

**EFFECT OF SOCIAL CAPITAL ON ENTREPRENEURIAL
ORIENTATION AND TRANSACTION COST TO IMPROVE FIRM
PERFORMANCE IN WOODEN CRAFT SMEs IN
BALI PROVINCE – INDONESIA**

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Abstract

The small medium enterprise (SME) gives contribution as the work field provider, to reduce unemployment and social gap, as well as making equal income distribution. SME is also acknowledged as the institution for seedling the entrepreneurship idea. The government has conduct various empowering programs to improve the SME performance, but the implementation is still constrained by still low entrepreneur culture and social dysfunction. Both fundamental obstacles cause not optimal SME development in Bali Province. This study aims to reveal how the Social Capital directs effect on the Entrepreneurial Orientation; the Entrepreneurial Orientation to the Firm performance, Social Capital on Firm performance. By surveying 333 entrepreneurs of wooden crafts in Bali Province, data analysis by Smart PLS-30, it is obtained that the Social Capital affects significantly and directly on the Entrepreneurial Orientation; directly, the Entrepreneurial Orientation and social Capital affects insignificantly on the Firm performance; By being mediated by Transaction Costs, Social Capital and Entrepreneurial Orientation affect significantly to the Firm performance. By being mediated by Entrepreneurial Orientation, the Social Capital affects significantly on transaction Cost efficiency. In this case, the Cost Transaction is willing to mediate overall the effects of social capital and Entrepreneurial Orientation to improve the firm performance, so that in this case it is acknowledged as the key mediator to improve the firm performance. While, the Entrepreneurial Orientation is found to mediate the partial effect of Social Capital on the Transaction Cost efficiency.

Keywords: Social capital, entrepreneurial orientation, transaction cost, firm performance, SMEs

INTRODUCTION

Various empowering programs have been conducted by the government to optimize the SME performance in Bali province. Among others are accompaniments, partnership, revolving fund programs, but in fact these programs as if are not in target. The empowerment is intended for the SME independency, but it becomes dependency. Yet solid inter-agency coordination of SME builders is suspected as the institution failure to trigger yet optimal government empowerment program implementation.

SME in Bali province are stated to have still low entrepreneurship spirit. Although it has the ability to grow and develop, but it can not absorb investment, because it is still constrained by social culture considering that it is such embarrassing to operate loan capital (Suhartono, 2008). The SME actors in Bali province still believe in cultural and religious values in doing business, so they are not too ambitious or doing any things to compete with others. There is a

spiritual demand that “everything has one to regulate”. This value commonly bases the entrepreneurship culture of SME actors in Bali (Suyatna Yasa, 2012). Though so far it is acknowledged that there are some common problems by SME such as the weak management, marketing, design, production, capital and strategy. From the social capital perspective, SME is not organized optimally, and if this can be done, SME should unite the full resources and this can be used as the lobbying power in coding the collective actions more efficiently and effectively. Meaning, the social dysfunction also can be the constraint for the SME development of wooden craft in Bali Province. (Azzan Manan, 2012).

This study brings the problems: 1) how the effects of Social Capital on Entrepreneurial Orientation are?, 2) How the effects of Entrepreneurial Orientation on Firm Performance are?; 3) How the Social Capital effects on the Firm Performance are?; 4) How the effects of Entrepreneurial Orientation mediated by the Transaction Cost on the Firm Performance are?; 5) How the effects of the Social Capital mediated by the Transaction Cost on the Firm Performance are; and 6) How the effects of Social Capital mediated by the Entrepreneurial Orientation on the Transaction Cost? All processes are applied by SME businessmen of wooden craft in Bali Province. This study goal is to get the answers on the study problems. Mainly for the causality relationship of inter-concept study. The final finding is the recommended information as the theoretical basic for the researchers willing for the further study, mainly in the causality relationship between social capital, Entrepreneurial Orientation, transaction cost and business performance, especially in the SME’s scale. Practically, this study finding is useful to sharpen the insights on Entrepreneurial Orientation for the wooden craft businessmen, while, for the government, it is useful to give the same understanding on the studied concepts in the study, which can be the basic to take further policies in order to empower the SME sector in Bali Province.

