



Escaping the Captive Market: Strategic Innovation in Co-branding and Mitigating Community-induced Inefficiencies in Faith-Based Micro-Enterprises

Abdulloh Azzahid^{1*}, Mohamad Rizan² , Saparuddin Mukhtar³ 

Postgraduate Master Student, Faculty of Economics and Business, State University of Jakarta, Indonesia¹

Lecturer, Faculty of Economics and Business, State University of Jakarta, Indonesia^{2, 3}

Corresponding Email: abdulloh.azzahid@mhs.unj.ac.id*

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Abstract

This study evaluates the effectiveness of marketing strategies in religious-based business entities in developing countries, with a particular focus on Islamic boarding schools in Indonesia that receive government capital assistance. Using the Structural Equation Modeling (SEM-PLS) model on a sample of 230 business units, this study examines how co-branding and distribution channel management strategies affect marketing performance, both directly and through community marketing mediation. Empirical results show findings that contradict conventional wisdom: although co-branding strategies are proven to significantly improve performance ($\beta=0.208$), distribution channel management ($\beta=-0.134$) and community marketing ($\beta=-0.217$) are negatively correlated with marketing performance. Furthermore, community marketing was found to negatively mediate the relationship between co-branding, indicating the existence of “social costs” and “network exclusivity” phenomena that burden business efficiency. These findings provide important theoretical contributions regarding the limitations of bonding social capital in religious entrepreneurship, suggesting that over-reliance on internal communities and traditional distribution channels without digitalization support can hinder commercial growth.

Keywords: *Islamic Boarding Schools Business Units, Co-branding, Bonding Social Capital, Captive Market Dynamics, Islamic Boarding Schools Economics.*

Introduction

In the last decade, the discourse on faith-based social enterprises (FSEs) has grown rapidly, highlighting the pivotal role of religious institutions not only as spiritual centers but also as proactive agents of economic empowerment (Werber et al., 2014). In the Indonesian context, this phenomenon is clearly manifested in the transformation of Islamic boarding schools (pondok pesantren), a movement driven by the Ministry of Religious Affairs' Pesantren Independence Program (Kementerian Agama RI, 2024a). With more than 3,500 recipients of capital assistance, these institutions are strategically expected to evolve into independent economic hubs (Kementerian Agama RI, 2024b). However, the transition from socio-educational foundations to professional business entities introduces unique managerial challenges, particularly in the formulation of effective marketing strategies (Bawono et al., 2020).

Conventional marketing literature generally categorizes “communities” and “distribution channels” as indispensable strategic assets. Relationship marketing theory, for instance, posits that robust community ties foster brand loyalty and minimize marketing costs (Shidiq & Saleha, 2022). Similarly, classical distribution theory suggests that the expansion of market channels inherently increases market availability and sales volume (Fayaz & Azizinia, 2016). However, emerging empirical research on SMEs in developing countries has begun to expose a “dark side” to these established assumptions (Sari et al., 2023). Excessive strength of community ties (strong ties) can create a state of insularity that stifles market innovation (Sari et al., 2023). Furthermore, suboptimal distribution channel management at the micro level frequently imposes operational cost burdens that eclipse marginal benefits (Sadraei, 2025).

This study aims to scrutinize the validity of these assumptions within the unique landscape of Islamic boarding school business units. Specifically, it addresses whether co-branding and distribution expansion strategies truly augment performance, and if community involvement consistently functions as a positive catalyst. By examining empirical data from 230 Pesantren business units, this research fills a critical literature gap by demonstrating how traditional marketing mechanisms can become counterproductive if they are not managed with modern professionalism (Hair et al., 2014).

One pivotal strategy explored is co-branding, which entails the merging of two or more brands to forge a unique market proposition (Abratt & Motlana, 2002). For nascent or small-scale entities like Pesantren business units, co-branding whether with established Pesantren

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giants or government led initiatives like OPOP serves as a critical mechanism for reputation transfer (Khoiroh et al., 2025). In markets heavily influenced by religious ethics, such alliances send a potent signal of trust to consumers, thereby mitigating perceived risks and enhancing purchase preferences (Aini et al., 2025).

While co-branding focuses on market perception, distribution channels serve as the essential conduits for value delivery. Yet, contemporary MSME literature highlights a growing concern regarding “channel inefficiency” (Sari et al., 2023). The proliferation of physical distribution nodes, such as retail outlets and agents, demands substantial working capital and incurs heavy logistical expenses (Sari et al., 2023). Without achieving economies of scale or implementing sophisticated supply chain systems, the aggressive addition of channels may paradoxically erode profitability (ROI) and stagnate asset turnover, ultimately degrading overall marketing performance (Prakash et al., 2021).

Central to the Pesantren model is community marketing, which leverages shared values to engage group members (Hammond, 2025). While often lauded as the institution's premier social capital asset, the dichotomy between “bonding” and “bridging” social capital suggests a potential pitfall. Excessive internal bonding can lead to insular exclusivity and social obligations such as “brotherhood” price expectations that financially strain the enterprise (Azizi et al., 2009). If community marketing remains confined to a saturated “captive market” without bridging to external consumers, it may impede long-term growth (Azizi et al., 2009). Ideally, strategies like co-branding and distribution should fortify the community to drive performance. However, if the community functions as a “resource absorber” rather than a “revenue generator,” its mediating role may inadvertently suppress the efficacy of the initial business strategies.

