

Batik SME Marketing Model: From Conventional to Community

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ABSTRACT

The contribution of this research is to fill the gaps in the literature on community marketing, especially for batik SMEs. The purpose of this research is to construct a batik SME business performance model by including entrepreneurial orientation (EO) and cognitive bias (CB) variables, marketing strategies, and the role of the community on business performance. The data of 309 respondents was obtained from a survey of batik SMEs in Central Java, Indonesia. It was then analyzed using structural equation models and AMOS software. It was found that CB can affect business performance mediated by EO. Meanwhile, the existence of a batik SME community can influence business performance mediated by marketing strategies. Future research needs to explore the dynamics of community formation which can then help SMEs to develop and market their products. Besides that, it is necessary to further investigate the role of the community in carrying out marketing, from conventional methods to community marketing.

Keywords: Entrepreneurship orientation, cognitive bias, business performance, marketing, community

Introduction

Previous research on this matter is still very limited, so this research aims to explain the role of the marketing community in improving the performance of SMEs. Many factors are accompanying the role of this community in influencing business performance; however, in this research, the emphasis is on the aspects of entrepreneurs as seen from their cognitive bias (CB) and entrepreneurial orientation (EO), marketing strategies, and the role of the community itself.

Previous research has linked CB and EO with business performance directly (Gudmundsson & Lechner, 2013; Nakruang et al., 2020). However, there is no link between CB and business performance with EO as the mediation. Marketing and community strategies affect business performance (Nakruang et al., 2020; Scuotto et al., 2017). Nevertheless, not many have discussed the role of the marketing community on business performance by mediating marketing strategy variables. It needs to be examined which model is more fit, whether EO, CB, marketing strategy, the role of the community is directly related to business performance, or is the model more fit with the mediation relationship, where EO and marketing strategy is the mediation.

Literature Review

The results of previous research indicate that personality traits have a significant influence on the performance of SMEs through cognitive characteristics (Isaga, 2018). This means that the cognitive bias that occurs in entrepreneurs can improve business performance. Other findings suggest that two cognitive biases (i.e., the illusion of control and belief in the law of small numbers) have a significant relationship with probability evaluation. While the illusion of control is

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completely mediated by the perception of risk, belief in the law of small numbers has a direct effect. It influences the evaluation of opportunities, which in turn will enable entrepreneurs to assemble resources and develop their businesses (Kannadhasan et al., 2014; Simon et al., 2000).

The cognitive bias of entrepreneurs has emerged as one of the central themes in understanding entrepreneurial firm performance. Previous research has shown that employers' over-confidence and optimism bias help company creation but also contribute to firm failure. The results of the research carried out by it show that overconfidence has a major negative influence on survival. Optimism and distrust are conflicting cognitive biases that influence over-trust, but exhibit direct opposite effects on firm survival. Furthermore, the entrepreneur's cognitive type exhibits diverse influences on the organization such as the tendency to delegate and financial orientation, but it has corresponding positive effects on opportunity orientation. A study suggested that employers should balance their organizations, for example through hiring policies, to prevent overconfidence, optimism, or distrust from becoming the dominant organizational culture (Gudmundsson & Lechner, 2013).

Although there is still controversy, according to the writer's understanding, entrepreneurs who are exposed to a cognitive bias will have traits close to the notion of entrepreneurship, so that in the end they can improve their performance compared to entrepreneurs who are not exposed to a cognitive bias. Entrepreneurs who have overconfidence actually will be brave to try new businesses. Planning fallacy and the illusion of control have direct and indirect effects on the formation of new ventures. Conversely, overconfidence and optimism influence the formation of new businesses through perceptions of risk (Kannadhasan et al., 2014).

Hypothesis 1. Cognitive bias has a positive effect on business performance.

