

Social Capital and Improving MSME Performance Through Entrepreneurial Orientation

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ABSTRACT

This study aims to demonstrate the impact of social capital on the entrepreneurial orientation and performance of micro, small, and medium enterprises (MSMEs), with entrepreneurial orientation acting as a mediator. A quantitative methodology was employed to examine a diverse sample of MSME proprietors in Malang City, located in the East Java province of Indonesia. Utilising Structural Equation Modeling (SEM), research demonstrates that social capital influences both entrepreneurial orientation and the success of MSMEs. Furthermore, the entrepreneurial mindset influences the performance of MSMEs and mediates social capital and MSME performance. The research findings indicate that MSMEs in Malang City may effectively manage their human resources by using social capital. This is achieved through a confluence of elements encompassing the configuration of social networks, the accessibility of social resources, the cultivation of social aptitudes and conduct, the establishment of social identity, and adherence to social norms and values. Through participating in this activity, these MSMEs are able to cultivate an entrepreneurial mindset, leading to improved performance. MSMEs showcase their marketing efficacy by augmentation of revenue growth and expanding their consumer base. It is recommended that MSME participants adjust to environmental changes in order to promote future market orientation research and enhance MSME performance.

Keywords: *Social Capital, Entrepreneurial orientation, Performance, MSMEs*

1. INTRODUCTION

Micro, small, and medium enterprises (MSMEs) are of great importance to the economy of Malang City in Indonesia. There is a consistent annual increase in the number of MSMEs in Malang City. The main MSME industry sectors in Malang City encompass Batik, Fashion, Painting, Ceramics, Rattan, Sanitary, Pottery, Furniture, and Racket making. According to data from the Central Statistics Agency (BPS), Malang City had around 63,556 MSME units in 2020, which accounted for a significant 49.2% of the Gross Domestic Product (GDP) in the same year. However, MSMEs in Malang City persistently face many challenges, such as market access, financing, and adherence to regulations. Examining the performance of MSMEs in Malang City is captivating because of their obstacles.

Performance results from an individual or a group accomplishing certain objectives within predetermined environmental conditions (Daft, 2010). In their study, Dess and Beard (1984) discovered that most SMEs resist disclosing financial information about their company's performance. Thus, an alternative approach may be necessary depending on the owner's subjective view. Hafeez et al. (2012), Nybakk Erlend (2012), and Li et al. (2006) argue that performance indicators are evaluated by assessing financial performance, marketing performance, and competitiveness. Gin and Chong (2008) argue that SMEs can be evaluated by examining their financial, product, and marketing performance. The study conducted by Sanchez and Marin (2005) evaluates performance by examining three distinct dimensions: profitability, productivity, and marketing.

The Resource-Based Theory (RBT) approach can potentially improve the performance of MSMEs. RBT is a conceptual framework for strategically administrating organisational resources. Resource-based theory classifies capabilities and resources as assets that might be either tangible or intangible. These resources can help choose solutions that aim to improve efficiency and effectiveness (Barney et al., 2011). Belkaoui (2003) suggests combining tangible and intangible assets might improve firm performance. The corporation possesses intangible assets, such as social capital, used as internal resources.

According to Kim and Aldrich (2005), social capital refers to a system of social connections that allows individuals or groups to access resources, knowledge, and assistance to accomplish shared objectives. MSMEs with robust and integrated relationships with suppliers, consumers, and other business partners can enhance their access to crucial resources and information. Therefore, social capital has the ability to increase the operational efficiency and competency

of MSMEs, thereby improving their total firm performance. Kim and Aldrich (2005) identify various measures of social capital, including social network structure, social resources, attitudes and social norms, social skills and conduct, social identity, and access to resources.

The research undertaken by Khoirini & Kartika (2016), Andriani (2010), Kusumastuti (2018), Yadap et al. (2018), Melinda et al. (2018), Kanapathipillai and Azam (2019), and Zulpicha, et al. (2019) has demonstrated that social capital has a substantial influence on the performance of small and medium-sized enterprises (SMEs). Prasetyo & Harjanti (2013), Hartono et al. (2013), and Winarni (2011) have presented contradictory findings, suggesting that there is no discernible relationship between social capital and the performance of micro and small-scale enterprises.

Prior studies examining the correlation between social capital and the success of MSMEs have produced inconsistent findings, highlighting the necessity for additional studies to explore the influence of social capital on MSME performance. This study investigates the role of entrepreneurial orientation as a mediator in this relationship.