LITERATURE REVIEW

This study conceptualizes the Social Capital, Entrepreneurial Orientation, Transaction Costs and Firm Performance into a research model, so that a series of underlying theory was adapted to the concept of causality and relationships. That is, a set of theories will be used as the basis for formulating hypotheses to be tested in the study. These concepts are defined as follows.

Social capital

Indeed, the social capital is still ambiguous. There is still disagreement among economists as disclosed by Putnam, (1993) with the sociologist such as, Delia Giusta & Sarageldin, (2000). Only by the rational model of economic analysis, it is a solution to give an understanding on the

social capital developed theoretically by Delia Giusta, (1999); Casson & Delia Giusta, (2004); and empirically by Knack and Keefer (1997), stated that the Social Capital can improve economic performance.

Some experts gave a definition of Social Capital. Social Capital is a social aspect structure making it easier for the individual actions or business actors in the social structure. Social capital is not a single entity but a plural entity, which is productive. Putnam (1993), said that Social Capital is the social organization appearance with trust, reciprocity, and networking which can improve efficiency by facilitating coordination and cooperation for the benefit of society. Fukuyama (1995), said that social capital is the ability of the community arising from the trust in community. The Social Capital is a set of informal values or norms spread among members of a group allowing the cooperation based on honesty making mutual trust at the end. Thus, the nature of social capital is as improved economic performance of the network obtained from high trust which the emphasis is on two fundamental aspects, namely the network as a social aspect enables elaborate the performance of the larger economy and emphasis on value in the future as capital aspect.

Eva Cox, (1995) stated that the Social Capital is a series of inter-men relationship processes supported by networks, norms and social trust allowing for efficient and effective coordination and cooperation for mutual benefit and virtue. Narayan (Edi Suharto, 2007) said that social capital is the rule, norm, obligation, reciprocity and trust binding in social relations, social structures and institutional arrangements of society allowing the members to achieve results as individual targets and society. Adler and Kwon (2000), stated that Capital Social is internal linkages characterizing the collective structures and providing cohesiveness and mutual benefit from social dynamic process in the community. Ancok (2003), said that Social Capital is an institutional dimension in the created relationship and norms forming the quantity and quality of social relationships as well as a social glue which maintains the unity of the group members together. From the definition by the experts above, it can be summarized that Social Capital is a resource of social interaction which can improve the economic performance of a society.

Hasbullah, (2006) said that Social Capital is a resource which can be seen as an investment to acquire new resources. In this case, the Social Capital is seen very close to the terminology of the social virtues. Suharto, (2007), Social Capital is a resource arising from the interaction between people in a community who deliver emotional binding. Cohen & Prusak (2001) said that Social Capital is the capital stock of active relationships in society, which is bound by the trust, mutual-understanding and share value binding the group members to create the possibility of joint action which can be done efficiently and effectively. Inayah, (2012) said that Social Capital is a resource arising from the interaction within a community, both among

individuals and institutions who deliver an emotional bond as trust, reciprocity relationship, social networks, values and norms forming the useful society structure for coordination and cooperation to achieve common goals. The Social capital will grow and flourish if used together and will become extinct if it is not institutionalized together. Inheritance value of social capital should be done by adaptation, learning process and experiences into real practice.

In this study, the Social capital is presented as exogenous latent variable supported by reflective indicators, namely: participation in the networking; reciprocity; trust; norms; values and proactive, according to Hasbullah (2006) conception.

