coefficients<sup>a</sup>**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	.055	3.762		.015	.988
BS	.255	.117	.308	2.173	.036
MO	.223	.109	.251	2.053	.047
IC	.405	.161	.348	2.510	.016

Based on the Table 1, the following decisions can be made:

- a. If  $t$  calculated  $\leq t$  table then  $h_0$  is accepted
- b. If  $t$  calculated  $> t$  table then  $h_0$  is rejected
- c.  $Sig > 0.05$  then  $h_0$  is accepted
- d.  $Sig < 0.05$  then  $h_0$  is rejected

### 4.3 The F-test

According to Sallis et al. (2021) the F test was used to determine the effect and significance of the independent variables on the dependent variable simultaneously. The criterion for the F test is that if F calculated  $> F$  table and significance  $< 0.05$ , then the independent variable can be categorized has an effect and is significant on the dependent variable simultaneously.

**Table 2. ANOVA**  
ANOVA<sup>a</sup>

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	278.235	3	92.745	15.946	.000 <sup>b</sup>
	Residual	226.834	39	5.816		
	Total	505.070	42			

Based on the Table 2, the following decisions can be made:

- a. If F calculated  $\leq F$  table then  $h_0$  is accepted
- b. If F calculated  $> F$  table then  $h_0$  is rejected
- c.  $Sig > 0.05$  then  $h_0$  is accepted
- d.  $Sig < 0.05$  then  $h_0$  is rejected

### Results

1. The business strategy has  $t$  calculated  $> t$  table ( $2.173 > 2.020$ ) and a  $Sig$  value of  $0.036 < 0.05$ , then  $h_0$  is rejected,  $h_a$  is accepted, which means that business strategy has a significant effect on firm performance
2. Market orientation has  $t$  calculated  $> t$  table ( $2.053 > 2.020$ ) and a  $Sig$  value of  $0.047 < 0.05$ , then  $h_0$  is rejected,  $h_a$  is accepted, which means that market orientation has a significant effect on firm performance
3. Innovation capability has  $t$  calculated  $> t$  table ( $2.510 > 2.020$ ) and  $Sig$  value  $0.016 < 0.05$ , then  $h_0$  is rejected and  $h_a$  is accepted, which means that innovation capability has a significant effect on firm performance
4. The calculated F value  $> F$  table ( $15.946 > 3.232$ ) and  $Sig < 0.05$  ( $0.000 < 0.05$ ) then  $h_0$  is rejected,  $h_a$  is accepted, which means that business strategy, market orientation, and innovation capability has a positive and significant effect simultaneously on firm performance

### 4.4 Research Implication

#### a. Theoretical Implications

The business strategy has a correlation value ( $r$ ) of  $0.635$ , which means that the business strategy has a strong correlation. Market orientation has a correlation value ( $r$ ) of  $0.530$ , which means that market orientation has sufficient correlation. And innovation

capability has a correlation value ( $r$ ) of 0.640, which means that innovation capability has a strong correlation. The relationship between business strategy, market orientation, and innovation capability towards firm performance is positive, which means that if business strategy increases, firm performance will also increase and vice versa if business strategy decreases, firm performance will decrease as well as the ability of market orientation and innovation capability. The findings of this study will add value to knowledge in detail about the vehicle rental business in Jakarta, Indonesia can achieve the most optimal performance in order to achieve competitive advantage through business strategy, market orientation and innovation. This research can also be written evidence that can support several previous similar studies. Each effect of the independent variables will be explained separately as follows:

#### 1. The Effect of Business Strategy on Firm Performance

The business strategy has  $t$  calculated  $> t$  table ( $2.173 > 2.020$ ) and a  $Sig$  value of  $0.036 < 0.05$ , then  $h_0$  is rejected,  $h_a$  is accepted, which means that business strategy has a significant effect on firm performance. This indicates the company is able to implement existing business strategies and integrate them into all company operational activities so that this has an impact on increasing firm performance. This study supports previous research from Romadhon and Ahmar (2020), which proves business strategy has a positive and significant effect on firm performance. The implementation of the right business strategy by the company is crucial because it will have an impact on increasing profits and being able to compete with other companies. It is very important for a company to implement a strategy that best suits the general needs of the company, so that the resulting company performance will be even better in the future. This research also supports another research from Yuliansyah et al. (2017) which states the same, business strategy has a positive and significant effect on firm performance.

XYZ firm has implemented several new strategies during the pandemic to provide a sense of security and trust for consumers, as well as focusing on cleanliness in all operational and organizational processes that refer to Clean and Healthy Living Behavior (PHBS), vaccinating all employees, providing employee pick-up service for companies that are still implementing the WFO policy during the pandemic, the company also ensures the cleanliness of its vehicles so that they are always sterile before the use, the XYZ firm also applies physical distancing when driving according to the rules, and finally, what is quite important is the use of technology in the form of applications. Application XYZ To Go can be used by consumers anywhere and anytime. This change in strategy is carried out so that the company's performance can be maximized in the midst of the current pandemic conditions.

