

Role of Social Capital on the Performance and Competitiveness of Woodcraft Industry in Bali Province - Indonesia

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Abstract: The Role of Social Capital on performance and Competitiveness of Small and Medium Enterprises (SMEs) of Woodcraft Industry in the region of Sarbagita Bali Province – Indonesia. This study aims to get a view of the potential of social capital, the SME business competence also the competitiveness of handicraft industry in Sarbagita Bali Province. The results showed that social capital influence business performance, it has positive and significant impact on business performance. Social capital has also positive and significant impact on the business performance and affects the business competitiveness. So it can be stated that the existence of social capital becomes particularly relevant if it can be translated into action in order to establish unity of action in the management of businesses in the SME environment in Sarbagita region of Bali Province. This study recommends that social capital will strengthen the competitiveness of the SME businesses in the face of global market competition, especially in the export-based woodcraft industry.

Keywords: The role of social capital, performance, business competitiveness, and woodcraft industry.

1. INTRODUCTION

Social capital nowadays is a determining factor in establishing small and medium enterprises, because the lack of capital and market networks can be strengthened through the development of human capital that is unity in building market networks and business networks through togetherness. Social capital is more prominent today as the driver of the business, especially for small and medium scale enterprises.

DiMaggio and Powell (2001) initiated on the role of social capital in moving the small and medium enterprises in building networks and the expansion of export market share. Through the development of social capital which covering strengthening the network (network quality), the development of trust as a model of transparent communication and believe in each other in building commitment to the interests of the development of joint business, as well as strengthening the business community through common share in the togetherness uniting perceptions in vision and mission of the company known as the norm. Those are the components of social capital that can be raised in order to increase competitiveness of small and medium-sized enterprises including woodcraft industry Bali that are the focus of this research study.

The model of the ideas developed by the business of beginner level, the initial attempt is to build self-reliance through the linking process of cooperation in togetherness, formulating joint measures, building a network of production and the export-oriented market share.

Based on the explanation of the background of the above, problems in this research are: (1) How does the influence of social capital on the performance of SMEs (woodcraft industry) in the area of Sarbagita Bali Province (2) How does the

influence of social capital on the sustainable competitiveness (3) How does the influence of SMEs performance on the sustainable competitiveness (4) How does the influence of social capital on the competitiveness of woodcraft industrial businesses through mediation of business performance.

2. LITERATURE REVIEW

Competitiveness is a concept commonly used in the economy, which usually refers to a commitment to market competition in the case of companies and success in international competition in the case of countries. With the globalization of world economy and free market competition, competitiveness has become one of the key concepts for companies, countries, and regions to be successful in its participation in globalization and free trade world (Markovics, 2005).

By using the concept of competitiveness, Man (2002) makes a conceptual model to connect the characteristics of the managers or owners of SMEs and long-term company performance. The conceptual model for competitiveness consist of: the scope of the competitiveness of enterprises, the company's organizational capability, competence of entrepreneurs / business owners, and performance. Competitiveness is the ability of companies, regional industries, countries or between regions to generate income factor and employment factor that are relatively high and sustainable in order to face international competition.

Competitiveness has three characteristics; potential, process, and performance. In addition, competitiveness is also characterized by long-term orientation, controllability, relativity, and the dynamics. Besides, there are three important aspects that affect the competitiveness of SMEs, namely: internal factors, external environment, and the influence of entrepreneur / business owner. The competitiveness of a company is reflected in the competitiveness of the products produced by the company. The competitiveness of a company is determined by seven factors that are important, including skill or education level of workers, entrepreneurial skills, availability of capital, organizational systems and good management (as business requirements), availability of technology, availability of information, and the availability of other inputs, such as energy and raw materials (Tambunan, 2009).

According to Tambunan (2008), SMEs that are highly competitive characterized by: (1) an increasing tendency of the rate of growth of production volume, (2) the market share of the domestic or export market that always increasing, (3) for the domestic market, not only serve local market but also nationally, and (4) for the export market, not only serve in one country but also many countries. Competition advantage is the ability of a company to win consistently in the long term of competitive situation. To be able to compete in the market the effort that must be done is to empower the perpetrators of SMEs themselves to have responsibilities as well as to increase cooperation with the government in addition of having sufficient ability and skills.

Local wisdom of Balinese culture that is contained in the spirit of respect for individual rights, the spirit of working together (*menyama-braya*), tolerance on dissent is the basic capital that can be increased to the foundation of social capital as defined by Putnam (1978). Socio-communal changes that occur as a result global market, is a dynamic process that will have an impact on the opportunities, challenges and successes of social change towards strengthening local values in strengthening the social structure.

In developing business activities it always require means of communicating between one another. Entrepreneurs as individuals will always strive to develop the ability to be able to adapt themselves to work together in an organization. Patterns of cooperation that is organized, ordered based on specific objectives related to each other is determined by the depth of the pattern of the relationship (Corodanu, 2000).

Trust is one aspect of social capital that became the basic foundation in the framework of adhesion between communities in unity, where all members of the community get a share of the benefits of the activities of the business, so it can be a trigger and impact on the welfare of the community. Social capital approach is to implement human resource development through networking potential including bonding, bridging and linkage.

