Relationship of Social Capital, Entrepreneurial Competence, and Performance: The Case of Convection SMEs

Sutikno1, Minkhatul Fikriyah2, Ahmad Nurkhin2

DOI: 10.15294/eeaj.v11i1.53976

1Social Science Education Study Program, Faculty of Social Sciences, Univeritas Negeri Semarang, Semarang, Indonesia
2Economics Education Study Program, Faculty of Economics, Universitas Negeri Semarang, Semarang, Indonesia

Abstract
This study aimed to examine the relationship of social capital, entrepreneurial competence, and company performance on Convection SMEs in Pemalang. The purpose of this study was also to examine the mediating role of entrepreneurial competence on the effect of social capital on MSME performance. This study was a quantitative study with population of convection SMEs in Ulujami District, Pemalang Regency. This study obtained 285 MSME business owners as research respondents. The data collection method used the questionnaire. Methods of descriptive analysis and path analysis were used to analyze the data of this study. The study results indicated a significant effect of social capital and entrepreneurial competence on the MSMEs performance. Entrepreneurial competence had been shown to significantly mediate the effect of social capital on the MSMEs performance. Social capital must be maintained and enhanced through the ability of MSME owners and managers in establishing relationships with partners, customers, and policy makers. Good social capital will encourage the entrepreneurial competence of MSME owners and managers to be stronger because they get information, experience, and assistance from various related parties.

How to Cite

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INTRODUCTION

The role of MSMEs (micro, small and medium enterprises) is quite significant in improving the flow of economic activities. SMEs are believed to be able to create jobs. Data from the Central Bureau of Statistics (BPS) in 2018 showed that MSMEs were able to contribute to GDP (gross domestic product) of 7.82 billion in 2017. MSMEs engaged in the apparel management sector contributed 14.01%. MSMEs also play a role in income average, rural economic development and increasing non-oil and gas exports (Puspitasari & Widiyanto, 2015; Iustinganah & Widiyanto, 2020). Thus, MSMEs are able to contribute significantly to the economy.

The COVID-19 pandemic that hit Indonesia was felt by MSMEs. The national economic recovery carried out by the government has also encouraged MSMEs to continue their business. The number of MSMEs is very large, reaching 64.1 million (Bahtiar, 2021). The government must pay special attention to the MSME sector because of its important role in the absorption of labor. Economic growth will continue if the MSME sector shows good performance during the pandemic.

Ulujami Subdistrict, Pemalang Regency is known as a convection MSME center. There are many villages whose residents are engaged in MSME Convection. Data in 2020 showed that there were 987 business units in one village alone. Thus, the movement of MSMEs in the area can be felt in the local economy. Residents are very dependent on the business they run. Apart from residents of the area, MSME businesses can also attract workers from the surrounding area.

This very important role makes MSMEs must be able to improve their performance. Performance can be interpreted as the result of work that can be achieved by a person or group within a company in accordance with their respective authorities and responsibilities (Afandi, 2018). Business activities that have been carried out by MSMEs should have a positive impact on their owners. Therefore, MSME management must act creatively and innovatively in order to be able to show satisfactory performance. This means that the performance of MSMEs must be encouraged to continue to improve for the sake of business continuity and sustainability.

The basic theory that can be used to understand organizational performance is resource-based theory. This theory explains why some industries are successful while others fail (Mulyono, 2013). The success or failure is due to the company’s ability to manage its internal resources (Sukma, 2017). The determinants of MSME performance have been widely studied with results that are still interesting for further research. The factors in question are social capital and human capital (Santoso et al., 201), social capital and innovation (Hadi & Purwati, 2020), human capital and social capital (Pangestu & Utami, 2020), entrepreneurial competence (Suryana & Burhanuddin, 2021), characteristics of entrepreneurship, capital and labor (Apriliani & Widiyanto, 2018; Pariyem, Widiyanto & Painri, 2020) as well as financial knowledge and social media (Ferdiansyah & Bukhari, 2021).

The results showed that one of the important factors in understanding the performance of SMEs is social capital. Social capital is defined as something related to harmonization between individuals, norms, and beliefs to facilitate mutually beneficial coordination and cooperation in common life. (Muslikah et al., 2018). This social capital is very important for business actors to be able to improve business relations so that it will have an impact on the performance of their business. By having social capital, business actors will be able to establish mutually beneficial cooperation with various parties. It will be easier for business actors to obtain important information regarding policy developments, price fluctuations, availability of materials, and other important information.

Many studies have shown mixed results regarding the relationship between social capital and the performance of MSMEs. Social capital is proven to have a significant effect on
the performance of cocoa farmers’ farming (Mubarak et al., 2020). Social capital is considered an investment that can generate new resources from society. Social capital will be stronger if it is able to take advantage of networks or relationships that recognize each other among its members.

