

Does Social Capital Affect SME's Performance?

Sri Palupi Prabandari¹, Ida Yulianti², Yusuf Risanto³

Economics and Business Faculty, Universitas Brawijaya, Indonesia^{1,2}

Email: palupi@ub.ac.id

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ABSTRACT

The performance of SMEs is a major concern for strengthening businesses to survive in dynamic market conditions. Often, these enterprises cannot fund risky assets due to limited support sources. Tangible and intangible resources can undoubtedly enhance the profitability of SME businesses. Encouraging SMEs to recognize alternative opportunities is crucial for their survival in the market. This study contributes theoretically by examining the role of intangible (non-financial) resources, such as social capital, given the unique typology of SMEs. Despite receiving relatively little attention, this aspect can provide a competitive advantage. The study utilized qualitative methods, with a systematic literature review (SLR) chosen to address the research questions. The study results indicate that social capital plays a significant role in business success. Businesses with strong social capital, including networks, norms, and trust, exhibit resilience and can be passed down from generation to generation, supporting the performance of SMEs. Evaluating the performance of SMEs solely in terms of financial capital is not appropriate, as these businesses typically operate on a minimal scale, limiting the availability of financial reports.

INTRODUCTION

Small and medium-sized enterprises (SMEs) are strategic sectors in the national economy which can absorb high labour levels and reduce poverty. In addition, it is used as a standard of living and improving the quality of welfare in developing countries. Developing countries such as Vietnam and Indonesia are found in the SME sector (dominant) because they can employ at least 95% of the workforce (World Bank, 2016). More and more SMEs appear to strengthen the economy because local resources and financing can be optimally absorbed, so they deserve to be supported by the government. High and efficient productivity can increase national output growth. The challenge to remain operational and sustainable is needed to stay afloat in the market due to increasingly high competitiveness. Obstacles must be more quickly overcome to make it easier for them in the future. Errors in resource allocation among SMEs occur, especially in the context of developing countries (Nguyen & Nguyen, 2019). Efforts for SMEs to survive and achieve competitive advantage have become a significant concern in the economic development of countries worldwide. In developing countries, SMEs have been accepted as a pillar of economic growth.

Resources are essential. However, a productive enterprise depends on how resources are deployed. Three of five businesses fail in the first three years of operation (Mbogo, 2011). Compared to large companies, SMEs are considered companies with limited resources, so they are less likely to take advantage of opportunities in foreign markets (international markets) (Lu & Beamish, 2001 in Easmon et al., (2019). In addition, domestic pressure on inter-company business competitiveness challenges the SMEs sector. Therefore, the problem of resources is a significant area that needs to be better visualised for the SMEs sector. The performance of SMEs then becomes a measure of the success of the business being run. Low performance is a result of constraints on finance, markets, appropriate

technology, regulations, weak institutions, management, and information skills (Du et al., 2015; Fornoni et al., 2012; Hongyun et al., 2019; Valentina Adlešič & Slavec, 2012). Many are found in industrial environments that operate inefficiently. Efficiency can be related to financial aspects or the utilisation of physical assets (tangible), which significantly affect the company's performance (Hassankhani Dolatabadi & Budinska, 2021).

The right resources can be utilised to achieve a competitive and sustainable advantage and classified into tangible and intangible resources. Tangible assets are an organisation's liquid and fixed assets and are long-term in nature, such as plant, equipment, land, databases, and finance. Valuable resources, reputation, innovation, creativity, and inimitability can capture the value that will sustain a competitive advantage (Cao et al., 2014; Dess et al., 2014). This includes intangible assets. Meanwhile, social capital is essential to increase the company's return and competitive advantage. Social ties and relationships between companies are a vital part of social capital. SMEs can use social capital to obtain needed or additional funds (funding). Social capital should not be ruled out, especially if the country is closely related to culture and customs.