#### 2. The Effect of Market Orientation on Firm Performance

Market Orientation has  $t$  calculated  $> t$  table ( $2.053 > 2.020$ ) and a  $Sig$  value of  $0.047 < 0.05$ , then  $h_0$  is rejected,  $h_a$  is accepted, which means that market orientation has a significant effect on firm performance. This study supports previous research from Udriyah et al. (2019), which proves market orientation has a positive effect toward business performance both directly and indirectly. Similar results were also found in the previous study from Salehzadeh et al. (2017) that states market orientation has a positive and significant effect on firm performance. Market orientation is the key to assist companies in achieving competitive advantage so as to improve firm performance. Market-oriented companies will explore environmental changes to capture existing opportunities according to consumer needs. XYZ firm is quite fully oriented towards the market by exploring



environmental changes to capture existing opportunities while still seeing what the customer needs. In improving business performance in the midst of this pandemic, XYZ firm has become more focused on paying attention to market orientation so that it can ensure that its products are in accordance with market needs. XYZ firm has taken a bold step in changing its target market which was originally before the pandemic was consumers who needed vehicle rental services such as airport pickups and car rentals for holidays, but after the pandemic, they changed their target market to middle and upper consumers to exclusively rent private buses for vacations. This is done by XYZ firm to adapt to current conditions and try to match customer needs in the midst of existing conditions. This research also supported previous research from Zehir and Zehir (2019) that proves market orientation has a positive and significant effect on firm performance. To be able to improve firm performance, companies need to understand customers and create customer value.

### 3. The Effect of Innovation Capability on Firm Performance

Innovation Capability has  $t$  calculated  $> t$  table ( $2.510 > 2.020$ ) and  $Sig$  value  $0.016 < 0.05$ , then  $H_0$  is rejected and  $H_a$  is accepted, which means that innovation capability has a significant effect on firm performance. This study supports previous research from Abdirahman and Tarique (2020) which states innovation capability has a positive and significant effect on firm performance. The application of innovation capability has an important role in the development and growth of a company. Innovation capability helps companies to create the latest innovations that will have an impact on improving firm performance. Similar results were also found in the previous study from Udriyah et al. (2019), innovation has a positive and significant effect on business performance both directly and indirectly. It is very important for companies to continuously improve innovation. This can be done by increasing the variety of products offered, creating unique products that did not exist before and different from competitors, then it can also be done by making product packaging that is more attractive. In the context of XYZ firm that relies on innovation in terms of its business processes, innovation can be implemented, for example, introducing new methods or tools that offer more value, such as being more effective and efficient, so it can help increase productivity and attract customers. The more customers who are interested in using the company's services, this indicates a good company performance. Innovations such as new methods can also be implemented internally in the company so that employees can be more productive in their daily performance.

### 4. The Influence of Business Strategy, Market Orientation, Innovation Capability on Firm Performance

The calculated  $F$  calculated  $> F$  table ( $15.946 > 3.232$ ) and  $Sig < 0.05$  ( $0.000 < 0.05$ ), then  $H_0$  is rejected,  $H_a$  is accepted, which means that business strategy, market orientation, innovation capability together have an effect on firm performance. According to Totonchyfardmotlagh (2021), firm performance is defined as the company's way of measuring the performance of the company's performance structure. Firm performance measurement can be tracked empirically supported by the role of individuals and organizations to meet the needs of stakeholders with the company's ability to generate profits (Barney, 2020). To improve a company's performance and profit, a company needs a link between business strategy (BS), innovation capability (IC) and market orientation (MO). Business strategy in improving company performance, the development of innovations is needed Zehir & Zehir (2019). According to research by Siahaan & Tan

(2020) innovative capability can increase competitiveness and firm performance in product development, promote product and service innovations that contribute to sales and firm performance. After developing innovation capability, in developing the company, it is very necessary to determine the target market. According to Durie & Shetemam (2018) market orientation is the most effective and efficient aspect of creating superior value for buyers and thus, the company's performance will continue to run well. According to research results, there is a significant influence between business strategy, market orientation and innovation capability can create performance and profits of a company to continue to increase.

### **b. Managerial Implications**

This research helps to review how business strategy, market orientation, and innovation capability are currently being implemented by company XYZ from the perspective of employees who play a direct role in activities that have an impact on company performance. Statements given by employees as respondents in the questionnaire results can also be honest answers for feedback for the company. So that the research results can help XYZ firm to develop its business in the future by looking at how business strategy, market orientation, and innovation capability can affect the company's performance. Based on the results of the questionnaire, it was found that the majority of respondents agree the company where they work (XYZ firm) has not had a promising market share in vehicle rental. Therefore, it is important for the leaders of the company to try to expand market share to new areas and increase the number of vehicles that will be rented out. In addition, the results of the questionnaire also stated that the respondents agreed with the item which states "*Companies assist consumers in meeting additional needs for rental facilities*". It can be indicated that XYZ firm is very good at serving customers in terms of meeting the needs of additional rental facilities. However, according to respondents, XYZ firm sometimes lack in responding to consumer complaints in order to improve service. So that the XYZ firm needs to improve in terms of customer service, especially in terms of complaints submitted and also provide the best solutions for customer complaints so that the quality of the services provided will be even better. And lastly, XYZ firm needs to increase its commitment to improve service quality by providing the best solutions through its services such as increasing employee training, holding a call center or help desk division.

## **V. Conclusion**

Based on the results of data processing in this study, the purpose of this study was to determine the effect of business strategy, market orientation, and innovation capability on firm performance. The conclusions in this study are as follows:

- a. Business strategy has a positive and significant effect on firm performance
- b. Market orientation has a positive and significant effect on firm performance
- c. Innovation capability has a positive and significant effect on firm performance
- d. Business strategy, market orientation, and innovation capability has a positive and significant effect simultaneously on firm performance

The suggestions in this research are as follows:

1. XYZ firm should expand market share to new areas and increase the number of vehicles to be rented out.
2. XYZ firm should give a warning or sanction to employees who do not respond to consumer complaints. Also, provide training to employees on how to provide the best solution for consumers.
3. XYZ firm should provide advice and training to employees on how employees can do new ways of working in order to achieve company goals.
4. XYZ firm should improve customer service withhold a call center or help desk division.

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