



THE ROLE OF ENTREPRENEURSHIP ORIENTATION IN MEDIATION OF SOCIAL CAPITAL RELATIONSHIP TO MSME PERFORMANCE IN DENPASAR CITY

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Abstract

Apart from the contribution of MSMEs in economic development and social intervention, this sector faces many challenges and obstacles in its development, such as financial aspects, resource management, strategic planning, and lack of appropriate platforms to enable innovation in products, processes, organization, and marketing capabilities. Other constraints to the development of the MSME sector are weak management capacity, lack of market information, inadequate resources such as human and financial resources, low levels of innovative capabilities, and the inability to improve innovation and performance. Empowerment and entrepreneurial approaches are believed to be able to solve social problems. The concept of entrepreneurship can be developed through a social capital approach. Trust between business actors, reciprocal relationships based on trust are the basic capital in business development, including solidarity networks formed in groups. This study explains the relationship between social capital and business performance with entrepreneurial orientation as a mediating variable. The research was conducted in Micro, Small and Medium Enterprises (MSMEs) in the city of Denpasar with a population of 100 business actors. Sampling using the slovin technique, involving 100 respondents who are members of MSME actors and using a questionnaire as a data collection tool. The results of

the study can be seen that social capital can significantly affect entrepreneurial orientation and business performance. Entrepreneurial orientation also has a significant relationship to Business Performance.

Keywords: Social Capital, Entrepreneurship Orientation, MSME Performance

INTRODUCTION

Despite the contribution of SMEs to economic development and social intervention, the sector faces many challenges, such as finance, resource management, strategic planning, and the lack of appropriate platforms to enable innovation in products, processes, organization and marketing capabilities. The MSME managers of many of these companies have little or no technical or managerial experience. Most MSMEs are generally unstable and do not survive after 3 years. The survival of SMEs is affected by many constraints. These constraints include weak management capacity, lack of market information, inadequate resources such as human and financial resources, low levels of innovative capabilities, and the inability to improve innovation and performance (Pramuki and Kusumawati, 2021).

This condition is exacerbated by the pressure of the global COVID-19 pandemic which has not only resulted in a health crisis but also a crisis in the world economy. PThe Covid-19 pandemic has had a very significant impact on all nations in the world, including in the province of Bali, which relies on the tourism sector as the main source of regional income.

The direct impact of the COVID-19 pandemic is that many business units have temporarily closed their businesses (including hotels, travel agencies, event planning services) or permanently closed their businesses in Bali. The tourism sector is the main pillar of economic activity in Bali, now it is temporarily suspended (Widnyani et al., 2021). Many efforts have been made by the government and the community to run the economy. These efforts are in the form of a stimulus for the MSME sector. With the large amount of domestic spending made by the government, it is hoped that it will increase people's purchasing power so that the economy continues to run well, and in terms of business investment it will increase (Nurhadiono, AP, & Tumengkal, 2019).

In addition to stimulus or physical capital, business actors must also have social capital to run their business during the Covid-19 pandemic. Social capital in question is a set of norms or non-formal values that are shared between members of a community group that are interrelated, based on the values of trust, norms and social networks. Social capital is a

capability that arises from trust in a group of people in general (Fukuyama, 1995). According to (Suryana, 2007) between business actors, cooperation or competition often arises in social relations between them. This is what ultimately gives rise to a capital which is termed as social capital. In building a business, capital is not always only in the form of physical capital in the form of goods or money.

According to Putman, (2000) social capital is a social investment that includes social resources, namely networks, beliefs, values or norms in a social relationship to obtain group and individual goals effectively and efficiently with other capital. Actually the concept of social capital in business can be described as the occurrence of a relationship between business actors and material suppliers because of the trust between them and the relationship of the parties involved to obtain mutual benefits. This relationship is bound by prevailing norms, ease of relationship and pleasant experiences so that the benefits obtained will foster a sustainable relationship.