Entrepreneurial orientation as a company process, structure, and behavior characterized by being innovative, proactive, and risk-taking can contribute to higher performance by facilitating the company's capacity to identify innovative opportunities with large potential returns, target premium market segments, and gain noticeable profits first. By having an entrepreneurial orientation such as being creative, having the courage to try something, and being proactive, entrepreneurs will be able to assemble resources that will result in increased business performance (Lumpkin & Dess, 1996; Stam & Elfring, 2008; Wiklund & Shepherd, 2005). With strategic resources, new ventures are often successful because entrepreneurs can translate entrepreneurial orientation into higher performance. Therefore, entrepreneurial orientation will further facilitate the creation of health when companies can obtain, develop, and utilize resources that encourage opportunity-seeking and profit-seeking behavior (Stam & Elfring, 2008).

The business world has begun to understand and follow business governance that creates a balance between the economy, society, and the environment for the strength, stability, and sustainability of the business world and society as a whole. However, this remains a challenge for many organizations, especially for small and medium enterprises (SMEs). The results of research by Nakruang et al. (2020) show that the results of the consistency of modeling the structural equation of the cause and effect factors that affect a company's sustainability performance in smallholder companies in the three southern border provinces are consistent with empirical data at a good level. Entrepreneurial orientation has a direct effect on the ability to integrate knowledge with the highest coefficient of influence. Also, entrepreneurial orientation has an indirect effect on the company's sustainability performance through knowledge integration capabilities (Nakruang et al., 2020).

Hypothesis 2. Entrepreneurial orientation has a positive effect on business performance.

Kotler et al. (2009) said that implementing generic strategies in the form of products, prices, distribution, and promotions can improve business performance. Research conducted by Mustapha (2017) found that independent and significant marketing strategies (product, price, promotion, and place) are co-predictors of business performance. Each of these has its unique contributions and impacts on small business performance. It also shows the importance of a marketing strategy no matter how small the business is. Its performance depends proportionally and is in line with the applied marketing strategy. Therefore, this study recommends that because small businesses have high potentials and opportunities for growth, implementing appropriate and adequate marketing strategy measures in their business practices will be very helpful in achieving business success (Mustapha, 2017).

The rapid growth of Internet use has encouraged the use of digital media (DM) in various fields of life including industry and business fields worldwide. Expanding the introduction of DM into businesses by large companies has set an example for SMEs as well to benefit from this innovation. At the same time, the increasing customary practices of DM in business, marketing, and globalization demand that various aspects of this technology be evaluated. Systematic studies have found evidence of the benefits, disadvantages, elaborations, and suggestions to address possible areas of deficiency so that SMEs can gain and harvest original DM fruit. The use of the digital media mentioned above enhances and facilitates businesses, in particular, small and medium enterprises (SMEs), and can improve the performance of SMEs through business enhancement, expanding the market base, better customer satisfaction, and after-sales service. SMEs can reach customers worldwide regardless of time zone and geography. Digital communication, marketing, live chatting, and online payments through digital media are very easy, convenient time and cost-saving, and sustainable (Nuseir, 2018).

Hypothesis 3. Improved marketing strategy implementation has a positive effect on business performance.

Hallak et al. (2013) stated that support from the community has a direct positive effect on business performance. Through the community, the scale of the business fulfills more of the aspects of quantity and continuity (Scuotto et al., 2017). Some authors have said that the producer or entrepreneur community is closely related to business performance (Hallak et al., 2013; Öztamur & Karakadılar, 2014; Pentina et al., 2012). If the entrepreneur has a community, then the performance will increase. Conversely, if the entrepreneur is trying individually for a limited market share, information asymmetry will cause difficulties in sales, so that the performance will be low.

Business success is usually the result of doing business and collaboration, which can also be done in the community. Inter-company collaboration, consulting, performance measurement, and flexibility play an important role in business success. Cooperation between companies makes a positive contribution to gain organizational legitimacy and develop the desired market reputation. Cooperation also enables a small company to positively enhance its strategic position, focus on its core business, enter international markets, reduce transaction costs, learn new skills, and cope with rapid technological changes (Brown & Lockett, 2001; Chittithaworn et al., 2011).

