

The Impact of Social Capital on the Performance of Small Micro Enterprises (Kesan Modal Sosial ke atas Prestasi Usaha Mikro Kecil)

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ABSTRACT

Social capital is an important for the performance of small micro enterprises. The objective of this study is to identify the effect of social capital in terms of trust, networks, and norms on the performance of small micro enterprises. The paper measures the performance of small micro enterprises from the aspects of output production, internal processes, and resource capabilities. The data was obtained from 150 snack businesses in Padang Regency, West Sumatra, Indonesia. The effect of social capital on the performance of SMEs was analyzed using SEM-PLS. The results show that social capital improves the performance of SME snack businesses. Thus, social capital consisting of trust, networks, and norms has a significant influence on the performance of small micro enterprises in terms of the output produced, internal processes, and resource capabilities.

Keywords: Social capital; small micro enterprises; firm performance

ABSTRAK

Modal sosial merupakan salah satu aspek yang penting dalam meningkatkan prestasi Usaha Mikro Kecil (UMK). Objektif kajian ini adalah untuk mengenal pasti kesan modal sosial rasa percaya, jejaring dan norma terhadap prestasi Usaha Mikro Kecil. Kertas ini mengukur prestasi Usaha Mikro Kecil daripada aspek keluaran produksi, proses dalaman dan kemampuan sumber. Data diperolehi daripada 150 perniagaan makanan ringan di Kota Padang, Sumatera Barat, Indonesia. Pengaruh modal sosial terhadap prestasi UMK dianalisis dengan menggunakan SEM-PLS. Hasil kajian menunjukkan bahawa modal sosial meningkatkan prestasi UMK bagi perniagaan makanan ringan di Kota Padang. Dengan itu, modal sosial yang terdiri daripada rasa percaya, jejaring dan norma mempunyai pengaruh yang signifikan terhadap UMK dalam aspek keluaran produksi, proses dalaman dan kemampuan sumber.

Kata Kunci : Modal sosial; Usaha Mikro Kecil; prestasi firma

INTRODUCTION

The role of social capital in development is as important as other types of capital such as natural, physical, and human capital. Development has traditionally focused on natural resources, physical capital, and human capital as the main determinants of economic growth (Iyer et al. 2005). However, Field (2008) contends that social capital probably has a similar or even higher contribution to development compared to other types

of capital. The studies on the contribution of capital to development show that types of traditional capital (natural, human, and physical resources) only partially determine the overall process of economic growth and the remaining growth depends on social capital. Social capital includes the role of economic actors who interact and organize themselves to produce better economic development.

Initially, economic development was referred to as the achievement of the level of economic growth.



Thus, physical capital was considered the only factor to contribute to the success of the development process (Meier & Stiglitz 2001). This led to a shift in thinking about gradual capital accumulation, which initially only emphasized the accumulation of physical capital and was accompanied by the accumulation of human capital, science, and ultimately social capital. This evolution of the economic thought is depicted in Figure 1.

The accumulation of social capital can contribute to economic development because of the existence of networks, norms, and beliefs or trust (Fukuyama 1995). Putnam et al. (1993) illustrate the positive correlation of economic growth and social capital. Inkpen and Tsang (2005) state that social capital could be a driver to realize the ability of the industry to benefit from existing networks. These benefits include access to knowledge, human resources, technology, markets, finance, and non-finance. Previous research results show that social capital measured by trusts, networks, and norms is very important and necessary for small, micro, and medium enterprises (SMEs).

The performance of SMEs in Padang Regency, West Sumatra, is strongly influenced by the strength of social capital managed by businessmen. Morosini (2004) states that social networks as a part of social capital are an essential factor in improving the performance of small micro enterprises. One of the SMEs in Padang is snack businesses. In West Sumatra, social capital is influenced by traditional customs or the local wisdom of the Minangkabau tribe. The tradition of the matriarchal society in the Minangkabau tribe has supported the custom of the society to trade and become entrepreneurs. Therefore, many people in Padang are involved in the restaurant business and snack industry. The local wisdom also encourages the people to create groups (entities). In his book *Trust the Social Virtue and the Creation of Prosperity*, Fukuyama (2001) mentions that local wisdom is a vital tool for developing and empowering the community.

A study by Ramadhan and Maftuh (2015) shows how Minangkabau traditional wisdom could create high solidarity among the Minangkabau community. As a result, members of the Minang community who live in other regions could have harmonious relationships. Wibisono (2012) explains how the Minangkabau ethnic people utilize the strength of networks and reciprocity behavior in trading, and thus, they could survive in other places or other regions. Hastuti et al. (2015) state that the Minangkabau ethnic group uses their local wisdom in their trading behavior in Jakarta. These local wisdoms could not be separated from the history of the Minang traders' community in other places (bonding social capital). According to Johar (2016), three essential aspects contribute to the effectivity of "lambung pith nagari" as a part of social capital: trust, network, and norms. In her study, Welsa (2017) shows how the traditional customs of Minang people could

have a significant impact on the performance of SMEs: specifically, entrepreneurship, business ability, and business performances.

Social capital in the form of trust, networks, and norms could govern the group. By working in groups, traders could use social capital networks to find partners (investors) with whom they can cooperate. The strong ties due to trust, network, and norms in the way Minangkabau people live is also characterized by what is called social capital bonding (the social capital inherent in individuals and in community groups). Strong relationships are an economic activity that is socially and economically situated and embedded in personal and group social networks. According to Saha and Banerjee (2015), social capital has an important role in the sustainability of SMEs. The results of their study indicate how formal and informal networks empower small companies to produce social capital by utilizing network linkage, building trust, and sharing visions among stakeholders. Therefore, it is possible for SMEs to obtain the resources, information, and knowledge needed. Suryono (2012) also states that social capital is formed by behavioral factors such as the willingness and habit to cooperate, grouping, and the willingness to commit to their long-term goals.