Entrepreneurial orientation encompasses the distinct attributes and values entrepreneurs adopt, including tenacity, propensity for risk-taking, nimbleness, and flexibility. In their study, Covin and Slevin (1991) identified a number of managerial behaviours that are believed to encourage entrepreneurial behaviour. These characteristics encompass a tendency towards originality and creativity (innovativeness), a proactive and assertive attitude towards taking action (proactiveness), and a readiness to embrace uncertainty and go into new opportunities (risk-taking). Frishammar and Horte (2007) and Mafasiya et al. (2010) stated that entrepreneurial orientation consists of innovativeness, risk-taking, and proactiveness. Lee and Tsang (2001) outline markers of entrepreneurial orientation, which encompass the desire for achievement, internal locus of control, self-reliance, and extroversion.

Alam et al. (2015) found that social capital influences an individual's values and behaviour and is linked to entrepreneurial orientation. Chen et al. (2007) and Alarcon et al. (2017) suggested that entrepreneurial orientation is influenced by a higher level of social capital, which is significantly impacted by the value of the community system. Yudha's (2018) research indicates that social capital significantly influences entrepreneurial inclination.

An entrepreneur plays a crucial role in executing business operations with an entrepreneurial focus, essential for achieving effective performance. The previous study conducted by Keh et al. (2006) has shown that entrepreneurial attitude substantially influences the acquisition and utilisation of marketing information and directly influences the performance of MSMEs in Singapore. Zhang and Zhang (2012) found that the entrepreneurial approach positively affects the business performance of MSMEs in China. Hoque (2018) provides empirical evidence that adopting an entrepreneurial approach positively impacts the performance of MSMEs in Bangladesh. Karami and Tang (2019) found that the entrepreneurial approach significantly impacts performance.

The study used the Resource-Based Theory (RBT) approach to examine the internal elements that influence business strategy and improve the performance of MSMEs. The analysis focuses primarily on the importance of social capital as an intangible resource. This study is distinctive because it investigates how entrepreneurial attitude serves as a mediator between social capital and the performance of MSMEs. This link is depicted in a solitary model and is substantiated by the Resource-Based Theory as the principal theoretical framework.

2. RESEARCH AND METHOD

Table 1. Research Variables Operational Matrix

Variable	Indicator	Source
Social Capital	Social network structure	Kim and Aldrich (2005); Fukuyama (2001)
	Social resource	
	Social and behavioural skill	
	Social identity	
	Social norms and value	
Entrepreneurial Orientation	Risk-taking	Frishammar and Horte (2007); Lee and Tsang (2001); Mafasiya et al. (2010)
	Proactive	
	Confidence	
	Openness	

Table 1. Research Variables Operational Matrix (cont.)

Variable	Indicator	Source
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MSME performance	Financial performance	Hafeez et al. (2012); Albahusain (2015)
	Product performance	
	Marketing performance	

This study uses a quantitative framework to investigate explanatory research. This study examines the impact of social capital on the performance of MSMEs, with innovation capability acting as a mediator. The study analyses the demographic characteristics of MSME proprietors in Malang City. To get the sample size, multiply the number of indicators for each of the three variables by 10, assuming an infinite population. The sample size is calculated by multiplying 12 by 10, resulting in a total of 120 respondents, as shown in these provisions. The study elucidates the precise connotations attributed to the variables employed, which may be located in Table 1. The research employed Structural Equation Modeling for data analysis. Various fit indices assess the level of compatibility between the proposed model and the data used to evaluate its appropriateness.

3. RESULTS AND DISCUSSION

3.1. Result

Test results with structural Equation Modelling (SEM) are presented in Figure 1 below.

