

Market Performance and Business Strategy: Their Impacts on Micro, Small, Medium-Scale Enterprise's Tax Obligation

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Abstract:- TMicro, Small, and Medium-Scale Enterprises (MSMEs) with good market performance and competitive business strategies may potentially improve the national economy. They also represent a rapid-growing trading sector that contributes to the state's economy and revenue through tax payments. The present study attempted to examine and evaluate the effect of market performance on MSME's business strategy and its implication on tax obligation. This quantitative survey study utilized a questionnaire as its research instrument. The population of this study comprised 1099 registered MSME actors in Batik Trusmi in Plered district, Cirebon Regency. This study focuses on batik crafters and showrooms in Batik Trusmi, the largest batik showroom in West Java that promotes the local potential and supports economic growth during the COVID-19 pandemic. The samples of this study were attained by using the convenience sampling technique, which was conducted by considering ease in terms of finding the address, access to transportation, and consent to participate in the study. The number of the respondents that was recruited in this study comprised 97 respondents. The data were analyzed using Structural Equation Modeling (SEM) assisted by utilizing SmartPLS 3.0. The results of this study demonstrated that market performance positively and significantly affected both business strategy and tax obligation. Additionally, it was found that tax obligation affected market performance and business strategy. Originality produces new knowledge without repeating what has already been done by others.

Keywords:- Market performance, Business strategy, Tax obligation.

I. INTRODUCTION

The present study departs from the data published by the Indonesian National Development Agency on a 4 million increased poverty population to 28.7 million people in total (Dewan Perwakilan Rakyat), a condition that has seized the government's attention to find alternative solutions. In this situation, micro, small, and medium-scale enterprises (MSMEs) frequently serve as dependable sources of employment. Therefore, the People's Representatives need to urge the government to build MSMEs in the COVID-19-free region and maintain people's purchasing power to ensure MSMEs' sustainability (Bahtiar & Saragih, 2020). A member of

Commission VI of the House of Representatives, Nevi Zuairina, argues that the government should strengthen MSME sectors by realizing its aid plan through the Ministry of Cooperative and MSMEs. The COVID-19 pandemic has significantly affected MSMEs, a sector contributing to 98% of employment absorption and around 60% of Gross Domestic Product (GDP) (Dewan Perwakilan Rakyat).

Similarly, the chairman of the Indonesian MSME Association (Akumindo), Ikhsan Ingrabatun, estimates around 30-35% sales volume drops among micro, small, and medium-scale culinary sectors since COVID-19 as they heavily rely on direct interaction with their buyers. The Ministry of Cooperative and MSMEs report that the wholesalers and retailers are the most affected parties (40.92%), followed by those in accommodation service, culinary and beverage (26.86%), and processing industry (14.25%). Micro, small, and medium-scale enterprises are known to have the potential as dependable sectors to support the national economy. They are rapid-growing sectors that significantly affect the state's economy and revenue through tax. Given their significant contribution, the government sets a special tax incentive by decreasing the tariffs to 0.5% to increase their tax obligation.

Micro, small, and medium-scale enterprises should focus not only on physically marketing their product to their buyers but they should also use social media to improve their business competitiveness (Ainin et al., 2015; Absah et al., 2018). Odoo (2017) reported that MSMEs frequently lack the resources to compete in the market. Furthermore, the shift to social media forces them to begin engaging with social media to reach their customers, and in doing so, having adequate psychological capital will probably increase their performance. Previous studies agreed that MSMEs need psychological capital to improve their market performance (Machmud & Ahman, 2019; Durrah et al., 2016).

Psychological capital may drive MSMEs to improve their competence in order to eventually achieve optimal performance, which may be visualized in four dimensions of HERO (Hope, Efficacy, Resilience, and Optimism). These two predictors are able to improve MSMEs' marketing innovation and market orientation, which eventually affects their market performance. Having a good market performance, MSMEs are expected to improve the economy, promote more competitive economic activities, and encourage them to perform their tax obligation. The

significant growth of MSMEs undoubtedly represents their pivotal role in Indonesia's GDP increase. However, this significant growth has not been in line with tax obligations. MSME tax is currently viewed as burdensome (Arham & Firmansyah., 2021).

Along with the need for state revenue from the tax, the government has begun to optimize its tax revenue from MSMEs. Recent tax regulation enacted in 2022, i.e., Law No. 7 of 2021: Harmonization of Tax Regulations, is expected to improve tax obligation in order to realize equality in MSME's economy (Santoso, 2021). The recent law stipulates that MSME pays a final tariff of 0.5% for their income tax, following government regulation No. 23 of 2018 and is given an incentive for annual gross distribution up to 500 million rupiahs. Entrepreneurs with a gross distribution of less than 500 million are not required to pay their income tax, a condition which is helpful for MSMEs with an annual sales volume of less than 500 million. Entrepreneurs with an annual gross distribution of Rp 2.5 billion pay only income tax for Rp 2 billion.