Entrepreneurial Orientation

Venkataraman, (1997) said that entrepreneurship is the activity involving the discovery, evaluation and exploitation of the opportunity to introduce a new product both as goods or services, by organizing, marketing and by various processing methods, so there is a product which previously does not exist, to bring in the market. Along with what is stated by Penrose (1959) that entrepreneurship is a resource which can provide additional capability resources giving diversity resources owned by the company. Also by Alvares & Busenitz, (2001) said that '*entrepreneurial* action can create and combine resources to produce company's new combination of resources, thus making the company to be different with a competitor, potentially worth and contribute to the company's competitive advantage."

Lumpkin and Dess (1996), about the differences of the entrepreneurship concept with entrepreneurial orientation said: Orientation Entrepreneurship refers to the entrepreneurial process and answer 'how' business activities can run. While entrepreneurial relates to the entrepreneurial decision content by answering 'what' is done to achieve the company's goals. Meaning that Orientation Entrepreneurship refers to the behavioural aspects. In this case, Brown and Davidson (1998), state 'Entrepreneurial orientation relates to specific, aspects both at decision-making styles, methods, and practices in the company's operations, causing an increase in business performance."

Lyon et al (2001), stated that 'Entrepreneurial Orientation further highlights the decision making and the strategic making processes." In contrast to what stated by Atuahene- Gima and Ko (2001), which stated that the Entrepreneurial orientation forms a company reflecting the managerial skill phenomenon using initiative, proactive and aggressive to change the company's competitiveness. Miller (1983), said that dichotomous recommends that there are two types of companies: Entrepreneurial is a company actively in the market product innovations, dare to make a risky business and proactive in its efforts to defeat its competitors. While the non-entrepreneurial corporation is a corporation which is not much innovation, avoids

risk, and just waits or imitates the competitor manoeuvres. Then, it is recommended that the entrepreneurship is formed by three dimensions: the ability to innovate (innovativeness), proactive and risk-taking.

Entrepreneurial orientation leads to the strategic orientation of the company, including the aspect of style, methods and practices which are very specific decision (Lumpkin & Dess, 1996). Entrepreneurial orientation can be an important measurement of how a company is organized and the entrepreneurial is an important contribution for the company performance (Mc Grath, et al 1996). Entrepreneurial orientation can enrich the company knowledge-based resources performance benefits by giving attention to the utilization of these resources to uncover and exploit business opportunities (Wiklund & Shepherd 2003).

Wiklund, (1999) stated that although there are differences in the instrument designs used by experts to measure the Entrepreneurial orientation and the consensus on Entrepreneurial Orientation measurements, but it is recognized substantially the interpretation of those instruments are not different and do not preclude the use of appropriate instruments to measure important aspects of entrepreneurship orientation. The presented measurements here can be expressed as strategic orientation reflection from entrepreneurial and should be regarded as the philosophy of the entrepreneurial actors to guide the companies in managing their business environment. The strategy use and implementation will always follow the character's entrepreneur actors (Mc. Carthy, 2003) Therefore, the strategic orientation can be understood as an entrepreneur strategy reflecting the company's desire to commit to entrepreneurial behaviour or orientation Entrepreneurship. This is supported by Brown (1998) statement which stated that the Entrepreneurial Orientation relates to the company's desire to commit to entrepreneurial behaviour. Thus, the measurement scale used in the study is generally associated to the "perception" of people who are responsible for corporate strategy (Ferreira & Azevado, 2007).

In this study, the Entrepreneurial Orientation is expressed as 1 endogenous latent variable, which will be measured by reflective indicators recommended by Miller (1993) as well as Lumpkin and Dess (1996) namely autonomy, innovativeness, risk-taking, initiative and proactive and aggressiveness.

Transaction Cost

Ronald Coase, [45] he is the first economist making the foundation on economic theory of Transaction Costs. According to him, the company's pricing mechanism is largely determined by the inter-company coordination by Transaction Costs. Furthermore, it is by negotiation and supply ..., to make a contract agreement, undertake the necessary checks to ensure that all

contract terms have been followed. This process requires cost called as Transaction Cost. As a result of the mutual agreed transaction, it leads to a change of ownership (property rights) which must be respected by parties to a transaction.

