



Contents lists available at [Journal IICET](http://journal.iicet.org)  
**JPPPI (Jurnal Penelitian Pendidikan Indonesia)**  
ISSN: 2502-8103 (Print) ISSN: [2477-8524](https://doi.org/10.29210/020221435) (Electronic)  
Journal homepage: <https://jurnal.iicet.org/index.php/jppi>



## Business environment of dairy cattle farmers on cooperative positioning and its implications toward marketing performance

Dandan Irawan<sup>\*)</sup>, Heri Nugraha, M. Ardi Nupi Hasyim  
Institut Manajemen Koperasi Indonesia, Indonesia

### Article Info

#### Article history:

Received Jan 25<sup>th</sup>, 2022  
Revised Jul 19<sup>th</sup>, 2022  
Accepted Sep 03<sup>rd</sup>, 2022

#### Keyword:

Business environment,  
Cooperative position,  
Marketing performance,  
Marketing management

### ABSTRACT

The government has enacted the Republic of Indonesia Regulation Number 20 Year 2008 which discusses Micro, Small and Medium Enterprises (MSMEs). This legislation directs to overcome external problems faced by MSMEs and facilitates the opening of business opportunities in a manner. The researcher is interested in researching the Dairy Cattle Farmer's Business Environment on Cooperative Positioning and Its Implications toward Marketing Performance. This study aims to provide an overview of the development of dairy cattle business in West Java Province. This study uses a survey method which is a research method utilized to extract facts from existing symptoms and seek factual information (Nazir, 2005). In the survey method, data is collected from a sample of the population and using a questionnaire as the main data collection tool. The result of this study can be concluded that the external business environment, cooperative positioning affect the marketing performance of dairy farmers in West Java Province.



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### Corresponding Author:

Dandan Irawan,  
Institut Manajemen Koperasi Indonesia  
Email: [herinugraha@ikopin.ac.id](mailto:herinugraha@ikopin.ac.id)

## Introduction

The government has enacted the Republic of Indonesia Regulation Number 20 Year 2008 concerning Micro, Small and Medium Enterprises (MSMEs). This Regulation (UU) serves as the legal basis and umbrella for empowering MSMEs in the country, and the enactment of the Regulation has broad implications for all stakeholders as a common guideline towards changing the MSME empowerment paradigm. This legislation directs to overcome external problems faced by MSMEs and facilitates the opening of business opportunities in a manner. MSMEs can be interpreted as a form of business entity whose establishment is based on the initiative of a person and/or group of people who in their operations utilize various resources, including natural resources that have potential in an area that has not been commercially processed. In general, business actors carry out their business activities individually, thus, all business functions in doing business are carried out by the business actors themselves.

The number of cooperatives (Menekop & UKM RI December, 2017) reached 209,483 units with 26,000 million members. One of the efforts made by business actors is dairy farming, which historically the dairy cattle business in Indonesia only started in the 17th century along with the entry of the Dutch into Indonesia. At that time, the imported dairy cattle were Fries Holland (FH) from the Netherlands. With the passage of time, many natives have their own dairy cows, until they finally develop, especially in the province of West Java, which is known as a center for dairy farming and even extends to the territory of Indonesia. As the number of breeders increase, the need to market their dairy products begins to be felt.

Livestock refers to all issues related to the resources of materials, seeds, seeds and/or feed, feed, livestock tools and equipment, livestock raising, harvesting, post-harvest handling, marketing and operations. The above definition will certainly have implications for the strategies and programs that will be developed by the government. In the socio-economic perspective of smallholder livestock business, it shows that the development of systems and agribusiness businesses is not necessarily suitable to be applied in all conditions. Livestock development remains part of rural development (rural development) which emphasizes efforts to improve the welfare of the villagers, including farmers.

The cooperation that is fostered between the dairy farming cooperative and the dairy farmers as its members can be categorized as a form of relationship in terms of distribution channels. The cooperation formed is between dairy farmers, in this case as producers or as suppliers and dairy farming cooperatives as distributors, in the form of a business-to-business relationship.

