

## ACCEPTANCE OF TQM AND HUMAN CAPITAL IN IMPROVING SME PERFORMANCE

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### Abstract

The corporate world is growing more competitive as customers become savvier. SMEs require a wide range of material and immaterial resources, as well as the capacity to change into more adaptable and lucrative forms to adapt to the shifting demands of the business market, in order to remain competitive. Empirical research has largely neglected to investigate the role of market orientation in mediating the links between total quality management, human capital, entrepreneurial orientation, and business performance. The data collection process involved the participation of 100 SME managers/owners who filled out online questionnaires. SEM-PLS 4 is utilised in the investigation and testing of hypotheses. This study found that TQM, EO and HC had a positive effect on market orientation and SME performance. The role of HC and EO to improve SME performance is through MO, but TQM has a direct influence on improving SME performance. So this can provide different ideas to SME managers to further improve their business performance.

**Keywords:** Total Quality Management; Human Capital; Entrepreneurial Orientation; Market Orientation; SME Performance

**JEL Classification:** J24, M11, M21

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### INTRODUCTION

Organizations face never-before-seen difficulties in the global business environment, including quick technology development, escalating competitiveness, quality standards, and social responsibility. The importance of small and medium-sized enterprises (SMEs) in a competitive and demanding business environment cannot be overstated. According to a number of academics, including Freel & Gordon (2022) and Slávik et al.(2023), SMEs are innovative, cost-effective, and highly

flexible, enabling them to consider their customers' needs and preferences. Therefore, the importance of SMEs is crucial for developing countries in terms of promoting job growth, economic advancement, and stability. SMEs sector has a vital strategic role in the country's economy, as demonstrated by its significant contribution to the formation of the GDP. According to data from the Coordinating Ministry for Economic Affairs, Small and Medium Enterprises (UKM) account for approximately 99 percent of all business entities in

Indonesia. According to [Indonesia.go.id](http://Indonesia.go.id), these SMEs generate employment possibilities for 96.9% of the country's total workforce absorption and contribute 60.5% of GDP.

Local markets have opened as a result of free trade agreements and globalization, which highlights how urgent it is to satisfy customer demands with higher-quality goods and services. According to Zada (2022), to effectively compete on a global scale, maintain their advantage over competitors, and succeed in the evolving business landscape, firms need to be able to adapt to shifts and constantly redefine and rebuild essential components.

Research in the literature to date indicates that SMEs embrace quality extremely infrequently (Niyi Anifowose et al., 2022). Academics and researchers have extensively studied the implementation of Total Quality Management (TQM) practices in developed nations such as the United Kingdom, Japan, the United States, as well as other European nations. However, studies on quality practices in developing nations just recently started, specifically in relation to large companies. TQM, as defined by (Silvestri et al., 2023), is a comprehensive and cohesive approach aimed at achieving continuous improvement in all types of businesses. Renowned specialists in Total Quality Management (TQM), such as Crosby, Drucker, Deming, Juran, Feigenbaum, Ishikawa, as well as various other scholars, have extensively studied TQM, implemented it, and strived to improve organisational results. According to (Hilman et al., 2020), for businesses to meet the problems posed by the quickly expanding global trade, they must establish and apply suitable quality practices. Additionally, (Limna & Kraiwanit, 2022) studied the impacts of high-quality product and service production on customer happiness, earnings, and market share for businesses.

The resource-based view Men et al. (2022) states that an organisation can

achieve a competitive advantage by fully leveraging its internal resources and competencies. Entrepreneurial orientation (EO) as well as total quality management (TQM) are two crucial business strategies and skills that can improve company performance. Strategy is a set of significant decisions that an organisation makes to direct its interactions with the surrounding environment (Mishra & Mohanty, 2022).

Adomako & Ahsan (2022) noted that although SMEs frequently experience severe resource constraints, they frequently display the traits of prosperous entrepreneurship. The propensity of top management to exhibit inventive, proactive traits and a willingness to take chances when making strategic decisions is known as the "desire for entrepreneurship" (Harris, 2022). Entrepreneurial orientation (EO) has been researched extensively in recent decades due to the emergence of literature on strategic orientation (Cho et al., 2022) in strategic management research (Freixanet et al., 2021; Karami et al., 2023; Rosli Mahmood et al., 2013; Chen & Urban, 2018). In the face of constantly shifting environmental dynamics, businesses are always updating their business procedures, goods, and services. Entrepreneurial process-oriented businesses can be identified by their creation of new business processes, goods and services, support for new ideas and technologies, and encouragement of research and development processes (Hervas-Oliver et al., 2016; Lyver & Lu, 2018; Chen & Urban, 2018).

It's critical to remember that SMEs manage risks and are more proactive, adaptable, and agile than larger companies (Hadi, 2020). Similar to this, Porter (1980) contends that SMEs that become more adaptable have greater chances to draw in specialized markets by launching cutting-edge goods and services. Research indicates that the TQM and EO strategies are implemented internally in the organization, treating employees as internal consumers that require special attention in

order to meet organizational objectives. Similarly, a fundamental tenet of the marketing philosophy is external client happiness (Asad, Chethiyar, et al., 2020). Companies that embrace and apply marketing concepts are referred to as market-oriented companies (Lamb et al., 2005). Thus, it is accurate to state that MO is a strategy that is more focused on the outside world. Different scholars, like Kohli & Jaworski (1990), Narver & Slater (1990), also Bodlaj & Čater (2022), have defined market orientation in different ways. Nonetheless, the fundamental idea behind market orientation is to create, distribute, and exchange information while effectively adapting to the shifting demands and preferences of the market (Taghvaei & Talebi, 2023). Essentially, adopting a market-oriented approach is the initial measure taken to adapt to a dynamic corporate environment.

Multiple empirical studies have consistently shown strong evidence for a positive correlation between market orientation and business success, based on the influential study conducted by Kohli & Jaworski (1990) and Narver & Slater (1990). Two examples of these investigations are Kovács & Szakály (2022) and Kanaan-Jebna et al. (2022). However, there is a lack of empirical study on the connection between internal organisational characteristics, such as human capital, and market orientation and subsequent performance, notwithstanding theoretical generalisations (Tjahjadi et al., 2022). Pratama & Adhitya (2021) contend that our knowledge of market orientation and its application is constrained by the paucity of research on the impact of internal variables. Furthermore, there is scant or nonexistent data supporting the idea that HC precedes market orientation and has an impact on organizational performance. The purpose of this study is to determine the support of TQM and HC on the relationship between EO and SME performance which is mediated by MO.

## LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

### Resource-Based Theory (RBT)

Theoretically, modern business planning is based on RBT. RBT emphasizes internal elements to explain business strategy (Kusuma et al., 2020). Resource-Based Views, or RBVs, were the initial name for RBT. Theoretically, modern business planning is based on RBT. RBT is the capacity and resources available for the selection and development of business strategies, encompassing observable (tangible) and unobservable (intangible) assets. Based on studies centered around Resource-Based Theory (RBT), companies are able to gain a competitive edge by using their resources and capabilities more effectively than their rivals (Bari et al., 2022). J. Barney (1991) revealed that for businesses to get a competitive edge through the RBT method, they must make sure that their internal resources outperform external resources to attain and preserve their competitive advantage. According to Abdulwase et al. (2020), companies that manage their resources strategically and methodically can increase performance and obtain a competitive edge.