The transaction is the transfer of goods, services, information, knowledge, and others from the producer to the consumer (Williamson, 1998). Furubothn & Richter (1998), said that the transaction is the transfer of goods, services, information, knowledge and others from producers to consumers. North (1990) explained that the Transaction costs are all costs required to specify and enforce contracts underlying the exchange, so that the Transaction Costs include: cost of negotiations, measure, and imposing the exchange. Transaction costs arise from asymmetric information. The imperfection of information and intellectual capacity constraints (bounded rationality) to process information and the willingness to take a chance (opportunistic behavioural) cause big Transaction cost.

Some factors affecting the amount of Transaction cost are disclosed by Zang (Yustika, 2008) namely; what is the identity and rights as a result of the transaction (what the identity of the bundle of rights); who is handling the transaction (who, to identity of agents Involved in the exchanges); How, the institution, technical and social, governing the exchanges and how to organize the exchange. Backman (Yustika, 2012) recommended four determinants of the transaction cost, as the analysis unit namely: behavioural attributes of actor; attributes of the transaction; governance structure; and institution environment. Furubotn & Richter (1998) recommended the types of transaction costs: market transaction costs, managerial transaction costs and political transaction costs.

In this study, the Transaction cost is expressed as 2nd endogenous latent variable, as measured by reflective indicators namely: information costs, negotiation costs, the agreement enforcement cost, the coordination cost and exchange coercion cost.

Business Performance

The benchmarks of whether or not the company's goal achieved is the company business performance. Gluck & Jauch, (1988), explained that 'the company performance is the end result being pursued by the company existence and the whole operation, namely: continuity or sustainability, profitability, efficiency, satisfaction and finance employees, product quality, service to consumers, social responsibility, market leadership and others'. Carton & Hofer (2006), recommended that the Firm Performance concept is based on the idea that the organization / company is a set of productive assets including: human resources, physical resources and capital to achieve the common goals. That is, the Firm Performance illustrates

the company results as a series of implementation work functions or activities by the company within a certain time period.

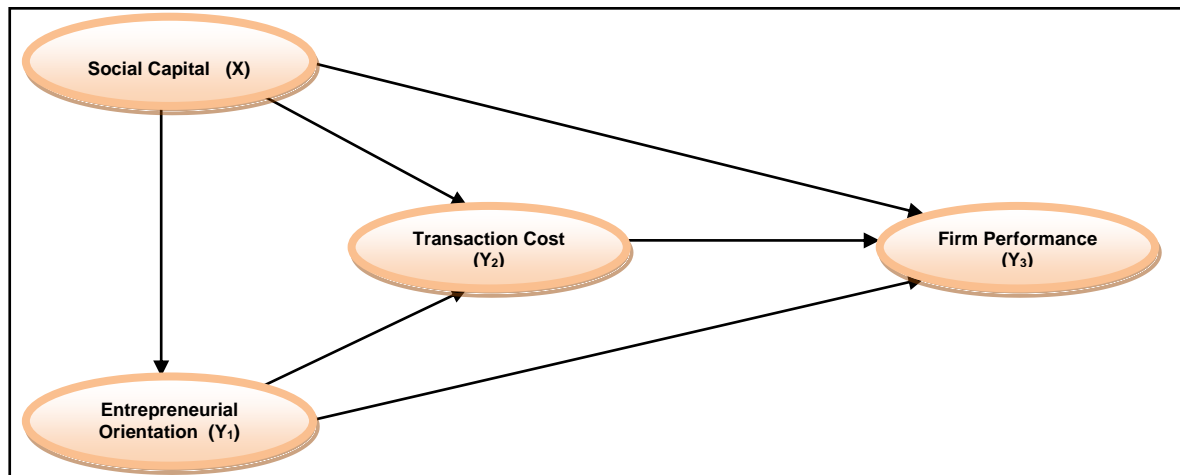
Keats and Hitt (1988) suggested the Firm Performance assessment is very important because it can be used as feedback for the repair or improvement of Firm Performance in the future. About the size of business performance, Marchin & Stewart (Hakim, 2007) said that so far, there is no consensus on the most appropriate performance measurement in any researches and objective performance measurement which has been used. Supported by Beal (2000) saying that there is still controversy regarding the proper approach to the conceptualization and measurement of company performance. Wiklund, (1999) and Atkinson, et al (1995), stated that effectively performance measurement system should pay attention to all performance aspects in a comprehensive manner which may affect the customer and provide information to assist companies in recognizing problems and the opportunities for improvement. So far, which is recognized as comprehensive company performance measurement concept is the Balanced Scorecard concept. Norton & Kaplan, (1992) recommended the size of the Firm Performance from four perspectives namely; financial, customers, internal business process and learning and growth.