Other researchers found a significant effect of social capital on SME business performance (Santoso et al., 2019). Social capital can come from internal sources and external sources. Both have a positive role in improving organizational performance. Social capital is also able to improve the marketing performance of traders at the Solo Wholesale Center (Astuti et al., 2019). Network as a measure of social capital has been proven to significantly influence the performance of MSEs in Padang City, West Sumatra (Analia et al., 2019).

Wealenta (2019) found no significant effect of social capital on improving the performance of restaurants in Tentena City, Poso Regency. Social capital is measured by three indicators (structural dimension, relational dimension, and cognitive dimension). Mubarak et al., (2020) also found the same result, that social capital could not significantly affect farm business performance.

This study presents the entrepreneurial competence variable to better understand the effect of social capital on the performance of MSMEs. Entrepreneurial competence is very important to strengthen the determination and sincerity of MSME actors so that they are still able to run their business well. Economic conditions that change frequently, especially during a pandemic require a high level of innovation and creativity. Only business actors who have entrepreneurial competence will be able to survive and improve the performance of MSMEs.

Entrepreneurial competence is knowledge, attitudes, and skills that are connected to one another, which entrepreneurs need to be trained and developed in order to be able to produce the best performance (Zuhriyah et al., 2015). Entrepreneurial competence is proven to be significant as a determinant of performance (Hasanah et al., 2018). Entrepreneurial competence possessed by owners and entrepreneurs will be able to encourage the success of MSME businesses. With the entrepreneurial competence you have, you will be able to measure and analyze the business risks that may be faced.

Mubarak et al., (2020) proved that entrepreneurial competence was able to significantly determine business performance of Cocoa Farmers in the Indonesia-Malaysia Border Area of Sebatik Island. Entrepreneurial competence will increase the entrepreneurial capacity of MSME entrepreneurs and will encourage a better level of performance (Suryana & Burhanuddin, 2021). Entrepreneurial competence is a very valuable resource for MSMEs and can be considered as a competitive advantage. The same finding was also obtained (Utami & Mulyaningsih, 2016).

This paper aims to analyze the relationship of social capital, entrepreneurial competence, and the performance of SMEs. Path analysis was used to find the mediating role of entrepreneurial competence in the effect of social capital on MSME performance. MSMEs in the convection sector in Ulujami District, Pemalang Regency are the research sample because their role is very significant in determining the economic movement of the surrounding community.

Owned social capital will have more impact on the performance of MSMEs if the entrepreneurial competence is also owned by managers. Social capital will determine the level of entrepreneurial competence significantly. With the social capital they have, entrepreneurs will be able to gain knowledge, experience, and also the formation of an entrepreneurial attitude from their relationships and business partners. This social capital encourages entrepreneurs to meet other people who will be able to strengthen their business, increase business creativity, and also confirm the efforts that have been made. In addition, with good social capital, entrepreneurs can also exchange ideas and ideas with their busi-
ness partners so that they will be able to have a significant impact on the performance of MSMEs.

Previous research has succeeded in finding empirical evidence that social capital is able to significantly influence entrepreneurial competence (Mubarak et al., 2020). Based on the description above, the research hypotheses developed in this study are as follows: (1) Social capital has a significant effect on MSME performance, (2) Entrepreneurial competence has a significant effect on MSME performance, (3) Social capital has a significant effect on entrepreneurial competence, (4) Entrepreneurial competence is able to mediate the effect of social capital on the performance of MSMEs.

METHODS

This study is a quantitative study with a causal design to understand the relationship between social capital, entrepreneurial competence, and the performance of SMEs. The research population was MSME Convection in Ulujami District, Pemalang Regency. The sampling method used was accidental sampling obtaining 285 MSMEs as research samples.

The dependent variable in this study was the performance of MSMEs as measured by a balanced scorecard indicator (consumer, financial, internal, and human resources) while the independent variables were social capital and entrepreneurial competence. Entrepreneurial competence also acted as a mediator variable. Social capital was measured by indicators of the ability to build cooperation, the ability to build trust, the ability to build a reputation, participation in local communities, and cooperation with related agencies. Entrepreneurial competence was measured by indicators of strategy, technical management, and leadership.

The data collection method used a questionnaire. The questionnaire was developed from the opinion of previous researchers distributed manually by visiting the owner or manager of the MSME Convection business. The questionnaire was developed on a 5 Likert scale. The data analysis method used descriptive analysis and path analysis. Descriptive analysis was used to analyze research variables quantitatively while path analysis was used to analyze the relationship between the three research variables.