The literature agrees that the main problem affecting SMEs' business operations is the utilisation and allocation of resources and the business owner's business ability. In their research, Kurniati et al (2019), business scale, market access, and finance affect the competitiveness of batik SMEs in Indonesia. Ali et al.'s research (2018) reveals that entrepreneurial knowledge of accounting, cash management and budgeting skills can help businesses survive in the market. The positive effect is that financial resources can drive innovation performance incrementally in SMEs (Woschke et al., 2017). The other side that discusses intangible resources is relatively small. The need for more attention to intangible resources has prompted researchers to realise their importance. It is proven that intangible resources contribute to company performance compared to tangible resources (Del Giudice et al., 2017; Gomes et al., 2013). Although there are many benefits from the social ties that exist at the corporate level, it has little effect on business results. Rodriguez et al. (2015) prove that the benefits of social network resources impact the company's sales performance. Social capital is closely related to social networks, so it can be used as a reference to improve SME business performance. The maximum utilisation of social capital needs to pay attention to the company's age, industry, and the institutional context in which it operates (Stam et al., 2014).

Currently, the literature study discusses the aspects of intangible resources rather than tangible resources. The perspective that production factors are goods is often used to measure the company's success. Moreover, the achievements of a small companies such as SMEs are often documented with tangible assets. In addition, the ease of funding from financial institutions for expansion or business development for SMEs is more guaranteed by tangible assets. In the process, performance improvement is supported by tangible resources, and intangible resources support sustainability. This study aims to examine intangible resources, especially social capital, on performance in the SMEs sector. Therefore, this research is essential to identify not only one of the financial resources (tangible) but also non-financial (intangible) aspects, such as social capital, to increase academic and industrial knowledge.

SMEs belong to a heterogeneous business, from home artisans to high-tech software companies. Within the company's internal scope, one or two people make critical management decisions such as finance, purchasing, production, maintenance, and marketing. It is easier to understand SMEs in a quantitative sense. The number of employees, the size of the company with a combination of annual turnover, and gross assets excluding fixed property are generally used to define SMEs (Abor & Quartey, 2010; Maoto, 2019; Sen & Cowley, 2013). The management's perspective shows that the need for more trained staff and capital is a technical problem affecting the scope of their operations. Qualitatively, the interpretation of SMEs based on their operations and organisational structure is almost nonexistent worldwide. Although they often carry out several tasks, the adjustment to the development of issues in the market remains low. Based on their size, SMEs are not part of a

large company that is minimized by considering that there are differences in motivation, barriers, and uncertainty.

SMEs differ from their peers in many respects and tend to have more dominant limitations. On the other hand, SMEs have closer professional relationships with stakeholders (Colovic et al., 2019). This is because the environment in which they operate has a tighter social network, unlike large companies, which often ignore the local community around them. Visibility can shape the business behaviour of SMEs, which rely heavily on the few customers in their local community. The management design of SMEs is relatively simple, and the hierarchical level is limited, so decisions are easily influenced by the owner's values and intuition rather than the rationality of long-term careful planning. Therefore, SMEs do not know much about strategic planning. However, a simple organisation has the advantage of being flexible and not going through complicated administrative processes, making it more responsive to the dynamics of the business environment.

Measuring the performance of SMEs can use financial and non-financial indicators. The more widely used and universally accepted measure is based on the asset size. Measuring performance in large enterprises does not apply to SMEs. The capabilities and constraints make SMEs' businesses more unstable. Very few SMEs have consistent financial reports, or none at all. A combination of financial and non-financial measures must measure SMEs' performance. Research by Boohene et al. (2020) SMEs performance is measured by market share, sales growth, delivery speed and product quality. Another study revealed that innovation, innovative marketing, and fast learning processes support the performance of SMEs. Therefore, studies on the performance of SMEs cannot be compared with other large companies.

Interpretations of social capital may vary in academic discussions despite the consistent general assumption that there are positive benefits from developed levels of social capital. It is part of a specific type of resource that can provide actual or potential benefits. Social capital refers to relationships between individuals, social networks, norms, and a sense of trust Putnam, 2000 in (Aragón et al., 2016). The concept of social capital can be used in understanding the phenomenon of SMEs because the structural, social, and functional characteristics are different from those of large companies (Spence & Schmidpeter, 2003). The strength of social capital comes from a positive response to socialisation and placing it in the framework of non-financial capital. The capital in question is shown from the productive results of the network norms and reciprocity linked to generating profits. SMEs can use social capital as an alternative when they have limited resources, experience, and low credibility (Rodrigues & Child, 2012). Thus, the involvement of cultural factors, professionalism and social behavior in various community groups is included in the elaboration of social capital. However, in the context of the state, it should be considered because the assumptions of societal norms and values as the primary concern have different implementations. Social capital will be reconsidered if it involves higher costs, so companies tend to holdback (Clarke et al., 2016).

