Analysis of Factors Affecting SME’s Performance With Financial Capital and Network Abilities as Mediation Variables

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Abstract
This study aims to determine the effect of entrepreneurship orientation and social capital on the performance of SMEs in the Garment industry in one of the largest city in the East Java Province in Indonesia, Madiun City. This research is an explanatory research with survey research design through quantitative approach. The population of this study are SMEs in the garment industry, specifically batik producers around Madiun City. Cluster sampling area was used as sampling technique where 160 SMEs were used as the final sample in this study. Structured questionnaire was used as data collection method, while SEM and Sobel Test were used to analyze the hypothesis. The results of this study indicate that all hypotheses proposed in this study are accepted. There is a significant effect of entrepreneurship orientation on networking ability, and social capital on financial capital. There is a significant effect of networking ability on SME performance, as well as financial capital on SME’s performance. The results of the mediation analysis using the Sobel test show the mediating role of networking ability and financial capital on the influence of entrepreneurship orientation and social capital on the performance of SMEs. This research contributes to the SME performance literature, it provides a deeper understanding of SME performance which includes how financial capital, entrepreneurship orientation, social capital and networking, can collectively improve business performance.

Keywords
Performance SME; Social Capital; Entrepreneurship Orientation; Financial Capital; Networking Abilities

Introduction
SMEs (Small and Medium Enterprises) play important roles in the economic development and cycle of Indonesia. This is shown by the result of SE2016-continuity which states that the numbers of small and medium enterprises in non-farming sectors reach up to 26 million business units or around 98,68% of non-farming business in Indonesia. The number of informal SMEs in developing countries is far above the number of formal companies (Ryder, 2019). SMEs are also able to absorb 75,33% of non-farming labor. Muritala & Ayodeji (2011) stated that SMEs’ give impact to the creation of labors, encourage villages development, greater utilizations of local
raw materials, equalize infestation. There are around 45% of the total employment provided by SME sector in developing countries (World Bank, 2015). Similar view is also expressed by Bello, Jibir, & Ahmed (2018) who stated that there are positive and significant relationship between SME and economic growth.

However, SMEs in Indonesia are still facing a lot of challenges which prevent SMEs to develop and compete with the competitors. This is caused by the low quality of human resources which resulted in the low quality of management, inability to keep up with the consumers’ needs and limitation of banking access (Badan Pusat Statistik, 2016). The result of study conducted by (Muritala Taiwo, Awolaja Ayodeji, 2011) concluded that the lack of financial support, low quality of management, infrastructure, insufficient of profit, as well as low numbers of product and service demand are the common constrain of SMEs development. Similar tone is also expressed by Suryanto & Muhyi (2018) who conducted study in Bandung, stated that SME’s problems are the lack of entrepreneurship spirits, low competence of human resources, limited access of funding and lack of business partners.

All those limited resources can be solved by conducting collaboration with various available parties through personal or business networks, which is commonly known as social capital. By conducting collaboration and personal or business networking, it will be able to generate the needed resources, open up new business opportunities, increase financial capital, generate new innovations, new leads, new cooperation and others. With this social capital, SME can improve the personal potential and business success. According to Putnam (2002) societies with high levels of civic engagement and social interaction tent to have better governance, democracy, and economic practices. Meanwhile, Alexy, Block, Sandner, & Ter Wal (2012) states that the term social in the context of social capital explains that the resources owned by someone are located in the social networks. At the company level, Alexy et al. (2012) explained that social capital can provide not only network access to investment objects, but also opportunities to grow their willingness to invest.

There are still few studies that discuss the effects of social capital in developing countries. Although Ahlin & Townsend (2007) had conducted a research that discusses social capital in developing countries, the discussion is limited only to the relationship between clients of microfinance institutions that measures trust and reciprocity between them. There are still some gaps in research that discusses entrepreneurial orientation, research on entrepreneurial orientation in large companies, and only small amount of research that discusses the role of entrepreneurship orientation in small and medium enterprises (Gupta & Batra, 2016). Compared to large companies, SMEs have limited resources (Karami & Tang, 2019) and less experience (Galkina & Chetty, 2019a).