Bali as part of Indonesia is a very collectivist area where the kinship of its members is very strong. The characteristics of such a society have strong social capital and influence on institutional performance (Coleman, 1988 and Putnam, 2000). However, even though as a foreign exchange earner from the tourism sector, Bali has a serious poverty problem as reported by the Bali Province Central Statistics Agency (BPS) that the percentage of poor people in Bali in March 2021 increased by 0.08 percentage points compared to the position in September 2020. Figure 1 presents an infographic on the poverty of the Balinese people as of March 2021 (BPS Bali, 2021)

Based on Figure 1, it can be explained that the number of poor people in Bali in March 2021 was recorded at around 201.97 thousand people. An increase of 5.05 thousand people compared to the number of poor people in September 2020 which was recorded at around 196.92 thousand people. During the period September 2020 – March 2021, the percentage of poor people in urban areas recorded an increase, from 4.04% in September 2020 to 4.12% in March 2021. The same thing also happened in rural areas, recorded the percentage of poor people in areas rural areas increased from 5.4% in September 2020 to 5.52% in March 2021. The poverty line was recorded to have increased by around 3.21%, from IDR 438,167.00 per capita per month in September 2020 to IDR 452,221.00 per capita per month in March 2021.



Figure 1 Bali Poverty Profile as of March 2021

Empowerment and entrepreneurship approaches are believed to be able to solve social problems (Davidson and Burke, 2004). The concept of entrepreneurship can be developed through a social capital approach. Trust between business actors, reciprocal relationships based on trust are the basic capital in business development (Nahapiet & Ghoshal 1998; Burt 2009), including solidarity networks formed in groups (Woolcock, 1999; Narayan, 1999; Mattessich, 2009). Therefore, social capital is believed to be able to increase the effectiveness of community empowerment, increase income, and alleviate poverty.

Social capital construction is mostly related to micro, small and medium enterprises (MSMEs). Social capital is formed like a social network that is built based on geographical and emotional proximity so that it can facilitate access to obtain information regarding the market (Ferdinand, 2005). Business actors can quickly obtain information about consumer demand, monitor competitors' weaknesses and strengths, provide services to consumers, as well as product advertising, making it easier for business actors to develop their business. Reviewing the competition of a business, how does the social capital influence the business continuity process, namely in the production process, price formation, to product marketing (Effendy, 2018).

Previous studies have shown that social capital can significantly improve MSME performance (Chen, et al, 2007; Boso, et al., 2013; Felicio, et al., 2014; Rapih, 2015). Pamungkas and Sunaryoto (2019) prove that there is a positive influence between social capital and business behavior, with the proportion of social capital being 79%. An indicator or element of social capital that is very influential on business continuity is trust. Ciambotti et al (2015) reiterate that business actors consciously choose to invest in social capital, because high and quality social capital can create value for business actors and the wider community.

Previous studies based on the social capital framework have also shown that trust-based social relationships contribute to indicators of business development (Nadvi 1999; Bowles & Gintis 2002; Molina-Morales & Martinez-Fernández 2010; Nam et al. 2010). Trust and reciprocity in group relationships will provide new ideas and sources of information. Togetherness, honesty, egalitarianism, and trust developed in social capital will strengthen networks between entrepreneurs (Nugroho and Setyawan, 2015).

However, there are research results that illustrate that social capital is not always able to improve organizational performance. Fajrina, (2017) proves that the social capital variable does not have a significant influence on the sustainability of the culinary MSME business in the city of Medan. Furthermore, Anderson, and Jack, (2007) add that although the literature on social capital has increased significantly in recent years, other variables are needed to clarify the concept of venture capital in the sustainability of a business.

