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Mobilising Financial Performance of the Indonesian Automotive Industry: The Role of Innovation Dimensions and Environmental Sustainability Orientation

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This study is designed to determine the role of innovation dimensions such as marketing innovation, management innovation, product innovation and process innovation on the financial output of the companies, in mediating the role of environmental sustainability. The significant aim of the paper is to analyse the role of these innovation dimensions in an organisation. The paper consists of different sections: introduction, literature, data collection method, analysis and conclusion. Existing studies were analysed to identify the relationships. These studies analysed proved that innovation dimensions such as marketing innovation, product and process innovation have a significant impact on the financial performance of the companies. Furthermore, the data has been collected through a survey questionnaire from executive officers as well as managers of the automotive industry. At the same time, the researcher has adapted all the measurement items from different authors' research work because the researcher considered them more reliable and authentic. The data has been tested and analysed through SPSS and AMOS software; also the SEM technique was used. The results indicate that process, product and management innovation have a significant positive impact on the financial performance of the companies. While marketing innovation does not have a positive impact on the financial output of the automotive industry. At the same time, environmental sustainability



¹ has a significant mediating role. Therefore, the automotive industries should focus on product, process and management innovation strategies.

Key words: *Financial Performance, Innovation Dimensions, Environmental Sustainability Orientation.*

Introduction

Like many other countries in Asia, Indonesia has effectively encouraged the automotive industry. In the last few years the productivity in the automotive industry of Indonesia was not so good and their financial performance was affected. The automotive industry of Indonesia imports ready-made cars and motorbikes that have been so expensive and that led to an inflow of distant manufactures (Dowlah, 2018). There is a huge tradition of government intervention in Indonesia's economic growth and industrialisation development. Product innovation (PI) is essential for better financial performance and it is defined as the market and development introduction of a brand new, sustainability improved product and restructured service (León-Bravo, Moretto, Cagliano, & Caniato, 2019). Product innovation is important as it increases and improves the existing version of the product. PI completely enhances the quality and performance of the product which leads to economic growth and gaining a competitive advantage (Akram et al., 2011; Rajapathirana & Hui, 2018). PI is an essential task after product innovation strategy. It involves the execution of a brand new and significantly refined product and delivery method (Najafi-Tavani, Najafi-Tavani, Naudé, Oghazi, & Zeynaloo, 2018). PI mainly involves significant changes in the existing product manufacturing or delivery process (Maier, 2018). PI is important for a profitable and continually growing business. The innovation process increases the value of services and products for the customers and it also improves the productivity and efficiency of the goods (Shujahat et al., 2019). Job satisfaction among the employees of an organisation is also increased by the innovation process.

At the same time, marketing innovation helps in achieving the targeted economic growth (Chaffey & Ellis-Chadwick, 2019). It is a process of execution of a new marketing procedure that involves significant changes in the product design and its packaging. It also involves product placement and product promotion. The main aim of marketing innovation is to give value to customers and enhance their competitive advantage (Kuncoro & Suriani, 2018). The marketing innovation process is followed by the firms in order to improve its goods as well as the marketing process to satisfy the needs of its consumers (Herman, Hady, & Arafah, 2018). Management of innovation includes a set of tools that enable the managers, employees and users to cooperate with the common comprehension of the processes and objectives. Environmental Sustainability Orientation (ESO) means that the product manufactured by the