RESULTS AND DISCUSSION

Description of Research Variables

Descriptive analysis of research variables is presented in Table 1, Table 2 and Table 3. Table 1 showed that the performance of Convection MSMEs in Ulujami District, Pemalang Regency was in the Very High category. Convection SMEs were able to maintain good performance during the pandemic.

Table 1. MSME Performance Description

<table>
<thead>
<tr>
<th>No.</th>
<th>Indicator</th>
<th>Average</th>
<th>Criteria</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Internal</td>
<td>8.04</td>
<td>Very high</td>
</tr>
<tr>
<td>2</td>
<td>Finance</td>
<td>7.96</td>
<td>High</td>
</tr>
<tr>
<td>3</td>
<td>Consumer</td>
<td>8.08</td>
<td>Very high</td>
</tr>
<tr>
<td>4</td>
<td>Human Resources</td>
<td>8.32</td>
<td>Very high</td>
</tr>
</tbody>
</table>

Source: Primary data processed, 2021

Table 2 showed that social capital was included in the high category. Convection SMEs in Ulujami District, Pemalang Regency had good social capital to help their businesses by having a good network. Table 3 showed the entrepreneurial competence of Convection in Ulujami District, Pemalang Regency was in the high category. Convection SMEs were able to improve good entrepreneurial competencies during the pandemic.

Classic Assumption Test Results

The classical assumption test performed was the normality test, multicollinearity test, and heteroscedasticity test. Normality test was
The multicollinearity test was carried out by statistical tests which showed that the regression model in this study avoided the assumption of multicollinearity. The tolerance value was more than 0.10 and the VIF (variance inflation factor) value was less than 10. Meanwhile, the results of the heteroscedasticity test through the Glejser test showed that the significance value of the variables of social capital and entrepreneurial competence was less than 0.05.

Path Analysis Results

Path analysis was done by processing the data through two regression equations. The MSME performance variable as the dependent variable in the first regression with social capital and entrepreneurial competence as independent variables. While in the second regression equation, the dependent variable was entrepreneurial competence and the independent variable was social capital. The results of the path analysis can be seen in Table 4.

Table 4 showed that social capital and entrepreneurial competence had been proven to have a significant effect on the performance of MSMEs. The significance value of social capital was 0.000 with a t-count value of 5.6728. Entrepreneurial competence had a significance value of 0.000 with a t-count value of 8.194. Social capital and entrepreneurial competence had regression coefficients of 0.280 and 0.468, which means that...
they had a positive effect on the performance of MSMEs. While in the second equation, the significance value of social capital was 0.000 with a t-count value of 5.678. The regression coefficient value was 0.234, which means that social capital could determine entrepreneurial competence positively.

Table 4 showed that the hypotheses proposed in this study were all acceptable. The mediating role of entrepreneurial competence in the influence of social capital on MSME performance was tested through the Sobel test using a Sobel test calculator. The results showed that the one-tailed probability value was 0.000 and the t-count was 4.686. The results of the Sobel test confirmed that entrepreneurial competence was able to significantly mediate the effect of social capital on MSME performance.

The Effect of Social Capital on MSME Performance

In accordance with the results of research that had been detailed to prove that social capital had a positive and significant influence on the performance of MSMEs. Social capital had a coefficient of 0.297 with a significance value of less than 0.05 (5%). This showed that the better the social capital developed by the MSME owners, the higher the MSME performance level will be. On the other hand, the worse the social capital developed by the MSME owners, the lower the MSME performance level. The contribution of the influence of social capital on the performance of MSMEs in this study was 8.8%. This influence was strengthened by the results of descriptive analysis which showed that the average social capital variable was in the high category. This means, Convection SMEs in Ulujami District, Pemalang Regency had good social capital.

The results of this study were also in line with the theory of resource-based view (RBV). RBV theory suggests that resources and capabilities are vital for the company, because these two things are the basis of company performance. RBV theory prioritizes the use of external resources when the available resources within the firm are limited. One of the external capital in question is social capital (Cahyaningtyas & Ningtyas, 2020).

Increasing cooperation and the belief system that exists in social capital as a supporter of internal resources will create a competitive advantage, thereby encouraging increased performance. Furthermore, RBV theory has the view that the competitiveness and performance of a company depends on the uniqueness of its resources that are difficult to imitate. This shows that with typical social capital, the success of the social network developed by the company will help improve company performance.

In line with previous research which suggested that social capital had a positive and significant influence on the performance of MSMEs (Astuti et al., 2019; Mubarak et al., 2020; Santoso et al., 2019). Social capital is one of the factors that affect social networks that can lead to an increase in MSME performance (Gandhiadi et al., 2018). Therefore, MSMEs should develop social capital owned by their owners and managers. Social capital makes a big contribution in developing a business. MSME owners will be able to develop their business quickly if they can control and put social capital related to networks, cooperation and communication that are useful for achieving better business quality (Primadona & Emrizal, 2017).