In this study, the latent variable of Firm Performance is expressed as 3rd endogenous latent variable, as measured by formative indicators namely: financial performance, customer performance, internal business process performance and the performance of growth and learning.

Inter Latent Variable Relationship

In this study, it is conceptualized that the social capital affects on the entrepreneurial orientation. Also, the entrepreneurial orientation affects on the business performance. The social modal is also conceptualized to affect on the business performance, and being mediated by Transaction Cost, the social capital also affects on the business performance. Also, being mediated by entrepreneurial orientation, the social capital affects on the transaction cost. The inter-variables causality relationship as the conceptual framework in this study is presented in figure 1.

Figure 1 : Concept Framework



RESEARCH METHODOLOGY

The Study

This study takes place in 9 regencies and cities in Bali Province, Indonesia. As the study subjects are the SME businessmen of wooden craft under the targets of Industry and Trade Office of Bali Province. This study is conducted on December 2nd 2014 until January 16th, 2015.

The study populations and sample

The study populations are 1.986 SME actors of wooden craft who actively do the business in Bali province. The sampling technique is using proportional random sampling by voting technique. The number of sample by using Slovin's criteria by the error level of 5% is obtained 333 SME actors of wooden craft as the respondents.

Research Variables

The variables in this study include: social capital as the exogenous variable (X), entrepreneurship orientation as 1st endogenous variable (Y₁), cost transaction as 2nd endogenous variable (Y₂); and Firm Performance as the 3rd endogenous variable (Y₃).

Definition of operational variable

- a. Social Capital, is a social interaction resource capital reflected by the network, mutual wellness, trust, norms, values and proactive.
- b. Entrepreneurial orientation is a company capability resource reflected by autonomy, risk taking, initiative and aggressiveness.

- c. Transaction cost is: information cost, negotiation cost, agreement enforcement cost, coordination cost and exchange coercion cost.
- d. Firm Performance is the final results desired to achieve by company in the form of: financial performance, customer performance, intern business process performance as well as growth and learning performance.

Data collection method

In this study, the data is collected in the form of ordinal, using questionnaires, which have been tested the validity and reliability. The questionnaires are given to 333 businessmen of wooden craft to reveal their perceptions on the effects of Social Capital, Entrepreneurial Orientation, and Transaction Cost to improve the Firm Performance to the SME of wooden craft in Bali province.

Data analysis method

This study aims to test and analysis the causality relationship between the exogenous and endogenous variables or between the endogenous variable with exogenous variables. Besides, this study is intended to know whether it has previously done the validity and reliability test of all study instruments. This study is using analysis technique of *Partial Least Square (PLS)*, by application program of *Smart-PLS*. 30.