Restaurant and snack businesses are favored by most SMEs in Padang Regency. By referring to how the traditional wisdom of the Padang community influences the sustainability of SMEs in Padang, it becomes interesting to analyze the impact of social capital on the performance of SMEs in Padang. Therefore, the objective of this study is to analyze the impact of trust, networks, and norms as part of the social capital on the performance of SMEs in the restaurant and snack industry in Padang Regency.

LITERATURE REVIEW

THE CONCEPT OF SOCIAL CAPITAL

Several researchers play an important role in the introduction of social capital concepts such as Bourdieu, Coleman, and Putnam (Sabatini & Sabatini 2006). Bourdieu (1986) states that social capital is an aggregation of resources and has the potential to link ownership of a long-lasting and institutionalized network through knowing one another and forming mutual membership in a group. According to Bourdieu (1986), there are three dimensions of capital related to social classes: economic, cultural, and social capital. Social capital is a social relationship utilized by the businessperson to pursue his or her interests (Bourdieu 1986).

Coleman (1988) completes the study by Bourdieu (1986) by differentiating social capital according to its function as follows: (1) social capital as part of the



FIGURE 1. The evolution of development thought in capital accumulation (Meier & Stiglitz 2001).

TABLE 1. Some definitions of social capital

Researchers	Definition of Social Capital
Bourdieu (1986)	A set of actual and potential resources that are formed individually or in groups with strong network ownership of more or less unrelated relationships.
Coleman (1988)	The diversity of entities with their two general elements all consist of several aspects of social structure and facilitate certain actions of both individual and corporate actors within the structure.
Putnam et al. (1993)	Social organization features such as trust, norms, and networks that can improve community efficiency through facilities for coordinated action.
Fukuyama (2000)	The existence of a set of certain informal values that are temporary in nature or norms that are shared with all group members that allow cooperation between members of the group
Westlund (2003)	A non-formal social network that is formed, managed, and used by actors in the network to distribute norms, values, preferences, characteristics, and other social attributes. But there are also results that arise as a result of the intrinsic activity of the perpetrators through these social attributes.

Source: Westlund (2003).

social structure and (2) social capital facilitating how the businessperson could behave well in the structure. Coleman (1988) defines social capital further as vertical and horizontal associations. Vertical associations are characterized by hierarchical relationships and the unequal distribution of power among members of the community. They have positive and negative consequences. Meanwhile, horizontal associations are egalitarian relationships with a more equitable distribution of power (Coleman 1988).

Robert Putnam is well known as the researcher who introduced the concept of social capital. According to Putnam et al. (1993), social capital has several characteristics that social organizations have such as trust, networks and norms. These characteristics facilitate the ease of coordination and cooperation to obtain mutual benefits. Mawardi et al. (2011) reveal that social capital could be in the form of a network, informal social capital, and trust. Social capital could also be defined as the sum of actual and potential resources embedded in, available through, and derived from a network of relationships owned by individuals or social units (Nahapiet & Ghoshal 1998). Adler and Kwon (2002) develop a conceptual model of social capital further by distinguishing it according to substance, source, and effect.

Trust is an essential element in developing relationships. Trust could be considered a catalyst that should exist before the relationship and is considered an element that must exist before the relationship moves forward in order to stabilize it (Granovetter 1985). The results could be seen in the form of successful

transactions between individuals or organizations (Kandemir et al. 2006; Morrissey & Pittaway 2006). Social norms have a very important role in controlling the different behaviors of society. One key to the success of building social capital lies in the strength of the network. Barnir and Smith (2002) and Gulati (1986) state that the strength of networks is an investment for SMEs. The different concepts of social capital previously discussed have led to several definitions of social capital as shown in Table 1.

The study by Putnam et al. (1993) shows how social capital is not only influenced by the micro level and individual relationships, but is also influenced the macro level. Helliwell and Helliwell (1996) support the previous research results and state that social capital could facilitate the ability of the government to achieve economic growth through convergency and high-income balance. Knack and Keefer (1997) analyze further the result of Putnam et al. (1993) that reveals how the associations facilitate growth by increasing trust. Cristoforou (2003) finds that social capital contributes to the economic growth of Greece.

TRUST

Trust has a significant impact on the performance of every company since it can reduce transaction costs and conflict. Trust is the expectation of two or more entities (people and organizations) that the daily behavior of the entities will be honest, cooperative, and predictable according to the sharing norms (Fukuyama & Fukuyama 2001). Trust encourages

knowledge sharing by increasing the disclosure of knowledge to others and giving others access to one's knowledge. Even other benefits, increasing sales, and a higher return of investment can also be identified as a direct result of trust. Trust is the main requirement for the successful business and the essential factor for developing the sustainability of the small business. The establishment of trust creates good network relationships that ultimately result in the exchange of important knowledge for the sustainability of SMEs (Murat & Dulupçu 2006).

NETWORK

The concept of network includes four components: (1) actors, (2) link, (3) flows, and (4) mechanisms (Conway et al. 2001). Actors are individuals and entities that form networks. A link is a trunk that connects individuals and represents relationships between actors. Flows show the exchange that occurs between actors in the system and mostly involve the flow of resources. The network mechanism is the mode and interaction rules used by actors in the system. Field (2003) reveal that the benefits obtained by SMEs because of networks include (1) increasing job opportunities and income, (2) the acceleration of knowledge transfer and technology advancement, 3) increasing skills, standards, and capacity, 4) the enhancement and expansion of the market, 5) harmonious relationships between consumers and producers, 6) ease of access to capital, and 7) opportunities to innovate and improve the competitiveness. Batjargal (2003) and Najib et al. (2014) describe trust and networking as the important tools for SMEs to develop innovation because of their limited resources.

NORMS

Another factor contributing to the strength of social capital is that some rules or norms govern the lives of

individuals in a society (Woolcock & Nayaran 2000). Coleman (1999) gives a similar statement that social capital in the structure of social relations and social networks in a society creates different kinds of social obligation, fosters mutual trust, brings information, and sets norms and sanctions for members of the community. Ancok (2003) further defines social capital as an institutional dimension for creating relationships and rules that shape the quantity and quality of social relations and the social ties, as well as maintaining the unity of group members. Accordingly, social capital always comes together with the prevailing norms, culture, and customs that exist in the community and determines the formation of social capital. Therefore, social capital is the source of social interaction and can improve the economic performance of the community.