The business environment of cooperative members places the positioning of cooperatives in the view of members and also has a relationship with the marketing performance of cooperative members. According to Ferdinand (2000), marketing effectiveness is a measure of the achievement obtained as a result of the activities of the company or organization during the marketing process. Furthermore, Ferdinand also stated that marketing results can be expressed in three core values, namely sales value, sales growth, and market share. Marketing performance can also be interpreted as an effort to measure the level of performance including sales volume, number of customers, profits, and sales growth (Voss and Voss, 2000).

For cattle breeders with ownership of three to four cows (small scale), the average amount of cow's milk produced is 7-12 liters, the net income per month ranges from Rp900,000.00 to Rp1.2 million, which is certainly lower than with the applicable city/district minimum wage (UMK). This is contrary to Hartutik's (2017) statement which states that the ideal cow's milk production is between 15 to 20 liters per day, this condition makes it difficult for these small-scale farmers to be encouraged to become higher-scale farmers. Marketing performance is a tool that is often utilized to measure the impact of the company's strategy and orientation. Marketing strategy is always aimed at providing good marketing metrics (such as sales volume, number of customers, and sales growth rate).

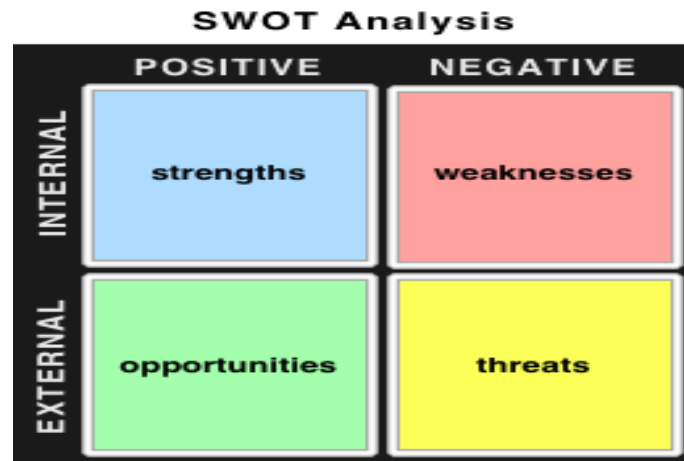
The phenomenon above shows that there is a relationship between the business environment which ultimately affects the positioning of cooperatives and the positioning of cooperatives affects the marketing performance of the dairy cattle business. Therefore, the researcher is interested in researching the Business Environment of Dairy Farmers on Cooperative Positioning and Its Implications toward Marketing Performance. It is hoped that this research can provide an overview of the development of the dairy cattle business in the province of West Java.

## **Theoretical Framework**

### ***Strategy Management***

Strategic management consists of the process of analysis, decisions, and actions taken by an organization in order to create and maintain competitiveness (Musa Hubeis, Mukhamad Najib, 2014). Strategic management as an analysis of decisions and actions are taken by the company to create and maintain competitive advantage. Strategic management also means that the organization puts forward a neat strategy and strives to provide greater competition over time while practicing in day-to-day operations to achieve the desired level of profit. Strategic management, organizational leadership must take into account various factors, and management functions to be carried out simultaneously and continuously. Basically, the strategic management process can be divided into three (3) main parts. These sections are called: 1) strategy determination; 2) strategy implementation; 3) performance appraisal.

In addition to these two important components of strategic management, managers also need to familiarize themselves with their corporate environment. In other words, managers must really master the internal and external environment of the company. Mastery of the internal and external environment can help managers form an analysis of strengths, weaknesses, opportunities and threats, which are more popularly known as the SWOT analysis (Freddy Rangkuti, 2015) which is a very important analysis because it can help make it easier for managers to determine more comprehensive company goals, strategies, and policies.