Therefore, in order to retain and improve economic growth and market performance, MSMEs need to consider the social media effect, psychological capital, marketing innovation, and market orientation in order to have competitive business strategies, which eventually improve the economy (Laukkanen et al., 2013; Absah et al., 2018; Karabulut, 2015). The present study examines the effect of market performance on business strategy in Batik Trusmi Cirebon and views its impact on tax obligation. The research site was selected considering that this is the largest Batik center in West Java. To be more specific, this study aims to capture the measurement indicator to measure financial and non-financial market performance and the business strategy and its impact on MSME's tax obligation.

II. THEORETICAL REVIEW, LITERATURE REVIEW, AND HYPOTHESES DEVELOPMENT

A. Theoretical Review

➤ *Social Capital Theory*

Social capital theory is defined as a capability that society owns to work together so that the goals they have can be achieved collaboratively in varied groups and organizations (Coleman, 1990; Burt Ronald, 1992). Working collaboratively with society does not only rely on the assistance given by external parties to overcome economic distress, but they should also work together in order to seek the best efforts to cope with the problems they encounter. It has relevance to the social capital theory attempting to improve well-being (Avery & McKay, 2010). Social capital theory is explained as a social relationship owned by social capital to tighten the member unity encouraging them to generate a strong relationship, idea, mutual trust, and togetherness. It is also likely to create an effective joint action so that quality of life can be improved (Kawulur et al., 2019; Kayadoe et al., 2019). In boosting the economic activity, it does not only depend on human

capital, physical capital, and financial capital, but trust and norms are also perceived as pivotal components to support the social relationship that exists between cooperation, mutual care, and reciprocity. Despite the fact that the concept of social capital is comprehended distinctively, there are three prominent elements that serve as the focus of social capital, namely the emergence of resources connected to social networks supported by obeyed norms, mutual trust, and norms (Brändle & Häuberer, 2015).

➤ *Slippery slope Theory*

This theory appears due to the existence of taxpayers in which they are influenced by economic factors and social-psychological factors (Khasanah et al., 2019). The emergence of this theory is based on the lack of tax authorities serving as the tax management resource with the large number of taxpayers. It is expected that tax authorities will be able to be a partner in terms of fulfilling tax obligations. Hence, it is likely to utilize an approach demonstrating that compliance occurs due to enforced compliance and voluntary tax compliance (Muvidah & Andriani, 2022). Enforced tax compliance may occur if there is an influence or pressure given by external parties in which one of the criteria of the tax that the taxpayers pay can be imposed by the decision maker. Meanwhile, the occurrence of voluntary tax compliance appears due to the taxpayers' awareness in which they are aware of their responsibility to fulfill their tax obligations (Zelmiyanti, 2021). Slippery slope theory explains that social-psychology factor affects taxpayers' compliance in fulfilling their tax obligations. Wahl et al (2008) gave an explanation on the relevance of slippery slope theory, in which this theory is grounded on knowledge and understanding on the taxpayers' compliance which is firmly based on two motives, namely: (1) the taxpayers' compliance to fulfill their tax obligations since they calculate that the cost of non-compliance towards tax obligation will be more pricey; (2) tax authorities and trust towards those authorities.

B. Literature Review

➤ *Market Performance*

Market performance is interpreted as the success achieved by a business entity compared to its competitors in terms of attaining new customers, retaining current customers, and pursuing customer satisfaction (Laukkanen et al., 2013). The orientation of the business entity in maintaining its competitive advantage position relies on its customers. In other words, customers' needs and their satisfaction emerge as the predominant attention prioritized by the business entity. Speaking of the attempts that can be conducted to achieve the competitive advantage, a business entity competes with others in terms of finding out the one who owns the upmost achievement in giving satisfaction to the customers' needs. In addition, the literature highlights the importance of the business entity to pursue customer retention. Storbacka et al (1994) asserted that the cost needed to attain new customers is commonly higher than that of retaining the existing customers. Nonetheless, there are no companies having a capability to retain all their customers forever.

➤ *Marketing Innovation Capability*

Business entities are likely to use their marketing innovation capabilities to optimize their market share. Wang et al (2008) asserted that business entities utilize a marketing innovation by developing a new method or technique associated with marketing. Developing new methods, techniques, and tools used to enlarge marketing plays a crucial role in the success of an organization. Hence, the marketing innovation capability serves as a way that the business entities will conduct to gather information related to customers (Shaukat et al., 2013). Gunay (2011) gave an explanation by stating that marketing innovation capability encompasses: (1) the entity capability associated with the marketing product performance and production system, (2) customer service. Business entities that attempt to innovate their marketing methods are aimed at increasing efficiency. There are three essential points that can be noticed and learned by creative MSMEs in terms of increasing their business, namely: (1) identifying the market, (2) building a solid management team, and (3) strengthening finances of the business.

• *Market Orientation*

The definitions of market orientation are categorized into two major segments, namely (1) prioritizing the customer interest while looking out of the interests of other prominent stakeholders; and (2) providing norms for behavior regarding organizational development and responsiveness towards the market information (Deshpandé et al., 1993; Kohli & Jaworski 1990; Narver & Slater 1990; Shapiro, 1988). Market orientation focuses on customer priorities in order to retain its business position in facing the competitive advantage. Therefore, business entities have to pay attention to the information associated with customer preferences in domination a product which is represented through introducing innovative products and services.