SOCIAL CAPITAL AND THE PERFORMANCE OF SMES

The success of a business is measured by its performance in the industry. The strength and the success of the business cannot be separated from the role of social capital aside from other types of capital (physical, natural, and human capital). Social capital is considered one of the potentials for business development (Bosma et al. 2004; Lengnick-Hall & Lengnick-Hall 2003; McElroy 2001; Trigilia 2001; Westlund 2003; Williamson 2010). There are three types of social capital: network link, trust, and sharing vision. Figure 2 presents a model of social capital and business performance and Table 2 illustrates the research on social capital in SMEs.

The performance of a business, both large and small, can be measured in terms of its financial, economic, social, and environmental sustainability. Previous research has shown that social capital plays a vital role in determining the business performance (Chen et al. 2007; Felicio et al. 2014; Kamaluddin 2016). Rapih (2015) shows that the better the social capital, especially in the SMEs sector, the better the

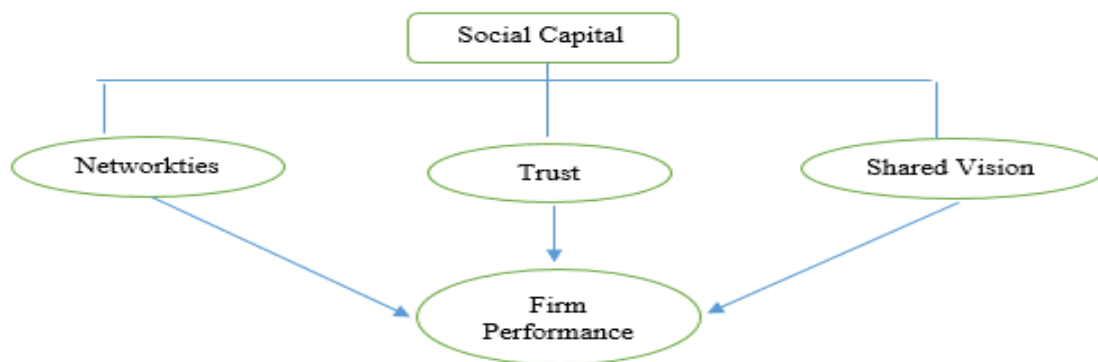


FIGURE 2. Social capital and performance SMEs: conceptual model

TABLE 2. Studies on the relationship between social capital and SMEs

Author	Independent Variable	Identification of Related Variables	Results
Knack and Keefer (1997)	Economic growth indicators	<i>Trust, civic norm</i> Student enrollment at the primary and secondary level Price of investment good stash	Trust and civil cooperation have a substantial impact on the economic effectiveness.
Brata (2004)	Access to crediting institutions	Total membership, attendance, participation in making decisions • Social position	Presence affects the acquisition of formal credit while the number of memberships in the organization in the acquisition obtaining informal credit.
Akhtar et al. (2015)	Social capital towards three dimensions of the sustainability of SMEs	Structural social capital • Relational social capital Cognitive, social capital	Structural and relational social capital has a significant influence on the viability of SMEs Cognitive, social capital does not have a considerable effect on the sustainability of SMEs
De Chiara (2017)	Social capital is a strategic source of sustainability for SMEs	Trust in relational values • Network • Consensus, credibility	To increase social money and relational value trust, agreement, credibility, etc. make it clear to MSMEs that the principle of sustainability must be applied through a network-based approach
Rafiy et al. (2014)	The role of government and social capital in empowering small industries	The part of the government Social capital	The purpose of a good government will increase social capital and empowerment of small industries in Southeast Sulawesi Province. This study also yields findings that to expand the presence of small industries a variable role of government and social capital needs to be managed optimally.
Hoq et al. (2017)	The correlation of the social capital with organizational performance in SMEs	Social capital SMEs' performance	SMEs have established a positive relationship between social capital and the successful performance of SMEs in both developed and developing countries.
Kiefhaber and Spraul (2015)	Increasing the strength of social capital in the context of SME sustainability	Sustainability Manager's sustainability orientation	Social capital contains the resources, information, and the orientation of the manager (owner) for the sustainability of SMEs.
Rostin (2016)	Effect of empowerment and social capital on the welfare of coastal communities	The well-being of coastal communities • Empowerment • Social capital	Economic empowerment of coastal communities has a positive and significant impact on the well-being of coastal communities.
Kamaluddin (2016)	Social capital and social innovation towards the performance and sustainability of SMEs	Performance of SMEs • Sustainability of SMEs	Social capital and innovation capital affect the performance and the ability of SMEs to be sustained in the long-term.
Batjargal (2003)	This study examines the effects of entrepreneur social capital on company performance	Structural forces • Relational embeddedness • Resource embeddedness in the performance of the company	The integration of resources is directly positive on company performance, while structural embeddedness does not have a direct impact on performance.
Saha and Banerjee (2015)	What is the impact of social capital on the performance of SMEs in West Bengal?	Construction of a formal and informal network relationships • Trust • Shared vision	The effect of social capital on company performance is significantly higher for companies involved in formal and informal networks that are different from companies that are only embedded in an informal network.

performance of its business. Dai et al. (2015) also state that social capital influences financial performance and organizational innovation.

Many factors influence the performance of SMEs. Wibisono (2012) proposes three perspectives of

production activity as one of the indicators to measure the performance of business: (1) production output such as financial and non-financial aspects, (2) internal processes of business activities consisting of intellectual capital, and (3) resource capabilities of business

activities (including knowledge management, social responsibility, and social institutions).

a description of the indicators used in developing the network.

METHODOLOGY

This study uses primary and secondary data. The primary data was collected in 2016 by interviewing 150 business actors or SMEs directly who produce snacks in Padang Regency, West Sumatra Province. The interviewers used a questionnaire as a tool to gather information related to the performance of business actors. Meanwhile, the secondary data was collected from various relevant agencies such as the Statistic Center, the Office for Cooperatives and MSMEs, and the Office for Human Resources and Industry in Padang Regency.

