The nexus of localism on company performance in the modest fashion business in Indonesia

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Abstract

The growth of global Muslim consumer spending on halal-related commodities has significantly increased, with modest fashion emerging as a notable sector. Despite Indonesia's substantial Muslim population, the country remains a market rather than a leader in modest fashion exports, ranking ninth in exports to OIC countries. This study investigates how fashion localism—focusing on local production and cultural elements—affects company performance in Indonesia's modest fashion business. Using Structural Equation Modeling (SEM) with Partial Least Squares (PLS), the research explores the impact of perceptions and behaviors related to design, raw materials, land ethics, employee development, consumer engagement, regulations, future opportunities, community development, and promotion. The findings reveal that all these factors have a significant and positive influence on company performance. Specifically, perceptions of design and raw materials, as well as behaviors related to employee development and consumer engagement, strongly impact company outcomes. The study underscores the importance of incorporating fashion localism strategies, including effective promotional tactics and regulatory adaptation, to boost competitiveness and performance in the modest fashion sector. This research provides valuable insights for business stakeholders aiming to leverage local strengths and cultural elements to enhance market positioning and overall performance.

1. Introduction

Global Muslim consumer spending on halal-related commodities has consistently increased over time. According to estimates, consumer spending by approximately 2 billion Muslims worldwide reached USD 2.29 trillion across six real sectors [1]. These six real sectors, ranked from largest to smallest in terms of consumption, include halal food, modest fashion,

media and recreation, Muslim-friendly travel, halal pharmaceuticals, and halal cosmetics [1]. Projections suggest that global Islamic economy consumption could reach USD 3.1 trillion by 2027, assuming an average annual growth rate of 4.8% [1].

The halal industry in Indonesia experienced significant growth on a global scale in 2023. According to the latest rankings, Indonesia rose to third place in 2023, behind Malaysia and Saudi Arabia [1]. This advancement highlights Indonesia's great potential in advancing its halal industry. However, despite having the second-largest Muslim population in the world, around 236 million people, Indonesia has yet to secure the top position in this field [2].

Based on recent data, the five largest importers within the Organization of Islamic Cooperation (OIC) are the United Arab Emirates (USD 32.2 billion), Saudi Arabia (USD 31.7 billion), Turkey (USD 31.5 billion), Indonesia (USD 30.3 billion), and Malaysia (USD 29 billion) [1]. Conversely, the five largest exporters to OIC countries are China (USD 31.8 billion), India (USD 26.4 billion), Brazil (USD 20.9 billion), the United States (USD 20.8 billion), and Turkey (USD 16.3 billion) [1]. This indicates that some Muslim-majority countries, particularly Indonesia, remain a market for global halal products.

One of the real sectors of the halal industry with great potential is modest fashion. This sector has seen significant growth, with Indonesia's Global Islamic Economy Indicator ranking among the top 10 [3]. Modest fashion is driven by the Islamic mandate to maintain modesty, and it has flourished in Indonesia, influenced by emerging designers and international fashion events [4]. Globally, modest fashion grows by combining trends in style and form with religious considerations [5].

Despite its great potential, Indonesia remains a market for modest fashion products. Data shows that Indonesia ranks ninth as an exporter of modest fashion to OIC countries, with a value of USD 0.54 billion [1]. On the other hand, Indonesia's import value in modest fashion reaches USD 1.62 billion, making it the sixth-largest importer of modest fashion in the OIC [1]. This indicates that Indonesia's domestic modest fashion business still lags behind international competitors. The high import value, which is three times the export value, also suggests that Indonesia has not yet maximized its domestic market potential.

Fashion localism can be a strategy to further develop the domestic fashion business. Fashion localism encourages consumers and businesses to support locally owned fashion businesses [6, 7]. It is embedded in the national economy's consumption and production base, highlighting the importance of cultural functions [8]. Fashion localism involves complex interactions between local, national, and transnational cultures, with an emphasis on local fashion producers in creating and distributing unique cultural genres [8]. A study in Sri Lanka's fashion retail sector proposed a conceptual model of fashion localism that emphasizes themes such as locally sourced materials and employee development [6]. Pursuing localism in the fashion business leads to gradual changes in how companies create, deliver, and capture value, relating to sustainability [9].