### TQM and Market Orientation

Fikri et al. (2022) argue that there are numerous similarities between market orientation and the TQM philosophy. The correlation between market orientation and performance is statistically significant when considering quality orientation (Hilman et al., 2020). Additionally, total quality management (TQM) has a direct and beneficial impact on market orientation (Mustofa & Setiawan, 2022); (Mustofa & Setiawan, 2022); (G. A. Ali et al., 2020a); (Jiménez-Jiménez et al., 2020a). Nevertheless, some researchers contend that the implementation of TQM is a crucial mediator that helps strengthen this relationship. Market orientation is also benefited by TQM (Bhaskar, 2020). Although there is a substantial correlation

between TQM and market orientation, the empirical results are inconsistent and do not support this hypothesis.

Enhancing an organization's operational success is mostly depend on the application of marketing strategies (Farida & Setiawan, 2022). In order to avoid isolating viewpoints, market orientation refers to the application of marketing principles (Jummai, 2023). It also relies on other constructs to reinforce their relationship with performance (Abbu & Gopalakrishna, 2021). According to Kowalik et al. (2022), this construct may surface in relation to the sources of influences that can determine market orientation. TQM is regarded as essential to the effective application of marketing ideas and as a way to boost marketing impact (Ibrahim et al., 2023). This demonstrates how market orientation and TQM are both necessary. TQM incorporates all firm departments in the development of suitable market responses and involves monitoring market forces continuously through the application of organizational processes—all of which are characteristics of an operational market orientation (Ibrahim et al., 2023). In summary, TQM has a significant positive direction toward market orientation (Audrey & Sutrisno, 2023; Al-Swidi et al., 2019).

H1: Total Quality Management (TQM) has a positive impact on market orientation.

### **Entrepreneurial Orientation and Market Orientation**

Entrepreneurial orientation is the term used to describe an organization's willingness to be innovative, take risks, and stay ahead of competitors in order to explore new business opportunities. In this context, innovation refers to the extent to which a business embraces new ideas, novelty, experimentation, as well as creativity that can result in the development of new services, products, markets, or processes. This concept has been discussed

by Hughes & Morgan (2007), Wiklund & Shepherd (2005), Boso et al. (2013), Amin et al. (2016).

Lumpkin & Dess (1996) stated that a company's proactiveness is linked to market opportunities when entering a new market, by taking the initiative and strategically influencing the environment. (Darmawan et al., 2023; Barinta et al., 2022; and Corrêa et al., 2021) have found a significant relationship between EO and MO. The stronger the EO, the more MO the company will have. Consequently, the hypothesis that follows is:

H2: Entrepreneurial orientation has a positive influence on market orientation.

### **Human Capital and Market Orientation**

A company's internationalization strategy is mostly dependent on its human capital (Wibisono & Sitorus, 2021). According to Ortigueira-Sánchez et al. (2022), there is a considerable correlation between an entrepreneur's export intensity and their human capital profile. Information about the market is transformed into a company's strategic assets by human capital when it comes to doing business internationally. Within a company, market orientation pertains to the sharing of information in order to recognize competitor actions and respond to customer wants (Kohli & Jaworski, 1990; Ghantous & Alnawas, 2020; Mahmoud et al., 2016). Narver & Slater (1990) stated that an organizational culture with a market orientation is one that is successful and efficient in providing customers with greater value, which will affects the attainment of superior company performance (Mahmoud et al., 2016; Chabowski & Mena, 2017). Organizations concentrate on identifying and producing unique value for customers based on the source of their market orientation-derived competitive advantage (J. H. Martin et al., 2009). When a corporation markets its products in the global market, good market orientation refers to its approach and actions to



produce superior value (Fernandes et al., 2020; Tjahjadi et al., 2022; Nakos et al., 2019). Businesses with a strong market focus will learn more about the demands of their customers, possible rivals, and other outside variables (Nakos et al., 2019; Reimann et al., 2022).

Prior studies have demonstrated the critical role that human resources play in an organization's attempts to compete on a worldwide scale. According to studies (Dar & Mishra, 2021; Javalgi & Todd, 2011), human capital positively affects how internationalized SMEs in India are. An further study conducted by (Mubarik & Naghavi, 2022) on Pakistan manufacturing SMEs demonstrates the favorable and noteworthy impact of human capital on internationalization. Through a case study, Suseno & Pinnington (2018) found that businesses with strong market orientation place a high value on technical and market knowledge. Additionally, Dar & Mishra (2019) pointed out that the four primary components of human capital—education, knowledge, experience, and skills—have been scientifically demonstrated to be valid and reliable in assessing the influence of human capital on the process of SMEs in India becoming global. Research conducted by various academics attests to the significance of HC resources in raising performance (AlQershi et al., 2022; Hendarman et al., 2020; Tjahjadi et al., 2022). In summary, the effectiveness of sound market orientation greatly depends on the preparedness of human resources. An effective market orientation strategy is one that is executed more successfully the more HC resources there are. In light of the preceding considerations, the suggested research hypothesis is:

H3: Human capital has a positive influence on market orientation.

### **TQM and SME Performance**

TQM techniques are crucial and significant for both efficient management and a company's ability to compete, claims Nair (2006). It is considered that personnel

that have high quality standards are also high quality-oriented (Heine et al., 2016). Better performance is attained by high quality throughout organizational roles (Heine et al., 2016; Hilman et al., 2020). Companies that place a high priority on satisfying customer requests, provide assistance and engage staff in the production of top-notch goods and services, also focus on continuous improvement generally beat their competitors (Joiner, 2007; Fok et al., 2023).

Total Quality Management (TQM) and organizational performance are positively correlated (Akanmu et al., 2020; Valmohammadi & Roshanzamir, 2015; K. Ali & Johl, 2022). Several empirical studies assessing the performance impact of TQM in the SME area yield inconsistent results. As an example, while some researchers (Kober et al., 2012; Prajogo & Brown, 2006) find no effect, others (G. A. Ali et al., 2020b; G. A. Ali et al., 2020c); and others (Sahoo & Yadav, 2017); conclude that implementing Total Quality Management (TQM) can improve the organizational performance of SMEs. Further investigation is required to fully understand the correlation between Small and Medium Enterprise (SMEs) performance and Total Quality Management (TQM) due to the inconsistent results of this study. Through reference to this reasoning, this research advances the idea that SMEs can improve performance outcomes by using Total Quality Management (TQM), leading to the following hypothesis:

H4: TQM has a positive impact on the performance of SMEs.

### **Entrepreneurial Orientation and SME Performance**

An organization's plan to adopt particular entrepreneurial practices, procedures, and decision-making techniques is known as its entrepreneurial orientation (Zighan et al., 2022). In the meantime, entrepreneurial orientation is described by (Chowdhury & Audretsch, 2021) as a possible strategy for gaining a competitive

edge through risk-taking, innovation, and proactivity. Three elements of entrepreneurial orientation were first proposed by Miller (1983): invention, proactiveness, as well as risk-taking. Lumpkin & Dess (1996) completed the picture by adding two additional dimensions: the degree of aggressiveness and the degree of autonomy. However, the bulk of research conducted on the subject have employed the three core features of innovation, proactiveness, and risk-taking as measuring procedures for the idea of entrepreneurial orientation (Wiklund, 1999). Participating in an entrepreneurial perspective improves organizational performance outcomes, according to literature review. Businesses that take chances while developing new products and processes and innovate often tend to do better (Ismail, 2022). Studies indicate that anticipating consumer needs and aggressively positioning new offerings of products and services can lead to successful outcomes (Adim & Poi, 2022).

