

# Collaboration of Social Capital in Industrial Era 4.0 for Small and Medium Enterprises

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## Abstract

Politics, society, and culture are rarely associated with social capital for small and medium enterprises (SMEs). The focus of business enthusiasts is currently on large-scale businesses. Thus, SMEs hardly survive, while economic conditions are doomed. The resource-based theory states that a sustainable competitive advantage in a company will not strengthen strategic innovation by simply enhancing social capital. To maintain small businesses' sustainability, supporting social capital is necessary to accommodate all small businesses' interests in political, social, and cultural contexts, especially in the Balinese culture. Accordingly, this research aims to identify the extent to which Bali's politics, society, and culture can maintain SMEs' sustainability. In this study, ontic hermeneutics is used as the research method. Ontic hermeneutics is defined as seeing and understanding a phenomenon to develop a concept through political, social, and cultural approaches. Results have shown that SMEs tend to survive given that the government does not require excessive requirements. Micro-, small and medium enterprises (MSMEs) follow the government responsibly. MSMEs run their businesses with effort and flexibility. Thus, they can quickly adjust to the changes in the economy, desires, and tastes of the community's consumers and needs. Consequently, socio-economic and cultural conditions remain stable even if the political situations change.

**Keywords:** *Social Capital, Resource-Based Theory, Politics, Society, Culture.*

## INTRODUCTION

Small and medium enterprises (SMEs) in Bali have successfully penetrated the international market through various export activities. However, problems continually increase along with the growth of SMEs product export. Specifically, the quality of human resources has been a demanding issue along with the increase in export activities. Moreover, SMEs have limited resources to attract partners, and the marketing system is still carried out indirectly to run exports. Thus, the spirit of export marketing remains low (Egbu, 2001). The ability to innovate is hampered given that the low social capital, which results in weak competition (Suardhika, 2012).

SME managers' failure to make choices in the form and model of appropriate innovation strategies (Chang et al., 2006) has reduced competitiveness and business performance (Zahra and George, 2000). SMEs in Bali are still lacking with innovations, given that entrepreneurs are avoiding the huge costs required in investments (Tedjasuksmana, 2014). The need for innovation comes from an increasingly turbulent and uncertain business environment. Companies are required to seek and implement innovations in strategies to achieve competitive advantages and improve business performance (Subramaniam and Youndt, 2005).

The above scenario motivated the authors to empirically study the issues connected to achieving competitive advantages and business success among SMEs. This study was conducted by examining a research model anchored on resource-based theory (RBT) by prioritising the role of social capital and integrating the context of entrepreneurship through entrepreneurial marketing that underlies innovation strategies, especially export-oriented SMEs in Bali Province. The research model produced in this study is a guide for SME managers to be able to compete efficiently and thus improve their business performance.

Social capital is an important intangible resource (Landry et al., 2002). Social capital has a special and valuable character of network partners, customers and employees to obtain connections, opportunities and competitive advantages (Tsai and Ghoshal, 1998). In general, social capital is a resource obtained by actors for their network of relationships (Adler and Kwon, 2002). Togetherness, honesty, egalitarianism and trust developed in social capital may strengthen the networks among entrepreneurs (Nahapiet and Ghoshal, 1998).

Social capital is known to provide direct access to information, financial capital, emotional support, legitimacy and competitiveness of entrepreneurs (Lavado et al., 2010). The weaknesses of building cooperation show that entrepreneurs are less able to develop social capital; thus, companies have difficulty building core competencies based on relational interactions (Tsai and Ghoshal 1998). Companies that do not maximise their opportunities to form social capital may experience difficulties in developing entrepreneurship (Mayasari et al. (2013). These companies may also find it hard to implement different innovation strategies (Stam and Elfring, 2008; Subramanyam and Youndt, 2005). Therefore, innovation in these enterprises may not prosper.

RBT is a theory of strategy innovation and performance. The theory tends to focus on economic (financial and physical) capital, human capital and organisations (Hitt and Reed, 2000; Edelman, 2004). Social capital is an important resource of a company; however, it remains limited in the model of the relationship (Adler and Kwon, 2002). Thus, RBT application is necessary to improve performance through innovation strategies and the synergy of social capital and entrepreneurial marketing (Subramaniam and Youndt, 2005). Based on the description above, a research problem is formulated. From the perspective of RBT, how do SME owners view (perceive, regard and distinguish) the impact of social capital on innovations and business performance?