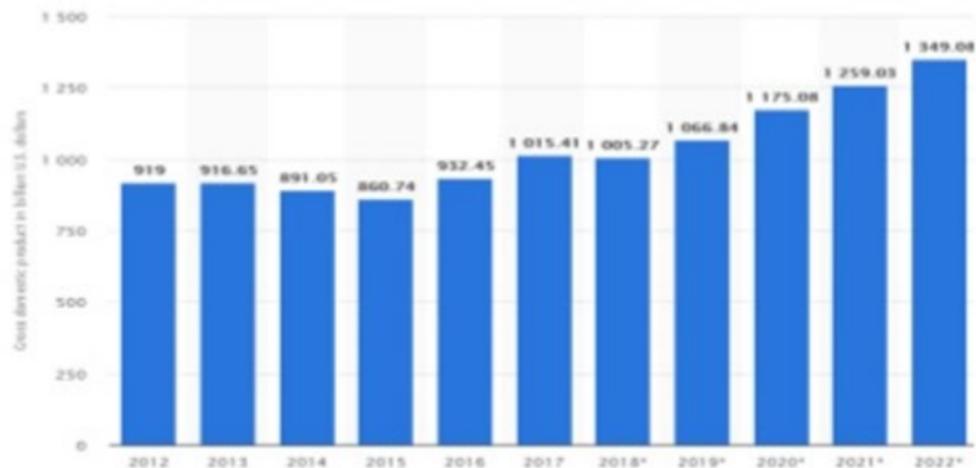


company is environmentally friendly and has a positive impact on the environment as well as the financial performance of an organisation. Environmental Sustainability Orientation (ESO) is concerned with the protection of the environment and also the social responsibility of the employees (Adomako, Amankwah-Amoah, Danso, Konadu, & Owusu-Agyei, 2019). Financial performance measures the financial statement and helps to understand whether the business is generating profits or losses. The financial performance also helps to recognise whether the profits or losses of the company are decreasing or increasing (Barnett, 2019). Financial performance gives financial data that helps to measure the financial growth of the company.

A few outlook trends of the automotive industry of Indonesia indicate that Financial Performance has increased but not as effectively as other countries have. The Figure 1 indicates that during 2012-2018 the FP of the Indonesia automotive industry went up and down. However, in the future, the FP of the automotive industry can be enhanced. This would be possible if the automotive industry focuses on innovation dimensions.

Figure 1. Indonesia Automotive Industry Trend

Indonesia's Automotive Industry – GDP 2012-2022



This research was conducted in order to analyse the impact of innovation dimensions. Until now, no research has helped to analyse the FP of the automotive industry of Indonesia. Moreover, no other research has explained the role of innovation dimensions in effecting financial performance. Different previous studies suggest that there should be a study that analyses the role of innovation dimensions on FP. Neslihan Beyhan Yasar and Ibrahim in



their research recommended that a future study must analyse the impact of innovation dimensions on FP. Therefore, the study has given objectives:

- The 1st objective of the study is to find the impact of product innovation on the FP of the automotive industry in Indonesia.
- The 2nd objective is to determine the role of process innovation on FP in the Indonesia automotive industry.
- The 3rd objective is to analyse the impact of marketing innovation on FP in Indonesia.
- The 4th objective is to find out the role of management innovation on FP in Indonesia.
- The 5th objective is to analyse the mediating effect of environment sustainability orientation in a relationship between process innovation, PI, management innovation and marketing innovation on the financial performance of the automotive industry in Indonesia.

This study is therefore significant in determining the role of these innovation dimensions on the performance of the Indonesia automotive industry. Furthermore, the study also has a wider scope in the Indonesia automotive industry because it will help to determine the role of innovation dimensions and its effects on FP. The paper consists of different chapters. The first chapter is the introduction of all concepts used in this research. The second chapter is the Literature Review and comprises all previous studies related to the variables. The third chapter is the theoretical model/framework. Chapter four is research methodology and data collection techniques. Chapter five is the analysis and results description. Finally, chapter six is the conclusions, recommendations and future research.

Literature Review

Innovation Theory

The term innovation theory was introduced in 2003 by Rogers. The theory of innovation illustrates that innovation is an ongoing process that is determined through a societal group as well as focuses on the decision making process (Diercks, Larsen, & Steward, 2019). Innovation theory also states that innovation plays a significant role in all types of businesses. Whether it is a small or large scale organisation innovation has a significant impact (Babri, Davidson, & Helin, 2019; Hari Adi & Adawiyah, 2018). Moreover, there are different types of innovation that help an organisation to meet the financial goals as well as objectives (Para-González, Jiménez-Jiménez, & Martínez-Lorente, 2018). The more an organisation focuses on the innovation process, the higher is the financial performance of that firm.