Organizations possessing strong entrepreneurial oriented qualities have the capability to identify and seize commercial market possibilities, giving them a significant competitive edge over rivals (Iskandar & Kaltum, 2022). The degree to which entrepreneurial orientation and performance are related, however, differs among research. According to a number of studies (Wales, 2016); Aftab et al., 2022; Yang & Aumeboonsuke, 2022), businesses that embrace an entrepreneurial mindset perform significantly better than those that do not. However, a number of other studies (e.g., Alqahtani et al., 2023; Liu et al., 2021) show a lower correlation between firm performance outcomes and entrepreneurial orientation, or some studies (e.g., (Arabeche et al., 2022; Seo, 2020) ) fail to find a substantial correlation between entrepreneurial orientation and corporate performance. Consequently, the aforementioned conceptual considerations result in the following hypothesis:

H5: Entrepreneurial orientation has a positive impact on the performance of SMEs.

### **Human Capital and SME Performance**

Knowledge, skills, and values are a few characteristics of human resources that may be used to gain a competitive edge. Several academic studies have indicated how important human resources are to SMEs' ability to operate well financially. A study conducted in Laos by (Inmyxai & Takahashi, 2010) found that factors related to human resources, including work experience, entrepreneurship education, and training, have a substantial impact on the success of SMEs. Research on Belgian manufacturing SMEs was done by Onkelinx et al. (2016), and the findings demonstrate that investing in human resources, or personnel, will boost productivity the following year. In a different study, Mubarik & Bontis (2022) human resources are an essential component of intellectual capital in the electronics as well as electrical manufacturing industry for SMEs in Malaysia. This phenomenon is closely linked to organizational performance results. According to Hendarman et al. (2020), Vrchota et al. (2020), and AlQershi et al. (2022), HC resources are critical to reaching desired business performance. The transformation of intangible assets into business performance is accelerated by HCR. The company's performance rises with the HCR level. Drawing from the previously provided arguments, the following study hypothesis is put out:

H6: Human capital has a positive influence on the performance of SMEs.

### **Market Orientation and SME Performance**

In order to accomplish organizational objectives, TQM places a strong emphasis on treating employees as internal clients who require particular consideration (Börnfeldt, 2023). The key idea of the marketing concept is external client happiness (Crick et al., 2022). Businesses are

considered to be market-oriented if they embrace and implement the marketing concept (Kazemian et al., 2022). Within the research community, multiple definitions of market orientation are found (Deshpandé et al., 1993; Kohli & Jaworski, 1990; Narver & Slater, 1990). These core ideas still, however, entail the creation, exchange, as well as dissemination of information and the proper response to shifting consumer demands. This attempts to take into account the interests of all parties engaged in the business while achieving organizational goals and satisfying customer wants and wishes.

Studies have indicated a positive association between market orientation and corporate performance (Jamaludin et al., 2022; Jancenelle et al., 2022; Hoang & Bui Thanh, 2021) were unable to discover a clear connection between market orientation and business performance. Nonetheless, market orientation was determined to be critical to hotel performance by Ayimey et al. (2020). These citations demonstrate the complicated and wide-ranging outcomes that empirical research on market orientation has created.

A comprehensive understanding of client preferences is required for the effective collection and exchange of information, which results in a high level of market orientation and the establishment and maintenance of deeper customer connections (Omar et al., 2022; Shamsudin & Hassim, 2020). Small and medium-sized firms (SMEs) with a market-oriented emphasis can improve the quality of their goods or services by leveraging consumer data to boost customer satisfaction. Happy customers increase sales and market share because they spend more money more often. Thus, this research hypothesises that:

H7: A positive influence on SME performance can be observed through the implementation of market orientation.

### **Relationship Between TQM-Market Orientation and SME Performance**

Businesses that use the TQM strategy seek to improve the quality of their goods and services, which raises customer perceptions of value and makes them stand out from the competition. Longer customer-company relationships are the result of TQM's ability to help businesses become more responsive to client needs, which is a component of market orientation (Fikri et al., 2022). It has been argued by certain scholars (Santos-vijande & Álvarez-gonzález, 2009; Surya et al., 2022; Wahyuni et al., 2021) that TQM positively and directly influences market orientation. According to Jiménez-Jiménez et al. (2020), there is additional benefit to market orientation from TQM. While prior studies have demonstrated a significant association between TQM and operational management, current empirical findings indicate differences in their relationship. According to Park et al. (2022), marketing strategies play a crucial role in enhancing business performance. Latifah et al. (2021) stated that the application of operational management depends on other constructs to reinforce its association with performance. TQM focuses on continuously improving internal processes, which can lead to improved application of marketing principles (Pattanayak et al., 2017; Ibrahim et al., 2023). Therefore, it can be said that Total Quality Management (TQM) offers a methodical approach to enhancing working circumstances, which aids in embracing a market emphasis and, in the end, enhances organizational performance.

H8: Market orientation functions as an intermediary in connecting Total Quality Management TQM with the performance of SMEs.

### **Relationship Among Entrepreneurial Orientation-Market Orientation and SME Performance**

Entrepreneurship and a focus on the market go hand in hand. (González-Benito

et al., 2009) stated that entrepreneurship thus requires a market orientation in order to effectively conduct its inventive efforts in the market, and market orientation requires an entrepreneurial notion that can respond quickly to market opportunities. Additionally, market orientation acts as a mediator in the correlation between entrepreneurial orientation and the success of SMEs, and there is a strong correlation between market orientation and entrepreneurial orientation, according to (Amin et al., 2016 and Genc et al., 2019). In this case, organisational culture is the main expression of market orientation, and how the two interact will affect the business's performance results (Shaher & Ali, 2020; Arabeche et al., 2022). Thus, the potential impact of entrepreneurial orientation on marketing orientation can significantly improve the performance of SMEs.

H9: The performance of SMEs and entrepreneurial orientation are linked through the intermediary role of market orientation.

**Relationship Between Human Capital-Market Orientation and SME Performance**

In the age of globalization, businesses truly need to have a strong market orientation plan. Labor productivity and finan-

cial success in SMEs are favorably correlated with human capital management (Lai et al., 2017). According to (Sheehan, 2014), the utilization of human resource practices also contributes to a sustained competitive advantage. While putting into practice a specific market orientation demands resources, the advantages exceed the drawbacks and lead to higher overall profits (Anjum et al., 2022). A 2018 study by Jogaratnam found a favourable correlation between market orientation and customer outcomes like customer satisfaction, customer loyalty, and perceived quality (Jogaratnam, 2018). In Malaysia's food and beverage manufacturing sector, market orientation is partially a mediating component in the correlation between entrepreneurial orientation and SME performance, according to Amin et al. (2016). In summary, a company's HC resources determine whether a well-executed market orientation strategy succeeds. Better business outcomes will come from successfully adopting the best possible market orientation. On the basis of the above claims, the tenth theory is put out:

H10: Market orientation mediates the relationship between human capital and SME performance.