• *Social Media Effects*

Wang et al (2008) gave an explanation by remarking that the use of internet technology has become a common practice in the workplace. Communication media conducted through the internet can assist organizations in running the business flexibly anytime and anywhere. Several studies have examined the use of Facebook among MSMEs, and the results demonstrated that MSMEs use Facebook for marketing purposes, communication, sales, advertising, innovation, problem solving, customer service, human resources, information technology (Bhanot, 2012), social media advertising (Beloff & Pandya, 2010; Handayani & Lisdianingrum, 2011) and internet marketing (Congxi et al., 2010). Meske & Stieglitz (2013) revealed that MSMEs utilizes social media technology such as Facebook that serves as an approach to generate communication between the entrepreneurs and their customers. It is also functioned to retain communication and internal collaboration.

• *Psychological Capital*

Psychological capital emerges as a part of pivotal pillars consisting of HERO (Hope, Efficacy, Resilience, and Optimism). As remarked by Dewi (2013), an individual who decides to be an entrepreneur does not mean he or she are not capable of obtaining a good job. It indicates that there are a lot of well-educated entrepreneurs, and they previously had proper jobs before they eventually decided to be an entrepreneur. Additionally, Riyanti (2003) asserted that those who intend to be entrepreneurs are due to their courage, in which they are not afraid of working hard. Instead, they perceive that hard work emerges as a challenge. Therefore, the decision that one makes in running a business demonstrates the emergence of an internal motivation, such as self-actualization.

• *Business Strategy*

Business strategy is interpreted as an attempt utilized to increase product competitiveness so that a competitive advantage can be achieved. Business strategy which is measured by differentiations will acquire an advantage, namely attaining a higher price by selling more products with a certain cost (Herianti & Marundha, 2017). Business strategy also signifies the suitability of competitive strategy in the market of products and services that have been included in the competitiveness (Simons, 2000:17; Bourgeois III, 1980; Langfield-Smith, 1997), serving as a weapon in the competitiveness. A business strategy equipped with differentiation strategy which is implemented by management offering the product that shows its uniqueness will obtain a higher price. As stated by Wu et al (2015), implementing product differentiation strategy in marketing may design a series of differences having values and special characteristics that other competitors do not possess.

• *MSME's Tax Obligation*

Considering the central role of tax in state revenue, the government attempts to discover potential in various sectors, including MSMEs. Tax obligation and compliance belong to the government's responsibility (Stephenson & Vracheva, 2015), and MSMEs with tax identification numbers could perform their tax obligation (Lamgiat et al., 2013). Financial condition is believed to affect taxpayers' compliance (Agya et al., 2021; Inayati & Fitria, 2019). MSMEs with stronger financial ability to expand their businesses and make an investment should actively contribute to the state revenue through taxation. The government's income tax incentive policy for MSMEs potentially promotes the development of MSME sectors (Rafika, 2018). This sector exhibits significant growth every year, implying huge opportunities for the government to reach this sector and improve its tax compliance and eventually enhance the state's tax revenue.

C. Hypotheses Development

➤ *Market Performance and Business Strategy*

Armstrong & Baron cited in Wibowo (2008), defines market performance as an outcome attained from work that has a relationship with the strategic goals that an organization wants to achieve, including customer satisfaction, and it is expected to give contributions to the economy. Performance (market performance) refers to the achievement level reached by a company in a certain period of time. It emerges as a series of activities starting from performance planning. As asserted by Limakrisna & Zahara (2017), their study indicated that buyer relationship, supplier relationship, and company resource significantly and positively have an effect on competitive advantage. Another result demonstrated that the buyer relationship partially has a dominant effect on competitive advantage. In addition, the buyer relationship, supplier relationship, company resource, and competitive advantage affect market performance. Furthermore, the company resource partially has a dominant effect on market performance. It indicates that one of the parameters measuring the success of market performance is the network connectivity that appears among buyers, suppliers, company resources, and competitive advantages.

Business strategy has a significant effect on market performance (Anomsari, 2011). As explained by Harianto & Sari (2021), strategy theory encompasses two types of strategies, namely corporate strategy and business strategy. Business strategy is interpreted as a method or technique utilized by a company to retain its existence amid the rivalry that the company encounters. Business strategy highlights how to run a business, how to achieve the company's targets, and how the company responds to the new challenges and needs. Based on the explanations conveyed above, the hypothesis that can be proposed in this study is mentioned below.

H¹: Market performance has a positive effect on business strategy.

➤ *Market Performance and Tax Obligation*

In optimizing the attempts to gain a lot of business entity profits, superior market performance is highly needed, in which it can be achieved through numerous ways, such as market innovation capability, market orientation, social media (online) and psychological capital. Fristanto (2014) described that the use of social media applied as a strategy to promote products is possible to simplify the product development process and save other costs. Hence, it is important for MSMEs to adjust their marketing strategies in accordance with the consumer demands so that it can increase the company's profits. In digital era, it is necessary to pay attention to numerous aspects, namely ease, efficiency, price, ease of payment, and good service to customers (Sari, 2020). As pointed out by Storbacka et al (1994), the cost of acquiring new customers is commonly greater than that of retaining the existing customers. Unfortunately, there are no companies that has a capability to retain their customers forever. Hence, it is necessary for the MSMEs actors to consider the

influences given by social media, psychological capital, market innovation capability, and market orientation in achieving a superior business strategy.