Entrepreneurship orientation plays a very important role in SMEs as it shows how different mindset and business methods which are different from the competitors are very crucial in improving the SMEs’ abilities to adapt with changes and demand as well as to compete in the market (Khanna, 2015). However, some researches show various result of strong entrepreneurship orientation from those which are beneficial to those which are not (Wales, 2015). Thus, entrepreneurship orientation does not always resulted in good SME’s performances. This assumes that practical theoretically there is no direct correlation between entrepreneurship orientation with SME’s performance (Wiklund & Shepherd, 2011; Wales, Wiklund, & McKelvie, 2013). Thus, deeper analysis regarding the effect of entrepreneurship performance and SME’s performance is needed to understand how and where does the effect occurs so as to help in improving the SME’s performance.
This study attempts to address this gap by conducting a survey of SMEs in Madiun, to investigate potential mechanisms by which entrepreneurship orientation and social capital affect SMEs’ performance. In this case, literature on the SME performance suggests deeper analysis of networking abilities (Galkina & Chetty, 2015a), as a factor influencing the success of SMEs.

The entrepreneurship orientation encourages SMEs to come up with creative and solutive ideas for problems they faced in the market (Lumpkin & Dess, 1996). Therefore, a high entrepreneurship orientation will motivate SMEs to improve business performance achievement, by attempting to get more information through the network they have built (for example from their own experiences or from others) to encourage their business performance.

(putnam, 1993) defines social capital as an aspect of social institutions, such as social networks, norms, and trust which improve efficiency of a certain society through coordinated actions facilities. Cooperation and networking will more likely to occur in a community which inherited a number of social capital such as regulations, reciprocal exchanges and networks of agreements between SMEs which will ultimately improve the performance of SMEs. Networking ability refers to the ability to develop and utilize good relationships personally or organizationally to get a number of resources from other people (McGrath & O’Toole, 2014).

Despite the lack of research that addresses this issue, financial capital and networking ability are causal pathways by which entrepreneurship orientation as well as social capital affect organizational performance (Wales et al., 2013). Thus, this study explores greater effect of entrepreneurship orientation and social capital on SME’s performance through financial capital and networking abilities. This indirect relationship between entrepreneurship orientation and social capital on SME’s performance has substantial theoretical implications on entrepreneurship orientation theory in the context of SME's performance.

This research provides important contributions for small and medium enterprises. The first contribution is for the currently developing research related to the effect of the internal of SMEs namely the networking performance of the SMEs (Galkina & Chetty, 2015a). This provides deeper understanding on the performance of SME including the financial capital, entrepreneurship orientation, social capital, and partners which collectively able to improve the business performance. The second contribution is to enable the policy makers to find the best method to utilize the social capital to give benefits for the business community.

The justification of selecting East Java or Madiun city in particular as the research location is first based on the preparation study conducted in 2018 regarding SMEs' competitiveness indicators by BPS where the result shows that East Java is the third highest productivity index after DKI Jakarta and Riau Islands in 2017 and 2018. Second, there is tendency of local and provincial governments in supporting SMEs to standardize their products in 2018, including business incubators for 850 USMEs, internship program for 700 SME owners in export SMEs whose products have been recognized as international standards, and USME development through BDC (Business Development Center), which is currently transforming into a Small Medium Enterprise and Cooperative Business Development Center (SMESCO BDC) East Java, is an institution that fosters entrepreneurship in an integrated and sustainable manner by providing free, personal and professional services to increase the quantity and quality of unions and SMEs in East Java.

The reason for choosing Madiun city as the research location is based on the Gross Regional Domestic Product (GRDP) which shows that Madiun has 12,140 millions
GRDP which is higher than Mojokerto which has 5,848 millions and Blitar with 5,802 millions. Based on the data above, the position of Madiun has a better prospect and competitiveness compares to other areas. Compares to Mojokerto which is famous as cultural, education, tourism, industry and trade city, and also compares to Blitar, Madiun still has higher GRDP until 2017.