The findings of this study indicate that social capital is a relational framework obtained from social interactions and relationships, in a social network there is mutual dependence of group members that are mutually beneficial or not mutually beneficial. Studies on social capital in society as a whole and its relationship to business organizations such as MSMEs are very rare (Westlund and Bolton, 2003; Suseno and Ratten, 2007 in Roxas, 2008). With regard to the fact that SMEs have poorer networks with other SMEs or with other agencies such as universities, government agencies and other industries, their ability to share and acquire knowledge is limited. (Intarakumnerd et al, 2002). Pittaway et al. (2004) argue that it is necessary to fill research gaps in investigating how informal networks (social capital) are related to various innovations, such as process and product improvements in supporting entrepreneurial orientation and business performance. This phenomenon is very interesting for further research, because SMEs in running and maintaining their business there are elements of trust, networks, and norms. The novelty in this study is to include the entrepreneurial orientation variable as a mediating variable in order to clarify the relationship of social capital to the performance of MSMEs, which until now still have problems. This phenomenon is very interesting for further research, because SMEs in running and maintaining their business there are elements of trust, networks, and norms. The novelty in this study is to include the entrepreneurial orientation variable as a mediating variable in order to clarify the relationship of social capital to the performance of MSMEs, which until now still have problems. This phenomenon is very interesting for further research, because SMEs in running and maintaining their business there are elements of trust, networks, and norms. The novelty in this study is to include the entrepreneurial orientation variable as a mediating variable in order to clarify the relationship of social capital to the performance of MSMEs, which until now still have problems.

LITERATURE REVIEW

Social Capital Theory

Social capital theory was first introduced systematically by Bourdieu in 1972 and Coleman in 1988 (Hauberer, 2011). The basic definition introduced is that social capital is a resource inherent in social relations that can utilize these resources for personal and group interests. Putnam, Burt, and Lin agree on this basic definition, although each has a slightly different perspective. (Hauberer, 2011). The development of the concept of social capital varies according to experts, according to Bourdieu and Wacquant (1992) in Field (2010) social capital is the amount of actual or virtual resources that accumulate in an individual or group because they have a long-lasting network of mutual acquaintances and recognitions. more or less institutionalized. Meanwhile, Bourdieu explains that social capital is an aggregate of actual or potential resources that are tied up to create a long-term (durable) network so as to conceptualize mutually beneficial friendship relationships (acquaintance). According to Coleman (1990) social capital is not one entity, but a variety of different entities that have the same two characteristics, social capital consists of several aspects of social structure, and facilitates the actions of individuals within the structure.

Social capital is measured on the basis of trust, norms, networks. Trust is the essence of social capital, trust is an indication of the potential readiness of the community to cooperate with one another. Trust with others is a key factor in shaping any kind of participation. This participation can be in the form of a person's volunteering to become a member of an association or groups (Uslaner, 1999). Within community groups, of course, there are norms that maintain social relations between group members or fellow community members. With the number of people participating in various kinds of participation, it will be easier to get access to information, which information will be easier to obtain if you have a large network (Putnam, 2000).

MSME Performance

Performance is often used in mentioning the achievement or level of success of individuals, groups, or organizations, (Serey, 2006). Performance can be measured if the individual or group has established success criteria, both goals and specific targets. Performance is also said to be a person's success in carrying out a job, how a person can complete his work (Roni, Moein, & Effendi, 2018). Several studies have grouped the performance success factors into 2 factors, namely internal and external factors (Sarwoko, 2013). Internal factors include individual factors (Lee and Tsang, 2001), and organizations. The

external factors are influenced by the environment (Li et al., 2005). Munizu & Hasanuddin, (2010) research suggests indicators to determine the performance of an MSME,

Social Capital and MSME Performance

Putnam (1995) states that the construct of social capital is a theory that can explain the relationship between individuals and groups. According to Coleman (1988), the types of social capital are: (a) The structure of obligations, expectations, and beliefs; (b) information channels; and (c) Coleman's (1988) effective norms and sanctions. Furthermore, Nahapiet and Ghoshal (1998) divide social capital into three dimensions: (a) Structural dimension, this dimension is associated with communication patterns and impersonal relationships between parties in social life (Burt, 2000; Gelderman, et al., 2016); (b) Cognitive dimension, this dimension relates to the similarity of cultural views, business philosophy, goals, and visions that are shared by various parties in social capital. Culture can be defined as norms or values embodied in the behavior of various parties in social capital (Inkpen and Tsang, 2005; Gelderman et al., 2016) thus placing common interests above individual interests (Coleman, 1990); (c) The relational dimension, this dimension refers to trust, friendship, respect, and interactions that are built on an ongoing basis by all parties in social capital (Kale et al., 2000; Gelderman, et al., 2016).