Product Innovation and FP

It is well known that the financial performance of an organisation depends on various factors. Product innovation is one of these important factors. Numerous studies have been conducted that explore the role of product innovation on the financial performance of the firms. Product innovation enhances the features, quality and effectiveness of the product (Ho, Nguyen, Adhikari, Miles, & Bonney, 2018). The customers, on the other hand, are attracted towards a product which is new and highly differentiated. Therefore, innovation does not only help to add features in an existing product but it also helps to enhance the financial outcome of the firm (Malagueño, Lopez-Valeiras, & Gomez-Conde, 2018). Using similar features, design and styles in a product affect the sales or revenue of the company. Similarly, product innovation creates the demand for the product and it significantly affects the profitability of the company (de Oliveira, Basso, Kimura, & Sobreiro, 2018). At the same time, product innovation creates a subsequent introduction of a product or service that is either a new or improved version of the previous product or service. The improved version of the product/service satisfies the demands of the customers (Rajapathirana & Hui, 2018). As a result, the financial performance of firms increases. This relationship is also supported by innovation theory. According to innovation theory, the new product or service takes the position of the old product and subsequently affects the financial output. Therefore this study proposed the following hypothesis:

H1: There is a momentous relationship between PI and the financial output of firms.

Process Innovation and FP

Process innovation also has a vital role in enhancing profitability and financial performance. Process innovation implements a new or improved production or delivery method in order to capture the attention and meet the demands of customers (Ho et al., 2018). Whether there are minor changes or major changes in the production process, it may help to enhance the financial performance of the companies. A study indicates that process innovation adds significant features to the old process of manufacturing or delivery that simply helps to increase the sales of the company (Popa, Soto-Acosta, & Perez-Gonzalez, 2018). When sales increase, the financial objectives are automatically met and the company grows. Moreover, a study indicates that process innovation also affects the overall product features. For instance, if a company is making a product through an old system then focuses on a new process of making the goods or services, the final output will be significantly different. This relationship is affected by the innovation theory. The process of innovation creates a new value for which the customer is willing to pay. The 2nd hypothesis of the study is:

H2: There is a strong relationship between process innovation and FP of the firms.



Marketing Innovation and FP

Organisation success depends on different factors and marketing innovation is one of these primary factors. Marketing innovation practices also affect the financial output of the firm in a significant way (Epstein, 2018). Different studies analyse the relationship between marketing innovation and profitability. The term marketing innovation refers to the innovative strategies that a firm must focus on in order to enhance profitability. A study illustrates that the marketing innovation strategies are aimed at better understanding the customer needs and requirements (Hirunyawipada & Xiong, 2018). The more an organisation focuses on implementing new marketing strategies, the more they understand the needs of the customers. As a result the financial performances of the companies are enhanced. This shows that there is a fundamental relationship between marketing strategies and the company's financial performance. A previous study shows that different companies now using innovative marketing strategies such as: marketing through blogs, websites, social media, instant messages and 4ps that directly affect the profit generation of the companies (Rajapathirana & Hui, 2018). The following relationship supported by the theory of innovation. The theory says that successful marketing practices produce positive outcomes. Therefore the 3rd hypothesis of the study is:

H3: There is a positive relationship between marketing innovation and FP.

Management Innovation and FP

In recent years organisations in Indonesia had many objectives including competitiveness and high-profit long term survival. However, sustainability has become a particular act of work or non-work firms because it moves the companies towards better performance. Financial performance is directly related to innovation management as it plays an important role in boosting an organisation's competitive advantage. The economic growth of the automotive industry of Indonesia is directly related to innovation strategy and innovation management (Amarakoon, Weerawardena, & Verreynne, 2018). Innovation management has the ability to successfully manage the innovation methods and procedures of an organisation. Management innovation includes all the decision-making activities and other procedures regarding the execution and the formulation of an innovation strategy that directly impacts the financial performance of an organisation (Latan, Jabbour, & de Sousa Jabbour, 2018; Malesky & Taussig, 2017; Tahir, 2017). Management innovation is a significant process for firms as it helps a business to remain competitive. An innovative good or product cannot be successful on a commercial level without proper and careful innovation management that's why the companies must commit to management innovation process in order to increase the financial performance and economic growth. A recent study proves that more than 90% of senior management believe that the long term success of their firm's strategy mainly depends on



their ability to construct new ideas (Tan & Sousa, 2019). Therefore the 4th hypothesis of the study is:

H4: There is a positive relationship between management innovation process and FP.