Fashion localism can significantly impact a country's modest fashion business exports. By emphasizing local production networks and leveraging local resources, the business can enhance its competitiveness in the global market. Research suggests that local garment production can increase business resilience, especially amid unstable global supply chains [10]. Additionally, embracing local roots and creativity in the fashion sector can provide benefits such as tapping into local culture and engaging in knowledge exchange with related industries, driving business growth [11].

Understanding the values and motivations driving sustainable fashion consumption in the modest fashion realm is crucial. Insights into consumer preferences and behavior related to sustainable clothing can help business stakeholders design strategies aligned with the target market's values [12]. A thematic analysis focusing on hijab fashion from the perspective of Muslim clothing retailers emphasizes the importance of staying in tune with global and local fashion trends to meet the needs of contemporary Muslim women [13]

Furthermore, the impact of the fashion and design business on socioeconomic development underscores its importance in supporting a country's economy. By examining the business 's impact on economic development, stakeholders can identify opportunities for growth and sustainability [14]. By embracing local resources, creativity, and cultural elements, the business can further strengthen its position in the global market, showcasing the unique offerings of modest fashion from the country.

This research will analyze the influence of perception and behavior on company performance in Indonesia's modest fashion business. With rapid growth in the modest fashion sector and Indonesia's great potential, it is important to explore how a fashion localism approach can enhance the competitiveness of the local business in the global market. Research on fashion localism remains limited [6, 15]. This study aims to fill this gap and provide in-depth insights into how perception and behavior influence company performance in Indonesia's modest fashion business.

2. Research Method

This study focuses on addressing research issues related to the concept of localism in the modest fashion business in Indonesia. To answer the research question, this study utilizes previous qualitative data analysis, literature reviews, and relevant theories to determine the factors and research variables. To confirm these factors, exploratory factor analysis (EFA) is employed.

The analytical technique used is descriptive statistical analysis with the assistance of software such as SEMPLS, Orange Data Mining, and SPSS to classify the research respondents. The analysis of survey results regarding the factors influencing localism in the modest fashion business in Indonesia is conducted using path analysis with SEM-PLS through SMART PLS software. This approach aims to identify the direct and indirect effects of a set of independent (exogenous) variables on the dependent (endogenous) variables [16].

In this study, data analysis uses Structural Equation Modeling (SEM) with a Variance-Based SEM (VB-SEM) approach, also known as Partial Least Squares SEM (PLS-SEM) [17]. The research variables are structured according to SEM principles to identify the relationships between latent variables. Exogenous variables, which function similarly to independent variables, include local design approaches, use of raw materials, environmental sustainability approaches, employee development,

community development, consumers, regulations and limitations, future opportunities, and promotion. These variables can influence other variables within the model.

On the other hand, endogenous variables, which function similarly to dependent variables, are influenced by exogenous variables, either directly or indirectly. The endogenous variables in this study include company perception, company behavior, and company performance. Additionally, this study also measures control variables, which, although categorized as exogenous variables, have a neutral impact on other variables. The control variables used include job position, gender, age, education, product category, company age, number of employees, number of offline stores, online store ownership, turnover, use of local fabrics, and collaboration with local textile artisans. The determination of these variables aims to gain a more comprehensive understanding of the factors affecting company performance in a local context.

3. Result

Significance values are crucial for evaluating the impact of one variable on another. Significance testing in SMART PLS can be observed by analyzing the T-statistic and P-value. The partial least square technique generates T-statistic and P-value values as follows:

Table 1.
T-Statistics and P-Values**.**

	T Statistics (|O/STDEV|)	P-Values	Significance
Perception -> Behavior	84.020	0.000	Significant
Behavior -> Performance	88.137	0.000	Significant
Perception -> Behavior -> Performance	47.271	0.000	Significant

Source: Primary data processed by SmartPLS, 2024.

To evaluate the impact of one variable on another, we use P-values as the parameter. The T-statistic value should be greater than or equal to 1.661, while the P-value should be less than or equal to 0.05. The Table 2 illustrates the relationships between variables in this research model, which can be observed through path coefficients.