The solid potential role of social capital is used as an asset in the process of creating new businesses and those that have been embedded in community networks. The dichotomy of social capital can be in the form of meaning as a potential resource that plays a role in achieving individual or organisational goals and others understood by the unique characteristics of the structure of social relations. The dynamics and good intentions become positive feedback for members, and sanctions are aimed at failing to implement them (Biggart & Delbridge, 2004). From a rational point of view, social capital can provide broad connectivity for companies, which is vital for the SME sector to take advantage of if they want to participate in international markets.

Social capital supports production inputs through information, resource access, skills, and technological knowledge. It focuses on social relationships that affect business quality and sustainable improvement. Social capital is grouped into internal and external (Kim & Cannella Jr, 2008). Internal

social capital focuses on pleasant relationships such as family or friends within the same company. At the same time, external social capital is more about slick cooperation with outside parties, including investors, customers, suppliers, and politicians, as well as between other companies. Both have an essential influence and provide the impetus for the common goal of business success.

Companies are given the choice to involve or not use social capital as support to improve performance. The positive effects of social capital are related to competitive advantage and increased profitability. The contribution of social capital networks helps SMEs to access information and resources that, in the long term, lead to sustainability (Choi et al., 2018; Sanchez-Famoso et al., 2020). SMEs need to take full advantage of the social capital aspect because direct access to potential customers may be small. From this perspective, relevant actors and networks for SMEs include agents, distributors, suppliers, and customers. Primarily, social capital is formed through trust and reciprocity (Rodrigues & Child, 2012). Globalisation and technological developments encourage the constant search for initiatives to regulate market performance and survival. They are leveraging options or combining resources into a strategy for SMEs. For small businesses, maintaining a network is a prerequisite for survival (Aragón et al., 2016). Tangible resources (land, materials, capital, technology, etc.) and intangible (knowledge, R&D, reputation, etc.) encourage them to identify alternative opportunities to remain consistent in their business.

Building social capital requires a lengthy process, even for experienced actors. Utilising resources and then building them gradually through different phases must be carried out by SMEs. The steps that must be pursued to achieve growth, internationalisation and competitiveness are carried out through initiation, development, and maturity. Figure 1 illustrates the benefits of social capital for SMEs to improve overall performance. The structural dimension consists of collective action and networks. Companies rely on structural capital to increase efficiency and productivity, mainly by configuring employee productivity (Bontis et al., 2015; Mondal & Ghosh, 2012; Soriya & Narwal, 2015). The effect of the cognitive dimension is in the form of built trust and a set of valuable resources. The relational dimension of social capital is built from utilising social attachments and information.

SMEs must go through several stages in building social capital. The initiation phase is carried out by utilising resources from social capital. At this stage, they try to overcome complex environmental situations through internal organisations or seek the help of trusted partners. There are three modes in the initiation phase: accessing available sources of social capital, transferring sustainable social capital from the previous business, and creating new relationships. Then, the development phase proceeds with more trial and error to be used to evaluate further learning. This stage is crucial when the environmental conditions, characteristics and performance of SMEs differ from those of established companies. It requires high commitment and consistency because many of the highlighted cases tend to fail. Finally, the maturity phase shows the progress of social capital at a stable, healthy, and well-established level. In this phase, SMEs already have high trust and can be reassuring for their business partners. A further indicator is that business partners can rely on or aid in times of crisis in the scope of their business transactions. Ultimately, the expected outcomes represent the best business results related to overall performance, among others, for growth, internationalisation, and competitiveness. This achievement is a success considering the nature of small business owners, and the type of profit obtained is more complicated.

METHODS

This study provides a comprehensive study of the existing literature on discussing MSMEs. Qualitative methods were chosen to answer the research objectives. A systematic literature review (SLR) is used to increase knowledge related to the topics analysed in the academic field, especially regarding SMEs. A systematic literature review (SLR) is a way to answer questions raised from phenomena by identifying, evaluating, and interpreting all research (Hassankhani et al., 2021). The research objectives and the collection of related knowledge about the research subject are covered in a

systematic literature review (SLR). Systematic literature review is critical because it wants to study more deeply to strengthen theory and provide updated knowledge based on articles that support it (Dezi et al., 2018). A broad and descriptive picture of MSME problems can use a meta-synthetic approach (Tranfield et al., 2003 in Hossain & Kauranen, 2016). Each article is analysed to find research gaps and check the updatedness of the review.