## LITERATURE REVIEW

Resources are inputs that allow companies to carry out their activities. Internal resources and capabilities determine the strategic choices that companies make when competing in their external business environment (Teece et al., 1997). Capability also enables companies to add value to the customer value chain, develop new products or penetrate into new markets (Collis and Montgomery, 2004).

RBT views companies as a collection of resources and capabilities (Wernerfelt, 1984; Barney, 1991). Differences in resources and abilities of companies to respond to competitors may lead to the development of competitive advantages for a company. The assumption of RBT concerns

thewaysonhowcompaniescancompetewithothercompaniestogainacompetitiveadvantagebymanaging their resources in accordance with the company's capabilities (Barney and Arikan, 2000). Resources must meet the criteria of 'VRIN' to provide competitive advantage and sustainable performance. Based on RBT, resources in the form of assets, organisational processes, company attributes, information, networks or knowledge that are controlled by companies can be used to compile and implement their strategies (Runyan et al., 2006). Social capital can be explored to fulfil the criteria as valuable and distinctive resources that can create competitive advantages and ultimately produce superior performance.

Social capital is defined as a series of informal values or norms shared by members of a group that enable cooperation among them (Fukuyama, 2002). These informal values or norms can also have a direct effect on competitive advantage (Fussel et al., 2006). Inkpen and Tsang (2005) have described social capital as an intangible asset of a corporate mine that helps its members to cooperate in achieving common goals (Gamarra et al, 2018).

Social capital theory refers to the ability of an actor to extract benefits from social structures, networks and membership (Lin, Ensel, and Vaughn, 1981; Portes, 1998 in Davidsson and Honig, 2003). Social networks provided by family, community or organisation relations are used to increase capital in addition to education capital, experience and financial capital (Bourdieu, 1983; Coleman, 1988, 1990; Loury, 1987; Davidsson and Honig, 2003). Social capital is multidimensional and occurs at individual and organisational levels (Nahapiet and Ghoshal, 1998; Davidsson and Honig, 2003). Social capital is also differently described in considerable literature. Therefore, explaining the exact relationship between the definition and operationalisation of each aspect of network processes and reciprocities characterising social capital is important (Baron and Hannan, 1994; Davidsson and Honig, 2003; Nuriyev et al,2018).

## RESEARCHMETHOD

This study was conducted on MSMEs in Bali, particularly in Denpasar City/Regency, Badung, Gianyar, Tabanan, Bangli, Klungkung, Karangasem, Buleleng and Jembrana. The time of research is 2019. The research approach is Gadamerian Hermeneutics, which aims to connect 'understanding' and 'practice' in the sense that understanding rests on a certain boundary of meaning and hermeneutics as ontology of the event of understanding (Guzys, Dickson-Swift, Kenny, and Threlkeld; 2015). According to this hermeneutics, understanding and practice cannot be separated from each other. Gadamerian hermeneutics is according to Gadamer's knowledge which states that the essence has a centre and a lattice that can only be obtained through dialogue. According to Gadamer, the measure of truth is not the conformity between conception and reality (the reality of reality) and the testimony of the charismatic mischief (fitri knowledge of the school of Descartes), but truth is the awareness between particular and parts and the whole (Sumaryono, 2010). Primary data were collected through interview. The key informants in this study were 10 MSME managers in BaliProvince.

## RESEARCHRESULT

The explication of interview results using Ontic Hermeneutics revealed the following understanding in the aspects of politics, history andculture.

### *Political Aspect*

#### **a) Social Capital in PoliticalAspect**

The following question was posed to informants: 'How do UMKMs trust the government in supporting the development of MSMEs'? The key informants shared their following understanding of social capital in relation to governance:

- 1) 'We are not sure that the government's efforts have supported our efforts. We hope that the government will provide assistance for the marketing of our products through exhibitions and financial assistance for the procurement of production equipment'.
- 2) 'The training program provided by the government is still lacking. We hope the government will increase the implementation of the program for our businesses'.
- 3) 'We expect assistance from the government, especially access to capital'.
- 4) 'We expect assistance from the government, especially the rules for obtaining wood and raw materials'.