**Figure 2. SWOT Analysis**

The SWOT matrix is a powerful tool used to develop four types of strategy options: SO, WO, ST, and WT. The key to success using the TOWS matrix is to combine key internal and external factors to form a strategy. SO strategy is a strategy that is built by using the company's internal strengths to take advantage of external opportunities. WO strategy is a strategy aimed at eliminating internal weaknesses and taking advantage of external opportunities. WO also shows opportunities that are within reach that a company can realize if it succeeds in correcting internal weaknesses. ST strategy is designed to anticipate external threats by leveraging internal strengths. The WT strategy is possible, especially if the company is faced with weaknesses and threats that cannot be overcome utilizing existing strengths and opportunities. Basically, the implementation of the WT strategy is a merger, bankruptcy filing, restructuring, or liquidation. This matrix is able to produce various strategies through the association of strength factors with opportunities, strengths and threats, weaknesses with opportunities and weaknesses with threats.

### Business Environment

The term "business environment" has a broad meaning as it denotes all external influences on the organization. Wilson (in Kuncoro, 2006) argues that the business environment has three broad concepts, which are: 1) Objective facts: a reality that can be measured and defined; 2) Subjective facts: specific characteristics that depend on individual interpretation and perception, and; 3) The division between the organization and the environment is not clear, and the environment is created and determined by the individual.

The competitive environment is often seen as a constraint to the growth of companies and industries. The elements of the competitive environment need to be studied further because the industry's inability to achieve sales growth stems from the management's inability to analyze changes in the business environment. Greater knowledge of the business environment will improve management's ability to analyze the data generated and then select the data needed to formulate business strategies to achieve company goals.

According to Brook and Weatherson, (2000: 5) states that "business environment is a general concept with embraces the totality of external environmental forces which may influence any aspect of organizational activity". Organizational environment can be distinguished into the internal environment and the external environment (Wright, 2000; Wheleen and Hunger, 2011).

The competitive environment is often seen as an obstacle to the growth of companies and industries. The elements of a competitive environment require further study as the industry's inability to achieve sales growth stems from the management's inability to analyze changes in the business environment. Better knowledge of the business environment will improve management's ability to analyze the resulting data and then select the data needed to formulate business strategies to achieve company goals. According to Williams (2015), "external environments are the forces and events outside a company that have the potential to influence or affect it". The external environment is the business environment that surrounds a company's operations, from which business opportunities and threats arise. The size of the opportunity depends on the strength of the industry/business. If the industry advantage is stronger than competitors, the opportunity to take advantage of root opportunities is greater. However, if the profit is small, of course the opportunity to take advantage of this opportunity will be less and even more threatened.

Hitt, et al (Arman Hedyanto, 1997) argues that the macro/general environment is a collection of elements in society as a whole that affect the industry and within the company. They group these elements into six environmental segments: demographic, economic, political/legal, socio-cultural, technological, and global. Macro-environment refers to factors that indicate changes in socio-cultural, demographic, economic, political and technological. This macro-environment includes general forces that are not directly related to the firm's short-term activities, but can and often do influence long-term decisions.

The micro-environment is all other organizations or individuals that directly or indirectly affect the company's activities. Pearce and Robinson (2013) explain that the company's micro-environment is an operating environment consisting of competitive factors that affect the company's success in obtaining the resources needed or in marketing its products and services profitably. Among the most important factors are the competitiveness of the company, the composition of its customers, its reputation with suppliers and lenders, and its ability to hire capable employees.

According to Hubeis and Najib (2008), the internal environment is the corporate environment that exists within the organization and usually has direct and concrete consequences for the company. The internal environment consists of the structure, culture, resources (Wheelen & Hunger; Agus, 2003). Internal environmental analysis needs to be done to identify the company's strengths and weaknesses. Structure is how a company is organized in terms of communication, authority, and workflow. The structure is often referred to as the chain of command and is depicted graphically utilizing an organizational chart.

### Marketing Performance

Performance can be interpreted as the work implementation, or work achievement, with other meanings performance reflects the success of a work that has been achieved. Wirawan (2015) defines performance as a record of the results of carrying out certain work functions or actions over a certain period of time or, in simple terms, productivity is the level of success in completing tasks and the ability to achieve the set goals. Overall, marketing result is an important element of a company's performance because a company can be judged by its marketing performance. Marketing performance is a concept to measure the marketing performance of a company. It is in every company's interest to ensure that its achievements reflect the success of its business in a competitive marketplace.