Makalalag (2016) stated that online trading transactions have potential to be subject to income tax even though there are no specific rules governing the treatment of the income tax for trading entrepreneurs on social media (online). The activities people undergo, particularly in the field of economy, have been involving digital media. These days, people feel more comfortable to go shopping online than coming to the market or shopping center. It eventually triggers the emergence of online trading applications and traders or MSMEs actors selling their products through online applications. This phenomenon is eventually known as E-commerce market which is defined as a type of electronic business mechanism focusing on individual-based business transactions by using internet that serves as a medium for exchanging goods and services between two institutions (business to business) and direct consumers (business to consumer) (Karmawan et al., 2010). MSME taxpayers are allowed to choose to be subject to income tax based on the general tariffs of the income tax law so that those who run MSMEs can be given a chance to prepare themselves before they fulfill their rights and tax obligations. MSME taxpayers are expected to be active in taking part in fulfilling tax obligations so that they can give their contribution to the success of the tax collection, and they will not be burdened with the amount of the taxes they have to pay (Febrina & Megawaty, 2021). Based on the explanations conveyed above, the hypothesis that can be proposed in this study is mentioned below.

H²: Market performance has a positive effect on tax obligation.

➤ *Market Performance, Business Strategy and Tax Obligation*

Ferdinand & Fitriani (2015) asserted that market performance emerges as a concept utilized to measure the market achievement of a product. Suzanto & Solihin (2012), conveyed another different understanding on business strategy at the corporate level, in which the strategy in this business level prioritizes or focuses on increasing the competitiveness of the company's products or services in certain market segments (Suzanto & Solihin, 2012). In the attempts to boost the achievement of profits, it is necessary for the companies to sell their products and services using a way that can affect their bottom line (Ariwibowo & Endaryono, 2021).

Digital capability, particularly the use of social media and information technology, has a crucial role in improving the MSME management (Del Giudice et al., 2021). It is necessary for entrepreneurs and company management to improve their strategies and endeavors to promote the performance of SMEs in the developing countries in a sustainable manner by using social media (Liu et al., 2022). The enormous contribution of MSMEs to building up the economy of the country is not in line with the taxpayer awareness. The amount of state revenue from the MSME sector will also have vast potential to increase the tax

revenue attained from this sector. It is also shown in the study conducted by Karami & Tang (2019), in which the study revealed that there was a positive and significant effect on the use of social media and company performance. Company performance serves as a parameter functioning as a determinant in the development of the company, in which it is aimed at achieving the target or goal of the company. Based on the explanations conveyed above, the hypothesis that can be proposed in this study is mentioned below:

H³: Market performance has an effect on business strategy and the impact of MSME tax obligation.

III. RESEARCH METHOD

This study was conducted in Batik Trusmi, the largest Batik center in West Java, similar to other large batik-producing cities like Pekalongan, Solo, and Yogyakarta. This quantitative study used primary data which were attained through questionnaires directly distributed to Batik crafters and showroom owners in Batik Trusmi (n = 142 MSMEs). This study employed 5-point Likert scale. Its ranges and categorization are presented in the following table.

Range	Category
1	Very Low
2	Low
3	Moderate
4	High
5	Very high

Table 1: Likert Scale

Market performance serves as the operational variable in this study. It was used as the independent variable.

Variable	Definition	Dimension	Indicator	Item number
Market Performance	Market performance is a company's success indicator in marketing its product.	1. Marketing Innovation	a. My product sales increased in the last 6 months. b. My business profit keeps increasing. c. My product has values and benefits for customers.	K1 K2 K3
		2. Market Orientation	a. I understand about products that suit customers' need and wish. b. I always search for information about products that customers like and products sold by competitors.	K4 K5
		3. Social Media Effect	a. I should be the part of global community by utilizing IT and implementing e-business to stay competitive. b. Strategies for increasing sales should pay attention to the ease, efficiency, price, ease of payment, and good service.	K6 K7
		4. Psychological Capital	a. I am optimistic and hope that this business will succeed. b. I have a high self-efficacy and skills to make changes	K8 K9
Business Strategy	Business strategy is a crucial element in addressing changes, and it emerges as a key to survive amid the COVID-19 pandemic. It also serves as a means to achieve a long-term business goal.	1. Differentiation Strategy	a. My business is different from others. b. My product quality is different from others. c. My services are different from others.	K10 K11 K12
		2. Low Cost	a. My business has a low operating cost. b. My operating cost is lower than other businesses' c. C. My product has a competitive price in the market	K13 K14 K15
MSMEs' tax obligation	Willingness to perform tax obligation refers to a value, in which a person voluntarily pays	1. Calculating, recording, paying, returning, and	a. It is my obligation to pay taxes. b. I adhere to all tax laws. c. I voluntarily return and pay my tax.	K16 K17 K18

Variable	Definition	Dimension	Indicator	Item number
	and returns tax to support the state's expenditure without receiving any direct feedbacks.	complying with tax regulation		

Table 2: Operational Definition

Source: data analysis, 2022

IV. RESULTS AND DISCUSSION

A. Outer Model Measurement

Model measurement was performed to measure the proxies' ability in representing the research variables. The model was tested for its validity and reliability. Although secondary data do not require validity and reliability tests, the present study still conducted the validity and reliability test to support the logics in which the proxy used in this study is capable of explaining the research variable.

