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THE INFLUENCE OF SOCIAL CAPITAL ON SUBJECTIVE WELLBEING: A STRUCTURAL MODEL FOR THE WEAVING INDUSTRY IN BALI PROVINCE OF INDONESIA

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Abstract

Weaving industry in Bali is one of the creative industries that is based on local wisdom and, in general, is managed traditionally. Refer to these facts, the industry need to be developed with the concept of modern entrepreneurship (orange economy) in order to give more benefits for the actors. This study aims to analyze the influence of social capital on entrepreneurship orientation, business performance, and subjective wellbeing of weaving industry in Bali Province. In addition, the study is also directed to analyze the indirect effect of social capital on subjective wellbeing through the mediating effects of entrepreneurship orientation and business performance. Based on survey and structured interviews on 98 business actors in Bali weaving industry as well data analysis techniques using SEM-PLS with Smart PLS 3.0, it was found that

social capital have positive and significant influence on entrepreneurship orientation, business performance, and subjective well-being of the weaving industry. Entrepreneurial orientation proved positively affects business performance and subjective wellbeing. In addition, social capital proved mediates business performance through entrepreneurship and this orientation also positively and significantly affect subjective well-being. Social capital also affects subjective wellbeing by mediation of entrepreneurial orientation and business performance.

Keywords: Entrepreneurial orientation; social capital; subjective wellbeing; weaving industry, SEM

INTRODUCTION

According to the Organization of Economic Coordination and Development (OECD, 2013), subjective wellbeing (SWB) reflects the quality of one's life and is influenced by the objective and subjective dimension of life's satisfaction. Increasing the SWB is one of many goals of economic development in various countries as well regions. One indicator to measure the successfulness of economic development in one region as well as its SWB is Human Development Index (HDI).

Recently, many provinces in Indonesia have been starting to foster their economic development by building creative industries. For Bali, one industry that is developed in this category is woven industries. This industry produces *endek* and *songket* Bali – traditional Balinese textile – which is based on local wisdom of Balinese people. The business condition of the weaving industry in Bali Province is listed in the following table:

Table 1. Number of Weaving Industries and Workers at Bali Province

Regency/City	Year 2014 Number of		Year 2015 Number of	
	Weaving Industries	*Weaving Workers*	*Weaving Industries*	*Weaving Workers*
Jembrana	44	236	43	233
Tabanan	1	4	-	0
Badung	2	13	2	13
Gianyar	8	284	9	289
Bangli	10	25	8	25
Klungkung	64	1,258	63	1,272
Karangasem	22	330	26	364
Buleleng	9	101	9	101
Kota Denpasar	11	125	13	147
Total	171	2,376	173	2,444

Source:Industry and Trade Agency(2015)

For years the weaving industry in Bali Province is under the auspices and coaching conducted by the Regional Crafts Council of Bali Province. This council plays an active role in organizing the exhibitions as well promoting Balinese woven fabrics as a superior product based on Balinese culture. Despite of efforts had been done to empower weaving industry in Bali, successful stories regarding the Balinese woven are hard to hear. We argue this fact comes from putting the focus on promoting alone and is not trying to elaborate production problems which is experienced by the owners. To empower the weaving industries in Bali, policies and strategies should consider the dynamics of local people's lives regarding their social resources (social capital) in improving the entrepreneurial orientation and business performance to achieve subjective wellbeing, particularly for the group of weaving business actors in Bali Province. A number of studies to elaborate the role of social capital in empowering home-scale and small business in Bali show the important role of social capital in entrepreneurial orientation as well to increase firm's (Widhiantari & Jannah, 2015; Yuliarmi, Marhaeni, Saskara, Arka, & Wiagustini, 2014; Kencana & Mertha, 2014).

In addition, the local values of Balinese people should be in synergy with development of family-based industries by increasing the participation of the family members in conducting the business (Kencana & Mertha, 2014). Bali is known as one of Indonesia's most successful provinces in the implementation of development programs through synergy between local wisdom and traditional institutions (Mubyarto, 2001). The existence of mutual trust, established norms/ethics and harmonious cooperation based on local culture will be a social capital to achieve the success of social and economic development programs (Putnam, 1993; Fukuyama, 2000).

In relation to the importance of social capital and entrepreneurial orientation of workers and owners of weaving industry at Bali Province to increase the firm performances as well their SWB, this work is aimed to study the causal relationships between social capital, is positioned as exogenous construct; entrepreneurial orientation as well firm performances that are positioned as intermediaries; and SWB of the workers and the owners of business as endogenous construct.