RESEARCH VARIABLES

TRUST

Franco and Haase (2010) see trust as a relevant economic component. Trust is inherent in the culture of society and contributes to the richness of social capital. Table 3 illustrates the indicators of trust used in this study.

NETWORK

Coleman (1988) argues that the density of social networks will increase the efficiency of strengthening cooperative behavior in an organization. Table 4 gives

NORMS

Fukuyama (1995) describes social capital as an informal norm. It is instantaneous and could develop cooperation between two or more individuals. Table 5 shows the indicators of norms used in this study.

The data is analyzed using the SEM-PLS (*structural equation model-partial least square*) to validate this model. The SEM-PLS is also used for structural modeling with reflective and formative indicators. Indicators in SEM-PLS are reflections of variations from latent variables, so that the direction of causation is from latent variables to indicators. So, changes to the indicator will be reflected in changes in the latent variable. Figure 3 illustrates the model used in this study to analyze the influence of social capital on the performance of SMEs in Padang City.

RESULTS AND DISCUSSION

Social capital is the energy of development. Social capital is an energy, since it could influence the strength of the community in solving problems. Social capital provides a motivation for various parties to succeed because it can encourage the community to achieve maximum goals independently. Field (2003) reveals that social capital is a pattern of social life that consists of networks, norms, and trust. The existence of networks, norms, and trust could support people to act effectively

TABLE 3. Indicators of trust

Manifest Variables	Description
Believe in the surrounding environment (KL)	The relationship between business people and the surrounding environment
Trust in the Nagari (KN)	Believe in the rules of the Nagari
Believe in the government (KP)	Believe in government policies
Believe in fellow business actors	Trust in people who conduct similar business
Trust in internal business (KM)	Trust in investors, consumers, and suppliers

TABLE 4. Indicators of network

Manifest Variable	Description
Innovation in business (IN)	Change related to business development
Ease of information (INV)	Information is easy and it is related to internal transactions
Access to loans (KAP)	Ease of access to loans
Collaboration with the private sector	Ease of access to individual assistance such as CSR
Participation in organizations (ORG)	Involvement in business organizations
Ease of production process (PR)	Continuity of raw materials and auxiliary materials
Ease of market entry (PS)	The ability to enter the market easily

TABLE 5. Indicators of norms

Manifest Variables	Description
Religious norms (NA)	Religious values adopted by business actors
Norms to others (NO)	Collaboration with other people outside the business
Traditional criteria that apply (NR)	Traditional values in the industry
Norms with neighbors (NT)	Willingness to help neighbors
Norms with brothers (NS)	Willingness to help relatives

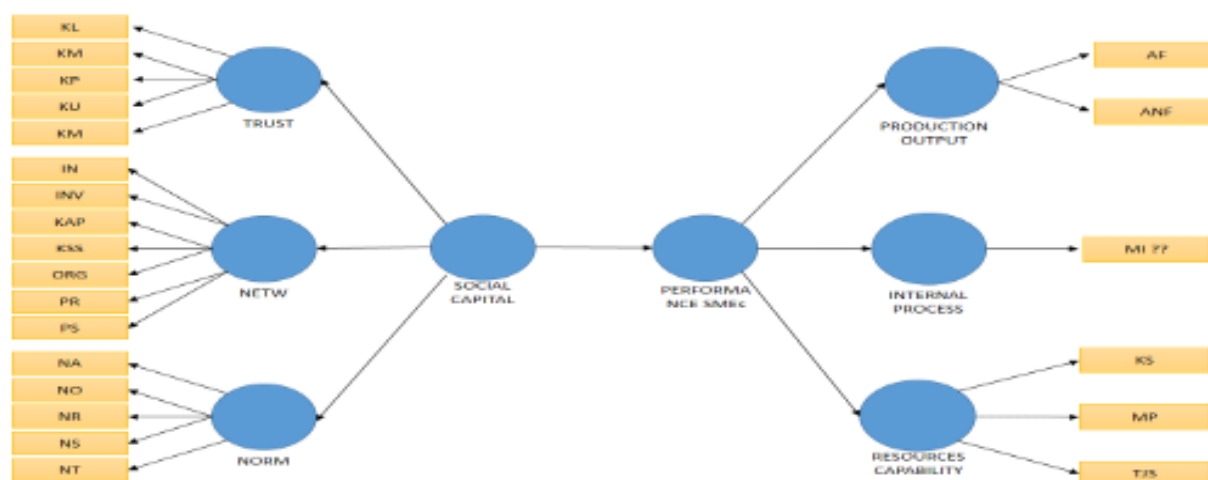


FIGURE 3. The PLS-SEM pathway model for the influence of social capital (trusts, networks, and norms) to the performance of SMEs in Padang Regency.

Notes:

- KL: environmental beliefs
- KN: Nagari's trust
- KP: government trust
- KU: the confidence of stakeholders
- KM: community trust
- IN: ease of information
- INV: business innovation
- KAP: ease of access to loans
- KSS: private cooperation
- ORG: organization follows
- PR: production process
- PS: ease of entering the market

- NA: religious norms
- NO: the rule in other people
- NR: traditional standards
- NS: family norms
- NT: pattern with neighbors
- AF: financial aspects
- AFF: non-financial aspects
- MI: management intellectual
- KS: social institutions
- MP: knowledge management
- TJS: social responsibility

together. Social capital facilitates the flow of information and helps many business people to be innovative, and ultimately, it could improve business performance and sustainability (Griffith & Harvey 2004; Suryono 2012). The previous statements are also supported by studies by Kiefhaber and Spraul (2015), Akhtar et al. (2015), and De Chiara (2017). Those studies explain how social capital, information, and owner orientation could construct together and have significantly influenced the sustainability of SMEs.

Putnam (1995) states that social capital refers to the characteristics of social organizations. These characteristics are referred to the existence of networks, norms, and beliefs that are facilitated by mutual coordination and cooperation. Networks can be used by individuals or businessmen to obtain information on the market knowledge, tools, and capital assistance (Suryono 2012). The strength of social capital, innovation, and networking in improving the performance of SMEs is also supported by the studies of Karaev et al. (2007),

Mawardi et al. (2011), Prihadyanti (2013), Ahmad et al. (2013), and Jenatabadi (2014).