➤ Validity Test

Convergent and discriminant validity tests were performed. Convergent validity represents equality of proxies used to measure the research variable. The convergent validity value was obtained through factor loading and AVE, presented in the following figure and tables.

The findings are sorted by research objectives or research hypotheses. The results do not display the same data in two forms, namely tables/images/ graphics and narration. There is no quote in the results section.

This section explains the results of the study. It must be presented clearly and concisely. The author must explore the novelty or contribution of the work to economic literature. Show clearly the results of the analysis and the discussion using the main references, relevant, and updating.

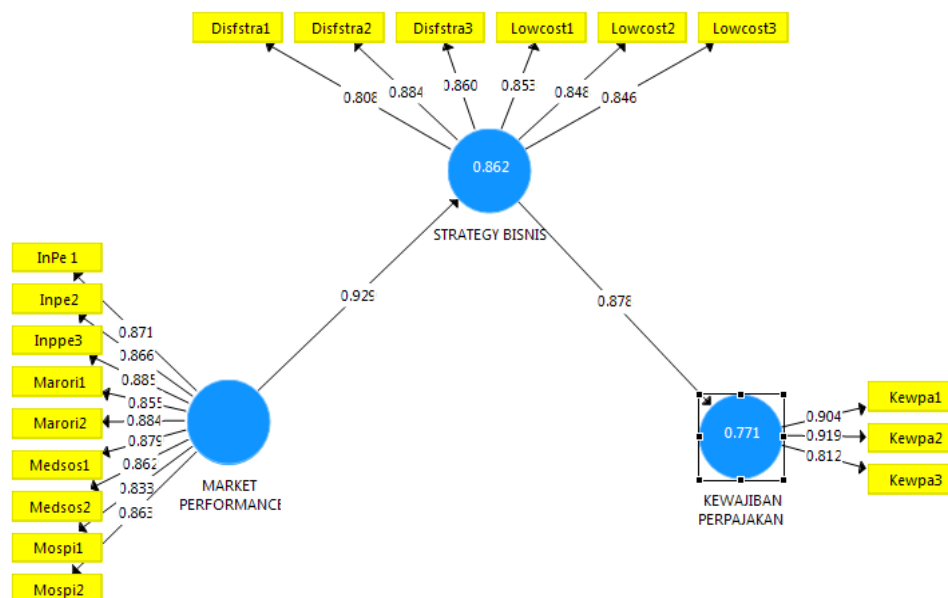


Fig. 1: Convergent Validity Test Result (factor Loading)

Variable	Factor Loading	Average Variance Extracted (AVE)
Market Performance	0.959	0.751
Business Strategy	0.923	0.723
Tax Obligation	0.853	0.774

Table 3: Convergent Validity Test Result

Source: Data Processing, 2022

Figure 1 and table 3 showed that the test result met the convergent validity criteria, indicated by the factor loading of 0.7 and AVE > 0.5. This result demonstrated that the proxies used in this study were able to represent the variable.

Discriminant validity demonstrated that the different variable measurement did not exhibit high correlation. This validity might be achieved if the two variables did not exhibit correlation. The discriminant validity test based on cross loading value was presented in Table 4.4.

Proxy	Tax Obligation	Market Performance	Business Strategy
KewPa	0.880	0.964	0.974
MarPer	0.885	0.867	0.890
Strabis	0.878	0.929	0.850

Table 4: Discriminant validity test result (cross loading)

Source: data processing, 2022

Description:

KewPa: Tax obligation

MarPer: Market Performance

Strabis: Business Strategy

Table 4 indicated that the correlation between proxies and the associated variables were higher than the correlation with other variables. For instance, KewPa exhibits higher value to explain tax obligation compared to Marper in explaining market performance and business strategy. In other words, the criteria of discriminant validity are fulfilled.

➤ Reliability Test

Reliability test was conducted to measure proxy consistency in explaining the research variable. The reliability was tested using Cronbach Alpha and Composite Reliability presented in the following table.

Variable	Cronbach Alpha	Composite Reliability
Tax Obligation	0.853	0.911
Market Performance	0.959	0.964
Business Strategy	0.923	0.940

Table 5: Reliability Test Result

Source: data processing, 2022

Table 5 indicated that the Cronbach alpha and Composite reliability values were higher than 0.7, demonstrating that the reliability criterion has been met.

B. Structural Model Test (Inner Model)

The structural model measurement was performed to see the relationships among the research variables. The model was evaluated using R² as a dependent variable, and the path coefficient value or t-value of each path was used to test the effect of independent variables on the dependent variables.

This study followed Preacher & Hayes (2004), to estimate the main and mediation effects. The following figure displayed the main and mediating effects.