This continuous interaction can reduce dependence on formal contracts (Zaheer and Venkatraman, 1995). The very collectivist character of Indonesian society is also shaped by the strong relational capital. friendship, respect, and interactions that are built on an ongoing basis by all parties in social capital (Kale et al., 2000; Gelderman, et al., 2016). This continuous interaction can reduce dependence on formal contracts (Zaheer and Venkatraman, 1995). The very collectivist character of Indonesian society is also shaped by the strong relational capital. friendship, respect, and interactions that are built on an ongoing basis by all parties in social capital (Kale et al., 2000; Gelderman, et al., 2016). This continuous interaction can reduce dependence on formal contracts (Zaheer and Venkatraman, 1995). The very collectivist character of Indonesian society is also shaped by the strong relational capital.

Business performance is the effect of the processes that turn raw materials into goods and services that are valuable to target customers. Business performance, both large and small companies, can be measured from financial, economic, social, environmental, and business sustainability. Previous research has shown that social capital plays an important role in determining business performance as the findings of Chen et al (2007); Felicio, et al (2014); and Rapih (2015) which shows that the better social capital, especially the MSME sector, the better the business performance. Furthermore, Dai, et al (2015) also found that social capital affects

financial performance and organizational innovation. Thus, this study believes that social capital in an organization is an important factor of business performance.

H1: Social capital which consists of structural dimensions, cognition and relationships has a positive and significant effect on the performance of MSMEs in Denpasar City.

Relationship of Social Capital with Entrepreneurship Orientation.

Entrepreneurial orientation is a core resource to improve the competitiveness of companies in a sustainable manner (Conner, 1991). Entrepreneurial characteristics, such as aggressive, innovative, independent and willing to take risks, can determine a company's competitive advantage. Many experts identify entrepreneurial orientation in various dimensions. Boso, et al (2013) explain 5 (five) dimensions of entrepreneurial orientation, namely: autonomy, innovativeness, proactiveness, competitive aggressiveness, and risk taking. Furthermore, Covin and Slevin (1989) and Ejdys (2016) state that entrepreneurial orientation consists of 3 (three) dimensions, namely innovation, proactiveness, and risk taking. Recent studies by Rhee, et al (2010) and Liu et al (2014) only use proactiveness and risk taking as factors that shape entrepreneurial orientation.

As is known, personal values are individual preferences that have a very strong influence in shaping one's behavior. Robbin (2013) divides values into two categories, instrumental and terminal. Instrumental values are individual ways to achieve goals, such as honesty, responsibility, creativity, ability, independence, and ambition. Furthermore, terminal value is the desired end state of the application of believed instrumental values, such as self-esteem, security, innovation, freedom, achievement, and happiness values. Nature, et al. (2015) found that personal values have a significant effect on entrepreneurial orientation. While social capital has an influence in shaping one's values and behavior so that the relationship between personal values, social capital, and entrepreneurial orientation become interested. Previous research (Chen, at al., 2007; Alarcon, et al., 2017) shows that entrepreneurial orientation is determined by a higher level of social capital so that social capital as described is strongly influenced by the value system of society. Based on the description of the theory and previous research studies, the following hypotheses can be proposed:

H2: Social capital which consists of structural dimensions, cognition and relations has a positive and significant impact on the entrepreneurial orientation of MSMEs in Denpasar City.

Relationship between entrepreneurial orientation and performance of SMEs

Soares & Perin (2019) stated that entrepreneurial orientation plays an important role in improving company performance. An entrepreneurial orientation motivates companies to

aggressively launch product innovations, explore opportunities and support new product development activities. An entrepreneurial orientation contributes to the success of new products by enabling companies to identify and proactively exploit new business opportunities. Omiskin et al. (2016) stated that Innovative tends to support innovation in creating new products and services. Innovative companies generally have a broader base of skills and knowledge that gives them an edge over their competitors.