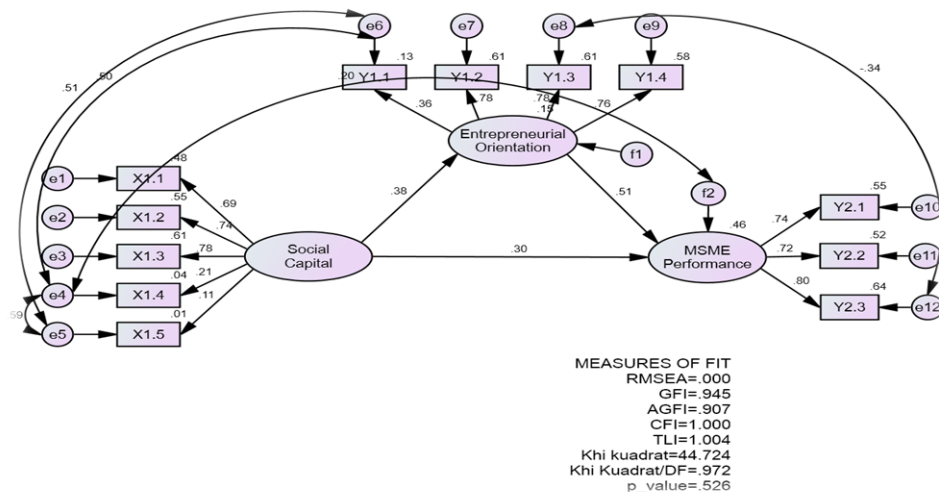


Figure 1 Model test results

The final model test results were evaluated using goodness of fit indices criteria, as depicted in Figure 1. The overall evaluation of the model resulted in a number that exceeded the crucial threshold, indicating that the model is considered suitable and can be used for further analysis and discussion.

3.2. Hypothesis Testing Results

The results of hypothesis testing are shown in Table 2 below. The relationship between social capital and entrepreneurial inclination is statistically significant, as indicated by a Cr value of 2,615 and a p-value of 0.009. Thus, we can conclude that there is evidence to support the concept that social capital directly and considerably impacts entrepreneurial inclination. The correlation coefficient (Cr) between the entrepreneurial approach and MSME's performance is 3,149, with a p-value of 0.002. Thus, we can conclude that there is evidence to support the idea that entrepreneurial orientation directly and substantially impacts the performance of MSMEs. The analysis shows a strong positive relationship between social capital and the performance of MSMEs. The coefficient of determination (Cr value) is 2,539, indicating a considerable impact. Additionally, the p-value of 0.011 further supports the hypothesis that social capital directly influences the performance of MSMEs. When regulated by entrepreneurial attitude, the influence of the social capital variable has a considerable impact on the performance of MSMEs. The coefficient is 2.011, with a p-value of 0.044. Thus, we can confirm that the hypothesis stating that entrepreneurial orientation acts as a mediator for the impact of social capital on MSME performance is valid.

Table 2. Regression Weight Analysis Results

Influence of Variables	Cr	p-value	Information
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Social capital	->	Entrepreneurial orientation			2,615	0,009	Significant
Entrepreneurial orientation	->	MSME performance			3,149	0,002	Significant
Social capital	->	MSME performance			2,539	0,011	Significant
Entrepreneurial orientation	->	Social capital	->	MSME performance	2,011	0,044	Significant

3.3. Discussion

3.3.1. The influence of social capital on entrepreneurial orientation

Social capital is the collection of connections and social links that an individual or organisation possesses with other individuals or groups in their vicinity. Social capital enhances entrepreneurial orientation within micro, small, and medium enterprises (MSMEs). Social capital facilitates improved access to essential resources for initiating and expanding a business, including financial capital, information, labour, and raw materials. MSMEs can readily get assistance and knowledge from their company associates, suppliers, and prospective customers through a robust social network. Furthermore, by leveraging social capital, MSMEs can enhance their comprehension of the market and their clientele. Individuals can acquire valuable insights about market demands, preferences, and trends by engaging with community members or business networks. This information can then be utilised to create products or services more effectively cater to market demand.

This approach is consistent with the perspective of Alam et al. (2015), who found that social capital influences an individual's values and behaviour, thus establishing a link between social capital and entrepreneurial orientation. Chen et al. (2007) and Alarcon et al. (2017) suggested that entrepreneurial orientation is influenced by increased social capital, which is significantly impacted by the value of the community system. Yudha's (2018) research reveals that social capital significantly influences entrepreneurial inclination.

3.3.2. The influence of entrepreneurial orientation on the performance of SMEs

A robust entrepreneurial attitude can greatly influence MSMEs. Entrepreneurial orientation fosters innovation and adaptability in MSMEs, enabling them to respond to market and business environment shifts effectively. By generating novel value and adjusting to evolving market demands, MSMEs can cultivate products or services that are more appealing to consumers and possess a greater competitive edge in the market. Furthermore, MSMEs with an entrepreneurial mindset are likelier to withstand and adapt to risks and uncertainties within the business landscape. They possess greater adaptability in navigating market conditions, legislation, and technological advancements, enabling them to thrive and progress even under volatile circumstances.

This concept is in accordance with the perspective of et al. A 2006 study shows that entrepreneurial orientation has a major impact on acquiring and utilising marketing information and directly affects the performance of MSMEs in Singapore. Zhang and Zhang (2012) found that the entrepreneurial approach positively affects the business performance of MSMEs in China. Hoque (2018) provides empirical data supporting the idea that adopting an entrepreneurial perspective positively impacts the performance of MSMEs in Bangladesh. Karami and Tang (2019) found that the entrepreneurial approach significantly impacts performance.