**Literature Review**

**Social Capital**

Social capital is a number of actual and potential resources embedded in a community group rooted in local culture. Coleman (1988) defines social capital as the people's ability to work together to achieve common goals in a group or organization. Therefore, it can be concluded that social capital is the ability to collaborate with one another to achieve the common goals in order to form important strengths, not only from the economic aspect, but also from other social aspects. Coleman (1988) considers that the typology of society which tends to create external networks, in its movement is more capable of giving pressure to make joint efforts with groups outside of their own community, which is more adaptive to all changes in the environment. The adaptability of a person or organization is influenced by their social capital ability.

Social capital becomes an important strength to quickly response the change coming from the environment. Putnam (1993) defines social capital as feature of social organization such as belief, norms, and network which able to improve community efficiency by facilitating coordinated actions, social capital refers to connection between individual social network and mutual norms and beliefs existing from themselves. Janine Nahapiet (1998) categorizes social capital into three integrated dimensions namely cognitive dimension (shared code, language and shared narration), rational dimension (beliefs, norms, obligations, and identification), and structural dimension (networks ties, network configuration, and corresponding organization). Antoldi, Fabio, Cerrato, Daniele & Depperu (2011) SMEs accumulate all social capitals into a network which support opportunities increase for their business development.

**Financial Capital**

For every business organization, capital carries an important role in running a business which is to finance the company’s operational activities both in the long and short term. This explains that financial capital has a significant effect on improving the performance of SMEs. Chittithaworn, Islam, Keawchana, & Yusuf (2011) who conducted a study in Thailand reports that financial capital affects the success of SMEs. Munizu (2010) conducted a study to determine the role of external and internal factors influencing the performance of SMEs in South Sulawesi where the results of the research indicated that the internal factors, including financial factors, had a significant effect on the performance of SMEs in South Sulawesi. In this study, financial capital was obtained from credit and many SMEs went out of business due to lack of access to the financial institutions which provided micro credit. Philomina, Emmanuel, & Emmanuel (2012) conducted a study in the Wa district of Ghana which concluded that micro credit has a strong enough role for economic development in the Wa district of Ghana. Nelfa N, Zuraidah (2019) analyzed the effect of working capital credit on the net income of formal sector of SMEs in Buleleng Bali, and concluded that working capital credit had a positive and significant effect on the net income of SMEs in Buleleng Bali.

Several existing indicators can be used to find out the indicators of financial capital in SMEs. Munizu (2010) explains that there are several financial capital indicators including first, owner’s equity, namely the use of owner’s capital in running a business and the ability to manage financial assets.
Second is loan or credit capital, namely easy access to loans from financial institutions, both banks and non-banks. Third, is the level of profit and capital accumulation, namely using existing profits to increase capital in order to develop business units. Furthermore, the indicator of the financial capital variable according to Munizu (2010) is used as a measuring tool in this study because it is quite short and clear and fulfills the main aspects of SME financial capital management.

**Social Capital, Financial Capital, and Performance**

Social capital is assumed as an alternative form of other capitals. Theoretically, there is a debate related to social capital leading to social relations which is concerned with the conceptualization of social capital as concrete capital in which individuals or groups are able to utilize social relations including values and norms, social networks and beliefs to obtain economic and social benefits. According to Portes (1998) social capital is the actors' abilities to guarantee benefits by relying on membership in social networks and other social structures. Meanwhile, according to Woolcock (1998) social capital is the degree of social cohesion existing in a community. It refers to the processes between people who build the networks, norms and social trust, which facilitate mutually beneficial coordination and cooperation.

One important elements of social capital is social networks. Network as an element of social capital is defined as a group of people who have informal norms or values in addition to the norms or values needed for ordinary transactions used in the market (Gray, 1997). The exchange of information which is accommodated by networks in interaction ultimately contributes in building trust between them (Gray, 1997). Networks are formed by values and norms which are firmly held together and ultimately underlie the forming of cooperation. However, cooperation does not exist directly without anything that trigger its existance. Cooperation can be generated by creating a common identity, exchanging information and repeating interactions. (Nguyen, 2015) found that companies which are able to build good social relationships with financial institutions will have the opportunity to obtain low interest financing facilities. Du, Bhattacharya, & Sen (2010), in their research also provide an overview where social capital can explain the process of financial decision making taken by companies. With its social capital, the company will have positive relationships with other economic actors, where this relationship will strengthen access to external sources of funding. The stronger the relationships, the stronger the social capital will be which is them impact the amount of financial loan and the accessibility of funding. This is different with the weak social networking which is then resulted in the difficulty of obtaining loan as the assessment will be based on the collateral value.