Figure 1 illustrated the research model.

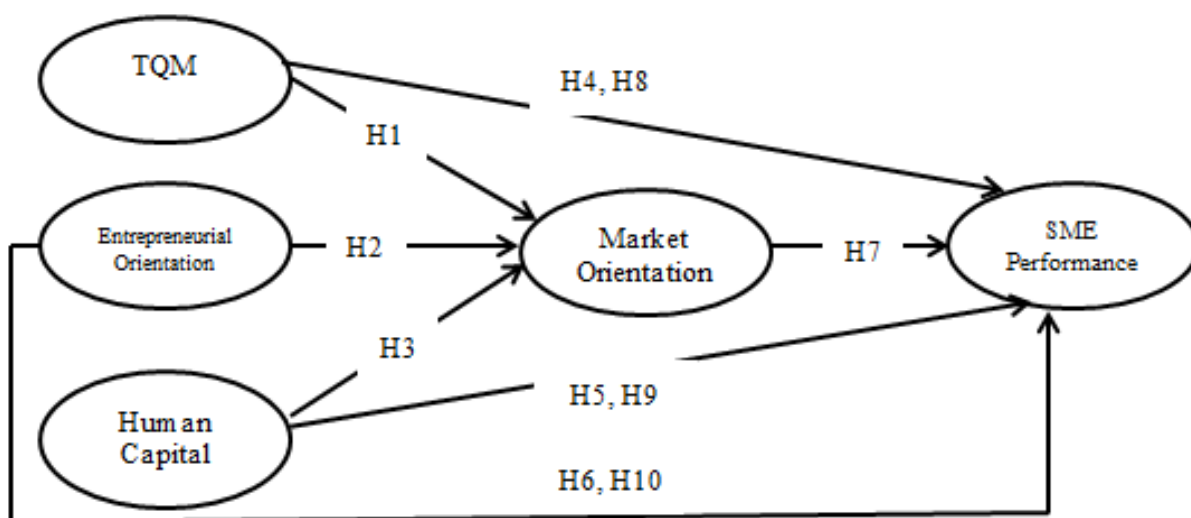


Figure 1. Research Model



## RESEARCH METHODOLOGY

### Population and Sample

A quantitative research method was used in this study. This method is a scientific method because it meets scientific principles, namely concrete, objective, measurable, rational and systematic (Sugiyono, 2017:7). Data collection was carried out by distributing questionnaires via google form, as was done in earlier studies of a similar nature. The populations of this study are owners or managers of batik SMEs in Semarang city. The Lemeshow formula was utilized to establish the sample size in this study due to the lack of information regarding the population size (non-probability sampling) (Levy & Lemeshow, 2013). The total number of respondents gathered was 96, but this figure was rounded up to 100 for analytical reasons. Batik SMEs in Semarang City were chosen because Semarang batik has its own characteristics compared to batik from Lasem, Solo, Jogja and others. It is hoped that by choosing Semarang batik UKM the results will be more specific as a characteristic of the Semarang batik UKM business. Convenience sampling is the sample technique employed in this study. It is a sampling technique based on anyone who meets the researcher by chance can be used as a sample, if the person they happen to meet is suitable as a data source according to the main criteria (Sugiyono, 2017).

### Measurement

A structured questionnaire, using a Likert scale of 1-5 is used as an instrument in collecting primary data. The questionnaire for the TQM variable was modified and consisted of eight indicators: leadership, continuous improvement, quality planning, personnel management, customer focus, process management, supplier management, as well as learning. Adopted from (Grandzol & Gershon, 1998) and (Asad, Devi, et al., 2020).

Proactively seeking market possibilities, acting to foresee issues, demands, or

changes in the future, keeping an eye on industry trends to predict future developments, and excelling in the development and introduction of new goods or technology are all signs of an entrepreneurial approach (EO). These indicators also include a heavy emphasis on product marketing through a "tried and true" approach, an audacious and combative approach to optimize possible prospects, the ability to be a pioneer in introducing new innovations in the local market, a commitment to getting breakthrough technology and implementing them before the competitors, and support for high-risk initiatives to achieve high returns (Covin, Jeffrey & Slevin, Dennis, 1989; Rauch & Frese, 2009; S. L. Martin & Javalgi, 2016).

According to (Kaplan & Norton, 2004a), there are three components to HC: values, skills, and knowledge. The indicators of the human capital variable are: employee values or attitudes toward readiness related to business strategy, politeness and quick response; employee values or attitudes toward readiness related to customer needs; employee knowledge of quality at reasonable prices; employee skills in processing ongoing business fields; employee skills in providing suggestions, consultation, also responses to customers; and employee attitudes or principles toward working together as a team to accomplish shared objectives (Kaplan & Norton, 2004a).

In line with (Nakos et al., 2019), which also cites (Narver & Slater, 1990) and (Frösén et al., 2016), market orientation is comprised of three primary elements: customer focus, competitor awareness, and function coordination. Market orientation indicators include the following: we always base business development on the needs of our global customer base; we constantly consider how satisfied our customers are with the products they have purchased; we have a customer service department that regularly responds to complaints from our global customer base; and we also don't disregard suggestions

and information from our customers. Both domestically and globally, we react swiftly to any new initiatives taken by our competitors, such as offering their clients new products. We also collaborate to exchange new information, such as updates on the needs of customers around the world, and help one another out to ensure that our clients receive the best possible service.

A rise in sales, the accomplishment of cost efficiencies, profit growth, the capacity to offer high-quality goods at competitive pricing, and timely delivery are some of our key performance metrics. The company's image and reputation have been successfully created, resulting in a decline in customer complaints and an increase in loyal customers. Our products and services are now of higher quality, we've been successful in attracting and keeping clients, and we've innovated in our offerings. Additionally, the proficiency of our workforce increased, and our computer-assisted information processing capabilities improved (Kaplan & Norton, 2004a).

### Data Analysis

All data that has been collected will be analyzed using the Structural Equation Model (SEM) with PLS 4.0 because in this research it is reflective. The reflective model is a model that shows the relationship between latent variables and indicators (Hair Jr et al., 2021).

### RESULTS

From the gender of the respondents, it shows that the number of batik entrepreneurs is quite balanced between men and women. This means that gender balance emphasizes equal conditions between men and women. In this case, female batik entrepreneurs can carry out or do what male batik entrepreneurs can do. Based on the results of data analysis, it was found that the number of respondents was based on the age group 18-25 years (20%), 26-30 years (28%), 31-40 years (25%), 41-50 years (16%) and >51 years (11%).

In this age group, it is known that the majority are in the productive age group. Age is one of the factors that influence a person's business behavior. A person who lives a normal life can assume that the longer they live, the more experience they have, the wider their knowledge, the deeper their expertise, and the better their wisdom in making decisions about their actions. According to the Indonesian Ministry of Health, the productive age is between 15 - 54 years. In this study, the ages taken were between 17 - 55 years, so this age is still considered productive working age. The role of the age factor in responding to receiving information (Roestam, 2003).