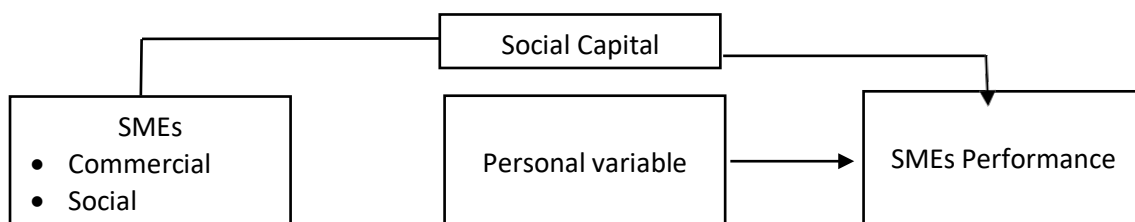
The search strategy was developed to support the primary research material derived from relevant references. There are stages in conducting a systematic literature review to answer research questions. Denyer & Tranfield, 2003 in Gonzales-Gemio et al. (2020) divided into four stages. First, formulate questions to discuss in systematic literature review (SLR) research. They were second, finding and selecting articles and other references related to the evaluation criteria. Third, analyse and synthesise the methods selected in the research. Fourth, explain the conceptual framework proposed from the research results. A study discussing the continuous performance of SMEs needs to be done because the economic conditions are so dynamic. This research focuses on obtaining a systematic description of SMEs in academic publications. Helping SMEs survive in the business world and be sustainable must create long-term reciprocal relationships and improve their performance.

RESULTS

SMEs and social capital: The business linkage instrument

Social capital is a means to obtain information, resources, and knowledge essential for SMEs to create long-term competitive advantage. Values embedded in individual and collective relationships are represented in social capital (Payne et al., 2011). For companies, social capital can create good value for the environment in which the company operates in a social context. Recognise the three dimensions of social capital: structural, relational, and cognitive (Figure 1). The concept covers more comprehensive social phenomena (family interaction, economy, company performance, product novelty, knowledge, etc.). Businesses run by SMEs have a core value of trusting relationships between companies. Extensive interpersonal relationships lead us to believe that SMEs are commercial and social enterprises (Figure 2). Commercially, small companies ensure that each production has added value to the output produced and, in the process, strive to achieve maximum cost efficiency. Under the social mission, SMEs contribute effectively to employment, increase welfare, facilitate the exchange of resources between units and products, and are compatible with new business units that are friendly in their environment. The social business run is a mere utility value and an intrinsic value. They try to pay attention to the social and environmental side and internalise it into the business. Therefore, the SME sector is used as a profit maximisation field (commercial) and tries to rule out externalities in business that can be run side by side.

Figure 1. SME's key business instruments



Source: (Ciambotti & Palazzi, 2015; Erselcan et al., 2009)

The resource-based perspective of competitive advantage is derived from leveraging unique (non-duplicated) and irreplaceable capabilities. Social capital and synergising with intellectual capital that provides reciprocal influence will promote value creation. Through social capital, SMEs can enable access to quality, easy, and fast sources of information to support the achievement of positive performance. Although financial assets (tangible) affect the company's performance, it is social capital

that supports competitive and sustainable advantages. One easily documented factor is the social environment where the business is very close to the community.

In contrast to large companies, the environment often does not become one of the considerations for business success. SMEs depend on the environment and networks between other small companies and make them a priority. Entrepreneurs must act appropriately in identifying social capital in their environment because the motives are based on strategic advantages for the company. Figure 2 shows the value creation process that leads to the performance of SMEs through the social context based on the consideration that social capital contributes more if the company environment is closely related to the community's norms, values, and culture. Developing the three dimensions then goes through phases (Figure 1), strengthening and promoting better SMEs.