➤ Main Effect

The main effect test was performed to see the effect of market performance on business strategy and tax obligation among MSMEs. The following regression equations were used.

$$STRABIS = \alpha + \beta_1 MARPER + e \quad (I)$$

$$KWP = \alpha + \beta_1 MARPER + e \quad (II)$$

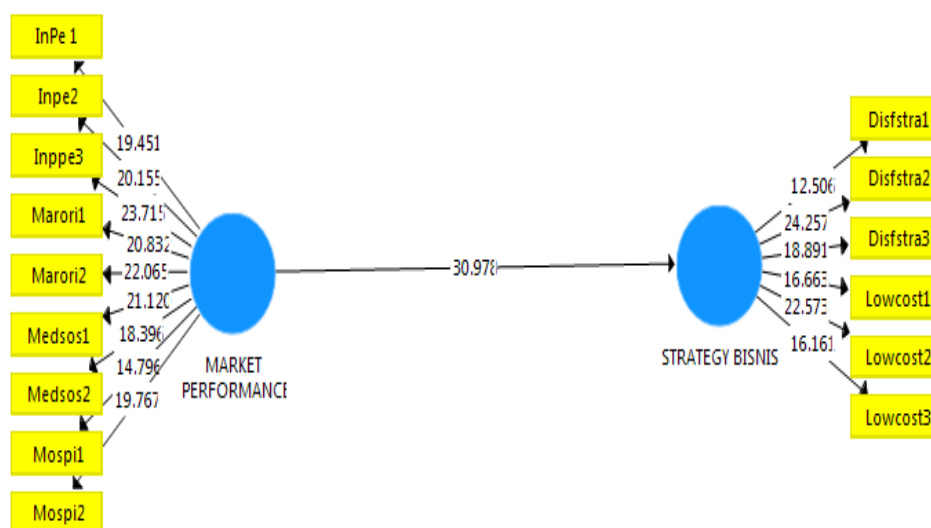


Fig. 2: Structural Model Test Result (Main Effect)

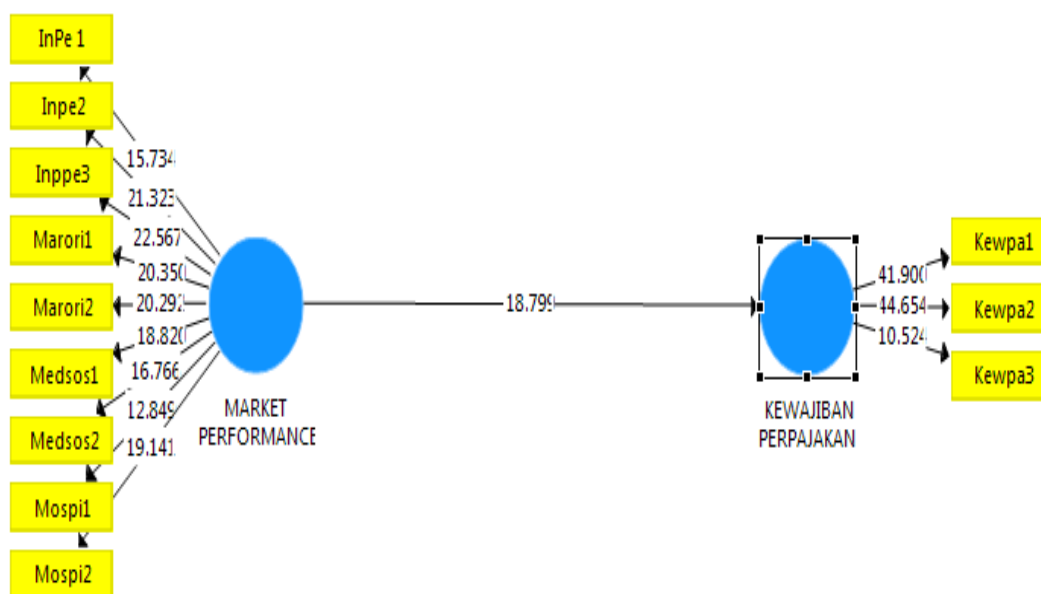


Fig. 3: Structural Model Test Result (Main Effect)

Independent Variable	Dependent Variable Tax Management		
	Coefficient	t Stat	Sig.
Market Performance->Business Strategy	0.929	30.970	0.000
Market Performance -> Tax Obligation	0.886	18.799	0.000
R ²	0.861		
N	97		

Table 6: Structural Model Test Result (Main Effect)

Source: data processing, 2022

This study hypothesized that market performance positively and significantly affects business strategy. In this regard, the test result indicated that the coefficient of the effect of market performance on business strategy was 0.929 with t-statistics comprising 30.970 (>1.64) and significance value comprising 0.000 (0.05), in which it indicated a positive, significant effect of market performance on business strategy. Hence, H1 was supported. The test result also demonstrated that market performance positively and significantly affected tax obligation, as indicated by coefficient of 0.886 with t-statistics comprising 18.799

(>1.64) and significance value that comprised 0.000 (<0.05). In other words, the proposed H2 was supported.