Education is a measure of the success and quality of human resources. The high level of education in a region indicates that the quality of its human resources is higher or better and vice versa, the low level of education in a region indicates a decline in the quality of human resources. Respondent characteristics based on education level explain and provide information regarding the level of formal education or that has been completed by batik entrepreneurs.

Marital status really determines whether a person has greater responsibilities or not. Respondent characteristics based on marital status were categorized into two groups. The first is the married group (57%), meaning that the batik entrepreneur does not have dependents so the income generated is used for him self or used to develop his business. The second category is unmarried (43%), meaning that the batik entrepreneurs have dependents so the income generated is used for his family's living needs. Someone who is married certainly has greater responsibilities compared to those who are not married.

The length of business can increase a person's experience in the field he is running. In the case of the batik business, the length of time entrepreneurs run their business adds experience in the form of how they market their products, how they

attract consumers to be interested in their merchandise, how they study consumer behavior and how they run their business with the many problems that must be faced as the business progresses.

**Outer Model**

Outer model evaluation is carried out to ensure that the variables used are suitable for measurement (valid and reliable). The outer model with reflective indicators is evaluated through convergent and discriminant validity of the indicators forming the latent construct and composite reliability as well as Cronbach's alpha for the indicator block (Hair Jr et al., 2021). The outer model measurement results are presented in Figure 2 and Table 2. The measurement items are deemed genuine since, as shown in Table 2, the AVE is above 0.5. All variables exhibit composite reliability more than 0.7, indicating their level of reliability. The discriminant validity test is measured using Fornell-Larcker Criterion (Table 3). It is evident that construct under measurement have a higher value than the construct in the row adjacent to it.

**Inner Model (Structural Model Test Results)**

After testing the outer model, the next step is to test the inner model to test the research hypothesis. The inner model test was carried out by testing the Variance Inflation Factor (VIF),  $Q^2$ ,  $R^2$ , NFI (Hair Jr et al., 2021).

**Collinearity Test**

Based on the VIF values in Table 4, it can be seen that all VIF values are  $< 5$  so it can be concluded that the data does not have high collinearity. This means showing that the variables used will not cause errors in assessing significance and weight estimation.

**Predictive Relevance Test ( $Q^2$ )**

The  $Q^2$  test was carried out to find out whether the research model was valid and

relevant. If the value of  $Q^2 > 0$  means the research model has predictive relevance. The Table 5 containing the values of  $Q^2$  (Hair Jr et al., 2021).

**Predictive  $R^2$**

Evaluation of inner model is carried out through R-Square (Table 6).  $R^2$  for the market orientation variable is 0.452. This means that market orientation variable is able to explain the influence of TQM, entrepreneurial orientation and human capital by 45.2%.  $R^2$  for the SME performance variable is 0.566. This means that the SME performance variable is able to explain the influence of TQM, entrepreneurial orientation, human capital and market orientation by 56.6%. The research model has a better match because the NFI in Table 7 is near to 1 and the SRMR 0.095  $< 0.8$  is model perfect fit (Hair et al., 2017).

**Hypothesis Test Results**

The results of hypothesis testing in this research can be seen in the Table 8. The results of the direct influence in this study show that almost all hypotheses are accepted except for hypothesis H5 and H6, which means subjective norms are unable to directly influence entrepreneurial orientation and human capital toward SME performance in Semarang.

Results of testing the mediating role of market orientation in this research in Table 9 shows that H8 is rejected because of p-values ( $0.110 > 0.05$ ), while H9 was accepted because of p-values ( $0.039 < 0.05$ ) and H10 was accepted because of p-values ( $0.015 < 0.05$ ). In this way, market orientation is able to mediate the influence of entrepreneurial orientation and human capital on SME performance (Table 9).

**Table 6.** Predictive  $R^2$

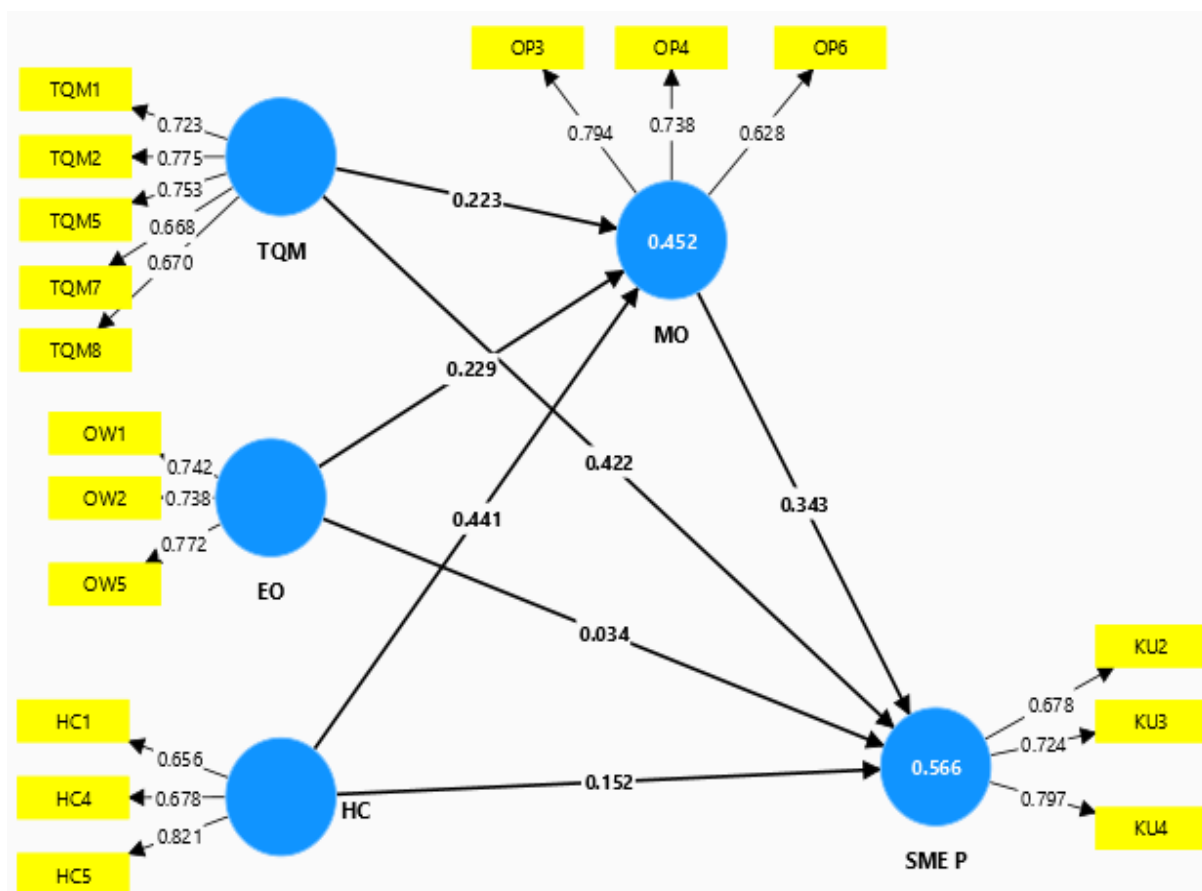
Variables	$R^2$	Adj $R^2$
Market Orientation	0.452	0.435
SME Performance	0.566	0.548