#### **b) New Entrepreneur in Political Aspects**

The following question was posed to informants: 'What are the regulations and the role of the government in supporting the marketing of MSME products'? The key informants' concept of political influence in their enterprise may be described through the following statements:

- 1) 'We feel that the government still lack of regulations that really support the marketing of our products. We only try to market our products in our own way'.
- 2) 'The government should include MSMEs in exhibition events'.
- 3) 'The government should hold exhibitions more often and provide a place where our products can be promoted'.
- 4) 'The government should include us in national and international exhibitions'.

#### **c) Strategy Innovation in Political Aspects**

The following question was posed to informants: 'What are the regulations and the role of the government in supporting MSME innovation strategies'? The key informants are one in expressing the following idea:

- 1) 'We know that the government is trying to improve our innovation strategies through training and counselling on product design and quality. However, our business has not been covered until now'.
- 2) 'The government has provided assistance in the development of variations and creations and product quality of our businesses'.
- 3) 'The government should provide training for MSMEs, especially the ways on how to market our products through Internet and social media'.
- 4) 'The governments should provide training for MSMEs, especially the way on how to market our products through Internet and how to improve our products' quality'.

#### **d) Performance in Political Aspects**

The following question was posed to informants: 'What are the regulations and the role of the government in supporting MSME performance'? The following statements are the summary of the answers given by the informants:

- 1) 'We feel that the programs held by the government have not yet affected the achievement of our business results'.
- 2) 'We feel that the government has not optimally supported the performance of MSMEs related to our businesses'.
- 3) 'The government should implement programs that are effective and in accordance with the needs of MSMEs, such as the implementation of trainings that are appropriate to the needs of MSMEs'.
- 4) 'We need programs that are effective for our businesses'.

#### **Social Aspect**

**a) Social Capital in the Social Aspect**

The following question was posed to informants: ‘What are the views and roles of the community and members of organisation in supporting the development of MSME products?’ The conversation partners’ concept of social capital in the social context can be summarised as follows:

- 1) ‘The community responds positively to the products we offer. Balinese people buy our products’.
- 2) ‘The community is perpetually supporting the development of our businesses by providing significant information, including the product model and the intended market’.
- 3) ‘Our businesses receive support from different associations/organisations by providing cooperatives for our capital loans’.
- 4) ‘Associations/organisations are supporting our businesses by providing cooperatives for our capital needs’.

**b) New Entrepreneurial in the Social Aspect**

The following question was posed to informants: ‘What are the views and roles of the community and members of organisation in supporting the marketing of MSME products?’ The answers of the informants are stated as follows:

- 1) ‘People usually communicate with each other about products, prices and quality. Consequently, other prospective buyers will come to us’.
- 2) ‘Communities and members of organisations participate in the marketing of our products and strengthen Pejaten Village, Tabanan as a centre for earthenware crafts on social media’.
- 3) ‘Support is given through organising and participating in exhibition events for members of organisation’.
- 4) ‘Support is given through organising and participating in exhibition events for members of organisation’.

**c) Strategy Innovation in the Social Aspects**

The following question was posed to informants: ‘What are the views and roles of the community and members of organisation in supporting MSMEs’ innovation strategies?’ The summary of key informants’ views is stated as follows:

- 1) ‘Formally, our business has no association. We only have business partners who have similar businesses, and we only talk about business travel, products sales and new designs’.
- 2) ‘Communities and members of organisations often provide advice and guidance on product innovations’.
- 3) ‘Organisations usually exert efforts to continuously develop innovative products by following market developments’.
- 4) ‘In periodic organisational meetings, information on efforts to develop innovative products is continuously informed by following market developments’.

**d) Performance in the Social Aspect**

The following question was posed to informants: ‘What are the views and roles of the community and members of organisation in supporting the performance of MSMEs?’ The conversation partners described performance in the social aspect as follows:

- 1) ‘People in different regions produce handicraft products from Lontar as their home-based part time jobs. The products are deposited in stores like ours’.
- 2) ‘The community and members of organisation provide positive support for the achievements of our business, given that it will have an economic impact on the surrounding communities’.
- 3) ‘The response of the community and members of organisation is positive towards the

- achievement of MSME performance, given that they are the ones who receive the impact’.
- 4) ‘The performance of MSMEs can have an economic impact on society’.

### ***Cultural Aspect***

#### **a) Social Capital in Cultural Aspects**

The following questions were posed to the informant: ‘What is the culture followed by the community and members of organisation in supporting the development of MSME products?’ and ‘What culture you perceived as supportive?’ Interview results commonly show the following statements:

- 1) ‘Our community uphold togetherness with what condition exist and for this business. We only use the time available to increase revenue’.
- 2) ‘Foreign export destinations and local culture strongly support the development of our business products and provide input on the products produced’.
- 3) ‘We combine a variety of cultures to make product innovations’.
- 4) ‘We continue to promote Balinese culture for product innovation’.