Marketing performance is a construct that is often used to measure the impact of strategy and company orientation. Marketing strategy is always aimed at providing good marketing performance (such as sales volume, number of customers and sales growth rate), and good financial performance which states that good marketing performance is expressed in three core values, namely cost of sales, sales growth, etc., and market share which ultimately leads to the company's profits.

**Tabel 1.** Kisi-kisi Instrumen Marketing Performance

Variable	Dimensions	Indicators
Marketing Performance	Marketing Growth	<ul style="list-style-type: none"> <li>• Return-on-sales rate</li> <li>• Sales Growth</li> <li>• Sales Turnover</li> <li>• Sales Amount</li> </ul>
	Profit Growth	<ul style="list-style-type: none"> <li>• Profit Increase</li> <li>• Productivity target</li> <li>• Efficiency cost control</li> <li>• Creating new products on time</li> </ul>
	Sales Volume	<ul style="list-style-type: none"> <li>• Saving production costs</li> <li>• Sales volume increase</li> <li>• Product availability</li> <li>• Product price affordability</li> <li>• Sales agent affordability</li> </ul>
	Market Growth	<ul style="list-style-type: none"> <li>• Setting targeted market</li> <li>• Market scope with minimum resources</li> <li>• Looking for potential market</li> </ul>
	Customer Growth	<ul style="list-style-type: none"> <li>• Increasing customer growth</li> <li>• Quality of service</li> <li>• Superior value</li> </ul>

**Definition of Cooperative**

Definition of Cooperative according to Law no. 25 of 1992 concerning Cooperatives U 25/92 concerning Cooperatives: "A cooperative is a business entity consisting one person or a cooperative legal entity by basing its activities on the cooperative principle as well as a people's economic movement based on the principle of kinship."

In Law no. 25 Year 1992 concerning Cooperatives, Article 3 states that cooperatives seek to contribute to the welfare of their members in particular and society in general, as well as participate in building the national economic order in order to build an advanced, just, and prosperous society based on Pancasila and Regulation Year 1945 Constitution. The purpose of the cooperative is still general. Consequently, every cooperative needs to turn it into a more operational goal form for cooperatives as an economic entity. The success of cooperatives in improving the socio-economic welfare of their members will be more easily measured if the economic activities carried out by members are carried out through cooperatives, so that the acquisition of welfare will be more easily measured.

The cooperative principles according to Law no. 25 of 1992 and currently applicable in Indonesia are as follows. (1) Membership is voluntary and open. (2) Management is carried out in a democratic manner. (3) The distribution of SHU is carried out fairly according to the amount of business services of each member (4) Provision of limited service limits on capital (5) Independence. (6) Cooperative education. (7) Cooperation between cooperatives

From the two principles of Indonesian cooperatives, it can be perceived that the basic essence of working cooperatives as business entities is not significantly different. It's just that in the Republic of Indonesia Law no. 25 of 1992 states that there is an addition regarding the principle of cooperation between cooperatives. It can be understood that to anticipate the trend of economic globalization, cooperatives need to increase their bargaining power by establishing cooperation between cooperatives.

**ICA Grid as a Tool for Measuring Cooperative Positioning**

In rebalancing the aspects of companies and associations in cooperatives based on the identity of this cooperative, it can be perceived in an index compiled from the Daniel Cote concept (University of Montreal, Canada) or the grid model from the ICA Regional Office Asia-Pacific (ICA-ROAP) as introduced at the Asia Pacific Cooperative Ministers Conference in Kathmandu, Nepal, April 2002.

The concept of this model (Grid Model) is proposed to evaluate the general laws and regulations of cooperatives objectively and position them on a two-dimensional diagram. Axis X characterizes matters relating to state control on the left, which allows regulations to be enforced in a deregulated market economy, while on the right refers to the competitiveness of cooperatives. Axis Y characterizes matters relating to Cooperative Identity Statement (ICIS) above and below the principles of investment-oriented companies (Investor Oriented Forms / IOF) controlled by capital and to obtain benefits for capital. This Grid Model is intended to objectively assess the quality of a piece of legislation on the basis of a positive analysis to bring as close as possible to normative legislation that is firmly rooted in the identity of cooperatives.