RESEARCH METHODOLOGY

Quantitative approach was applied in this work to answer the research goals with variance-based structural equation modelling (PLS-SEM) were used to analyzed the data and make research inferences. The data were collected from the workers and owners of weaving industries at nine regencies of Bali. In addition, we did not differentiate worker from owner of

business noting business size is relatively very small and all of the workers are the family member of the owner(s).

Population and Sample

The area of Bali Province is around 5,636.66 km^2, approximately 0.29 percent of Indonesian archipelago. Bali is divided into nine regencies with total population in 2016 are 4,200,100 people consisting of 2,115,000 males and 2,085,100 females (BPS, 2015).The population in our research are all of workers and/or owners of weaving industry at Bali that is recorded 2,444 people, only 0,1 percent of 2,37 million workers in year 2015 (Bali Industrial and Trade Office, 2015). The very limited number of workers in Balinese weaving can not be separated from its uniqueness. To produce a weaving, worker has to know its philosophy, its meaning of motives as well as how to produced colour from natural substances. From 2,444 workers as the population of this study and, depend on the number of workers in each of nine regencies, proportionally and randomly we select 98 workers as our respondents to represent the weaving worker at each of regencies. Data were collected on July – October 2016.

Research Instrument

A five-option Likert's scale questionnaire is developed to collect data. Prior to its distribution, validity and reliability of questionnaire was examined in a pilot study conducted at Klungkung regency of Bali Province. An item is declared valid if its correlation value with the other item on the same construct is greater than 0.30 (Nunnaly, 1975). In addition, construct is assumed has reliability measurement if its Cronbach's alpha coefficient at least 0.60 (Hair, Anderson, Tatham, & Black, 1995).