Research Method

This quantitative study uses an explanatory causal design. The population includes 3,585 Islamic boarding schools receiving assistance from the independence program (2021-2024) (Kementerian Agama RI, 2024b). A sample of 230 respondents (chairpersons/business unit managers) was selected using purposive sampling to ensure that respondents had strategic capacity (Hair et al., 2014).

The research instruments in this study were constructed through a synthesis of relevant theoretical literature to ensure content validity. Marketing performance was conceptualized as a multidimensional construct that includes sales growth, market share, return on investment

(ROI), and efficiency in customer acquisition costs (Katsikeas et al., 2016). For the strategy variable, co-branding was operationalized through indicators of brand alignment, partner reputation, and consumer trust level, while the distribution channel was measured based on retail reach, agency system effectiveness, and digital access integration. Finally, Community Marketing is evaluated through psychosocial and behavioral dimensions, which include a sense of community, member loyalty, and the level of active participation in the business ecosystem.

The data were analyzed using *Structural Equation Modeling - Partial Least Squares* (SEM-PLS) with SmartPLS software. Evaluation of the measurement model showed good validity and reliability (Loading Factor > 0.70, AVE > 0.50, Composite Reliability > 0.70) (Creswell & Creswell, 2018).

Result

Respondents were predominantly from the Retail Trade sector (44.35%), followed by Laundry and Food Processing Services. The majority were located in Java (West Java, East Java, Central Java), but there was also representation from outside Java. The data shows a high level of activity: 90% have collaborated with brands and 100% distribute between Islamic boarding schools.

The bootstrapping results show the following structural relationships:

Table 1 Path Test Results Summary

Track	Koefisien (β)	T-Statistik	P-Value	Conclusion
H1: Co-branding Strategy → Marketing Performance	0.208	2.157	0.031	Significantly Positive
H2: Distribution Channel → Marketing Performance	-0.134	2.247	0.025	Significant Negative
H3: Co-branding Strategy → Community Marketing	0.502	8.273	0	Significantly Positive
H4: Distribution Channel → Community Marketing	0.502	8.273	0	Significantly Positive

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H5: Community Marketing → Marketing Performance	-0.217	3.169	0.002	Significant Negative
H6: Co-branding Strategy → Community Marketing → Marketing Performance	-0.109	2.758	0.006	Negative Mediation
H7: Distribution Channel → Community Marketing → Marketing Performance	0.022	1.621	0.105	Not Significant

The R² value for Marketing Performance is 0.058, indicating that this model explains 5.8% of the variance in performance, while other factors have a greater influence. However, the statistical significance of the path coefficients provides strong causal insights.

Discussion

Validating Co-branding as a Growth Driver

The findings confirm that the Co-branding Strategy is the only independent variable that contributes positively to marketing performance ($\beta=0.208$). This shows that the strategy of “borrowing” brand equity both from the parent Islamic boarding school institution and external partners is highly effective (Aini et al., 2025). In a market filled with uncertainty, co-branding labels act as a guarantee of quality and sharia compliance, which is crucial for Muslim consumers (Khoiroh et al., 2025).

Distribution Anomaly: Cost Burden vs. Coverage

The negative impact of Distribution Channel on performance ($\beta=-0.134$) highlights operational inefficiencies. Although business units actively distribute products, the distribution model used is likely still traditional, fragmented, and costly (Miju et al., 2022). The high cost-to-serve distribution channels in the micro-retail sector is often not proportional to the profit margin (Atjas & Sitaniapessy, 2024). Without the adoption of adequate logistics technology, physical expansion actually becomes a financial burden for the business units of Islamic boarding schools.

Critical Evaluation of Community Marketing

The most provocative findings are the negative impact of Community Marketing ($\beta=-0.217$) and its negative mediating role ($\beta=-0.109$). This challenges the common narrative that “community support is everything.”

1. **Captive Market Trap:** Excessive focus on internal communities (students/guardians) creates a growth ceiling. When the internal market becomes saturated, businesses fail to expand because they lack the competence to compete in the open market (Rahmawati et al., 2021).
2. **Social Costs:** Intensive community interaction may consume time and financial resources (e.g., special community discounts, activity donations) that reduce the real profitability of the business (Kim, 2020).
3. **Negative Filter:** The community acts as a “filter” that distorts the benefits of co-branding. Instead of expanding the market, collaborative branding only circulates within the same internal circle, leading to sales cannibalization and stagnation (Sahani, 2024).

Conclusion

This study concludes that Islamic boarding school business units are currently trapped in captive market inefficiencies, where symbolic strategies such as co-branding have succeeded in building trust but their performance is hampered by dependence on exclusive internal communities and high-cost traditional distribution management. To overcome this stagnation, business entities need to immediately restructure their operational models by shifting from capital-intensive physical infrastructure to digital logistics collaboration and transforming the role of the community from passive consumers to proactive marketing agents that reach external markets. Furthermore, sustainable profitability requires a clear separation between philanthropic resources and business operating costs to prevent “social costs” from eroding profit margins. Further research is expected to expand this model by integrating digital literacy and entrepreneurial orientation variables to map more comprehensive predictors of growth in faith-based entrepreneurship.

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