Environment Sustainability Orientation (ESO) and Relationship between PI & FP

Environment Sustainability Orientation (ESO) has the biggest role in enhancing the financial performance of companies (Yu & Huo, 2019). Basically, ESO determines the influence of business activities such as manufacturing and production on financial outcomes. Commonly, it is important that when companies focus on the production or manufacturing process it must be environment-friendly. It is essential that if a company is going to change the product or is adding features to a product then the process must be environment-friendly. Despite other factors, ESO significantly affects the product innovation process (Danso, Adomako, Amankwah-Amoah, Owusu-Agyei, & Konadu, 2019). The more an organisation focuses on environmental sustainability the more it affects the product innovation practices and vice versa. Therefore, the process of environmental sustainability affects the product innovation process and it enhances the relationship between PI and FP. The relationship between PI and financial performance with the help of the mediating role of environmental sustainability orientation proved that innovation theory has a crucial role in the financial performance of the companies. The more companies take care of environmental sustainability the more it produces positive results and enhances overall performance. Therefore the 5th hypothesis is:

H5: ESO has a significant mediating role in the relationship between PI and financial performance of automotive companies.

ESO and the Relationship between a Process Innovation and FP

Process innovation is innovative practices in the old process. Existing studies determined the relationship between process innovation and its significant impact on the process of making a product. One study discussed how companies must focus on the innovation process by using sustainability environment practices (Danso et al., 2019). When companies introduce a new process to prepare a product it should be environment-friendly. The process innovation practices do not harm the environment and do not produce a negative result. The more effective the innovative process of the company, the more it will help to enhance the financial performance as well as the profitability of the company. Therefore, ESO has a significant impact on relationship between financial performance and process innovation. Therefore the 6th hypothesis is:



H6: The ESO has a positive mediating role in a relationship between process innovation and FP.

ESO and Relationship between Management Innovation and FP

Management innovation practices also significantly affect the financial output of companies. Management innovation means the organisation should make decisions that are rational and effective for everyone. Management decisions do not only affect the overall decisions of the company but it also affects the FP of the companies (Maletič, Maletič, & Gomišček, 2018). ESO may affect management innovation through differentiating between right and wrong dimensions. The more a company focused on sustainability orientation, the more people involved in the decision-making process and the more effectively it will affect the financial output of the companies (Dickel, Hörisch, & Ritter, 2018). This is how the relationship can be enhanced. Therefore the 7th hypothesis of the study is:

H7: ESO has a primary mediating role in a relationship between management innovation and FP.

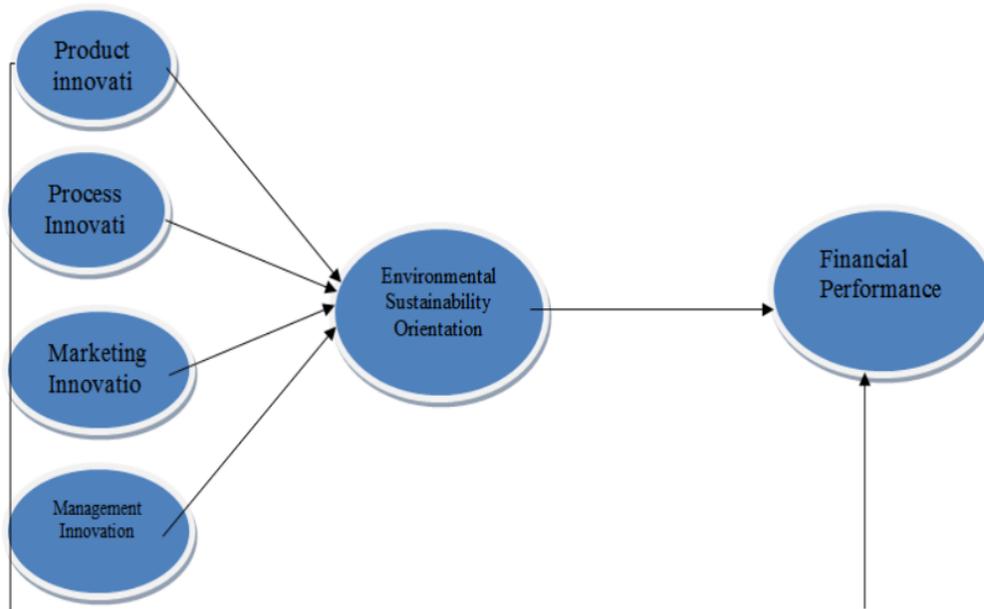
ESO and Relationship between Marketing Innovation and FP

The environmental sustainability orientation also impacts on the marketing innovation practices that further affect the financial output. The ESO has mediating effects on a relationship between marketing innovation and FP. The process of ESO illustrates that companies should make strategies that are beneficial for the organisation's profitability (Hou, 2019). The marketing innovation relationship with FP is affected by the role of ESO. Therefore, ESO has a significant impact on the financial output of companies. The relationship is also supported by the theory of innovation. Therefore the 8th hypothesis is:

H8: ESO has a primary mediating role in enhancing the relationship between marketing innovation and FP.