The Effect of Entrepreneurial Competence on MSME Performance

The results of the study proved that entrepreneurial competence had a positive and significant influence on the performance of MSMEs. The path coefficient value for the entrepreneurial competence variable was 0.377 with a significance value of 0.000. The significance value was below the 0.05 significance level, which means that entrepreneurial competence had a significant effect on the performance of MSMEs while the path coefficient of 0.377 indicated a positive influence of entrepreneurial competence on the perfo-
Meanwhile, a business certainly requires adequate information resources in order to maintain its business continuity which can be obtained through relationships with internal and external parties to obtain the information needed by entrepreneurs. In this case, social capital acts as a bridge in business, namely in the form of a social network that provides information for entrepreneurs. Entrepreneurs with a high level of social capital will get information needed both internally and externally in a timely manner.

Without social capital that is put to good use, adequate entrepreneurial competence will be difficult to achieve (Obisi & Anyim, 2012). Social capital can be used as an effort for owners or managers to gain valuable experience from relationships in running their own business. Relationships can also provide coaching so that entrepreneurial competencies are further honed. Good relationships will also provide important information in business development. Social capital is used to strengthen existing relationships and build wider networks. Thus, social capital is very important for owners and business actors. Social capital will also reduce unfair competition because it already has a good relationship between business partners.

**The Effect of Social Capital on Entrepreneurial Competence**

The results of the regression analysis, partially the social capital variable produced a coefficient value of 0.377 with a significance value of 0.000. A significance value of less than 0.05 indicated that there was an effect on the variables being tested. This proved that social capital had a positive and significant effect on entrepreneurial competence. That is, the higher the level of social capital, the higher the level of entrepreneurial competence. Vice versa, the lower the level of social capital is, the lower the level of entrepreneurial competence.

This was in line with the resource-based view (RBV) theory which states that the resources and capabilities of MSMEs must have high standards, in this study, namely social capital and entrepreneurial competence. This was in line with previous research (Mubarak et al., 2020) who obtained the findings of a significant effect of social capital on entrepreneurial competence. Entrepreneurial competence plays an important role as the underlying character of entrepreneurs in completing each activity in the most profitable way for business growth.

The results showed that social capital had a positive and significant effect on the performance of MSMEs through entrepreneurial competence. This was evidenced by the results of the Sobel test which found an indirect effect of 0.116 with a significance value of 0.000. The results of the regression test to determine the direct effect showed a value of 0.297 with a significance value of 0.00. That is, either directly or indirectly social capital had a positive and significant effect on the performance of MSMEs. The results of this study also proved entrepreneurial competence as a mediating variable in the influence of social capital on the performance of SMEs.
In line with the theory of resource-based view (RBV) which states that business continuity and high MSME performance are obtained by controlling resources and skills that are useful for the company. Resources and capabilities in RBV theory must have unique criteria and are difficult for business competitors to imitate (Walenta, 2019). The company will be able to survive even in difficult conditions because it already has a solid base of resources and skills. The resources and skills referred to in this study are social capital and entrepreneurial competence. Entrepreneurs who have high social capital will be able to find interesting ideas for their business interests than entrepreneurs who have low social capital.

The mediating role of entrepreneurial competence was partial mediation. Social capital variables besides having an indirect influence on the performance of MSMEs through entrepreneurial competence as an intervening variable also had a direct influence without going through mediation. MSME owners who have good social capital will affect the performance of MSMEs.

MSME performance cannot be produced by business owners who have an individual view (Atmaja et al., 2020). Social capital in the form of processes related to cooperation and communication both internal and external to the company can only be obtained by mutual interaction between two parties. So that the existence of entrepreneurial competencies in the form of leadership, strategy, and technical management owned by MSME owners is very important to help increase the influence of social capital on MSME performance.

CONCLUSION

Convection MSME performance was proven to be influenced by social capital and entrepreneurial competence. Entrepreneurial competence was also proven to be a mediating variable on the effect of social capital on the performance of MSMEs. Good social capital will determine the entrepreneurial competence of MSME owners and management and will ultimately encourage better MSME performance. Thus, social capital and entrepreneurial competencies are very important.

The advice that can be given is to increase the social capital owned by MSME owners and managers by strengthening relationships with existing partners and existing customers. Intensive communication with policy makers must also be carried out to obtain the latest information, access policies, and strengthen institutions. The entrepreneurial competence of MSME owners and managers also needs to be maintained and improved. MSME owners and managers should not be complacent with their current performance. Future challenges really require innovation and creation. Good social capital and entrepreneurial competence will be able to improve the performance of MSMEs in a sustainable manner.

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