One form that can be developed as a community social capital to encourage the production and added value are the organizational norm of mutual cooperation. The entrepreneurs' perspective on norm of mutual cooperation is the social power of entrepreneurs that can be realized in production and investment activities, so the potential for mutual cooperation norm can be a real force as the capital for the development of the organization.

3. RESEARCH METHOD

The population in this study are all businesses of woodcraft industry in the region of Sarbagita Bali Province, 890 units in total. Sampling using random sampling technique, the sampling technique using Slovin formula (Riduwan, 2007) and sample size in this study are 276 industries.

The variables were divided into two groups: 1) Latent variables which are variables formed by the indicators observed in the real world or variables that can not be measured directly (unobservable). Latent variables in this study are: the role of social capital (X1), performance (Y1) and competitiveness (Y2). 2) measurable variables or indicator variables which are variables that can be measured directly, and an indicator variables are the former of latent variables. (Widarjono, 2010).

Data were analyzed using the Partial Least Square Path Modeling (PLS-PM). PLS-PM is a method of structural equation modeling / SEM which is component-based.

Conceptual framework:

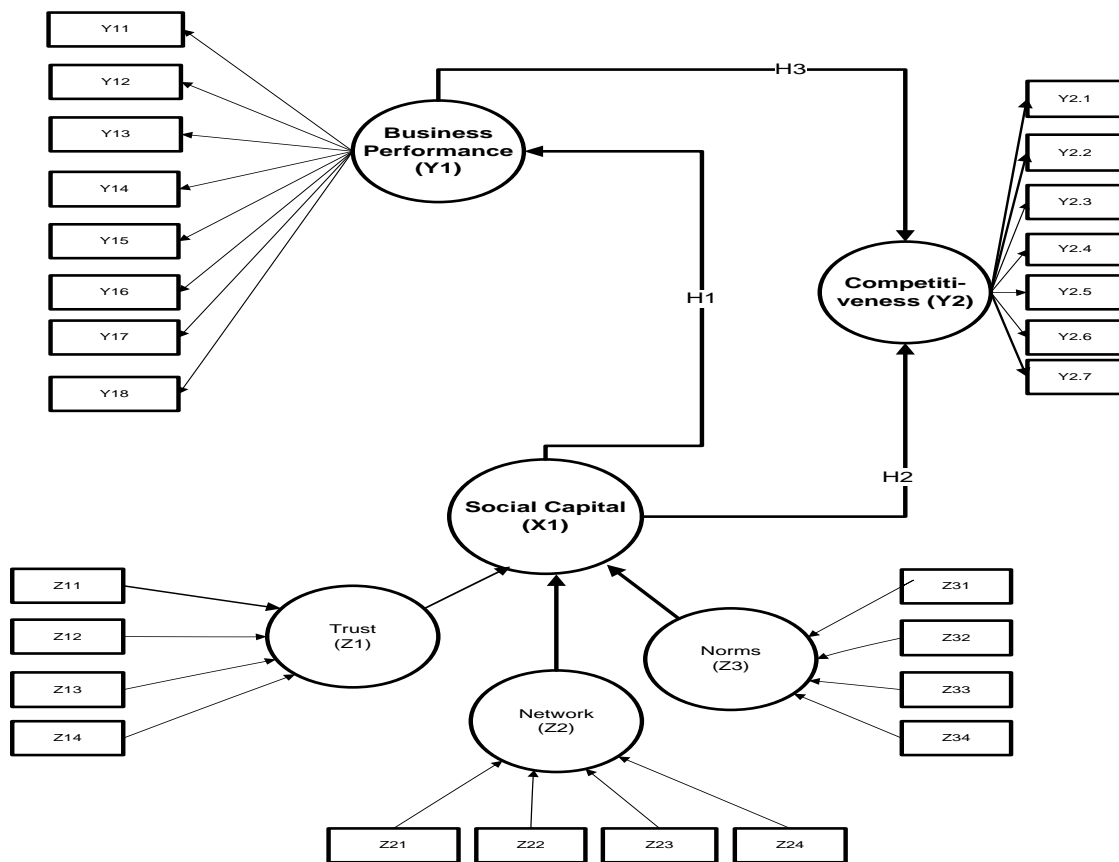


Figure 1

Role of Social Capital Construction on Performance and Competitiveness of Woodcraft Industrial Businesses in the Region of Sarbagita Bali Province

Hypothesis:

H1 : That the social capital variable positively and significantly impact on the performance of the woodcraft industry in the region of Sarbagita Bali Province.

H2 : That the social capital variable positively and significantly impact on the sustainable competitiveness of woodcraft industry in the region of Sarbagita Bali Province.

H3 : That the business performance variable positively and significantly impact on the sustainable competitiveness of woodcraft industry in the region of Sarbagita Bali Province.

H4 : That the social capital variable positively and significantly impact on the businesses competitiveness through the mediation of business performance in the woodcraft industry in the region of Sarbagita Bali Province.