Source : primary data processed, 2024

**Table 1.** Respondents Identity

Explanation	F	%	Explanation	F	%
Gender			Marital Status		
Male	49	40%	Married	57	57%
Female	51	51%	Not married yet	43	43%
Respondents' age			Business period		
18 – 25	20	20%	1-3 years	21	21%
26-30	28	28%	3.1 – 5 years	26	26%
31-40	25	25%	5.1 – 7 years	14	14%
41-50	16	16%	7.1 – 10 years	16	16%
>51	11	11%	>10.1 years	23	23%
Education level					
Junior high school	19	19%			
Senior high school	16	16%			
Diploma	26	26%			
Bachelor strata 1	22	22%			
Bachelor strata 2	17	17%			

Source: primary data processed, 2024



**Figure 2.** Outer Model

**Table 2.** Outer Loadings, Cronbach's Alpha, Composite Reliability, dan AVE

Variables	Item	Outer Loadings	Cronbach's Alpha	Rho_A	Composite Reliability	AVE
Total Quality Management	TQM1	0.723	0.765	0.769	0.842	0.517
	TQM2	0.775				
	TQM5	0.753				
	TQM7	0.668				
	TQM8	0.670				
Entrepreneurial Orientation	OW1	0.742	0.617	0.618	0.795	0.564
	OW2	0.738				
	OW5	0.772				
Human Capital	HC1	0.656	0.536	0.555	0.764	0.522
	HC4	0.678				
	HC5	0.821				
Market Orientation	OP3	0.794	0.536	0.541	0.765	0.523
	OP4	0.738				
	OP6	0.628				
SME Performance	KU2	0.678	0.574	0.581	0.778	0.540
	KU3	0.724				
	KU4	0.797				

Source: primary data processed, 2024

**Table 3.** Fornell-Larcker Criterion

Var.	EO	HC	MO	TQM	SMEP
EO	0.751				
HC	0.298	0.722			
MO	0.455	0.569	0.723		
TQM	0.426	0.470	0.630	0.735	
SME P	0.415	0.268	0.438	0.628	0.719

Source: primary data processed, 2024

**Table 4.** VIF Value

Variables	MO	SME P
EO	1.278	1.374
HC	1.128	1.482
MO		1.826
TQM	1.255	1.345
SME P		

Source: primary data processed, 2024

**Table 5.** Q<sup>2</sup> Value

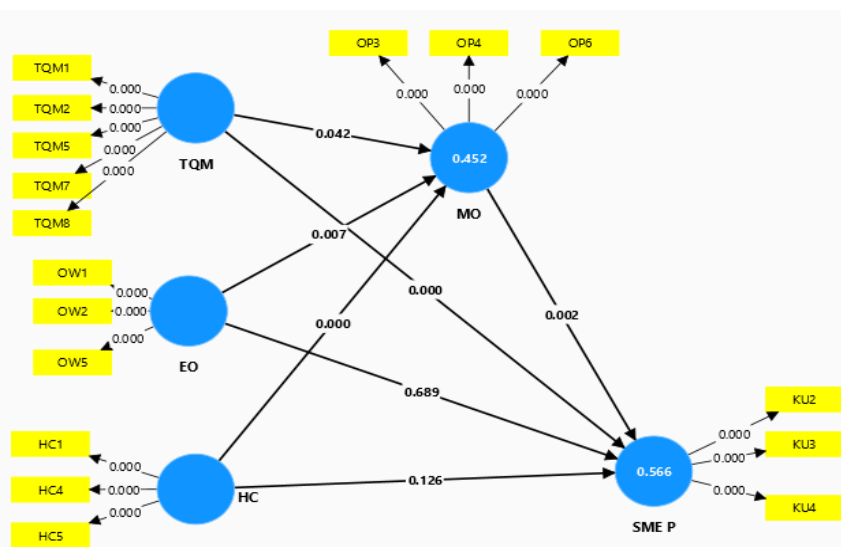
Var.	SSO	SSE	$Q^2 = 1 - \frac{SSE}{SSO}$
EO	300.000	300.000	
HC	300.000	300.000	
MO	300.000	238.015	0.207
SME P	300.000	218.786	0.271
TQM	500.000	500.000	

Source: primary data processed, 2024

**Table 7.** Model of Fit

Model of Fit	Value
SRMR	0,095
NFI	0,531

Source : primary data processed, 2024



**Figure 3.** Structural Model (Inner Model)



**Table 8.** Direct Effect Hypothesis Test Results

Hyphothesis	Original Sample (O)	Sample mean (M)	Standard deviation (STDEV)	t statistics (IO/STDEVI)	P values	Supported/ No Supported
H1 TQM → MO	0.223	0.218	0.110	2.033	0.042	Yes
H2 EO → MO	0.229	0.229	0.085	2.707	0.007	Yes
H3 HC → MO	0.441	0.446	0.092	4.766	0.000	Yes
H4 TQM→ SME P	0.422	0.418	0.081	5.189	0.000	Yes
H5 EO → SME P	0.034	0.034	0.085	0.401	<b>0.689</b>	<b>No</b>
H6 HC→ SME P	0.152	0.159	0.099	1.531	<b>0.126</b>	<b>No</b>
H7 MO→ SME P	0.343	0.339	0.110	3.111	0.002	Yes

Source : primary data processed, 2024

**Table 9.** Indirect Influence Hypothesis (Mediation)

Hyphothesis	Original Sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics (IO/STDEVI)	P values	Supported/ No Supported
H8 TQM → MO→SME P	0.076	0.076	0.048	1.599	<b>0.110</b>	<b>No</b>
H9 EO → MO→ SME P	0.078	0.077	0.038	2.062	0.039	Yes
H10 HC → MO→SME P	0.151	0.152	0.062	2.440	0.015	Yes

Source : primary data processed, 2024

## DISCUSSION

### The Influence of Total Quality Management on Market Orientation

PLS-SEM analysis supports the first hypothesis, which states that market orientation in batik SMEs in Semarang City is positively impacted by complete quality management. Batik SMEs in Semarang City can conduct market assessments and determine needs that are in line with customer expectations by using Total Quality Management (TQM) with frequent planning and implementation. This has the potential to turn small SMEs into businesses that are market-focused, allowing for the creation of more successful marketing plans and preserving client happiness. SMEs that integrate Total Quality Management (TQM) into their corporate strategy and culture are fundamentally market-driven enterprises. TQM will motivate SMEs to provide better services and higher-quality products. As part of market orientation, TQM makes a company more sensitive to the needs of its customers, which eventually result in longer customer relationships. Customers will see SMEs with improved TQM practices as having more value, which can help the business stand out from the competition.

The highest response from respondents was the need to build good relationships with suppliers. Building positive relationships with suppliers can provide a number of significant benefits for a company. One example is getting products that are high quality but still financially affordable. Getting a reliable service provider in the business realm is a challenge that is not easy. Thus, when you manage to find a trustworthy supplier, it is important to maintain a good relationship with them. One of the efforts that can be made involves carrying out payment transactions according to the specified schedule, drawing up comprehensive cooperation agreements, giving awards such as hampers during holidays as a form of appreciation, giving special treatment to suppliers by recognizing the significant influence they have on the continuity of SME businesses, and maintain regular contact with suppliers, not just when an urgent need arises.