Corporate citizenship has been advocated as a valuable marketing tool that benefits society and business. This study illustrates the factors that support the small and medium enterprise (SME) citizenship of local communities and its benefits by reflecting on the unique nature of the SME-local community relationship. The collectivism of SME owners/ managers and the market-oriented organizational culture of SMEs were examined as antecedents of corporate citizenship and the reciprocity of their local communities identified as the unique relational benefits of their corporate citizenship. The results of 393 SME owners/ managers in the USA depict the positive impact of collectivism and market orientation on SME corporate citizenship. The findings also

show that SMEs' market orientation and corporate citizenship enhance their perceptions of reciprocity from their local communities (Park & Campbell, 2017).

Hypothesis 4. Increasing the role of the community has a positive effect on business performance.

Material and Methods

Research Object. This research was conducted in Central Java Province, namely the batik SMEs in Lasem, Pekalongan, and Solo. These three locations were chosen because they have been developing batik businesses for more than 100 years. The population of this research was micro, small, and medium enterprises, hereinafter referred to as SMEs. The unit of analysis in this study was the owners or entrepreneurs or managers of SMEs who had a thorough understanding of the business is run and how the business was run. These respondents were the main source of information in extracting qualitative and quantitative data related to the batik SME firms. The sample used as the unit of analysis was taken using a purposive sampling technique with a proportional sampling of 306 respondents.

Data Collection Method. The data collection method used for collecting the primary data was done through observations, interviews, and focus group discussions (FGDs). Meanwhile, secondary data was extracted through literature/ document studies by collecting data from various sources like from the cooperative agencies and MSMEs.

The sampling consisted of several stages, namely: a) Determination of the location of the district/city. Three districts in Central Java were selected, namely the cities of Solo, Pekalongan, and Lasem; b) Based on the district/ city data, the districts where the SMEs were located were determined. c) The next stage was to determine the village/ village district with the SMEs that were the objects of this research. The assistance provided by the Cooperative and MSME Offices, the chairperson of the association, and key informants in the three regions made it easier for the researchers to determine the respondents.

The data collection technique was done by distributing and filling out questionnaires, which aimed to obtain qualitative and quantitative data. The questionnaires were completed accompanied by interviews with the respondents. This procedure was carried out to obtain a high response rate from the respondents.

Variable Operational Definitions. This study aimed to examine and analyze the role of EO and CB on SME performance with the following variables:

1. The role of the community, which consists of the role of the institution/ administrator and the role of the members.
2. Entrepreneurs' efforts to meet consumer needs through products, prices, promotions, and digital businesses.
3. Entrepreneurial orientation is measured from the dimensions of entrepreneurial emotion and entrepreneurial cognition and risk preference.
4. Cognitive bias is mental simplification such as optimism, overconfidence, planning fallacy, and asymmetric information, which help link information, identify opportunities and face obstacles when starting and expanding a firm. Optimism consists of prospect and convenience indicators; overconfidence contains the indicators of confidence and knowledge; planning fallacy has indicators of speed and timeliness, and asymmetric information is comprised of the indicators of moral hazard and adverse selection.
5. The business performance consists of financial, marketing, and entrepreneurial performance.

This section describes the dimensions and indicators of each variable used in the empirical research model. These dimensions and indicators were generated from the operational definitions derived from a review of previous theories and studies.

Results and Discussion

The results of the analysis show that cognitive bias has an indirect effect on business performance through entrepreneurship. The previous hypothesis suggests that psychology has a direct effect on start-up success (Sánchez et al., 2011) and business performance (overestimation of the possibilities of success) (Kannadhasan et al., 2014).

McClelland (1987) said that a person's traits influence one's entrepreneurship. Someone who has a strong desire to move forward will try to assemble resources that can eventually be used to develop one's business (Shane et al., 2003). According to Lumpkin and Dess (1996) said that the factors forming entrepreneurship are creativity, innovation, and courage to take risks. This means that the psychological characteristics of a person who will form an entrepreneurial spirit and someone who has a high national spirit will be successful in one's business, assisted by other factors such as management and decision making (Rita et al., 2018; Utomo et al., 2019).