**Explanation:****Quadrant I:**

Cooperatives with very high performance are referred as ideal cooperatives. Recommendation: programs in cooperatives should be directed at developing cooperatives in order to further improve the quality of their identity and competitiveness.

**Quadrant II:**

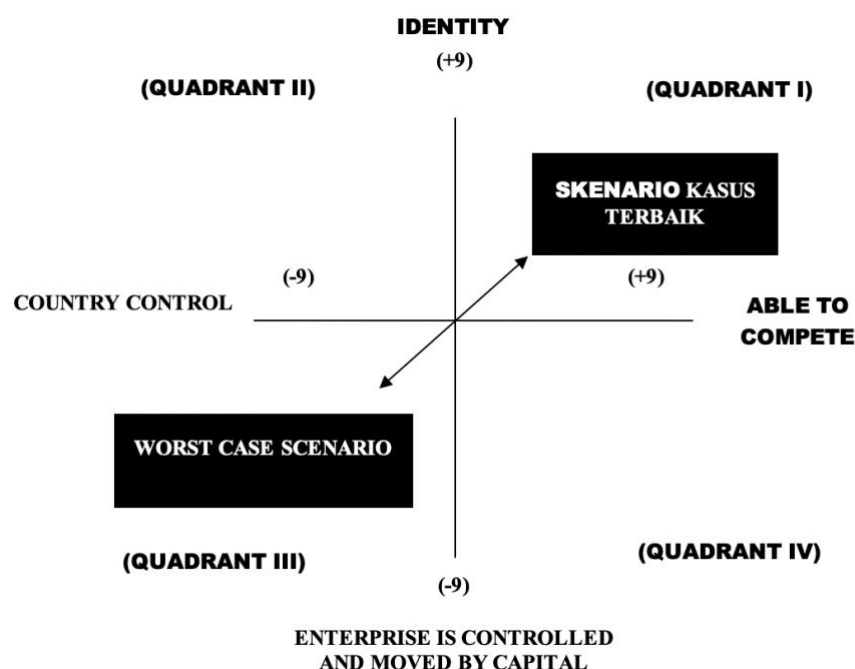
Reflecting the cooperative relationship with the government due to government intervention that is too far into the cooperative's internal organization. Cooperatives in this quadrant are very difficult to develop their identity. Recommendation: Programs for cooperatives in quadrant II are focused on developing their identity and fostering competitiveness.

**Quadrant III:**

Cooperatives are no longer meet the requirements as cooperatives anymore since it has lost its identity and weak competitiveness. Recommendation: the program in this cooperative is directed at fostering and developing identity and competitiveness.

**Quadrant IV:**

Reflecting the cooperative is closer to investment-oriented companies. Recommendation: the program is aimed at fostering identity and developing competitiveness.



**Figure 3.** ICA Grid Model  
Source: Peter Davis (2011)

## Method

The method utilized in this research is a survey method. Survey method is a research method utilized to extract facts from existing symptoms and seek factual information (Nazir, 2005). This method allows researchers to analyze, discuss, and identify problems, and get reasons for the current situation. In accordance with its objectives, this study is to explain the causal relationship between research concepts and hypothesis testing in order to make inductive or generalization decisions, so this research utilizes explanatory or confirmatory research. The place used as the object of research or unit of analysis is the dairy cattle farming in West Java. According to the data from the Association of Indonesian Dairy Cooperatives in West Java Province (GKSI Jabar, 2017) the number of primary cooperative members is 15 primary cooperatives.

Sources of data needed in this study consist of primary and secondary data. Primary data was obtained by conducting field research through distributing questionnaires to dairy farmers, while secondary data was obtained from the Ministry of Cooperatives & SMEs RI, cooperatives, industry and trade office, Bappeda, and studying literature books, scientific journals, newspapers, information from the internet, scientific magazines, seminar papers, and other papers related to the variables used in this study. The analysis of this research was carried out by collecting data using observation techniques, distributing questionnaires and conducting interviews.