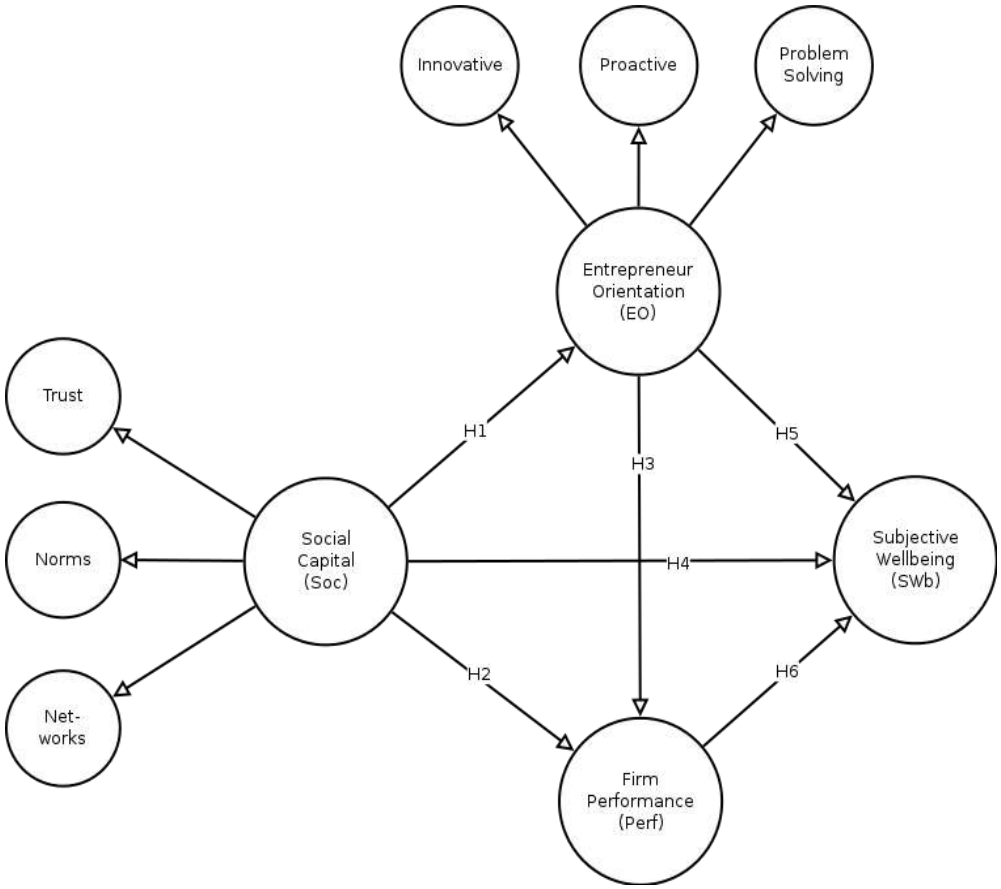
Data Analysis Approach

Basically, there are two techniques available to analyze structural equation model, i.e. covariance-based and variance-based structural equation modelling (SEM). Both techniques have their own limitations (Henseler, 2007; Hair, Sarstedt, Ringle, & Mena, 2012). This work applied the variance-based SEM (PLS-SEM) noting the sample size is relatively small. The application of PLS-SEM in this research involves these steps: (1) designing the outer or measurement model, (2) designing the inner or structural model, (3) constructing path diagram at outer and inner model, (4) converting path diagram on the inner and outer equation system respectively, (5) the parameter estimation on outer and inner model, (6) measuring the Godness of Fit (GoF), and (7) testing the hypotheses of the study.

Proposed Research Model and Hypothesis

In accordance with aims of this work, a structural model was developed as shown in Fig. 1.

Figure 1. Conceptual research model



Six hypotheses were built regarding aim of this work, i.e.:

H1 : social capital positively affects the entrepreneurial orientation of workers/owners of weaving industries;

H2 : social capital positively affects the business performance of weaving industries;

H3 : the entrepreneurial orientation of workers/owners of weaving industries positively affects the business performance;

H4 : social capital positively affects the subjective wellbeing of workers/owners of weaving industries;

H5 : the entrepreneurial orientation of workers/owners of weaving industries positively affects their subjective wellbeing; and

H6 : the business performance of weaving industries positively affects the subjective wellbeing of workers/owners.

RESULTS

Profile of Respondents

As aforementioned, 98 workers and/or owners of weaving industry around Bali were chosen as our respondents by proportional random sampling technique. Table 2 showed the distribution of sample.

Table 2. Distribution of Sample

Regency/City	Number of *Weaving Workers*	Percentage	Number of Samples
Jembrana	233	9.53	9
Tabanan	0	0.00	0
Badung	13	0.53	1
Gianyar	289	11.82	12
Bangli	25	1.02	1
Klungkung	1,272	52.05	50
Karangasem	364	14.89	15
Buleleng	101	4.13	4
Kota Denpasar	147	6.01	6
Total	2,444	100.00	98

Source: own data (2016)

Quality of Questionnaire

Validity of items and reliability for latent variable with reflective indicators can be assessed by observing item correlation and its Cronbach's alpha coefficient.

Table 3. The Assessment of Validity and Reliability of Modeled Reflective Constructs

Construct	**Code**	**Item Description**	Correlation
Trust α = 0.709	TR01	Caring for others	0.590
	TR02	Believe in religious leaders	0.308
	TR03	Mutual trust to friends/employees	0.536
	TR04	Trust of the government	0.499
Norms α = 0.746	NO01	Harmony according to philosophy of *Tri Hita Karana*	0.397
	NO02	Compliance with existing rules	0.581
	NO03	Ease of seeking capital assistance	0.641
	NO04	Ease of coaching assistance	0.574

Table 3...

Networks α = 0.738	NE01	Network intensity	0.643
	NE02	Cooperation within internal business	0.668
	NE03	Cooperation with external organization	0.487
	NE04	Cooperation with government	0.358
Innovative-ness α = 0.674	IN01	Ability to initiate	0.434
	IN02	Ability to find opportunities	0.546
	IN03	Persistence of trying	0.363
	IN04	High curiosity	0.599
Proactive-ness α = 0.652	PR01	Actively looking for new opportunities	0.447
	PR02	Keeping products in high standard	0.447
	PR03	Actively expanding the current market	0.307
	PR04	Persuasive	0.588
Problem Solving α = 0.709	PS01	Assertiveness	0.384
	PS02	Self confident	0.678
	PS03	Systematic planner	0.499
	PS04	Dare to take risk	0.384
Business Perfor-mance α = 0.777	BP01	Increased production	0.350
	BP02	Development of business unit	0.742
	BP03	Increased sales volume	0.628
	BP04	Profitability	0.662
Subjective Wellbeing α = 0.829	SW01	Fulfilling the necessities of life	0.660
	SW02	Fulfilment costs for health treatment	0.686
	SW03	Fulfilment of life goals	0.611
	SW04	Fulfilment of personal security	0.506
	SW05	Having good interpersonal relationship	0.466
	SW06	Having good relationship with other communities	0.550
	SW07	Able to save for the future	0.438
	SW08	Can perform religious activities properly	0.675