Trust first comes between individuals. If individuals have shared a common trust, it becomes an inter-group trust. The trust developed from social institutions could lead to a set of shared values and expectations of the whole society (Bourdieu & Wacquant 1992; Putnam et al. 1993). There are several values and elements related to social capital such as the participatory attitude, caring attitude, give and take, and mutual trust. These elements are strengthened by supporting values and norms (Coleman 1988; Fukuyama 2000). The supporting element for social capital as an investment is participation in networks, reciprocity, trust, and the existence of proactive norms, values, and attitudes (Putnam et al. 1993).

Padang Regency is one of the cities in West Sumatra Province. In West Sumatra Province, the Minang ethnic group are famous for their entrepreneurial spirit. It is common to see Minang people in almost every region in Indonesia who generally work as entrepreneurs. Their businesses are diverse from culinary ventures (restaurants, catering, satay, and others), industrial sectors (food, clothing, bags), and trade (Primadona 2016). Primordialism has brought the elements of social capital to play a significant role in job opportunities or job creation (Hastuti et al. 2015; Prasetyo et al. 2013). Many workers who quit and get other jobs often find success by using usual social capital: namely, trust, network, norms, and reciprocity (Zhao 2002).

The research results show that the majority of the respondents (91%) in this study are female and the remaining are men with only 14 people. The education level of the majority of respondents is high school, and the remaining respondents have the following education levels: junior high school (17%), undergraduate (15%), elementary (9%), third year diploma (D3) (7%), and first year and second year diploma (D1 & D2) (3%). The age of most respondents ranges between 21 and 40 years (64%), while the others are more than 40 (25% for 41-60 and 11% for > 60 years). Additionally, the respondents in general have been in the business for quite a long time, which is between 1 and 7 years (46%). The long involvement in business of the majority of the respondents could be an indication that the respondents in the research area have a long experience in the snack processing industry.

TRUST

The study shows that the types of social capital used in the snack businesses include trust, networks, and norms. This is similar to the studies of Adler and Kwon (2002) and Gulati (1986). According to Adler and Kwon (2002) and Gulati (1986), trust will facilitate the flow of information as the primary factor of social capital and significantly affect business performance. Trust could be

seen from the beliefs of the actors to the external parties (traders, customers, and the surrounding community). Trust is not only limited to interpersonal levels, and essentially, to the network-based collaboration among MSEs (Neergaard & Ulhøi 2006).

The example of trust between actors and external parties could be seen in the purchase of raw material. The businessmen do not use a contractual system or agreement with the traders since they have established cooperation for a long time. The actors even borrow raw materials from other businessmen when there is scarcity or difficulty in finding raw materials. The businessmen usually purchase the raw materials on average from Padang, Pariaman, and Bukittinggi Regency at IDR 150,000 per sack at an average of 30 kilograms per sack. Most of the time, the actors purchase the raw material only by calling or making an appointment with the merchant at the time of the last purchase.

Trust is also seen in the marketing aspect. There are no contracts or agreements in marketing product either to the loyal customers or end consumers. The snack businessmen in Padang Regency also sell their products to the souvenir outlets of ethnic Chinese on a consignment basis. The businessmen receive payment once their first product is sold out. However, this type of payment is not an obstacle for the businessmen in marketing their products. In addition, support from the environment around the business provides a high value as well, which is 84%. The business people also show their trust in government programs such as training, counseling, assistance in writing business permits, promotion, and exhibitions, as well as in accessing capital that the Padang Regency Office for Cooperatives and MSMEs has provided.

NETWORK

The social network theory of Håkansson and Ford (2002) has defined networks as collaborative arrangements that are formed through interactions between actors embedded in the social contexts. The study by Ulhøi (2009) states that, by managing or organizing the networks, the mutual commitment and trust as well as long-run multidimensional relationships will exist. Granovetter (1973) and Westlund (2003) describe networks as a series of regular relationships or similar social relationships among individuals or groups. Information is widely considered not only as one of the main benefits of social capital (Adler & Kwon 2002), but also as an essential aspect for the performance of SMEs (Gulati 1986).

Strong networking is a necessity in SMEs. By cooperating with external parties, the businessmen actually try to maintain strong networking. By keeping good networking with other parties, the businessmen could sustain their businesses in the long run or networking for sustainability Saha & Banerjee (2015).

Social capital in the form of network ties, trust, and a sharing vision among network members has been found to influence the performance of small companies in generating resources, providing information and knowledge, and developing new capabilities (Koka & Prescott 2002; Kotabe et al. 2003; Uzzi & Gillespie 2002; Wu 2008). A study by Sulaiman et al. (2007) on Malay entrepreneurs in the small micro business sector in Peninsular Malaysia shows that social capital (networks) have an effect on the level of competitiveness and the performance of small micro-enterprises. Social capital, both formal and informal networks, also influence the development and innovation of a business (Lee & Law 2016).

The business network formed by MSEs in Padang Regency is an attempt to develop and strengthen business. Wibisono (2012), Hastuti et al. (2015), and Welsa (2017) support the idea that the pattern of network developed is in the form of kinship or friendship, and it will finally create a network within a community of ethnic Minang traders. The strength of the network could make the production process easier. The production process is related to the availability of raw materials and auxiliary materials. Developing the business network will have a big impact on businessmen, since it will enhance their ability to cooperate with suppliers, financial institutions, labor, and intermediary traders (Hendriyanto 2015).

In the marketing aspect, a strong network can also be seen from the collaboration with other business actors. Armstrong (2004) states that business networks involve other business units in both production and marketing activities. This is related to the payment system that applies both directly and indirectly. The results of the study show that business actors will have direct payments when they have cooperated with well-known traders in the city such as Cristine Hakim, Rohana Kudus, Sherly, Umyy Afa Hakim, and Mahkota. Sometimes, obstacles arise in determining price and the terms proposed. However, this has not been a big obstacle for the business actors themselves. Normally, the businessmen will have their money transferred once their products are received. Indirect payments occur when there is risk sharing between the trader and the business actor for every product they sell in the store. However, this type of payment costs the businessmen since they have to sell their product lower than the selling price.