Theoretical Framework



1 Research Methodology

Population and Sampling

In **this research study**, the researcher wanted to consider the role of innovation dimension and environmental sustainability orientation in mobilising the financial performance of the Indonesia automotive industry. The reason for selecting Indonesia as the study population was that the automotive industry of Indonesia has been considered the most important pillar for the countries manufacturing sector because it contributes a lot in economy of Indonesia and most importantly Indonesia is shifting the merely export driven car centre into a major domestic car market as the GDP is rising. Indonesia wants to become the market leader and leave behind Thailand. That is why it is mandatory to research the financial performance of the Indonesian automotive industry. The researcher collected data from executive officers and managers of the three leading car industries of Indonesia such as Toyota, Daihatsu and Honda because they have the greatest market share of automotive industry. and therefore would be the best for studying their different financial performance strategies. Further, purposive sampling techniques have been used by the researcher for sampling, as managers and executive officers have strong opinions regarding financial performance parameters. The researcher distribute 450 questionnaires out of which only 390 responded and at the end only 350 were considered valid.



Data Collection Procedures

The researcher choose a survey strategy, using a questionnaire the best suitable option for data collection about the role of variables such as innovation dimensions, environmental sustainability orientation and financial performance.. As the researcher wanted to collect objective and quantitative responses rather than subjective responses the questionnaire used two kind of closed ended questions such as demographic items and variable scale items. The researcher checked the content validity of measures in questionnaire with industrial practitioners. Also they checked the understanding of the questionnaire with a pilot study of with 25 respondents. The researcher corrected the mistakes in structure and wording of the questionnaire and administered it through both online and self-administering techniques for easier data collection and for minimising the risk of misunderstanding of the survey questions.

Measures

In the questionnaire, the researcher used different measurement items for measuring the independent, dependent and mediating variables of the study. The researcher has adapted measurement items from different existing research work because it was considered to be more reliable and authentic. For measuring the innovation dimensions the researcher adapted various measures such as: for product innovation 3 survey items have been adapted from (Gunday, Ulusoy, Kilic, & Alpkhan, 2011); for process innovation 3 survey items from (Gunday et al., 2011); for management innovation 3 measurement items from (Vaccaro, Jansen, Van Den Bosch, & Volberda, 2012); and for marketing innovation, 3 survey items from (Gunday et al., 2011). Further, the researcher measured the environmental sustainability orientation through 12 measurement items, which have been adapted from research work of (Roxas, Ashill, & Chadee, 2017) and for financial performance measurement 6 survey items have been taken from (Luk et al., 2008), (Li & Zhang, 2007) & (Venkatraman & Ramanujam, 1986). All these measurement items responses have been measured with the 5-point Likert scale, in which responses ranges from 1 (strongly disagree) to 5 (strongly agree).

Data Analysis

SPSS and AMOS are the two software programs which the researcher used to analyse the collected data. The data reliability has been assessed by SPSS through two criteria such as Cronbach's alpha and composite reliability; both of these values have to be in the threshold range greater than 0.70 because above that value items reliability and internal consistency of data can be ensured. Further, the researcher used AMOS for running the confirmatory factor analysis diagnosis, which assessed the convergent validity, discriminant validity of the data and model fitness. AMOS has also been used for performing SEM, which assessed the hypothesis and reported their acceptance or rejection status.



Data Analysis and Interpretation

In this study 303 questionnaires were distributed among the participants. The demographic details of respondents were 125 males and 178 were females. The numbers of females were high education wise; 23 of the respondents were graduates; 148 of the respondents were postgraduates; 122 of the respondents had done their masters and 10 had some other degree. Age wise: 42 of the respondents were between 21 to 30 years old; 184 from 31 to 40; 58 from 41 to 50 years old and 19 were 50+ in age.