Previous research has shown that entrepreneurial orientation has a significant effect on organizational effectiveness (Fernandes-Mesa and Alegre, 2015; Martin and Javalgi, 2016; Nunez-Pomardkk., 2016; Vega-Vazquez et al., 2016). Previously, Chendkk (2007); Boss, et al (2013); and also Mason, et al (2015) also revealed that business performance is significantly influenced by entrepreneurial orientation. This shows that business performance can be improved if business actors have an entrepreneurial orientation. Based on the description of the theory and previous research studies, the following hypotheses can be proposed:

H3: Entrepreneurship orientation has a positive and significant effect on the performance of MSMEs in Denpasar City

The Role of Entrepreneurship Orientation in Mediating the Relationship between Social Capital and MSME Performance

Many organizational studies adopt contingency theory so that there is no concept of universality, therefore, the correlation between social capital and business performance is conditional. Zer and Tinaztepe (2014) use eleven indicators in assessing the performance of business organizations, namely: Qualified workforce, Commitment, Job satisfaction, Ability to develop new products/services, Product/service quality, Customer satisfaction, Sales growth, market growth, Return on sales, Return on assets, and overall profitability. Previously, Dimon (2013) explained that there are 3 (three) indicators in assessing the performance of MSMEs, namely economic performance, environmental performance, and social performance. Furthermore, Dimon (2013) explains that social performance consists of employment practices and decent work, human rights, society. Thus, there is a positive correlation between social capital and business performance, but the effect will be stronger if business actors have special characteristics that support performance. The individual characteristics used in this study are entrepreneurial orientation.

Based on the description of the theory and previous research studies, the following hypotheses can be proposed:

H4: Entrepreneurship orientation mediates the positive and significant influence of social capital on the performance of MSMEs in Denpasar City.

Conceptual Framework and Hypotheses

Based on the exposure in the background and the results of previous research, the research model can be formulated in Figure 2 below:

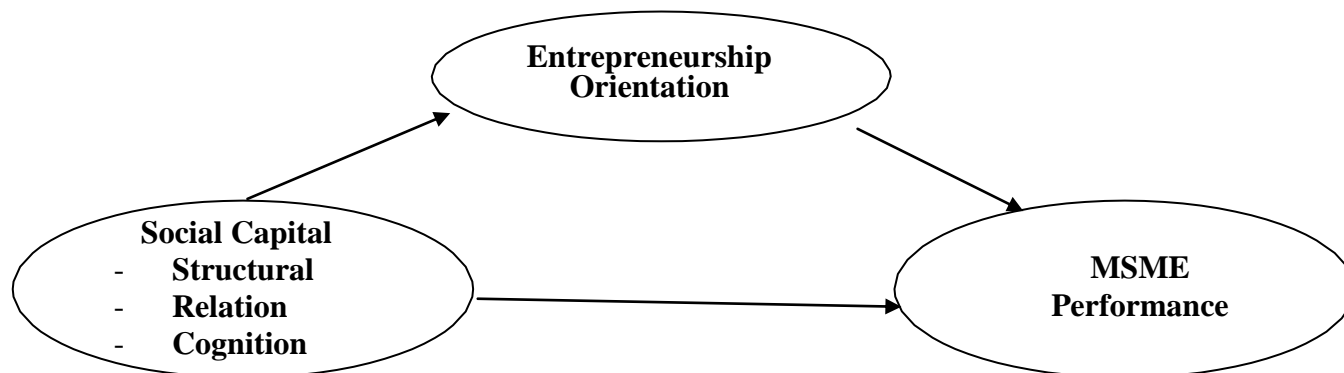


Figure 2 Research Concept Framework

METHOD

This study also aims to explain the influence between variables (explanatory) by testing the hypothesis. The unit of analysis in this study is the individual or member of the manager and or owner of MSMEs in Denpasar City. The data sources were obtained through surveys. The population of this study is all registered MSMEs in Denpasar City of 30,850. The sample is determined based on the Slovin formula using an error rate of 10%, so the sample determined in this study is 98 so that it is rounded up to 100.