Observing all of the items in respective constructs had correlation greater than 0.30 as threshold value suggested by Nunnaly(1975), we concluded all of the items for respective constructs are valid. In addition, noting the Cronbach's alpha (α) for every construct greater than 0.60 as noted by (Hair, Anderson, Tatham, & Black, 1995), we argued the reflective constructs reached sufficient reliability measurement. Based on this finding, subsequent analysis is worth to be conducted.

Outer Model Analysis

SEM analysis basically involves two sub-type analysis i.e. (a) outer or measurement model analysis, and (b) inner or structural model analysis.

Measurement model refers to the causal relationship between constructs and its reflective or formative indicators meanwhile structural model evaluates the causal relationships among constructs. Refers to Hair, Jr., Hult, Ringle, & Sarstedt (2014),for reflective outer models, one could assess the internal consistency by observing composite reliability (CR) of each of constructs, individual indicator reliability and average variance extracted (AVE) to evaluate convergent validity, and Fornell-Lacker criterion is used to assess the discriminate validity.

Refers to Hair, Jr., Hult, Ringle, & Sarstedt (2014), internal consistency of a construct can be measured by observing its CR. A construct is concluded has an internal consistency on its measurement if its CR greater than 0.708 or has a significantly probabilities. In addition, AVE value has to be greater than 0.50 or has a significantly probabilities (Hair, Jr., Hult, Ringle, & Sarstedt, 2014; Peng & Lai, 2012) to say a construct has convergent validity, and the outer loading has to be greater than 0.60 (Hair, Anderson, Tatham, & Black, 1995) as well significant (Peng & Lai, 2012) to conclude a construct has discriminant validity. Refers to these threshold values, we concluded all of reflective constructs in our model had satisfied internal consistency as well as achieved convergent and discriminant validity.

Table 4. The Reflective Measurement Model Analysis Result

Construct	AVE	CR	Item Code	Outer Loading	Standard Error	*t*- Statistic
Trust	0.445 (p=0.00)	0.705 (p=0.00)	TR01	0.64	0.13	4.96 (s)
			TR02	0.34	0.25	1.38 (ns)
			TR03	0.63	0.14	4.62 (s)
			TR04	0.65	0.09	7.46 (s)
Norms	0.364 (p=0.00)	0.693 (p=0.00)	NO01	0.53	0.15	3.54 (s)
			NO02	0.60	0.13	4.55 (s)
			NO03	0.60	0.11	5.26 (s)
			NO04	0.68	0.10	6.80 (s)
Networks	0.368 (p=0.00)	0.697 (p=0.00)	NE01	0.61	0.15	4.06 (s)
			NE02	0.61	0.12	5.03 (s)
			NE03	0.50	0.23	2.18 (s)
			NE04	0.70	0.09	7.97 (s)
Inovative-	0.370	0.700	IN01	0.65	0.10	6.41 (s)

Table 5...