**Entrepreneurship Orientation**

According to Baker & Sinkula (2009) entrepreneurship orientation reflects the way a person explores and exploits all market opportunities to drive market growth which is very important for the survival of a company. Entrepreneurship is the ability of a person or company to be involved in all innovative activities, take all risky efforts and to be involved in proactive innovation (Fairoz, Hirobumi, & Tanaka, 2010). Patel & D'Souza (2009) define entrepreneurship as a series of decision-making styles, processes, practices, rules, and norms used by a person or company to make decisions in order to increase innovation, to be proactive, provocative and the tendency to take risks. Innovative SMEs have a tendency to engage in creativity and experimentation through the introduction of new products or services and promote research and development in innovation.

Identifying the influence of entrepreneurship orientation without
considering other internal resources such as network capabilities does not provide a complete picture of internal resources and company capabilities influence on company performance. Olafsson, Gudlaugsson, & Hermannsdottir (2007) stated in their research that entrepreneurship orientation can be valuable in achieving company performance provided internal and external factors are well aligned. They assess variables such as environment, strategy, and structure as very important aspects in improving company performance. This shows that entrepreneurship orientation may not be fully relied on by any company as an internal resource needed to produce company performance. Therefore, this study also considers the company's ability to create a network as another internal capability in effort to improve company performance. Thus, according to (Brouthers, Nakos, & Dimitratos, 2015) it will be very relevant to investigate the effect of entrepreneurship orientation on SME performance. Many studies including research conducted by Wales, Wiklund, & McKelvie (2015) as well as Thanos, Dimitratos, & Sapouna (2017) reveal that entrepreneurship orientation has a positive and significant effect on profitability, growth and overall performance of SMEs.

**Networking Ability**

Networking ability is the ability to develop and use external networks through social interaction (Brinckmann, Grichnik, & Kapsa, 2010). Networking ability is an important factor for the growth of SMEs due to the fact that SMEs have limited resources and may lack of experience to enter the market (Galkina & Chetty, 2015b). The strong networking ability can cover the weaknesses of the SME by collaborating with other parties. Networking itself is the entrepreneur's ability to build and maintain close, long-term relationships with others. In addition, according to (Perin, Sampaio, Jiménez-Jiménez, & Cegarra-Navarro, 2016) to conduct all their activities effectively, companies need to have extensive external network in order to open new opportunities, reduce costs, and achieve high levels of customer satisfaction as the target market.

Several studies from Schoonjans, Van Cauwenberge, & Vander Bauwhede (2013) show the role of networking ability in company performance. Meanwhile, Watson (2012) conducted a study which concluded that various formal and informal networks were positively related to the company’s survival. The same opinion was also expressed by Schoonjans et al. (2013) who states that by using panel data, it can be seen that the formal network of entrepreneurship has a significant correlation with company growth. This is also supported by Brouthers et al. (2015) who stated that the interaction between partners has a tendency to generate new knowledge and business opportunities. Therefore, it can be concluded that someone with a higher entrepreneurship orientation will be able to solve business problems better and more quickly and be able to compete successfully through developing their network and strengthen their position in the network (Forsgren, 2016).