4. RESULTS AND DISCUSSION

Structural model was developed in two stages. The first stage is the *first order* to get some answers to the research objectives that have been formulated. The first stage has not been able to answer all the needs of the research objectives that have been formulated from the beginning, such as the role of each component of social capital that were expected to have strong enough perception not only to encourage the increase of business performance (Y1), but also a direct impact on the businesses competitiveness (Y2).

In order to answer all the research objectives that were leveled up into research hypothesis, it would require the development of analytical models of second order hierarchy model as suggested by Jörg Henseler (2010), Hsin Lin (2005) and Christian M.Ringle, (2013). A number of reflective latent variables that do not have co vary character, so it does not deserve to be used as information in support of research results, for the distribution of loading factor value that does not covary indicates that the reflective latent characters do not have a properties of one-dimensional.

First order procedure indicated on all latent variables has indicators distribution on the first level, without any hierarchy. Second order models that will be developed is lowered back to the level of preparation of the second level of latent variables, namely social capital latent variables (X1) which is constructed by the trust component (Z1), network (Z2) and norms (Z3).

Social capital latent variable (X1) lowering directly as many as 12 indicators that can be expressed as first order latent depicting social capital (X1) affected simultaneously by the three components of social capital without grouping based components of social capital, so it can not be known the perception contribution of the role of each component of social capital trust (Z1), network (Z2) and norms (Z3). A total of four variables that became the formulation of hypotheses, one of which is the intermediary that describes the process of influence relationship is indirect through the role of business performance variable (Y1) and the intermediation process of social capital (X1), until then it formed the final target namely the business competitiveness (Y2) ,

Table 1 quoted back to get up close *bootstrapping* analysis results for the total sample of 276 units of analysis.

Table 1 Second Order Latent : Bootstrapping PATH COEFFICIENT

Variable Names	Original Sample	Sample Mean	Standard Deviation	Standard Error	T Statistics
X3 -> Y1	3.0618	2.9022	0.4991	0.4991	6.1341*
X3 -> Y2	-3.0789	-3.1123	0.9921	0.9921	3.1035*
Y1 -> Y2	2.1703	1.6841	1.0027	1.0027	2.1646*
Y1 * X3 -> Y2	3.8298	4.0966	1.8716	1.8716	2.0463*

*) t.05 = 1.650

Role of Social Capital on Business Performance:

Social capital is mapped as a construct that lowered into the second order. It turns out, based on test criteria of 5 percent error rate, obtained statistical tables of t value smaller than the t count value of 6.1341. Based on the partial test statistic of t can be stated that social capital is positively and significantly impact the business performance of SMEs.

Social capital on Competitiveness:

The role of social capital (X1) which is constructed of trust, networks and norms turned out to affect the businesses competitiveness (Y2), the statistical test result is negative and significant based on 5 percent error rate, which the t value = 3.1035 was still greater than t table of 1.650. Based on the results of the statistical analysis, the role of social capital on the businesses competitiveness can be brought to the recommendation level of this study.

SMEs Performance on Competitiveness:

SMEs Performance (Y1) turns out to have positive and significant impact on the businesses competitiveness (Y2), the statistical test result were positive and significant based on 5 percent error rate, which the t value = 2.1646 was still greater than t table of 1.650. Based on the results of the statistical analysis, the role of business performance on the businesses competitiveness can be brought to the recommendation level of this study.

Social Capital intermediation on Business Competitiveness Through Business Performance Mediation:

Social capital occupies a position of its own in observing the SMEs performance problems in the region Sarbagita. Social capital constructed as *second order latent* showed that social capital is formed of the components of *network*, norms and *trust*, which turns out that all three have an equally strong role in shaping the social capital of SMEs.

5. CONCLUSIONS AND RECOMMENDATIONS

Several conclusions can be inferred in connection with the discussion of the results that have been presented, are as follows (1) Social capital mapped as a construct that is lowered to be the second order. It turns out, based on statistical test, local culture positively and significantly impact the business performance of SMEs. As such, social capital plays a role in determining the business performance of SMEs. (2) Social capital turned out to be a positive and significant impact on the business competitiveness, so that social capital as a strategic variable determining business competitiveness of SMEs. (3) Performance of SMEs turned out to be a positive and significant impact on the businesses competitiveness. Thus, it can be stated that the performance of SMEs is decisive in strengthening the businesses competitiveness. (4) Social capital positively and significantly impact the businesses competitiveness through the role of business performance. Thus, that social capital can strengthen the businesses competitiveness indirectly by strengthening the business performance in the first process, and ultimately have an impact on strengthening the business competitiveness at a later stage.

Some suggestions that can be delivered are; (1) the social capital that consists of components trust, norms and networks are proven to provide support to the business performance and competitiveness of SMEs. The positive perception should be implemented by the SME business. (2) This study proves that the perception of entrepreneurs in establishing cooperation has been demonstrated by the role of social capital, which includes having the dimensions of trust, norms and networks, so that it needed an implementation of the power of social capital that need to be developed at the level of entrepreneurs of SMEs in order to strengthen the businesses competitiveness amid increasingly competitive global market.

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