## Results and Discussions

Changes in the external business environment have been considered by dairy farmers in West Java. This environment is perceived by the respondents with the interval answer from considered to highly considered answer. The highest average value is in the economic dimension and the lowest value is in the customer dimension. The internal business environment is perceived by dairy farmers as respondents, with an interval of strong to very strong answers. The highest average value is found in the work culture dimension and the lowest average value is in the financial dimension. For the current condition, according to the result of the internal business environment analysis, dairy farmers have to make changes in dairy cattle cultivation, especially with regard to the cultivation process, feeding concentrates and balanced forage feeding. This is reinforced by the results of expert judgment interviews, that the external business environment has lack of influence, while the internal business environment needs to be improved by making improvements to the dimensions of HR, marketing, and production. The result of this study is in accordance with the explanation of Kotler and Armstrong (Sabran, 2008: 79) that it is an external business environment arising from the micro-

environment where the perpetrators are close to the company and affect the company's ability to serve customers, suppliers, intermediaries, customer markets, competitors, and society.

The cooperative positioning is perceived by the respondents with a fairly strong to strong answer interval. The highest average value is found in the dimension of the distribution of the remaining operating results (SHU) based on member savings and the lowest average value is found in the relationship dimension with secondary cooperatives. This is reinforced by the results of expert judgment interviews, that dairy farmers have to understand the identity of cooperatives and the advantages of the products produced.

Marketing performance is perceived by respondents with high to very high answer intervals. The highest average value is found in the profit growth dimension and the lowest average value is found in market growth. This is reinforced by the results of expert judgment interviews, that dairy farmers must understand the quality of cattle's milk produced. Also supported by the potential for the supply of cattle's milk which is very open, of the national need of 4.5 million tons per year, only 18% or around 920 tons are met.

The external business environment has a significant positive effect on the cooperative's positioning. The direction of positive influence strengthens the dependence of members to pay more attention to internal factors, because almost all of the members' milk production is absorbed by the cooperative. The internal business environment has a significant positive effect on the positioning of cooperatives. The direction of positive influence shows that the internal business environment is a supporting factor in improving the positioning of cooperatives. The external business environment and the internal business environment have a positive effect on the cooperative's positioning. The direction of positive influence shows that simultaneously the external business environment and the internal business environment have a strong enough role in improving the positioning of cooperatives with the largest contribution from the internal business environment. This is reinforced by the results of expert judgment interviews, which state that the international business environment is more dominant in influencing the positioning of cooperatives as this environment is an environment that can be controlled by dairy farmers.

Cooperative positioning has a significant positive effect on the marketing performance of dairy farmers in West Java. The positive direction shows that the positioning of the cooperative is an important factor in improving the marketing performance of dairy farmers in West Java Province. This finding is supported by the results of interviews with expert judgments, that the positioning of cooperatives that prioritizes the identity of cooperatives and cooperative excellence can encourage increased marketing performance.

## Conclusions

Based on this description, the researcher concludes that changes in the external business environment have been noticed by dairy farmers in West Java. This environment is perceived by respondents with an interval of answers from considered to highly considered answers. The highest average on the economic dimension and the lowest on the customer dimension. The cooperative positioning is perceived by the respondents with an answer interval from quite strong to strong. The highest average value is found in the dimension of profit sharing (SHU) based on member savings and the lowest average value is in the relationship dimension with secondary cooperatives. then, marketing performance is perceived by respondents with high to very high answer intervals. The highest average is found in the profit growth measurement, and the lowest average is found in the market growth. The external business environment has a significant positive effect on the cooperative's positioning. The direction of positive influence strengthens the dependence of members to pay more attention to internal factors, because almost all of the members' milk production is absorbed by the cooperative. And the positioning of the cooperative has a significant positive effect on the marketing performance of dairy farmers in West Java. This positive direction indicates that the positioning of the cooperative is an important factor in improving the marketing performance of dairy farmers in West Java.

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