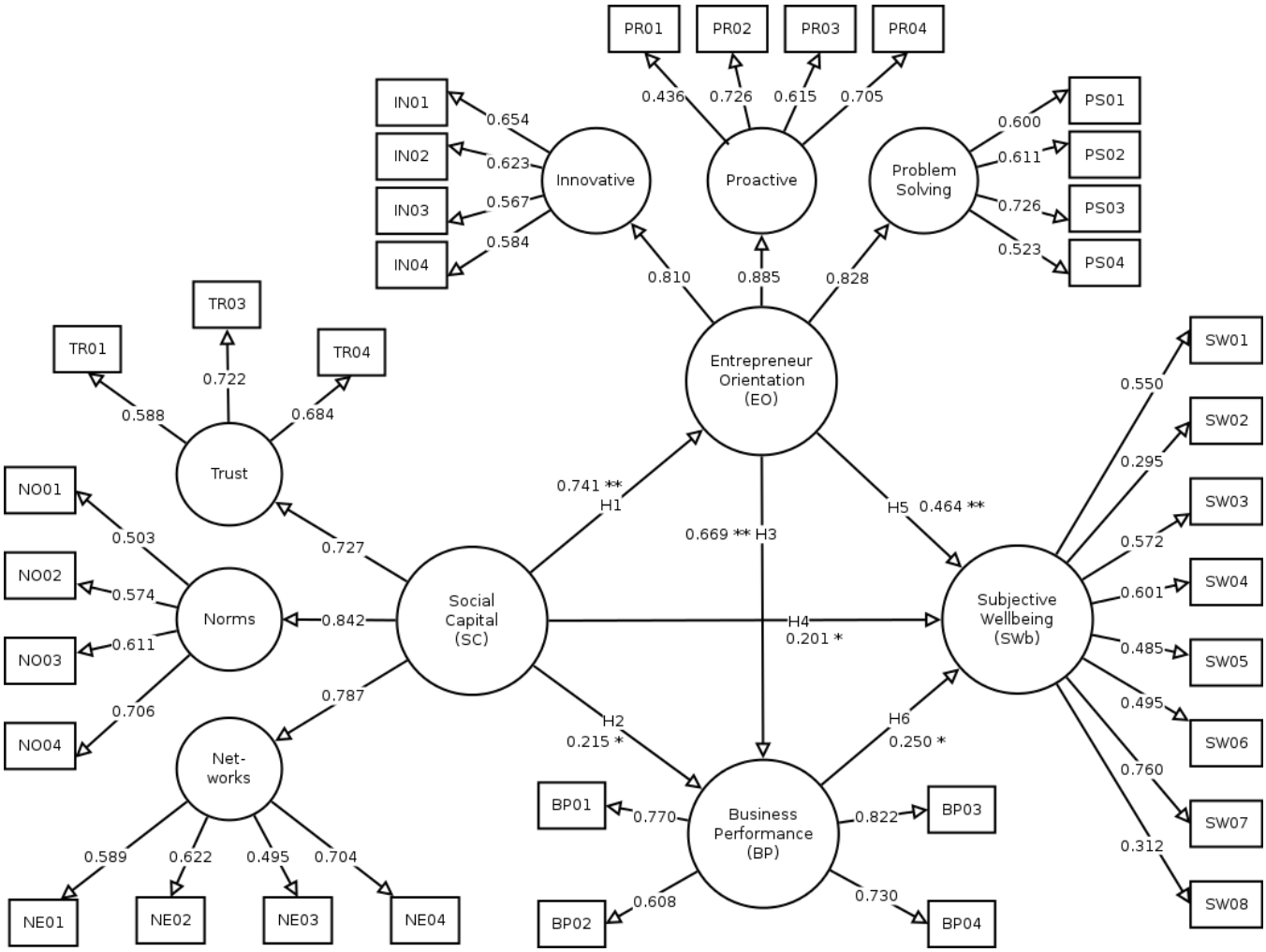
ness	(p=0.00)	(p=0.00)	IN02	0.62	0.12	5.31 (s)
			IN03	0.57	0.12	4.26 (s)
			IN04	0.58	0.11	5.22 (s)
Proactive -ness	0.398 (p=0.00)	0.719 (p=0.00)	PR01	0.44	0.14	3.03 (s)
			PR02	0.73	0.07	10.53 (s)
			PR03	0.61	0.07	8.29 (s)
			PR04	0.70	0.09	8.23 (s)
Problem Solving	0.384 (p=0.00)	0.711 (p=0.00)	PS01	0.60	0.11	5.58 (s)
			PS02	0.61	0.15	4.13 (s)
			PS03	0.73	0.09	8.05 (s)
			PS04	0.52	0.18	2.98 (s)
Business Perfor- mance	0.542 (p=0.00)	0.824 (p=0.00)	BP01	0.77	0.04	17.61 (s)
			BP02	0.61	0.10	5.95 (s)
			BP03	0.82	0.03	24.77 (s)
			BP04	0.73	0.06	12.33 (s)
Subjec- tive Wellbeing	0.279 (p=0.00)	0.742 (p=0.00)	SW01	0.55	0.12	4.46 (s)
			SW02	0.30	0.14	2.13 (s)
			SW03	0.57	0.10	5.82 (s)
			SW04	0.60	0.09	6.88 (s)
			SW05	0.49	0.11	4.40 (s)
			SW06	0.50	0.13	3.93 (s)
			SW07	0.76	0.06	12.17 (s)
			SW08	0.32	0.12	2.63 (s)

[ns] not significant

[s] significant at 5 percent

By applying bootstrap procedure available at Smart PLS 3.0 package (Ringle, Wende, & Will, 2014) that is set to run for 500 samples, one reflective indicator of trust i.e. TR02 has a non-significant loading factor at 5 percent of alpha while the rest of items of respective construct have significant loading factors. This finding leads us to eliminate TR02 from final measurement model. The final structural equation model with the estimates that is analyzed by PLS-SEM technique is shown in Fig. 2.