The investment initiated in the end is to realise and maintain optimal performance. Furthermore, achieving good performance relies on a central actor as a network liaison to gain power and capacity to influence the behaviour of other actors. Building social capital requires significant investment, especially to maintain strong ties. Social capital investment requires money, time and continuous effort to build social capital assets. Smooth or not depends on the decision of the ~~leading~~ promoter of SME organisations that can support the company's strategic advantages (Ciambotti & Palazzi, 2015). This is due to the simple organisational structure of SMEs. Personal variables are a success factor in investing in social capital because they bridge value creation through exchanging and combining resources. It is not impossible for the central actor not to take advantage of social capital, considering that personal variables run the ethical framework well. Entrepreneurs in the SMEs sector jointly implement ethics in social activities and profit production. Rutherford (2004) identified four ethical frameworks, namely profit maximisation, priorities for survival, priorities for common interests, and social priorities. The first ethical framework (profit orientation) in the short-term perspective is the primary objective of meeting the stakeholders (financial, suppliers, investors, etc.). In this case, social problems are not included in the company's priorities because social goals are contrary to profit goals, so they cannot be carried out side by side. The second ethical framework (subsistence priority) is characterised by long-term business sustainability as a standard of living for entrepreneurs and their families. The following ethical framework is that companies help social problems because they realise that positive influence can positively affect their business. Finally, the company integrates aspects of social problems and then makes it a business strategy, considering that these interests outweigh high financial rewards. Thus, SMEs will be more considerate of social capital resources.

Further, Exploit Social Capital for Enhancing Small Firm Growth

The positive effect of social capital has been seen for small companies. The network built gives them a competitive advantage in the market. Most of these networks are based on trust and ties. Social capital forms can develop because of good reciprocal relationships between group members. This reciprocal relationship is continuously maintained and will form mutual trust, and social networks will emerge. This implies that entrepreneurs seek to accumulate social capital over time. However, all forms of social capital do not last long if they are not based on social norms prevailing in their environment. Small companies need help finding consultants or external figures to help their companies because of limitations (environment, location, finance, etc.) Although the SME sector requires resources and relies on innovation to remain competitive. In addition, the SMEs sector requires business continuity because many actors make it a standard of living to fulfil their daily needs. Although the limitations are widely discussed, this family business is in great demand.

The strong influence of social capital on small companies also has an impact on access to informal finance. The limited financial condition and access to financial institutions are often discussed in studies on SMEs. The informal sector is more attractive to entrepreneurs due to rejected formal credit applications. In addition, SMEs' considerations regarding formal loans tend to have high transaction costs, information asymmetry, and religious attitudes towards financial

institutions. The extraordinary role of social capital can be further seen through its ability to increase financial capacity, which is ultimately helpful for the company's survival. Through social capital, the SMEs sector must maximise its potential by using four-dimensional variables such as involvement, status, social relations, and personal relationships, which can be implemented simultaneously in corporate finance (Dar & Mishra, 2020). Companies that fail to obtain loans from their formal sector must use social capital in the informal sector (Ullah et al., 2021).

The informal financing obtained increases the profitability and performance of the company. In this case, social capital is used as an asset for access to loans on the informal side. This practice is common in developing countries. In the same group of businesses, everyone tends to believe in reputation. Reputation is captured through daily business activities. In addition, reputation can be used as a control for lenders when funding is needed. This means that social capital can solve the problem of asymmetric information, a significant problem in financial markets when borrowers do not understand loan application procedures (Mwangi & Ouma, 2012). For example, entrepreneurs with strong social networks with wealthy people will quickly increase informal sources of financing and can obtain credit from them (Heikkilä et al., 2016). The argument that can explain this is that solid networks with informal lenders can encourage companies to prefer the informal credit market and take advantage of their relationships to have interest-free debt from relatives and friends. Therefore, social capital provides the power to facilitate informal financing. The greater the bond or network formed from social capital, the better the stock of social capital. Moreover, it can help to deal with technological advances and the demands of an increasingly high era.

The existence of social capital is more robust in traditional societies compared to developed countries, so credit contracts are implemented efficiently in that environment. Access to loans can be implemented in groups with high levels of social capital. Access to cheap loans is essential for small companies such as SMEs, given the limited ability to provide credit guarantees. As much as possible, they try to reduce costs and allocate them to potential resources to support business activities. High social bonds among group members result in trust that everyone will repay their loans (Rathore, 2015). Borrowing between group members and individuals to peer individuals can reduce problems such as interest rates and information asymmetry usually encountered in the banking environment. Thus, the group formed provides complete and efficient information. Social capital binds a group and helps realise social group development activities (Infante, 2017).

On the other hand, strong social ties can generate more significant social penalties. Social sanctions impact social capital's inability to complete law enforcement. The point of the situation shows that social capital only facilitates information between borrowers.

Beyond social capital: Let it go or let it grow?