➤ Mediation Effect

The mediation effect test was performed to see the effect of market performance on business strategy and its implication to tax obligation. The following regression equations were used.

$$KWP = \alpha + \beta_1 STRABIS + \beta_2 MARPER + e \quad (III)$$

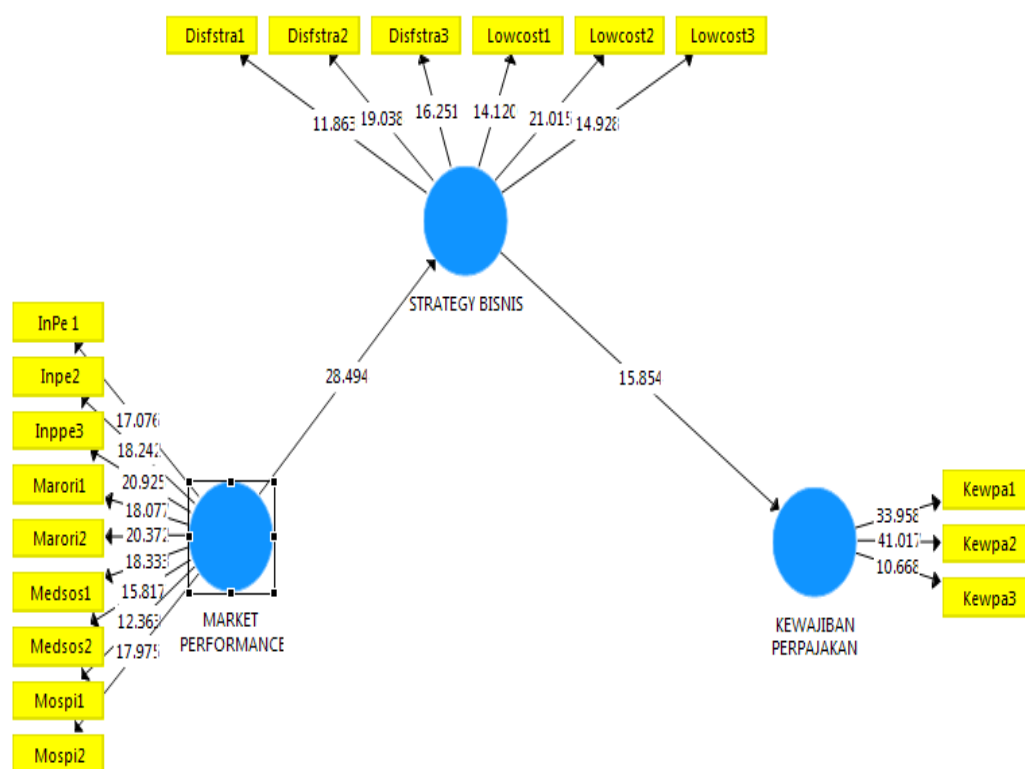


Fig. 4: Structural Model Test Result (Main Effect)

Independent Variable	Dependent Variable Tax Management		
	Coefficient	t Stat	Sig.
Market Performance->Business Strategy->Tax Obligation	0.815	10.997	0.000
R ²	0.861		
N	97		

Table 7: Structural Model Test Result (Mediating Effect)

Source: Data Processing, 2022

It is expected that market performance affects tax obligation through business strategy. The test result shows that the coefficient of the indirect effect of market performance on tax obligation through business strategy was 0.815 with t-statistics comprising 10.997 (<1.64) and significance value of 0.000 (> 0.05), implying that the market performance has a positive and significant effect on

tax obligation through business strategy. In brief, the proposed H3 was supported.

C. Discussion

➤ *Market Performance and Business Strategy*

The results of this study indicated that market performance has a positive and significant effect on business strategy. It is due to the fact that the business strategy that is applied properly to the market competitive products during COVID-19 pandemic utilized the use of electronic media. To support MSMEs, innovating products and technology is needed, in which it can be accomplished by adjusting to the market conditions. As a result, even though consumers and producers are not able to meet in person in a particular place, they still have a broad market reach (Ulya, 2020; Riyadi & Suyadi 2014; Kaplan, 2012). Marketing that was previously monopolized by companies currently begins to be taken over by consumers. These days, the consumers commence behaving more careful and observant in terms of viewing prices and products offered in the market. It occurs due to the advance of information technology that becomes more transparent and vast, in which consumers can access it easily (Nursoleha et al., 2021).

Hardilawati et al (2020) asserted that during the period of social distancing, MSMEs strengthened their marketing field by using digital media that could reach consumers online without seeing the customers face-to-face. The results indicated that market orientation, innovation capability, and the effect of social media emerge as market performance influencing companies in making differentiation strategy policies and low-cost strategies. Narto (2020) remarked that the priority of the business strategy is to retain product selling prices and to improve the quality that can contribute to attain consumer loyalty by strengthening market performance through innovation and product development in accordance with the consumer needs. To improve market performance, it is necessary for MSMEs actors to consider the impacts of social media, psychological capital, market innovation capability, and market orientation in achieving outstanding business strategy so that the economy increases (Laukkanen et al., 2013; Absah et al., 2018; Karabulut, 2015).

As conveyed by Harianto & Sari (2021), strategy theory comprised two strategies, namely corporate strategy and business strategy. Business strategy is defined as a technique or method utilized by a company to retain its existence amid the existing competition. The point outlined by this strategy is related to the way how business achieves its target or goal, and it is regarding the responses given by the organization to the new challenges and needs.