The results of the previously mentioned studies describe how micro-networks and meso-networks develop in snack businesses in Padang Regency. Micro-networks relate to networks that are built between business actors and customers. Meanwhile, meso-networks are the relationships developed by actors with and/or within groups. The example of a meso-network is the relationship between businessmen and government institutions that support the existence of SMEs. This result is in accordance with the research

of Worku (2008) and Kiefhaber and Spraul (2015) who explain the ability of social networks to improve the performance and sustainability of small businesses.

Therefore, the network is the second latent variable that forms social capital in SMEs. A strong network could influence 94% of the production process of SMEs. SMEs could be sustainable in the long-run when the quantity output produced increases and the market is certain. As a result, the businessmen could obtain higher profits, which could bring prosperity to the industry. The variable indicators of the network used in this study are the organizations in which the businessmen are participating; the innovation in business; the ease of the production process, the process of entering the market, and the process of obtaining information related to business; the ease of access to loans; and the existence of cooperation with the private sector.

SOCIAL NORMS

The norms consist of understandings, hopes, and goals that are believed to be carried out together. Norms are built and developed based on shared history in the past and applied to the climate of cooperation. Norms can also be pre-conditions and products of social trust (Putnam et al. 1993; Fukuyama 2000; Westland 2003). They are a set of rules that are expected to be obeyed and followed by community members in a particular group and entity. In other words, norms are institutionalized and contain social sanctions that can prevent individuals as group members from doing something that is contradictory or deviates from the expected goals (Hasbullah 2006).

The research results show that the social norms occurring in the snack businesses in Padang Regency are strong religious values. These strong religious values have supported the development of the businesses. The majority of the Minang community are Muslims who use religion as their guide for conducting all of their activities. Religious values come together with the traditional values that govern the activities of the community. The harmonization between religion and traditional values is similar to the philosophy of the Minang people "Adat basandi syarak, syarak basandi kitabullah."

Norms are unwritten rules that every member of the community understand and that determine the behavior of the community. In other words, the members of the community will behave as expected by the community. Those expected behaviors include common rules, honesty, not cheating each other, respecting other people's opinions, helping others, and mutual tolerance. Social norms, in this case, can also be customary norms and religious norms that regulate the activities of the community. Another norm indicated in this study is showed by the manifest variable of willingness to help each other such as the ability to get help from neighbors, the number of siblings/neighbors helping when in

trouble, traditional values that have been handed down from generation to generation, and religious values regarding how to do business.

Performance is the achievement obtained by a person or company in achieving a goal. According to Mulyadi (2007), performance is the successful personnel, teams, or organizations in realizing the goals, objectives, mission, and vision of the organization. In his theory, Armstrong (2004) formulates performance as an output of a job. The output relates to organizational goals, customer satisfaction, and the ability to contribute

to the economy as a whole. The excellent performance in all sectors, including finance, production, distribution, and marketing, is a must for the sustainability of SMEs (Wu 2008).

STRUCTURAL EQUATION MODEL - PARTIAL LEAST SQUARE (SEM-PLS)

The Structural Equation Model - Partial Least Square (SEM-PLS) presents the relationship between constructs and among constructs. The purpose of evaluating the