ANALYSIS AND RESULTS

Validity and Reliability Test

Validity test in this study is processing by comparison r_{hitung} and r_{tabel} , with signification 0.95 percent or $\alpha = 0.5$ percent. Item is valid when $r_{hitung} > r_{standar} = 0.30$ (Sugiono, 2011). This test is found that all item is valid with coefficient correlation >0.5 using *Corrected Item Total Correlation* program SPSS 22 (Singgih Santoso, 2005 : 277). Reliability test in this study is found that all item is reliable by *Cronbach,s Alpha* >0.07 (Bhuwono Agung, 2005).

Descriptive Analysis

Profile of Wooden craft SMEs

Wooden craft SMEs in Bali province spread relatively evenly in 9 Regencies/Cities. Proportionally, under the target of Industry and Trade Office Bali Province until 2013, it is noted to be 1986 businessmen of Wood SME and Wooden craft. Generally, they use local wood materials, produce based on the order, still combine the machinery and manual products. They are formed in small groups, work together with mutual benefits in informal entrepreneurship social network.

Respondents' Description

Out of 333 respondents being surveyed, the respondents' age range from 25 until 49 years old. There are 232 people with age ranging from 30 until 44 years old; it is 20 percent people under the age of 30 years old; and there are 34 people with the age above 44 years old or it is around 10 percent. From the sex-ratio aspect, there are 272 men respondents or it is 82 percent. And there are 61 women respondents or it is 18 percent. The respondents' educational background is: mainly is Senior high that is 152 people or 46 percent. The respondents with educational background as Junior High graduation below are 94 people of 28 percent; and the one with Bachelor degree above is 87 people or around 26 percent.

Inferential Analysis

Hypothesis Test

The hypothesis test results are the answers of the questions in this study. This study will prove the inter-variable relationship based on the study concept, namely : 1) directly, the Social Capital affects positively and significantly on the Entrepreneurial Orientation, 2) directly, the Entrepreneurial Orientation affects positively and insignificantly on Business Performance; 3) directly, the Social Capital affects positively and insignificantly on the business performance; 4) by transaction Cost as the mediated variable, the Entrepreneurial Orientation affects positively and significantly on the business performance; 5) by transaction Cost as the mediated variable, the Social Capital affects positively and significantly on the business performance; and 6) by Entrepreneurial Orientation as the mediated variable, the Social Capital affects on the Transaction Cost efficiency?. The flow coefficient index and t-statistics are presented in Table 1.

Interpretation Mediation Effect

Inter-variable mediating effects, based on the analysis results are show in Table 1, can be explained:

First, the effect of entrepreneurial orientation on Business Performance by mediated by Transaction Costs is described as follows: the flow coefficient value between the entrepreneurial orientation and significant Transaction Costs is significant; the flow coefficient value between Transaction Costs and Business Performance is significant; the flow coefficient value between the entrepreneurial orientation and the firm Performance is insignificant. From the analysis results, it is interpreted that the Transaction Costs is completely mediated the effect of the orientation Entrepreneurial on the firm Performance.

Second, the effect of social capital on business performance by the transaction costs is described as follows: the analysis results show that the flow coefficient value between the Social

Capital and Transaction Costs is significant; the flow coefficient value between Transaction Costs and firm Performance is significant; whereas the flow coefficient value between the Social Capital and firm performance is insignificant. Thus, it is interpreted that the Transaction cost is completely mediated the effects of Social Capital on Business Performance.

Third, the effect of social capital on the Transaction Cost mediated by Enterprise Orientation is described as follows: the flow coefficient value between the Social Capital and orientation entrepreneurial is significant; flow coefficient value between the entrepreneurial orientation and Transaction Costs is significant; while the flow coefficient value of Social Capital on Transaction costs is significant. From the analysis results, it is concluded that the Entrepreneurial orientation is partially mediated the effects of Social Capital on Transaction Costs.