The research findings of (Kowalik et al., 2022) which indicate that TQM is regarded as essential for the effective application of marketing principles and as a way to boost marketing influence, corroborate the outcomes of this study. This is also similar with studies that (Ibrahim et al., 2023);

(Audrey & Sutrisno, 2023) and (Al-Swidi et al., 2019) conducted, which found that TQM encourages the sharing of market knowledge to help businesses react swiftly and consistently to shifting market conditions.

### **The Influence of Entrepreneurial Orientation on Market Orientation**

Result shows that the second hypothesis is acceptable, implying that entrepreneurial orientation has a positive influence on market orientation in batik SMEs in the Semarang area. Entrepreneurship is characterized as a proactive aspect in developing business products and services in the market, which seeks new innovations and is willing to invest, even though it faces high risks.

Innovation refers to the capability to apply creative and original concepts and undertake comprehensive evaluation processes such as creating new products, designing new procedures, developing new providers, and exploring raw resources. Innovation is a crucial element in the entrepreneurial context that produces the values expected by the company as well as producing new transformations or combinations through creative ideas and combinations. Proactivity can be defined as the ability to take strategic decisions progressively in order to achieve market dominance through the recognition and exploitation of market opportunities, and earlier knowledge of market changes compared to other competitors. Success in achieving competitive advantage and sustaining initiatives in the business world depends heavily on the ability to identify new opportunities based on future demand. In addition, it is important to continue to introduce and develop new products and services on the market in an effort to maintain relevance and competitiveness. An entrepreneur needs to have technical understanding and managerial skills to be able to identify innovative business opportunities, and understand the changes occurring in the market and society.

Finally, an entrepreneur must have a creative entrepreneurial spirit when managing his business activities, supported by a long-term vision and deep understanding to make strategic decisions regarding future markets.

These outcomes are in line with research that Engelen et al. (2014); Darmawan et al. (2023); Cantaleano et al. (2018); Kreiser et al. (2013); Corrêa et al. (2021) and Cho & Lee (2018) conducted, namely that SMEs need to have a high level of proactiveness to enter new markets and a willingness to engage in risky activities.

### **The Influence of Human Capital on Market Orientation**

PLS-SEM analysis results indicate that the third hypothesis is reasonable. This suggests that the market orientation of batik SMEs in the city of Semarang is positively impacted by the human capital variable. While management proficiency and human resource skills will expand the opportunities accessible while developing the market, employee abilities can be employed to meet client wants. Investing in human capital can boost productivity and expand the scope and size of internationalization for SMEs. Successful entrepreneurs use more than just formal education and expertise to expand their businesses internationally. In order to fulfill the demands of the market community, SME owners, managers, and stakeholders must ready their human capital by concentrating on customer satisfaction, both domestic and foreign clients, fresh insights into consumer wants, and providing the best possible customer service.

This is consistent with study by (AlQershi et al., 2022); (Hendarman et al., 2020); and (Tjahjadi et al., 2022), which found that the success of effective market orientation depends greatly on the preparedness of human resources. An effective market orientation strategy is one

that is executed more successfully the more HC resources there are.

### **The Influence of Total Quality Management on SME Performance**

PLS-SEM analysis results support the fourth hypothesis, which states that the performance of batik SMEs in Semarang is positively impacted by the whole quality management variable. Businesses using Total Quality Management (TQM) put a strong emphasis on satisfying customers in order to enhance management effectiveness. In addition, TQM is a strategy that utilizes of the human resources already in place to constantly enhance performance at every operational or process level in a variety of organizational activities. A highly appropriate first step in continuously enhancing and raising the capacities of all currently-existing organizational components is the implementation of comprehensive quality management.

Research by (K. Ali & Johl, 2022); (Valmohammadi & Roshanzamir, 2015); (Wang et al., 2012); (Nair, 2006); (Demirbag et al., 2006); (Kaynak, 2003); (Akanmu et al., 2020) is in line with these findings.

### **The Influence of Entrepreneurial Orientation on SME Performance**

The fifth hypothesis is not supported, which suggest that an entrepreneurial mindset improves the performance of batik SMEs in Semarang. To give their goods a distinctive appeal and boost sales, business owners need to be creative. Owners of businesses must also never stop searching for improved systems for goods and services. A company's competitive advantage increases with its level of innovation. As a result, generating competitive advantages and raising earnings are directly tied to innovation. The willingness of SMEs to take risks, particularly in uncertain circumstances, has a substantial impact on their performance. Meanwhile, a company's operating breadth or market pene-

tration might be increased by taking calculated risks.

Proactive action was the most often given response by the respondents. Because proactive entrepreneurs will attempt to satisfy consumer wants and ascertain the worth of their competitors before offering offers to their clients, proactivity has a favorable impact on business performance. Proactive thinking can also assist businesses in controlling industrial markets and boosting earnings. This is not in line with research which conducted, Iskandar & Kaltum (2022); Wales (2016); Aftab et al.(2022); Yang & Aumeboonsuke (2022), which found that businesses possessing strong entrepreneurial orientation capabilities can identify and seize business market opportunities better, so they acquire a major competitive edge over rivals.

### **The Influence of Human Capital on SME Performance**

The sixth hypothesis, which states that the human capital variable does not have a favorable impact on the performance of batik SMEs in the city of Semarang, is supported by PLS-SEM analysis. Knowledge, abilities, and values found in human resources can be applied to gain a competitive edge. Numerous scholarly investigations have demonstrated the paramount importance of human resources in attaining peak performance in SMEs situated in Indonesia. Strategic assets like human resources (HR) are employed to boost business output. Employees in human resources are guided toward enhancing productivity, which can ultimately benefit the company's performance. Batik SMEs do not necessarily have a large workforce, which means that personnel management need not be implemented. On the other hand, by making the best use of fundamental human resource skills and expertise, batik SMEs can greatly increase their company performance. As a result, both growing and maximizing human resources as well as

boosting human capital within the organization can raise the potential for success.

The present study's results does not bolster those of earlier investigations carried out by Kaplan & Norton (2004b); Inmyxai & Takahashi (2010); Onkelinx et al. (2016), AlQershi et al. (2022); Hendarman et al. (2020); Vrchota et al. (2020); and Mubarik & Bontis (2022) which demonstrated that the proprietor of human capital, in conjunction with endeavors to cultivate and maximize human resources, exerted a noteworthy influence on the expansion and advancement of field work. One consistent element that contributes significantly to the expansion of small enterprises is human resources.

### **The Influence of Market Orientation on SME Performance**

Measurement shows that the seventh hypothesis is acceptable; indicating that market orientation has a positive impact on the performance of batik SMEs in the city of Semarang. The more a company directs its attention to the market in the formulation or development of its products, the more the company's performance will improve. Besides that, an emphasis on market orientation has the potential to increase the effectiveness of marketing strategies, where increasingly intense competition will further strengthen the correlation between market orientation and marketing performance. Market orientation reflects the ability to understand customer needs, so that it has the potential to provide customer satisfaction in line with its ability to identify competitors' actions. This can also be seen in the results of the respondents' scores on the first, second and sixth indicators which show that they are quite high in paying attention to customer needs, paying attention to customer satisfaction and jointly discussing any new information obtained about customers.