Table 1: Descriptive Statistics

	N	Minimum	Maximum	Mean	SD	Skewness	
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	SD
FinPerf	303	1.00	5.00	3.5886	1.08333	-.884	.140
ProdInn	303	1.00	6.33	3.4142	1.09171	-.214	.140
ProclInn	303	1.00	5.00	3.5726	1.11912	-.770	.140
MarkInn	303	1.00	5.00	3.5886	1.13969	-.828	.140
MangInn	303	1.00	5.00	3.6062	1.08081	-.842	.140
EnvSusOri	303	1.00	5.00	3.4095	1.08127	-.564	.140
Valid N (listwise)	303						

Table 1 shows the descriptive statistics of the study. The descriptive statistics explained the variables in the study and showed the descriptive coefficients, giving a complete summary of data. This set of data represent the entire sample of the population. The data shows that there is no outlier because maximum values are in the threshold range of 5-point Likert scale and the value of skewness is between -1 to 1; which is the threshold range of normality. Therefore the given data is normal and valid and suitable for further testing.



Table 2: Rotated Component Matrix

	Component					
	1	2	3	4	5	6
FP1		.736				
FP2		.781				
FP3		.855				
FP4		.843				
FP5		.833				
FP6		.806				
PD1						.688
PD2						.726
PD3						.770
PC1				.787		
PC2				.832		
PC3				.810		
MK1			.810			
MK2			.842			
MK3			.864			
MG1					.793	
MG2					.838	
MG3					.788	
ES1	.836					
ES2	.864					
ES3	.870					
ES4	.883					
ES5	.881					
ES6	.886					
ES7	.857					
ES8	.825					
ES9	.824					
ES10	.812					
ES11	.767					
ES12	.811					

¹ Table 2 of rotated components matrix shows that almost all of the indicators have a factor loading of more than 0.7. This means that all indicators are eligible to be exposed to further hypothesis testing techniques because all the factors are in a suitable threshold level and suitable and valid sequence and range. Therefore this data is suitable for further testing techniques. There is no cross loading in the data shown in RCM therefore the data is reliable.



Table 3: Convergent and Discriminant Validity

	CR	AVE	MSV	MaxR(H)	MG	FP	PD	PC	MK	ES
MG	0.902	0.754	0.355	0.911	0.868					
FP	0.946	0.745	0.373	0.967	0.548	0.863				
PD	0.871	0.692	0.521	0.973	0.459	0.559	0.832			
PC	0.926	0.806	0.373	0.980	0.596	0.611	0.392	0.898		
MK	0.925	0.805	0.342	0.984	0.524	0.522	0.439	0.585	0.897	
ES	0.926	0.774	0.521	0.991	0.487	0.497	0.722	0.391	0.443	0.880

¹ The validity master sheet was used in order to confirm the convergent and discriminant validity for the research model variables. The discriminant validity provided the discrimination between variables while the convergent validity was measured with the help of composite reliability and average variance extracted. The results of the validities are shown in Table 3. The results and convergence of each variable is more than 70%. The average variances extracted are more than 50%, while the discriminate validity showed that the loading of each variable discriminates from each other. Every variable has maximum loading with itself as compared with others. Therefore these validities prove the authenticity of the collected data.

Table 4: Confirmatory Factor Analysis

Indicators	Threshold range	Current values
CMIN/DF	Less or equal 3	2.308
GFI	Equal or greater .80	.844
CFI	Equal or greater .90	.949
IFI	Equal or greater .90	.950
RMSEA	Less or equal .08	.066

Table 4 is of CFA. This is the confirmatory factor analysis used to confirm the fitness of the hypothetical model before structural equation modelling. Current results show: the CMIN is less than 3; GFI is more than 0.80; CFI is more than 0.90; IFI is more than 0.90; and RMSEA is less than 0.08. All of the results show that the data is in a valid range and is suitable for further testing. Figure 1 is a screen shot of CFA. .