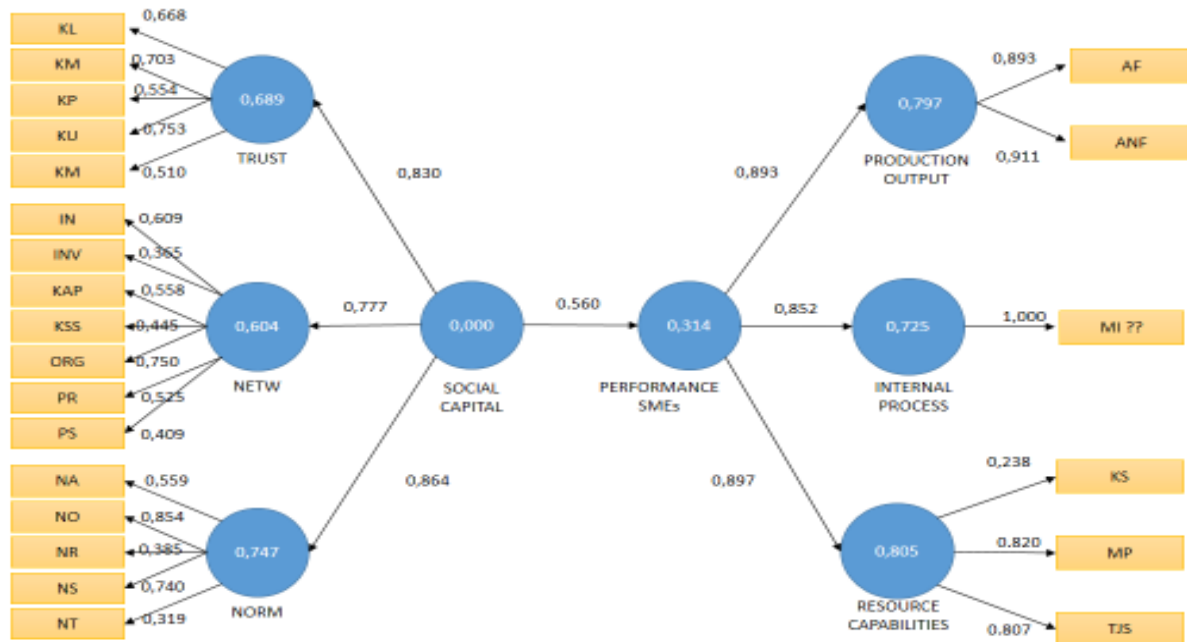


FIGURE 4. The initial model

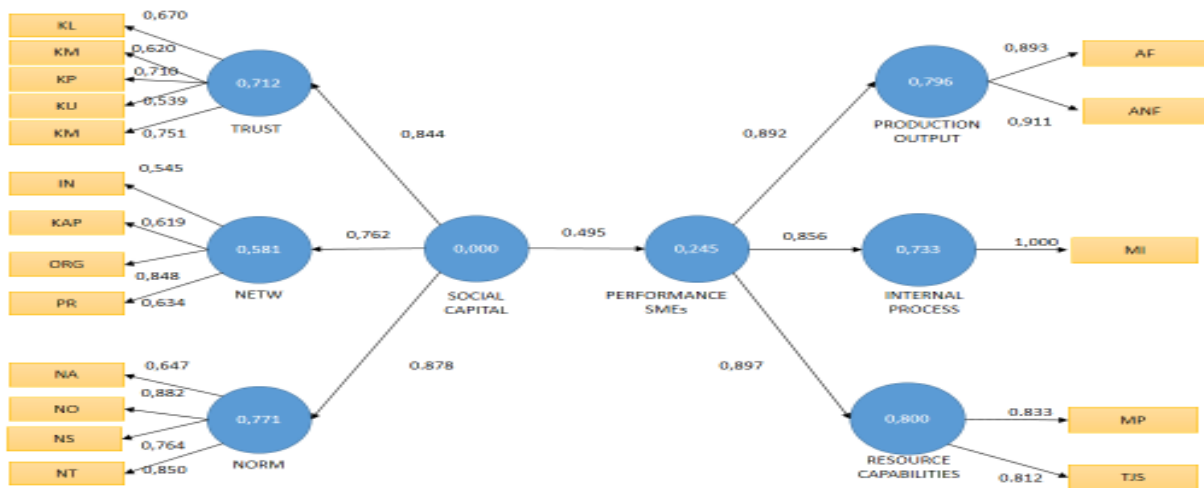


FIGURE 5. The modified model

measurement model (outer model) is that the model developed has indicators that can explain the construct of all indicators individually consistent with the measurements. Evaluation of the measurement model (outer model) consists of evaluating validity (convergent validity and discriminant validity); evaluating the reliability of convergent validity based on loading factor parameters and Average Variance Extracted (AVE); and evaluating the reliability of discriminant validity through cross-loading criteria discriminant validity and the discriminant validity of the Fornell-Lacker criteria. Additionally, Composite Reliability (CR) parameters are used to evaluate the reliability.

Figure 4 illustrates four indicator variables with the loading value (λ) < 0.5 which is in the indicator variables INV, KSS, PS, NR, and KS. Therefore, those indicators must be discarded (dropped). Figure 5 presents the modified model after the indicators are discarded.

Figure 4 shows that the strength of trust could be seen from the amount of trust among business people and between businessmen and the external supplier as well as the government: the trust regarding the rules of *nagari* and the environment supporting the existence of business. Cheung et al. (2011) and Selnes and Sallis (2003) mention how a good relationship between business actors and external parties (suppliers) could increase the efficiency and effectiveness. The effectiveness as the result of a good relationship could be seen in the development of new products, the

improvement of product quality, and other factors that are able to increase innovation and competitiveness, while efficiency is in reducing costs, increasing on-time delivery, and shortening lead times (Cheung et al. 2011).

The strength of the network in this study is shown by the higher participation in the organization, the capability in the production process, the ability of the products to enter the market, the flexibility of updating information, and the ease of access to loans. The ease of access to loans in the Minang community is as the impact of strengthening their social capital. The Minang community has *Lumbung Pitih Nagari* that has an important role in collecting money from the *Nagari* and for *Nagari* (Johar 2016). The syariah micro financial institution (LKMS) in West Sumatra which is based on local wisdom is also a means of communication and information, which is related to the ease of access to loans in the *Nagari* community (Mursal 2016).

The norms or values and rules governing the continuity of a business could be seen in the aspect of willingness to help others; the ability to get assistance from neighbors; colleagues who care and are ready to help when businesspeople experience disaster in a business; as well as traditional and religious values to maintain relationships with other business actors and the communities. Customary norms and religious norms in the Minang community are important aspects of being an entrepreneur. Norms govern how they behave, and thus, they could live harmoniously and develop their

TABLE 6. The cross-loading value of each variable

	The Resources Ability	Trust	Network	Norms	Ouput Production	Internal Process
AF	0.53716	0.30973	0.44779	0.30718	0.89301	0.52953
ANF	0.64468	0.23837	0.46445	0.27667	0.91084	0.60874
IN	0.32403	0.04710	0.54513	0.15850	0.50996	0.28039
KAP	0.13589	0.30090	0.61931	0.22109	0.23530	0.20713
ORG	0.31623	0.45072	0.84820	0.50290	0.35002	0.35206
PR	0.18128	0.37971	0.53393	0.33001	0.31656	0.37133
KL	0.12426	0.67021	0.15190	0.43445	0.09121	0.17565
KM	0.01008	0.62042	0.19362	0.34637	0.12986	0.14838
KN	0.05898	0.70965	0.30983	0.30172	0.15657	0.29505
KP	0.33510	0.53912	0.36353	0.22906	0.39563	0.31807
KU	0.21342	0.75070	0.56202	0.56638	0.24017	0.28069
MI	0.71904	0.36836	0.46740	0.41995	0.63265	1
MP	0.83349	0.00791	0.23347	0.13890	0.59995	0.57612
TJS	0.81190	0.39129	0.36423	0.42264	0.47891	0.60830
NA	0.29954	0.33855	0.31351	0.64668	0.33016	0.41045
NO	0.45483	0.50577	0.46332	0.88175	0.35939	0.47746
NS	0.06202	0.40367	0.34391	0.76447	0.09248	0.20240
NT	0.22956	0.58607	0.47440	0.84954	0.23962	0.24960

Source: Data processed (2018)

TABLE 7. Correlation of latent variables, AVE, and root AVE

	Ability Resource	Network	Norms	Output Production	Process Internal	Trust	AVE	Root AVE
Resource ability	1						0,677	0,823
Network	0,361	1					0,421	0,649
Norms	0,336	0,512	1				0,625	0,791
Output production	0,657	0,506	0,323	1			0,814	0,902
internal proses	0,719	0,467	0,420	0,633	1		1,000	1,000
Trust	0,226	0,505	0,591	0,302	0,368	1	0,438	0,662

Source: Data processed (2018)

sense of solidarity (Ramadhan & Maftuh 2015; Welsa 2017).