Table 1. *Final Results Path Coefficients* of Social Modal (MS), Entrepreneurial Orientation (OK), Transaction Cost (BT) and Firm Performance (KU) of SMEs of Wooden craft in Bali Province

Final Results :

	Original Sample (O)	Sample Mean (M)	Standard Error (STERR)	T Statistics (O/STERR)	P Values	Hypothesis Testing Decision
BT -> KU	0,404	0,407	0,070	5,747	0,000	significant
MS -> BT	0,301	0,310	0,057	5,247	0,000	significant
MS -> KU	0,119	0,128	0,068	1,747	0,082	insignificant
MS -> OK	0,557	0,566	0,039	14,263	0,000	significant
OK -> BT	0,347	0,349	0,054	6,412	0,000	significant
OK -> KU	0,043	0,043	0,060	0,726	0,469	insignificant

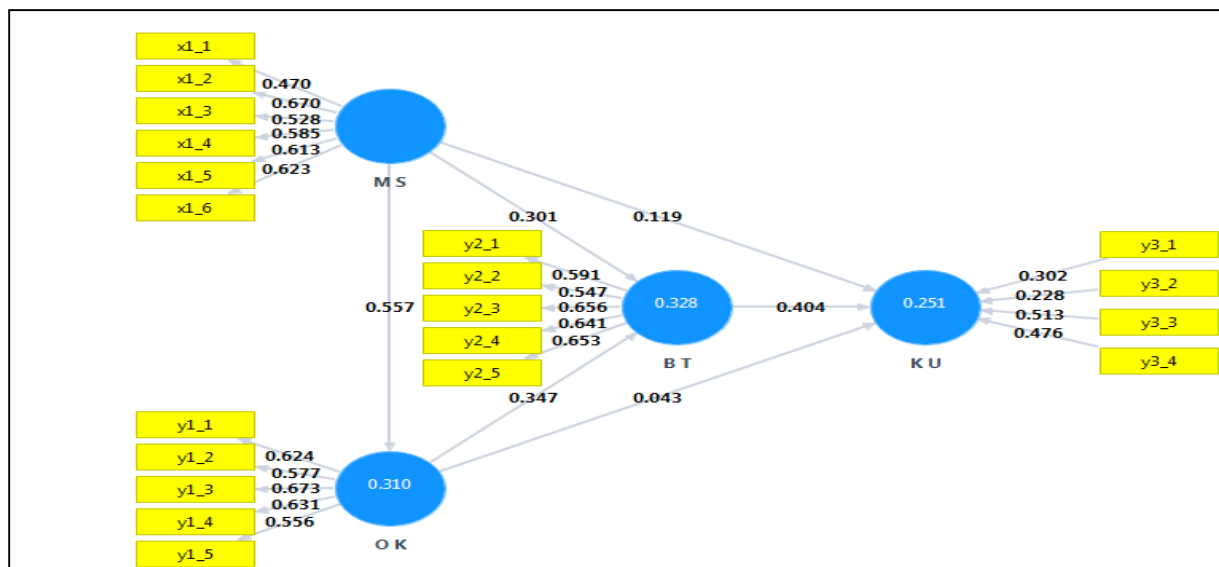
Indirect Effects :

	Original Sample (O)	Sample Mean (M)	Standard Error (STERR)	T Statistics (O/STERR)	P Values	Hypothesis Testing Decision
BT -> KU						
MS -> BT	0,193	0,197	0,031	6,278	0,000	significant
MS -> KU	0,224	0,229	0,039	5,798	0,000	significant
MS -> OK						
OK -> BT						
OK -> KU	0,140	0,142	0,033	4,216	0,000	significant

Total Effects :

	Original Sample (O)	Sample Mean (M)	Standard Error (STERR)	T Statistics (O/STERR)	P Values	Hypothesis Testing Decision
BT -> KU	0,404	0,407	0,070	5,747	0,000	significant
MS -> BT	0,494	0,507	0,048	10,208	0,000	significant
MS -> KU	0,343	0,357	0,055	6,265	0,000	significant
MS -> OK	0,557	0,566	0,039	14,263	0,000	significant
OK -> BT	0,347	0,349	0,054	6,412	0,000	significant
OK -> KU	0,184	0,185	0,056	3,294	0,001	significant