SME entrepreneurs also often have to make decisions. Inevitably, this decision is made in an upside-down situation filled with uncertainty, ambiguity, a lack of required resources, and high time pressure. Employers' decisions to take advantage of opportunities are prone to a decision-making bias. Entrepreneurs are often faced with overconfidence, an escalation of commitment, a fallacy of planning, and an illusion of control, which occur in entrepreneurs' decisions to take advantage of opportunities (Farsi et al., 2016; Nouri, Imanipour, Talebi, & Zali, 2017; Sánchez et al., 2011). Such incidents can also occur in marketing planning (Nouri et al., 2017) and financial management (Adomdza et al., 2016). Entrepreneurs can also experience bias in targeting their business results (Kannadhasan et al., 2014). There is an influence of psychological bias when entrepreneurs run their businesses.

Meanwhile, many researchers have proven that entrepreneurship affects business performance. Someone who has entrepreneurial motivation and cognitive factors will be able to recognize opportunities, develop ideas, and assemble resources (Shane et al., 2003). Being creative, proactive, risk-taking, and aggressive are the characteristics of someone who has an entrepreneurial orientation (Lumpkin & Dess, 1996) and through this orientation, a person can succeed in one's business.

Some authors say that the producer or entrepreneur community is closely related to business performance (Hallak et al., 2013; Öztamur & Karakadılar, 2014; Pentina et al., 2012). If the entrepreneur has a community, the performance will increase. Conversely, if the entrepreneur is trying for oneself in a limited market share, information asymmetry is difficult in sales so that the performance will be low. The results of this research indicate that overall the community has a direct negative effect on business performance, but if it is partially connected, the business performance is positively influenced by the community. This means that the community variable has a low dominance compared to the variables in influencing business performance.

The research results also show that there is a close relationship between community variables and marketing strategies. The existence of the community will help batik MSMEs in implementing marketing strategies and when the marketing strategies are appropriate, business performance will increase. These results differ from those found by (Hallak et al., 2013). They said that support from the community has a direct positive effect on business performance. In our research, if analyzed using simple regression, the role of the community has a positive effect, but when analyzed together using multiple regression, the role of the community has a negative effect. In this research, the community influences the marketing strategy. The community acts as a joint marketing place so that SMEs can easily sell their products. In addition, with marketing through the community, the scale of the business better fulfills the aspects of quantity and continuity (Scuotto et al., 2017).

Business success is usually the result of doing business and collaboration, which can also be done in the community. Inter-company collaboration, consulting, performance measurement, and flexibility play an important role in business success. Cooperation between companies has a positive contribution to gain organizational legitimacy and develop the desired market reputation. Cooperation also enables a small company to improve its strategic position, focus on its core business, enter international markets, reduce transaction costs, learn new skills, and positively cope with rapid technological changes (Chittithaworn et al., 2011).

Conclusion

The producer or entrepreneur community is closely related to business performance. The results broaden and deepen from what has been conveyed by previous researchers (Hallak et al., 2013; Öztamur & Karakadılar, 2014; Pentina et al., 2012). If the entrepreneur has a community in one's business, the performance will increase or the other way around. The results of this research indicate that overall the community has a direct negative effect on business performance, but if it is partially connected, the business performance is positively influenced by the community. This means that community variables have a low dominance compared to variables in influencing business performance. However, if it is connected indirectly to business performance through marketing strategies, the results are positive and significant.

The research results also show that there is a close relationship between community variables and marketing strategies. The existence of a community will help SME entrepreneurs in implementing marketing strategies and when the marketing strategies are right, the business performance will increase. This research further proves that it is related to what (Baxi et al., 2016) and Miller, Besser, and Weber (2010) proposed. What is also interesting is the role of digital business in marketing strategy, which is the biggest determining factor in the implementation of marketing strategies and contributes greatly to marketing performance. This condition is inseparable from the current business momentum where the digitalization of marketing, including business, is a demand and guidance in business, including SMEs.

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