The next step is to test the discriminant validity. It is conducted by analyzing the cross-loading criteria. Cross-loading is a criterion for evaluating measurements. It is required that the correlations for every latent variable to other latent variables have a higher value than the relationship to other latent variables as presented in Table 6.

Discriminant validity could also be measured by the Fornell-Lacker criterion. This criterion compares the correlation of a latent variable with other latent variables by using the AVE square root. According to Table 7, since the discriminant validity criterion based on Fornell-Lacker is fulfilled, the measurement model is valid convergently and discriminantly.

As the convergent and discriminant validity criteria is fulfilled, the next step is to test the reliability by using the Cronbach's alpha (CA) and the composite reliability (CR) values. A variable is reliable if the value of CA is more than 0.5 and the CR is more than 0.7 (Ghozali 2015). Table 8 presents the value of CA and CR. According to Table 5, the indicators are valid and reliable in measuring the latent variables. In other words, the indicators can be used as a consistent measurement tool.

TABLE 8. Cronbach's alpha (CA) and composite variable reliability values

	Cronbach's Alpha	Composite Reliability
Trust	0.67916	0.79402
Network	0.53848	0.73698
Norms	0.79576	0.86827
Ability Resource	0.52306	0.80733
Output Production	0.77123	0.89718
Process Internal	1	1

Source: Data processed (2018)

This study uses a second order condition (SOC) model. The latent variables are reflected in the dimensions measured from the indicators. The performance variables of SMEs are estimated from three possible dimensions: (1) output production, (2) resource capabilities, and (3) internal processes. Table 9 gives a preview regarding how the dimensions contribute to the latent variables. The contributions are significant if the t-statistical value is higher than 1.96 ($\alpha=5\%$).

The results in Table 6 show the value of Q^2 for all latent variables that are higher than 0 (zero). This means the exogenous latent variables are appropriate to be explanatory variables and are able to predict the endogenous variables. The results of the bootstrap analysis and t-statistical values are shown in Figure 6.

Social capital has a positive impact on the performance of SMEs around 0.494. This indicates that the increasing social capital will improve the performance of SMEs (Table 10). The path parameter coefficient is obtained from the relationship between the variables of social capital and performance around 0.494 with a t-statistical value of $7.623 > 1.96$ at a significance level of $\alpha = 0.05$. The value confirms the significant influence of social capital to the performance of SMEs. The positive value on the parameter coefficient demonstrates how the increasing social capital could improve the performance of SMEs in Padang Regency.

The results mentioned above are supported by the studies of Batjargal (2003), Musimba (2012), Akhtar et al. (2015), Saha and Banerjee (2015), Kiefhaber and Spraul (2015), Kamaluddin (2016), De Chiara (2017), and Hoq et al. (2017). These studies point out social capital as an embedded resource in SMEs and the ability of social capital to improve the performance and sustainability of SMEs. Stam et al. (2014) and Kushnirovich (2010) emphasize the significant role of social capital to the production of SMEs. In the studies of Sukoco and Hardi (2013), social capital has been proven to affect the activities of suppliers and buyers. Similar research has been done by Durojaiye et al. (2013) and the results explain how social capital has a positive role and is significant in increasing the profit of food vendors in Nigeria.

TABLE 9. Evaluation of the Second Order Condition (SOC)

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	Standard Error (STERR)	T Statistics (O/STERR)
Performance Small Micro Enterprises -> Resource Capability	0.894397	0.895348	0.016662	0.016662	53.680414*
Performance Small Micro Enterprises-> Output Production	0.892045	0.891089	0.014516	0.014516	61.453501*
Performance Small Micro Enterprises-> Process internal	0.856245	0.854144	0.021571	0.021571	39.694808*
Social Capital -> Network	0.762037	0.768258	0.030116	0.030116	25.303659*
Social Capital -> Norms	0.878106	0.878023	0.021505	0.021505	40.831794*
Social Capital -> Trust	0.843938	0.849462	0.027209	0.027209	31.017130*

Source: Data processed (2018). SOC testing (* significant with α 5%).



FIGURE 6. The t-statistical value of social capital to the performance of SMEs in Padang City

TABLE 10. Bootstrapping results for testing hypotheses

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	Standard Error (STERR)	T Statistics (O/STERR)
Social Capital -> Performance small micro enterprises	0,494569	0,498396	0,064873	0,064873	7,623671

Source: Data processed (2018).

The hypothesis in the path coefficients is tested using the t-test statistics. If the t-statistical value is higher than 1.96 (α 5%), the coefficient is significant. The bootstrapping results in the path coefficients are shown in Table 10.

CONCLUSIONS

Social capital in the form of trust, networks, and norms have been proven to influence the performance of SMEs in Padang, West Sumatra Province. This

study illustrates how the uniqueness and character of the Minang community builds strong social capital in the form of mutual trust, networks, and norms. As a result, the performance of MSME groups in Padang is excellent. This could be seen from the information flow and technology that is delivered directly to other group members when one or some of the members receive training. Internal relations among member groups are well established, and thus, the distribution process of information is well delivered.

RECOMMENDATIONS

Social capital is a capital that can be obtained by businessmen through establishing a better network with other parties in the market, having recurring transactions with partners, and maintaining a high level of trust between the company, its stakeholders, and other partners. As a result, the business performance will be better, and the products and services will be innovative. These will ultimately lead to a higher probability of success and smaller opportunities for failure. Finally, it is recommended that all snack business owners in Padang Regency develop good relationships with other parties in the market, modify their transaction methods to the newest transaction methods, develop and maintain mutual trust between companies and market players, guide their businesses into success, and reduce the possibility of failure.

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