The measurement scale uses a Likert scale with a point scale of 1 (strongly disagree) to a score of 5 (strongly agree) to measure respondents' answers. The social capital variable consists of three dimensions quoted from Nahapiet et al. (1998) namely: structural dimensions, cognitive dimensions, and relational dimensions with a total of 18 question items. The entrepreneurial orientation variable consists of three indicators quoted from Covin and Slevin (1989) and Ejdys (2016), namely: proactive, risk taking, and innovation with a total of 11 questions. While the business performance variable consists of three indicators quoted from Dimon (2013), especially social, economic, and environmental performance with a total of 17 questions.

This study uses SPSS 20.0 as a statistical tool to ensure respondent profiles and descriptive analysis, and uses for Smart PLS 3.2.9 to analyze statistical results whether social capital can significantly improve the entrepreneurial orientation and performance of MSMEs in Denpasar City Partial Least Square (PLS) developed by Lohmoller (1989, 1984). Smart PLS 3.2.9 is a statistical software that can be used to process data in linear structural models.

RESULTS

Data collection in the study was carried out using a survey method, where as many as 100 MSMEs in Denpasar City had responded by filling out research questionnaires. All questionnaires are completely filled out and can be processed further.

The characteristics of the respondents in this study are as follows: 1) the age characteristics of the respondents in this study are dominated by respondents aged under 30 years as many as 44 respondents (44%), 2) the characteristics of the education level of respondents in this study are dominated by high school education levels as much as 83 respondents (83%), 3) the characteristics of the length of business of the respondents in this study were less than 5 years as many as 61 respondents (61%) 4) the gender characteristics of the respondents in this study were dominated by men as many as 66 respondents (66%).

In connection with the indicators that make up the latent variables in this study are reflexive, then the evaluation of the measurement model (measurement model / outer model), to measure the validity and reliability of these indicators are a) convergent validity, b) discriminant validity, and c) composite reliability and cronbach alpha

The results of the calculation regarding the outer loading value show that all indicators have met the valid requirements based on the convergent validity criteria, namely the outer loading value is above 0.60. The calculation results show that the AVE value of all constructs is > 0.50 and the value of The AVE of each construct ranges from 0.635 to 0.757, which is greater than the correlation value, which is between 0.761 to 0.822. so that it meets the valid requirements based on the discriminant validity criteria. The calculation results also show that the value of composite reliability and Cronbach Alpha of each construct has shown a value greater than 0.60 so that it meets the reliable requirements based on the composite reliability criteria.

Based on the R^2 value of the entrepreneurial orientation and performance of MSMEs, which are 0.676 and 0.635, respectively, then based on Chin's criteria (Ghozali, 2021), this model includes strong model criteria. Evaluation of the Inner Structural Model Through f-Square, the results show that the social capital variable has a large influence on entrepreneurial orientation with a value of 2.089, while social capital has a small effect on the performance of SMEs with a value of 0.156. The entrepreneurial orientation variable has a small effect on the performance of MSMEs with a value of 0.153.

Table 1 Path Analysis and Statistical Testing (PLS output)

Relationship Between Variables	Coefficient	T Statistics	P Values	Information
Social Capital -> Entrepreneurship Orientation	0.822	29,145	0.000	Significant
Entrepreneurship Orientation -> MSME Performance	0.416	2,682	0.008	Significant
Social Capital -> MSME Performance	0.420	2,799	0.005	Significant