Table 2.
Path Coefficients of Fashion Localism Indicators in Indonesia.

	Path Coefficient	T Statistics (|O/STDEV|)	P-Values	Significance
Perception of Design -> Behavior	0.901	29.277	0.000	Significant
Behavior of Design -> Performance	0.907	38.593	0.000	Significant
Perception of Raw Materials -> Behavior	0.850	17.944	0.000	Significant
Behavior of Raw Materials -> Performance	0.869	20.726	0.000	Significant
Perception of Land Ethic -> Behavior	0.839	17.914	0.000	Significant
Behavior of Land Ethic -> Performance	0.800	15.226	0.000	Significant
Perception of Employee Development -> Behavior	0.867	16.450	0.000	Significant
Behavior of Employee Development -> Performance	0.799	13.499	0.000	Significant
Perception of Consumers -> Behavior	0.911	28.471	0.000	Significant
Behavior of Consumers -> Performance	0.850	15.979	0.000	Significant
Perception of Regulations and Constraints -> Behavior	0.712	8.779	0.000	Significant
Behavior of Regulations and Constraints -> Performance	0.684	9.691	0.000	Significant
Perception of Future Opportunities -> Behavior	0.924	30.769	0.000	Significant
Behavior of Future Opportunities -> Performance	0.765	14.541	0.000	Significant
Perception of Community Development -> Behavior	0.763	11.272	0.000	Significant
Behavior of Community Development -> Performance	0.753	11.041	0.000	Significant
Perception of Promotion -> Behavior	0.940	32.995	0.000	Significant
Behavior of Promotion -> Performance	0.858	18.456	0.000	Significant

Source: Primary data processed by SmartPLS, 2024.

Based on the table above, the relationship between Perception of Design (Exogenous Variable) and Behavior (Endogenous Variable) has a coefficient value of 0.901 with a T-statistic of 29.277 (greater than 1) and a P-value of 0.000 (less than 0.05). The relationship between Behavior of Design (Exogenous Variable) and Company Performance (Endogenous Variable) has a coefficient value of 0.907 with a T-statistic of 38.593 and a P-value of 0.000. Therefore, the direction of the relationship between these two variables is positive with a path value of 90.1% and 90.7%.

The relationship between Perception of Raw Materials (Exogenous Variable) and Behavior (Endogenous Variable) has a coefficient value of 0.850 with a T-statistic of 17.944 and a P-value of 0.000. The relationship between Behavior of Raw Materials (Exogenous Variable) and Company Performance (Endogenous Variable) has a coefficient value of 0.869 with a T-statistic of 20.726 and a P-value of 0.000. The direction of this relationship is positive with a path value of 85% and 86.9%.

The relationship between Perception of Land Ethic (Exogenous Variable) and Behavior (Endogenous Variable) has a coefficient value of 0.839 with a T-statistic of 17.914 and a P-value of 0.000. The relationship between Behavior of Land Ethic (Exogenous Variable) and Company Performance (Endogenous Variable) has a coefficient value of 0.800 with a T-statistic of 15.226 and a P-value of 0.000. The direction of this relationship is positive with a path value of 83.9% and 80%.

The relationship between Perception of Employee Development (Exogenous Variable) and Behavior (Endogenous Variable) has a coefficient value of 0.867 with a T-statistic of 16.450 and a P-value of 0.000. The relationship between Behavior of Employee Development (Exogenous Variable) and Company Performance (Endogenous Variable) has a coefficient value of 0.799 with a T-statistic of 13.499 and a P-value of 0.000. The direction of this relationship is positive with a path value of 86.7% and 79.9%.

The relationship between Perception of Consumers (Exogenous Variable) and Behavior (Endogenous Variable) has a coefficient value of 0.911 with a T-statistic of 28.471 and a P-value of 0.000. The relationship between Behavior of Consumers (Exogenous Variable) and Company Performance (Endogenous Variable) has a coefficient value of 0.850 with a T-statistic of 15.979 and a P-value of 0.000. The direction of this relationship is positive with a path value of 91.1% and 85%.