Figure 2. Operational model and parameter estimators



* significant at 5 percent; ** significant at 1 percent

Structural Model Analysis

Structural or inner model relates to causal relationship among constructs (Hair, Anderson, Tatham, & Black, 1995). Variance-based SEM (PLS-SEM) differs from covariance-based SEM (CB-SEM) in predicting model's parameters. PLS-SEM does not relied on normal assumption for errors distribution and uses bootstrapping technique to estimate model's parameters. The assessment of structural model is conducted by examining each path value that represents the direct effect of an exogenous on endogenous construct. Furthermore, one has to consider the $R^2$of endogenous constructs. The R^2 indicates the amount of variance in the endogenous construct was explained by all of its respective exogenous. According to (Chin, 1998), threshold values to claim an endogenous construct has weak, moderate, or substantial predictive accuracy are 0.19, 0.33, and 0.67. Fig. 2 also showed path coefficient's values between

exogenous and endogenous constructs in our structural model. The causal functions in inner model can be expressed by equations as below:

Entrepreneur orientation = 0.741 * Social capital (1)

Business performance = 0.215 * Social capital + 0.699 * Entrepreneur orientation (2)

Subjective wellbeing = 0.201 * Social capital + 0.464 * Entrepreneur orientation + 0.250 * Business performance (3)

In addition to examine the R^2 values to assess predictive accuracy of endogenous constructs, according toHair, Jr., Hult, Ringle, & Sarstedt(2014), one has to check the Stone-Geisser's Q^2 value as an indicator of the model's predictive relevance. The Q^2 value is obtained by using blindfolding procedure. This procedure is only applied to endogenous construct with reflective indicators as well as on single-item constructs. The Q^2 value larger than 0 suggests the model has predictive relevancy for respective endogenous constructs, and Q^2 value less than or equal 0 shows lack of predictive relevance.

Table 5. The R^2 and Q^2 Values for Endogenous Constructs

Endogenous Constructs	R^2	Has Predictive Accuracy?	Q^2	Has Predictive Relevance?
Trust	0.528	Yes, moderate	0.791	Yes
Norms	0.709	Yes, substantial	0.626	Yes
Networks	0.619	Yes, moderate	0.743	Yes
Innovative	0.657	Yes, moderate	0.552	Yes
Proactive	0.783	Yes, substantial	0.743	Yes
Problem solving	0.685	Yes, substantial	0.719	Yes
Entrepreneur orientation	0.549	Yes, moderate	0.719	Yes
Business performance	0.706	Yes, substantial	0.719	Yes
Subjective wellbeing	0.720	Yes, substantial	0.719	Yes

The Stone-Geiser Q^2 statistic to assess predictive relevance of the model give Q^2 equal to 0.963. This value shows subjective wellbeing of workers or owners of weaving industry in Bali had been explained by the social capital, entrepreneur orientation and the business performance as much as 96.3 percent of determination.

DISCUSSION

Social capital as an important element to be considered in economic development has a long story. According to Putnam (1993) and Fukuyama (2000), social capital can be seen as a network along with norms, trust and understanding that facilitate cooperation between or among groups. These components can be understood as: (a) trust is a growing hope within a community;(b) norms are understandings, values, hopes, and goals that are believed and executed by community members; and (c) the network is a dynamic infrastructure intra- and inter-group. In addition, social capital facilitates the occurrence of formal and informal communication and interaction between members and/or groups.

Our study found social capital of workers/owners of weaving industries in Bali is reflected most on norms. This finding is not surprising because all of the workers of weaving industries is the family's member or kin of the owner. However, as it was found by Kencana and Mertha when studied the effects of social capital on sustainability of small-sized firms at district of Kintamani of Bali in servicing the tourists, social capital of firms is most reflected on networking dimension (Kencana & Mertha, 2014). Whenever the size of weaving firm become larger, it looks like the dominant dimension of social capital of firm will shift from norms to networking or trust dimension.