Figure 1: CFA

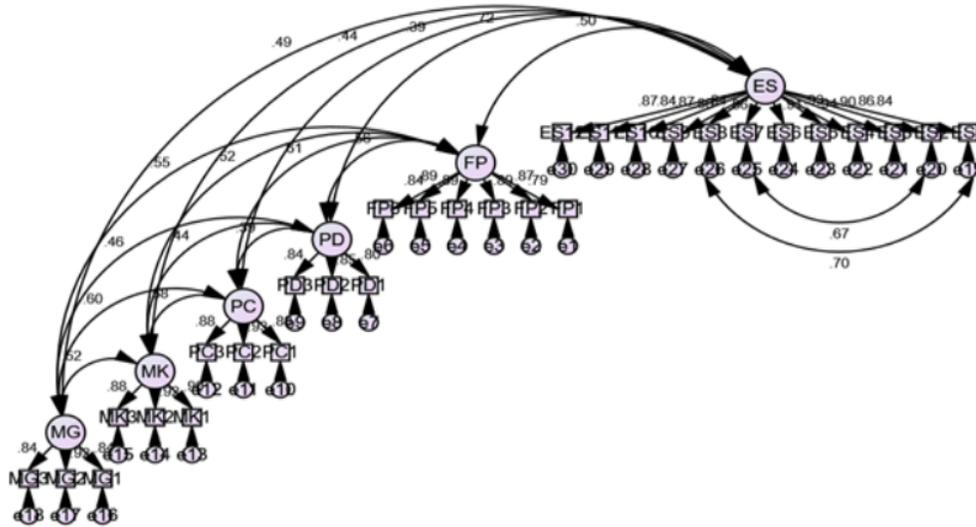


Table 5: SEM

Total effect	MangInn	MarkInn	ProcInn	ProdInn	EnvSusOri
EnvSusOri	.192**	.083	.108*	.485***	.000
FinPerf	.135**	.094*	.337***	.412***	.376***
Direct effect	MangInn	MarkInn	ProcInn	ProdInn	EnvSusOri
EnvSusOri	.192**	.083	.108*	.485***	.000
FinPerf	.063	.062	.297***	.230**	.376***
Indirect effect	MangInn	MarkInn	ProcInn	ProdInn	EnvSusOri
EnvSusOri	.000	.000	.000	.000	.000
FinPerf	.072**	.031	.041	.182**	.000

Table 5 of SEM shows the relationships of different variables with each other and the impact they have on each other. The impact of **M** is significant on ESO but insignificant on FP. The impact of **MarInn** is insignificant on ESO and FP. The impact of **PI** is significant on ESO and FP. The impact of **ProdInn** is significant on ESO and FP. Moreover, **ESP** impacts FP significantly and positively. Below is SEM in Figure 2.



Affandi, 2016), when a product is amended with due care for the environment the customer is more attracted towards such innovation and this increases the performance. The sixth hypothesis proposed 'the mediating role of Environment Sustainability Environment between Marketing Innovation and Financial Performance is positive and significant' this hypothesis was accepted. According to researchers (Simatupang, Rustiadi, & Situmorang, 2012) a new market with new products that cater for environmental sustainability cause an instant boost in financial performance. The seventh hypothesis proposed was 'the mediating role of environment sustainability on Management Innovation and Financial performance is positive and significant' this hypothesis was rejected. According to the researcher (Zuhdi, 2012), innovation in the product also demands innovation in management which is done according to product renewal and according to sustainability if the environment. The eighth hypothesis proposed was 'the mediating role of environmental sustainability between process innovation and financial performance is positive and significant' this hypothesis was accepted. According to the researcher (Simatupang et al., 2012), environmental safety also demands change of process that will not make sure the performance is steady and stable.

Conclusion

The desired outcome of this study was to see the aftermath of PI, PI, MI and MI on FP with the mediating role of ESO. The data sample was collected from 303 respondents of the automobile sector of Indonesia which helped the researchers to propose the hypotheses that product processes and management needs to be amended to assure environment sustainability. This will then make sure that the environment is not being effected, customers are attracted towards it and the financial performance is stable and steady.

Implications of the Study

This study has added to the fundamentals that a company should consider the environment and the strategies which are formulated to keep in mind the green benefits of the society. Through this study, organisations can implement PI, process innovation and marketing innovation in order to improve their financial performance; as it is based on the differentiation in the market.

Limitations and Future Recommendations

In this study only sustainability was considered. The manufacturing and processing of the green marketing should also have been part is this study. The sector chosen for this study was small and should have been larger. In a future study it is suggested to choose the sector wisely and also introduce green marketing.



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