The relationship between Perception of Regulations and Constraints (Exogenous Variable) and Behavior (Endogenous Variable) has a coefficient value of 0.712 with a T-statistic of 8.779 and a P-value of 0.000. The relationship between Behavior of Regulations and Constraints (Exogenous Variable) and Company Performance (Endogenous Variable) has a coefficient value of 0.684 with a T-statistic of 9.691 and a P-value of 0.000. The direction of this relationship is positive with a path value of 71.2% and 68.4%.

The relationship between Perception of Future Opportunities (Exogenous Variable) and Behavior (Endogenous Variable) has a coefficient value of 0.924 with a T-statistic of 30.769 and a P-value of 0.000. The relationship between Behavior of Future Opportunities (Exogenous Variable) and Company Performance (Endogenous Variable) has a coefficient value of 0.765 with a T-statistic of 14.541 and a P-value of 0.000. The direction of this relationship is positive with a path value of 92.4% and 76.5%.

The relationship between Perception of Community Development (Exogenous Variable) and Behavior (Endogenous Variable) has a coefficient value of 0.763 with a T-statistic of 11.272 and a P-value of 0.000. The relationship between Behavior of Community Development (Exogenous Variable) and Company Performance (Endogenous Variable) has a coefficient value of 0.753 with a T-statistic of 11.041 and a P-value of 0.000. The direction of this relationship is positive with a path value of 76.3% and 75.3%.

The relationship between Perception of Promotion (Exogenous Variable) and Behavior (Endogenous Variable) has a coefficient value of 0.940 with a T-statistic of 32.995 and a P-value of 0.000. The relationship between Behavior of Promotion (Exogenous Variable) and Company Performance (Endogenous Variable) has a coefficient value of 0.858 with a T-statistic of 18.456 and a P-value of 0.000. The direction of this relationship is positive with a path value of 94% and 85.8%.

4. Discussion

The findings of this study indicate that perceptions and behaviors related to design, raw materials, land ethic, employee development, consumers, regulations, future opportunities, community development, and promotion have a significant and positive impact on company performance. This is consistent with previous research highlighting the importance of these elements in improving organizational performance.

Innovative design and high-quality raw materials are consistently associated with better company performance, as supported by the studies of Gerdoçi, et al. [18] and Haider [19]. Furthermore, the concept of Land Ethic applied in business practices shows a positive influence on company reputation and consumer satisfaction, aligning with the findings of Ahmed, et al. [20].

Employee development is also a crucial factor, where interventions and development programs significantly contribute to enhancing company performance, as supported by Khattak, et al. [21]. Consumer perceptions and behaviors play a vital role in determining brand success, with research findings consistently supporting its positive impact on company performance [22].

Regarding regulations, companies that adapt to regulations not only improve compliance but also capitalize on emerging opportunities, as discussed by Khattak, et al. [21]. Future opportunities and community development are also found to have a positive impact on company performance, indicating the importance of long-term planning and social responsibility [23, 24].

Finally, effective promotional strategies are crucial in the modest fashion business in Indonesia, with research highlighting the importance of localized approaches and consumer engagement [25]. Overall, these findings underscore that a holistic approach involving these various factors can help companies achieve better performance.

5. Conclusion

The results of this study indicate that variables such as perceptions and behaviors related to design, raw materials, land ethics, employee development, consumers, regulations, future opportunities, community development, and promotion have a significant and positive impact on company performance. All tested relationships exhibit high path coefficients, with T-

statistics and P-values supporting the statistical significance of these relationships. These findings underscore the importance of integrating these factors into company strategies to enhance performance.

Perceptions of design and raw materials, land ethics, and employee development consistently show strong positive effects on company behavior and performance. Consumer perceptions and promotional strategies also play crucial roles in improving company performance, aligning with previous research that highlights the significance of consumer engagement and effective promotional tactics. Additionally, adaptation to regulations and the leveraging of future opportunities and community development contribute significantly to company performance. Overall, a holistic and comprehensive approach to addressing these various factors can substantially boost company performance in Indonesia's modest fashion business.

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