#### **b) New Entrepreneurial in Cultural Aspects**

The following questions were posed to the informants: ‘What is the culture followed by the community and members of organisation in supporting the marketing of MSME products?’ and ‘What are the supporting cultures?’ The summary of the answers given by the informants is stated as follows:

- 1) ‘Togetherness and mutual cooperation become a habit here’.
- 2) ‘We combine a variety of culture (foreign and local culture) to support product marketing by disseminating stories through word of mouth’.
- 3) ‘We have made the culture of mutual cooperation the basis of our product marketing activities. For example, the exhibitions carried out by an organisation can be participated by other organisational members’.
- 4) ‘The culture of mutual cooperation and cooperation is the basis for marketing our products’.

#### **c) Strategy Innovation in Cultural Aspects**

The following questions were posed to the informants: ‘What is the culture followed by the community and members of organisation in supporting UMKM’s innovation strategies?’ and ‘What culture you perceived as supportive?’ Strategy innovation is viewed by the conversation partners as follows:

- 1) ‘We attempt to make new models and designs usually in accordance with current market trends and orders’.
- 2) ‘We integrate foreign and local culture in bringing forth new model product ideas according to the tastes of tourists’.
- 3) ‘The culture that we put forward for product innovation is a typical Balinese culture, given that it already has an image in the eyes of tourists’.
- 4) ‘Culture that is put forward for product innovation adheres to Balinese culture, given that it is well known in the eyes of tourists’.

#### **d) Performance in Cultural Aspects**

The following questions were posed to the informants: ‘What is the culture followed by the community and members of organisation in supporting the performance of MSMEs?’ and ‘What are the supporting cultures?’ The summary of the answers given by the informants is stated as follows:

- 1) 'The village head and the subdistrict party have attempted to submit a proposal to the district government for business development programs'.
- 2) 'The culture we perceived as supporting is discipline and utilisation of raw materials'.
- 3) 'We empower the surrounding communities through different business activities. HR talents that have been owned for generations (*taksu*) are used as the mainstay to produce distinctive products and improve the results of our businesses'.
- 4) 'The ability of craftsmen possessed from generation to generation (*taksu*) is the mainstay of producing typical products and increasing the results of our businesses'.

## DISCUSSION

The government has a role in developing the economy (Madanchian, Hussien, Noodin, and Taherdoost, 2016) in Indonesia through SMEs. SMEs significantly and largely contribute in realising national economic development goals (Oduntan, 2014), such as economic growth, employment opportunities, increased foreign exchange, regional economic development and political economic defence. SMEs have a great ability to spur national economic growth (Zafar and Mustafa, 2017). Thus, SMEs need protection in the form of government policies, such as laws and government regulations. The existence of good regulations in the form of laws and government regulations relating to SMEs in terms of production and the banking side will spur the role of SMEs in the economy. Regulations are sets of rules intended to provide protection and benefits to the community on general or to a group of people.

The benefits of the regulations are two sided, namely, from the side of the government as a regulator and from the side of the businessman as an object of licensing. For the government, licensing is needed to maintain public order and provide protection to the public. Businessmen/entrepreneurs can obtain license and provide social or economic benefits. However, a policy on regulation is not in line with expectations. The policy must be evaluated given that an evaluation will obtain input relating to policy discrepancies with the expected performance results. Thus, evaluation helps policy makers at the policy assessment stage of the policy making process. Policy evaluation produces conclusions on how far the problem has been resolved. It also gives input on clarification and criticism of the values underlying the policy, helps in adjustments and reformulates the problem. The government made a policy to accelerate economic growth that is directly related to SMEs, namely, the introduction of three main policy points in the economic area (Bary, 2019). Improvements in financial services are important, especially for SMEs. These improvements include developments in banking services, capital markets, multifinance and insurance.

The second main policy is to improve financial services infrastructure in the form of market access, collection and payment services, ease of investment and savings and general support for the implementation of trade transactions. Improvement of service and supporting infrastructure will not mean much without an overall improvement effort to increase entrepreneurship capabilities for SME players. The third main policy is to improve the ability and mastery of technical and business management aspects, product development and sales, financial administration and entrepreneurship as a whole.