Figure 2. Structural Model (inner model)



DISCUSSION

The findings show that the Social Capital significantly increases the Entrepreneurial Orientation of SME wooden craft in Bali province. The SME Wooden craft in Bali province of Bali is utilizing interpersonal relationship showing by participation in the network, mutual wellness, trust, values, norms and acts as a proactive business community of wooden crafts. By having a group of small communities cohesively bound together by a network of fellow entrepreneurs, reciprocity, the businessmen have more knowledge and competence of managerial, making it more independent, innovative, risk-taking even in uncertainty.

The study also show the Entrepreneurial Orientation directly insignificantly improve the business. But, it can improve the firm performance when mediated by Transaction Costs which turns out that the entrepreneurial orientation can improve the firm performance. This indicates that the Transaction cost is so important and strategic in mobilizing social entrepreneurship networks among wooded crafters. The study also shows that the Social Capital directly and in significantly improves the firm Performance, but if mediated by Transaction Cost, the Social Capital is able to positively and significantly improve the firm Performance. In this case also, again the Transaction cost is very significant and meaningful as the perfect mediator in bridging social capital relationships as social interaction capital in improving the firm Performance.

The interpersonal relationships, which is actualized in the form of participation in the network (networking), exchange wellness (reciprocity), trustworthiness, agreement against applicable norms on the wooden craft business community, which is based on the trusted and exalted values together in a community are the driver of proactive action to undertake mutual-understanding activities, in community group. Under this steady social capital condition, the search for information, negotiation, coordination are very easy; there is no agreement enforcement cost, more over the coercion exchange cost, because the transaction parties have already been in steady social glue.

CONCLUSION

- a. The social capital directly and significantly affects on the entrepreneurial Orientation. Meaning, in perception, the social capital is willing to improve the entrepreneurial Orientation quality of wooden craft businessmen in Bali province.
- b. The entrepreneurial Orientation directly and insignificantly improve the firm performance, reflected in the form of financial performance, customer performance, intern business process performance as well as growth and learning performance.
- c. The social capital directly and insignificantly improves the firm performance, in this case it is measured by the financial performance, customer performance, intern business process performance as well as growth and learning performance.
- d. Being mediated by transaction cost, the entrepreneurial orientation can improve the firm performance; in this case the entrepreneurial orientation can improve the firm performance because it is willing to reduce the transaction cost.
- e. Being mediated by the transaction cost, the social capital can improve the firm business. Meaning the intensity of entrepreneurial social network showed by participation, reciprocity, trust, norms, value and proactive actions can show the important and strategic role to reduce the Transaction Cost.

- f. Being mediated by the entrepreneurial orientation, the social capital can reduce the transaction cost. This study justifies that the social capital which is getting to exist, it can reduce the transaction cost with the partial mediation role of the entrepreneurial orientation.

RECOMMENDATIONS

- a. The social capital with good work among wooden craft actors, really can reduce the transaction cost, so that it can improve the firm performance. Maintain this condition, so the transaction cost efficiency can always be controlled.
- b. The transaction cost has very strategic role in improving the firm performance, thus the SME Wooden craft businessmen....
- c. The government of Bali Province should create a conducive situation for the life of small entrepreneur groups of SME Wooden Craft, because the social capital work well, so it creates the economic efficiency which is very useful for the community economics development performance.

RESEARCH LIMITATIONS:

- a. This research is still in the theory development level, placing the Social Capital as the exogenous latent variable affecting endogenous latent variables in the research model.
- b. This research only sees the social capital from positive aspect, namely the social interaction with mutual benefits, in fact, in many cases, the social capital can negatively affect, namely the bad effect on the community group and inhibiting the business performance improvement.
- c. This study is conducted in relatively short time with cross-sectional data and at the relatively stable economics conditions. It implies if this study is conducted at different actual time and condition, it may have different results.

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