➤ *Market Performance and Tax Obligation*

The results of this study proved that market performance has a positive and significant effect on the tax obligations of MSMEs in Batik Trusmi Cirebon. Having a role as taxpayers, they comprehend that tax obligation is mandatory, and they definitely have to fulfill and obey it. There are more than 90% of respondents conveying their viewpoints by stating that taxes emerge as the most enormous contribution for a state's income. Additionally, taxpayers asserted that they have obeyed and are

responsible for recording and calculating taxes accurately. Besides, they remarked that they have paid and reported tax returns punctually. Additionally, they show their willingness to give their data if a tax officer instructs them to do it. Market performance emerges as one of the factors affecting a company in adhering to tax regulations. Willingness to fulfill tax obligations signifies a value, in which an individual voluntarily pays and reports taxes that will be employed to finance the state general expenditure without receiving direct reciprocal services (Nurlaela, 2013). Market performance is defined as a performance, effectivity, and the achievement reached by market, in which it has a positive relationship with profitability. Hence, tax obligation will increase if market performance increases (Kotabe et al., 1991).

Measuring market performance can be conducted by viewing financial and non-financial metrics, in which the most common adopted metrics are profit, sales (units and values), market share, and cash flow. Accordingly, when the profits increase, the obligation to pay taxes will automatically increase (Ittner & Larcker, 2003). Market-oriented capability will indicate a better organizational competence to comprehend the targets and actions conducted by the competitors in offering products and/or services that can add product values. Hence, when market-oriented capability increases, it will generate an impact, namely increasing profits and tax obligations (Cheng et al., 2020).

➤ *Market Performance, Business Strategy and Tax Obligation*

The results of this study indicated that market performance has an effect on business strategy and its implication on tax obligation. Market performance serves as a parameter that measures the success of a company in terms of marketing their products in the market. The proper business strategy that can be applied to the market current products is conducted through electronic media, in which producers and consumers do not meet in person in a certain place, yet the market reach that they have is vast (Ulya, 2020; Riyadi & Suyadi, 2014; Kaplan, 2012). The marketing that was once monopolized by companies currently begins to be taken over by consumers. Nowadays, the consumers are more observant and careful when they view prices and products offered in the market. It occurs due to the advance of the information technology getting broader and more transparent (Nursoleha et al., 2021).

To increase market performance, it is necessary for those running MSMEs to consider the effects of social media, psychological capital, market innovation capability, and market orientation in achieving competitive and superior business strategy, so that the economy can be increased (Laukkanen et al., 2013; Absah et al., 2018; Karabulut, 2015). The company's business strategy affects the company's activities. It is due to the fact that the entire business decisions, all kinds of activities undergone in the business process, operational activities, and transactions should be accomplished or in line with the business strategy (Ariefiara et al., 2015). Market performance is defined as a concept utilized to measure the performance of

a company in terms of marketing its products (Ariefiara et al., 2015). The higher the company's performance in marketing its products and in the meantime, it is accompanied by an increase in MSME's income, the greater the company's capability to finance all expenses and activities undertaken by the company, including its tax obligation.

MSMEs' vast quantity has a high potential to considerably contribute to the national revenue through tax payment (Putri, 2019). However, tax is affected by a company's business strategy, either directly or indirectly. A business strategy may be less preferable when associated with tax. Previous studies have examined business strategies (Novitaria & Santoso, 2012; Wardani & Khoiriyah, 2018; Muhammad, 2012). Higgins et al (2011) conveyed that business strategies represent a company management's method to maintain its existence among the public.

Companies attempts to deliver products needed by the community through innovation and following their business strategy (Ariefiara et al., 2015). A company's competitiveness in the market will be likely to be affected by its business strategies (Higgins et al., 2011). By having a competitive advantage through improved sale system and innovation, a company may improve its tax obligation.

V. CONCLUSION, LIMITATION AND RECOMMENDATION

A. Conclusion

This study is aimed at examining the effect of market performance on business strategy and its implication on MSMEs' tax obligation in Batik Trusmi, Cirebon. This study found that:

- Market performance positively and significantly affects business strategy, supporting H1;
- Market performance positively and significantly affects tax obligation, supporting H2; and
- Market performance significantly affects tax obligation through business strategy, supporting H3.

B. Limitation

This study has numerous limitations that should be considered as a reference for the future study in order to cover the drawback of the present study.

- This study was only limited to the MSME crafters and showroom batik in the area of Batik Trusmi in Cirebon, in which the samples of this study were attained by using the convenience sampling technique conducted by considering ease in terms of finding the address, access to transportation, and consent to be respondents participating in this study, and as a result, the questionnaire distribution was directly limited.
- This study only used quantitative method to answer the phenomenon that occurred. Meanwhile, there are several other methods that can be employed to answer the occurring phenomenon so that a more solid result can eventually be attained.
- This study still lacks literature related to market performance, business strategy, and tax obligation.

C. Recommendation

There are several recommendations suggested in this study. They are mentioned below.

- This study recommends the future researchers to conduct the same research using the same variables on MSMEs related to processing wood, furniture, culinary, and others that may affect MSME's tax obligations.
- It is necessary for the future researchers to undertake a more in-depth investigation on the extent to which MSMEs in Batik Trusmi Cirebon are needed.
- The present study recommends the future study to apply triangulation methods to complement quantitative methods so that a more complex description can be obtained.

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