Government policy in the development of the SME sector aims to increase the potential and active participation of SMEs in the national development process, especially in economic activities to realize equitable development through expanding employment and increasing income. The main goal and guidance of small businesses are to increase the number of small businesses and realize more resilient and independent businesses. Accordingly, economic actors can play a role in the national economy, increase the competitiveness of national entrepreneurs in the world market and

balance the distribution of investment between sectors and groups.

The government through various elements, such as the Ministry of Cooperatives, the Ministry of Industry and Trade, Bappenas, BUMNs and financial institutions and banks and non-banks, has instigated various efforts to help SMEs become resilient and independent and develop a strong national economy (Oduntan, 2014; Zafar and Mustafa, 2017). Support is realized through policies and the provision of facilities and other stimuli. Moreover, a lot of support or assistance is needed in connection with these efforts. For example, assistance in the form of procurement of production equipment and procurement of other physical goods are also needed for a method, mechanism or procedure that is adequate, effective and applicable and leads to the suitability of efforts and development with the ability of the community as an element of business actors in a community-based economic system in the form of SMEs.

Efforts to ensure the progress and development of SMEs are also programmed by the Ministry of Finance through the Decree of the Minister of Finance. The obligation of SOEs to set aside 1%–5% of the profits has not been managed and implemented properly. Adiningsih (2003: 4) has explained that most SOEs choose the smallest percentage, namely, 1% of their profits; whereas numerous SMEs claim to have difficulty accessing these funds. Moreover, bank loans are also difficult to access by SMEs owing to complicated procedures and a number of SMEs that did not avail bank services.

In Indonesia, policies on SMEs are more often associated with government efforts to reduce unemployment, fight poverty and equalize income. Therefore, the development of MSM is often considered indirectly as a policy of creating employment opportunities or income redistribution policies. The policies concerning SMEs in Indonesia are still oriented towards the society rather than the market or competition. Moreover, the policies taken are not fully integrated in macroeconomic policies.

According to several opinions and steps taken by the government in guaranteeing the development of SMEs, the following are found to empower UKM. 1). The determination of SME empowerment policies in the growth of the business climate for small businesses at the national level includes funding/provision of funding sources, procedures and requirements for meeting funding needs, competition, infrastructure, information, partnership, licensing and protection. 2). The development of small businesses at the national level includes production, marketing, human resources and the latest technologies. 3). The facilitation of guaranteed access concerning the provision of funding for SMEs at the national level includes bank credit, guarantee of non-bank institutions, venture capital, loans from granting funds as BUMN profits, grant and other types of financing.

With regard to its own empowerment, several indicators of SME empowerment are discussed. Success in empowerment carried out by the government and the private sector has five key indicators. The summary of these indicators are stated as follows:

- a) Business capital assistance can be provided in the form of loans or business loans to SMEs. However, some SMEs do not have knowledge on this kind of assistance and thus cannot utilize such facilities.
- b) Optimal development of infrastructures and optimization of infrastructures are required to boost SME activities. However, SMEs still experiencing lack of support in these aspects.
- c) Real provision of marketing tools to SMEs is not yet experienced in the field of marketing. These tools are only about marketing training and not all SMEs can participate in such training activities and exhibitions.
- d) SME trainings are often carried out to boost production and the quality of production of SMEs, but not all SMEs can participate.

Based on the results of the interview, the community expects the government to encourage SMEs. Assistance from community and groups formed by the government is significant to SMEs. The development of SMEs is mostly carried out independently. Therefore, the government needs to provide more intensive assistance to improve the performance of SMEs by empowering non-governmental organizations, government agencies or private institutions that support SMEs' developmental programs.

## CONCLUSION

According to the research result analysis, the following conclusions are made:

- 1) In view of political aspect, social capital can be interpreted as funding from the government. The community supports MSMEs by creating an organisation. The culture of cooperation and mutual cooperation in Bali improve the development of MSME products without any regulatory ties from the government.
- 2) In view of social aspect, social capital can be interpreted as the ability of the government and community to accommodate all MSME products. Communities develop and market their own products without government intermediaries. The culture of cooperation and mutual cooperation in Bali are able to improve the development of MSME products without any regulatory ties from the government.
- 3) In view of cultural aspect, social capital can be interpreted as communities developing and marketing their own products according to the current market demands. MSMEs can affect the development of social economy of the surrounding communities.

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