The aforementioned statement aligns with the outcomes of a study which

(Ayimey et al., 2020; Omar et al., 2022; Kazemian et al., 2022; and Shamsudin & Hassim, 2020), and others conducted. The study indicates that Activity Unit Students (UKM) with a focus on market aspects can improve the products' or services' quality by utilizing consumer information, thereby elevating customer satisfaction. Because they make more purchases more frequently, happy customers boost sales and market share.

### **The Influence of TQM on SME Performance Mediated by Market Orientation**

The results of PLS-SEM indicate that the eighth hypothesis has not to be disproved. Stated differently, the link between TQM and the performance of batik SMEs in Semarang City is not well mediated by market orientation. Actually, TQM provides an organized method for creating a work environment that can support the adoption of market orientation and, in the end, enhance organizational performance. But most batik SMEs in Semarang haven't given market orientation enough thought as a critical component that can boost their productivity. Naturally, this contradicts research by Pattanayak et al. (2017) and Ibrahim et al. (2023), which found that Total Quality Management (TQM) focuses on continuously improving internal processes, which can result in increased application of marketing concepts. TQM offers a methodical approach to creating working conditions that facilitate the application of market orientation, thereby enhancing company performance.

### **The Influence of Entrepreneurial Orientation on SME Performance Mediated by Market Orientation**

The ninth hypothesis is accepted, according to the PLS-SEM's results, suggesting that there is correlation between entrepreneurial orientation and the success of batik SMEs in Semarang City that is mediated by the market orientation variable. In this particular context, it is

ideal for entrepreneurial orientation and market orientation to work together. While market orientation needs contributions from entrepreneurial orientation in order to react rapidly to market opportunities, entrepreneurial orientation needs support from market orientation in order to direct innovation efficiently to the market. But this exchange never took place. Since the market orientation culture of Semarang's batik SMEs has not yet completely permeated the organizational structure, the correlation between entrepreneurial orientation and SME performance is insufficient.

This, of course, is in conflict with research by Shaher & Ali (2020) and Arabeche et al. (2022), which discovered that entrepreneurial orientation and market orientation are significantly correlated, and that market orientation mediates the correlation between entrepreneurial orientation and SMEs performance.

### **The Influence of Human Capital on SME Performance Mediated by Market Orientation**

PLS-SEM results that imply market orientation is able to mediate the association between human capital and the success of batik SMEs in Semarang provide credence to the tenth hypothesis. It is evident from this that the business's human capital (HC) resources are essential to implementing a successful market orientation strategy. One useful strategy for improving the performance of SMEs is to have a positive market orientation. The company's market orientation—which prioritizes comprehending and meeting consumer requirements and desires—causes this favorable effect on performance. Businesses are able to create goods with distinct advantages over rivals by concentrating firm resources on these initiatives, which increases business revenue. Batik SMEs who understand the value of human resources are able to develop unique goods that cater to the demands and tastes of their customers. The

capacity of humans to produce new goods is the root of this. Batik SMEs that prioritize client demands will recognize the value of market orientation. Consequently, businesses can enhance their operational performance by recognizing the pivotal role of human capital and putting a strong emphasis on market orientation.

This is in line with research by Amin et al. (2016), which shows that market orientation partially mediates the relationship between entrepreneurial orientation and SME performance in Malaysian food and beverage companies. The same is true of research Tjahjadi et al. (2022); Anjum et al. (2022); and Lai et al. (2017). Increased human capital, improved corporate performance, and more skillfully executed strategies.

### **CONCLUSION AND RECOMMENDATION**

Batik SMEs that have adopted the Total Quality Management model will have the ability to effectively develop market orientation, which in turn can improve business performance. TQM provides a structured approach to developing the work environment and adopting a market orientation, so that overall business performance can be improved.

In an effort to increase focus on the entrepreneurial aspect, it is hoped that batik SMEs can be more proactive in pursuing market opportunities, taking proactive steps to anticipate potential problems, needs or changes in the future. These SMEs should carefully observe industry trends to predict future developments, and be serious about their commitment to adopting and implementing new technology, such as using social media applications to market products online and face competitive challenges.

A positive and meaningful influence on market orientation is able to be produced by human capital. Human capital plays a pivotal role in the process of knowledge creation and dissemination, which in turn can optimize market orientation. This is



due to the ability of individuals with high qualities to create innovations or develop new products, which ultimately allows the company to achieve market needs and desires.

TQM has a large influence on SME performance by 42.2%. From the calculation results, the dominance of respondents' answers was in leadership, continuous improvement, customer focus, supplier management, as well as learning.

Entrepreneurial orientation does not have a significant influence on the performance of batik SMEs in Semarang. Indicators that support the role of entrepreneurial orientation are proactively seeking market possibilities, acting to foresee issues, excelling in the development and introduction of new goods or technology are all signs of an entrepreneurial approach.

Human capital does not have a significant influence on batik SMEs performance. Market orientation has a positive and substantial impact on the performance of SMEs.

Market orientation is not able to mediate the relationship between TQM and the performance of batik SMEs but is able to mediate the relationship between EO and SME performance both and the relationship between HC and batik SME performance.

### **Suggestions**

By demonstrating that a company's performance increases with a higher level of HCR, which also corresponds to more effective plan execution. It is crucial to comprehend these connections for the advancement of theory as well as for real-world applications. Keep an eye on how satisfied local and foreign customers are with the things they have purchased. One way to measure this is by establishing a customer service department that regularly responds to complaints and answers enquiries from customers.

Humans are not only considered as resources, but also considered as capital that produces returns on investment. Any

expenditure made to improve the quality and quantity of human capital is considered an investment activity which will ultimately affect the performance of SMEs. What needs attention are: employee knowledge readiness to carry out operational activities well; readiness of employee skills in processing ongoing business fields; and readiness of employee skills in providing consultation, suggestions and responses to customers;

It is advised that to boost the performance of batik SMEs, innovative products and services be offered, employee computer processing skills be improved, and employee cooperation be strengthened (teamwork). Entrepreneurial mindset is essential for becoming a market-oriented small SME since without innovation, a firm cannot adapt to changes in the market.

In general, society should support batik SMEs in enhancing their business performance by employing their internal resources effectively, efficiently, and creatively, especially human capital/HC and capabilities marketing, as batik SMEs are crucial to the Indonesian economy and the welfare of society. The antecedents of SME business performance can be understood by all parties thanks to the straightforward model provided by this research methodology. The outcomes of market orientation determine the success of business performance. The focus on the market is contingent upon human capital.

The direct influence of TQM on SME performance is quite large, so SMEs should be able to take a more structured approach to develop better leadership, continuous improvement, increase customer focus, supplier management, and learning, so that overall business performance can be improved.

Companies that direct their focus to the market experience a reduced risk of failure, both in the current and future context, because they are at the center of new product development. On the other hand, companies that are able to be innovative in developing their products have the ability

to compete and meet customer needs, which in turn contributes to improving batik SME performance.

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