3.3.3. The influence of social capital on the performance of MSMEs

The presence of social capital has a notable influence on the performance of MSMEs as it facilitates their access to the necessary resources for business operations and growth. MSMEs can enhance their performance by using a robust social network, which provides them access to crucial financial capital, human resources, market intelligence, and technical help. By utilising social interaction networks, MSMEs can effectively leverage social capital to promote their products or services to potential consumers. Community member's or business partners' testimonials influence consumer purchase decisions, boosting sales and enhancing brand visibility. In addition, social capital enables MSMEs to establish stronger and more enduring connections with their customers. By engaging with communities or business networks, MSMEs can better understand their consumers' requirements and preferences, enabling them to deliver superior service and foster stronger customer loyalty.

According to Kim and Aldrich (2005), social capital is a system of social connections that enables individuals or organisations to obtain resources, information, and assistance to accomplish shared objectives. MSMEs with robust social networks comprising suppliers, clients, and other business partners experience enhanced accessibility to crucial

resources and information. Therefore, social capital's existence can potentially improve SMEs' efficiency, strengthening their total organisational performance. The research conducted by Khoirriani & Kartika (2016), Andriani (2010), Kusumastuti (2018), Yadap et al. (2018), Melinda et al. (2018), Kanapathipillai and Azam (2019), and Zulpicha, et al. (2019) demonstrates that social capital significantly influences the performance of SMEs.

3.3.4. *Entrepreneurial Orientation mediates the influence of social capital on MSME performance*

The study's findings demonstrate that entrepreneurial attitude might mediate the impact of social capital on the performance of small and medium-sized enterprises (SMEs). These findings indicate that social capital is significant in providing individuals with increased access to the necessary resources for initiating and advancing a business, including financial capital, information, labour, and raw materials. MSME actors exhibit an entrepreneurial orientation by leveraging robust social networks to create new value and adapt to evolving market demands. They demonstrate a greater resilience to risk and uncertainty in the business environment and are more flexible in responding to market conditions, regulations, and technology changes. This enables them to thrive and grow even in unstable situations. The presence of social capital among MSME players with an entrepreneurial mindset positively influences MSME performance. This is evident through improvements in marketing performance, such as increased sales growth and market share.

The results of this investigation support the conclusions of earlier studies conducted by Chen et al. (2007) and Alarcon et al. (2017). These studies suggest that entrepreneurial orientation is motivated by heightened social capital strongly impacted by values. The community of systems. Yudha (2018) found that social capital strongly influences entrepreneurial inclination. In addition, a study conducted by Li et al. (2006) discovered that entrepreneurial orientation is vital in obtaining and utilising marketing information, and it also has a direct impact on the performance of MSMEs in Singapore. Zhang and Zhang (2012) found that adopting an entrepreneurial strategy positively affects the business performance of MSMEs in China. Hoque (2018) found a positive correlation between an entrepreneurial mindset and the performance of MSMEs in Bangladesh. In their study, Karami and Tang (2019) discovered that entrepreneurial orientation significantly influenced performance.

3.3.5. *Research Implications*

The objective of this study is to improve the efficiency of MSMEs by utilising the strategic function of Human Resources management through the use of the Resource-Based Theory (RBT) methodology. Resource-based theory (RBT) categorises capabilities and resources as tangible and intangible assets that may be utilised to discover and implement strategies to improve efficiency and effectiveness (Barney et al., 2011). Barney et al. (2011) found that MSMEs in Malang City may efficiently manage their human resources by leveraging social capital. This is accomplished by employing a social network framework, utilising social resources, social skills and behaviour, social identity, and conforming to social norms and values. By adopting this approach, MSMEs can cultivate a mindset that values entrepreneurship, leading to improved marketing outcomes. This is supported by the notable rise in sales and the expansion of the customer base.

4. CONCLUSION

Social capital influences both the entrepreneurial attitude and the overall success of MSMEs. The entrepreneurial orientation of MSMEs in Malang City significantly impacts their performance. Additionally, it serves as a mediator in the relationship between social capital and MSME performance. MSME entrepreneurs in Malang City should improve their social and behavioural skills, such as negotiating, communication, and conflict management. In the current era of globalisation, all businesses will inevitably face complexity, change, and escalating competition among companies. Therefore, it is essential for MSME participants to be adaptable to changes in the environment. This will allow future researchers to conduct studies and improve MSMEs' performance by focusing on market orientation

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