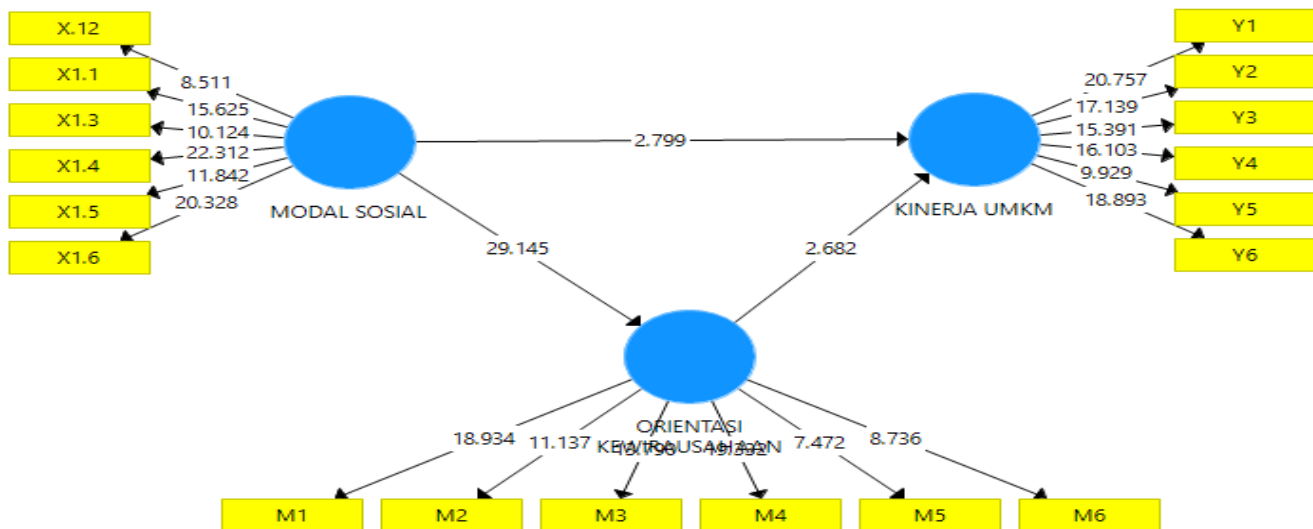


Figure 3 Estimated Result Model

DISCUSSION

As we know, all the hypotheses of this study are accepted. The first hypothesis, there is a significant effect of Social Capital on Business Performance proven acceptable (H1 is accepted). These results indicate that the use of social capital in the MSME community will have a positive effect on firm performance. This finding supports previous research conducted by Chen, et al (2007); Felicio, et al (2014); Rapih (2015), and Dai, et al (2015) which state that the performance of MSMEs is influenced by the social capital of MSME actors.

Furthermore, Social Capital has a significantly higher impact on Business Performance if community members have a good entrepreneurial orientation. The second hypothesis of this study is also accepted (H2 is accepted): Social capital is influenced by Entrepreneurial Orientation. That is, the application of social capital in the MSME community will have a positive effect on the entrepreneurial orientation of community members. This finding strengthens the results of research from Chen, et al (2007) and Alarcon, et al (2017). This study also proves that

there is a significant influence between Entrepreneurial Orientation on Business Performance (H3 is accepted). These results state that entrepreneurial orientation has a positive effect on the business performance of community members. This supports the research of Chen, et al (2007); Boso, et al (2013); Fernandes Mesa and Alegre (2015); Martin and Javalgi (2016); Mason, et al (2015); Nunez-Pomar, et al (2016); and Vega-Vazquez, et al, (2016) who revealed that Entrepreneurship Orientation has a positive impact on business performance

The results of this study indicate that business performance can be influenced by social capital and entrepreneurial orientation owned by MSME business actors. That structural capital, innovation, and social performance have the largest contribution from each research variable to the improvement of MSME business performance. The results of the hypothesis test prove that social capital has a significant effect on Entrepreneurial Orientation; Entrepreneurship Orientation has a significant effect on Business Performance, and Social Capital has a significant effect on Business Performance. The variables of Social Capital and Entrepreneurship Orientation have an influence on the Business Performance variable by 63.5% while the remaining 36.5% is influenced by other factors or variables that are not included in the equation model in this study.

Based on the results of the study, to increase the competitiveness of MSMEs, the MSME Community needs to strengthen the cognitive capital of community members, be more willing to take business risks and improve economic performance. Furthermore, cognitive capital and relational capital must be increased by MSME business actors as a way to improve entrepreneurial orientation and business performance.

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