Every small- and large-scale business has various resources, including tangible and intangible. Most small companies, such as SMEs, are minimal in resources. Social capital can contribute more to small companies, such as SMEs with limited tangible assets but business activities are still running. There is a higher chance of exploring social capital to help the company's performance. For example, taking advantage of other companies and establishing good relationships with them can be a basis for running a small-scale business so that it does not require significant resources. This means that the company's production process can be carried out by negotiating with other companies and marketing the modified unique products to potential markets. Leveraging business networks and ties can reduce expenses related to a company's production.

Using the value of social capital, it is claimed that it cannot be obtained by an easy process and is imitated by competitors. There is no guarantee that competitors can achieve similar benefits because socially complex resources need to comply with standards or direct management (Barney, 1991 in Kamasak, 2016). A company's reputation for achieving social capital creates value for past actions and performance that can be passed down to the next generation. Its complex and unique nature is

associated with the company's performance and can help business sustainability in the market. On the other hand, a critique of social capital is that it is not easy to maintain. One is that the change of actors (business owners) will result in different performances. It is a consequence of socially complex resources. However, social capital offers higher economic benefits to the company's success than tangible resources.

Social capital not only contributes to economic growth but also social empowerment and prosperity on a global scale. The development of an increasingly advanced era and assisted by technology makes access more accessible and faster and can even connect to other parts of the world. The sharing economy facilitates social capital, linking the benefits of social capital. Through the sharing economy, social capital assisted by technology can later connect foreigners who have never met before. In the informal framework, social capital has a positive effect even though the risk of uncertainty remains. Over time, individuals use and prioritise it in action because it can bridge it to other networks. Sharing economy platforms embody relationships with foreigners, while social capital bridges these actions (Ferrari, 2016). Thus, interactions that occur with each other on the platform will expand the network between them. In addition, specific resources and services on the platform are more accessible to consumers. However, using the platform cannot provide opportunities for all users because there are service limitations based on gender, age, etc., so it seems to form group exclusivity. However, this is reasonable considering that relationships with strangers are risky, and many opportunistic users are excluded from the platform. However, social capital plays a role in enforcing non-compliance rules in this case.

The value of social capital is not only limited to exchanging goods and services but can reach a broader range with the interaction between individuals involved. Using the sharing economy is expected to be feedback on the benefits that well-established community members own. In this case, it implies a perspective not limited to ownership but the extent to which access to the outside world is used to get better opportunities or deals. Thus, social capital is needed and needs to be utilised given the many uncertainties when access is given to the sharing economy platform.

Discussion

Social capital creates value for small companies even though entrepreneurs must devote substantial resources to growing their networks. Each dimension of social capital may interact differently with different moderating stimuli because small firms may change over time (Stam et al., 2014). Optimising the benefits of social capital requires a balanced approach with all actors in the environment. Not only connections to formal but also informal networks need to be strengthened. In addition, to improve their company's performance, they must maintain good relationships with customers, suppliers, competitors, family, friends and other socio-economic institutions.

All dimensions of social capital show the ability as a facilitator of access to resources and finance needed to improve the performance of SMEs. Organisational structures that do not need complicated administration, such as SMEs, encourage personal variables to be more inclined to apply social capital supported by the environment around them. Supported by personal ethics, the variable prefers the social aspect. Central actors feel that the quality and value of social capital exceed their expectations, so there is an interest in developing it further (Rodrigues & Child, 2012). Most importantly, access to finance is a follow-up to the benefits of social capital and obtaining resources. That is the decision to consider the dimensions of social capital (Figure 1) can be said that entrepreneurs get a complete package to achieve better performance. Social capital has a broad scope, such as domestic and foreign networks. Social capital also acts as a bridge for entrepreneurs when access to resources on a global scale is high risk. Help reduce uncertainty with the filters provided by the sharing economy platform. Therefore, it is useful when SMEs start operating in a foreign environment.

CONCLUSION

The research focuses on assessing social capital and SME performance, emphasising the significance of social networks and ethical frameworks. Social solid capital positively impacts performance, growth, and internationalisation, reducing uncertainty and facilitating access to informal finance. These findings have theoretical and practical implications for SMEs and can be used to develop network and structural strategies. The research's limitation is its emphasis on troubled companies, and future studies should identify the types of resources used and encourage further qualitative research for a deeper understanding.

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