Social capital while is positioned as an exogenous constructs, has significant effects on entrepreneurial orientation, business performance, as well on subjective wellbeing of the firms' workers or owners although the path values among these relationships are different. The dominant effect is demonstrated on the entrepreneurial orientation. Our finding justifies strengthening the social capital's dimensions will increase the entrepreneurial orientation of the owners. This finding is supported by similar research that is conducted at small industries in Indonesia (Subroto, 2015; Lukiastuti, 2012).

In addition, the dimensions of social capital also significantly affect weaving firms' performance. Through bonding mechanism between firm and its supplier as well customers, weaving firms gain more sales volume and revenues by increasing the number of *endek* and *songket* are produced. This finding also in line with similar result conducted in Nigeria by Durojaiye et al. (2013) who found the foodstuff traders make more profit by utilizing their personal relationship with the customer.

Regarding the effect on subjective wellbeing, social capital is proved has positive and significant influence on the subjective wellbeing of the weaving industry in Bali. According to Mangkuprawira in LPPM (2011), community development should take concerned with the local wisdom, especially for people traditions and their customs. Both are potential that can be developed as the social capital of community. The results of this study indicate that the higher

the capacity of social capital in weaving business, the higher the subjective wellbeing of the actors, will be.

Viewed from entrepreneurial orientation of the weaving firms' workers/owners, it is clear this construct has positive and significant impact on business performance as well on subjective well being these actors. Our findings for this construct indicate that pro-activeness of the weaving workers/owners dominates the other two dimensions of construct. By proactively seeking new opportunities and combining it with problem solving characteristic and the innovativeness of the workers/owners, weaving firms at Bali can increase their firms' performance and, turn, increase their subjective wellbeing through achievement of personal satisfaction level which reflects the quality of their life.

CONCLUSIONS

The results of this work gave explanations about the causal relationship between social capital, entrepreneurial orientation, firms performance, and subjective wellbeing of the weaving industries in Bali Province. Strengthening the capacity of social capital of the actors that is based on local culture will increase entrepreneurial orientation, firms performance as well as subjective wellbeing on the business actors of weaving industry in Bali Province. Norms and values that are developed by considering *Tri Hita Karana* as the local wisdom of Bali – maintain the harmonious relationships between people and the Supreme God, among people, and between people and their environment –will be able to stimulate the growth of sustainable economic development and encourage work productivity both individually and collectively. This will provide an increase in marketing and business revenue of the weaving industry so as to improve the subjective welfare of the weaving industry in Bali Province.

In addition, by strengthening the workers' competence and entrepreneurial culture through the implementation of entrepreneurial orientation concept will be able to improve business performance of weaving industries in Bali Province. As was informed by most of the respondents, business actors showed weaving products such as Balinese *endek* and *songket* become more popular in national and international market. This fact will lead them to be more creative in developing new style of weave form and more productive.

Finally, the social capital that are developed by workers/owners of weaving firm affect their subjective wellbeing. This effect is also strengthen by the mediation effects of entrepreneurial and business performance. These facts indicate that to improve the subjective wellbeing of the weaving actors in Bali Province can be done by increasing the capacity of their social capital based that is based on *Tri Hita Karana* as the local wisdom.

LIMITATIONS AND FUTURE RESEARCH

Our findings are subject to certain limitations that need to be considered. First, we built the model by focus on the effect of social capital on the others three constructs. Production theories said financial aspects as well as technology and managerial skill have to be considered in evaluating the firms' performance. These aspects are not included in this work. It is a chance when these factors are exist, the effects of social capital construct on subjective wellbeing of weaving actors will change. In addition by including financial, technological, and managerial aspects along with social capital as the exogenous constructs for evaluating the subjective wellbeing, we could explain which factor has the dominant effect in influencing entrepreneurial orientation, firms' performance, and subjective wellbeing of weaving actors in Bali Province. To be expanded, the role of financial, technological, and managerial aspects in determining subjective wellbeing will be very interesting views to understand the weaving industries.

Finally, the inherent algorithm on PLS-SEM that is not capable to handle longitudinal data limits the results. Longitudinal research for this study is needed to ensure that in the long run we could predict the sustainability of the weaving industries in Bali by observing the trend of effects arise from social capital of the workers/owners of firms on their entrepreneurial orientation as well their subjective wellbeing.

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