**Entrepreneurship Orientation, Networking Ability, and Performance**

Companies with high entrepreneurship orientation tend to be more proactive and actively seek opportunities from external environment (Jantunen, Puumalainen, Saarenketo, & Kyläheiko, 1993). However, due to the lack of resources owned by SMEs, these opportunities cannot be fully explored without interference other companies. Networking abilities can be used to assist SMEs in obtaining resources in order to be more competitive and improve their business performance. Galkina & Chetty (2015b). Through networking abilities, highly oriented SMEs can take advantage of their proactive abilities, discover new opportunities presented by their networking partners, and possibly gain access to new technologies which do not require more time and large internal resources (Wiklund & Shepherd, 2003). Engaging in this network tends to
increase the performance of SMEs where the performance increases with the increase number and diversity of partnerships in the network (Street & Cameron, 2007). Good resources and market intelligence reduce the risk of failure in the market (Chen & Jaw, 2014) and facilitate collaboration between SMEs Walter, Auer, & Ritter, 2006). By joining related network and having close relationship, social exchange process will be facilitated and it will increase mutual productivity, build trust, and grow the SME's performance together (Janine Nahapiet, 1998).

SMEs’ Performance

Performance is an achievement achieved by someone or company in order to achieve a certain goal. Robbin and Coulter (2013) stated that performance in an answer to the question of what result that have been achieved by someone after conducting a certain thing. Schermerhorn, Hunt, and Osborn (2002) stated that performance is a quality and quantity from an achievement of a certain effort conducted by individual, group or organization. Armstrong (2006) in its theory formulated that performance is a result from a certain effort with strong correlation to the strategic goal of organization, consumers satisfaction, and provide economical contribution. Munizu (2010), Begonja, Čiček, Balboni, & Gerbin, (2016), Stevenson (2015), Putniņš & Sauka, (2019), Petzold (2019) and Hatmawan (2019) explained that performance indicators of SMEs are seen from the sales growth, capital increase, annual increase of workforce, market share growth, and profit growth.

Hypothesis

H1: There is significant influence of entrepreneurship orientation toward networking ability.
H2: Networking Ability mediates the relationship between entrepreneurship orientation toward SME’s performance.
H3: There is significant influence of social capital toward financial capital.
H4: Financial Capital mediates the relationship between social capital and SME’s performance.

Methods

This research aims to study the influence of entrepreneurship orientation, networking ability, social capital, financial capital toward SMEs performance in garment industry in Madiun city. The population used in this study are SMEs in Batik industry across 5 districts in Madiun city. The data provided by the Industrial and Trade Service of Madiun city shows that there are 720 SME units in Madiun city. From those numbers, there are 490 SMEs are not surveyed due to some reasons such as not interested in the topic of research and tied up with their daily activities. As many as 230 SMEs willing to conduct a survey, but as many as 70 SMEs did not return the questionnaire that have been given. Therefore, the final sample in this study were 160 SMEs. The cluster sampling area was used to determine the number of sample, while the questionnaire with a Likert scale was used to collect the data, and 1-4 scale was used as the alternative answers for respondents with the choice of "Strongly Disagree" to "Strongly Agree", to enable respondents to assess the answers.

The operational definition of each variable are; first, social capital variable developed from Dar & Mishra (2020) is chosen with five dimensions, namely status, interlinking and family support, complicity, personal relations, and social relations; Second, the variable of financial capital is developed from Munizu (2010), namely owner's capital (the use of individual owner's capital to run a business and the ability to manage financial assets), loan capital, and the level of profit as well as capital accumulation. Third, the networking ability variable which uses the scale dimension developed by X. Chen, Zou, & Wang (2009), namely the company's ability to recognize,
communicate, coordinate, and to proactively strengthen relationships with potential partners. Fourth, the entrepreneurship orientation variable using the Wales (2015) which was chosen with innovation, pro-activeness and risk-taking variables. While the fifth is the performance variable of SMEs as measured by sales growth, increased capital, annual increase of workforce, market share growth, and profit growth which are also developed by Munizu (2010).

**Initial Data Analysis**

The first step taken was to test the validity and construct reliability tests on each sample. The validity was tested using Confirmatory Factor Analysis (CFA), the underlying assumptions which determine whether this can be used as factor analysis where the matrix of data must provide sufficient correlation with the Bartlett Of Sphericity and Kaiser-Meyer Olkin Measure Of Sampling Adequacy (KMO MSA) with the desired value must be above 0.5 (λ = 0.5) (Ghozali, 2013). While the reliability test was conducted by means of one-shot measurement, which was only done once which then the results were compared with other questions or measuring the correlation between the answers to questions (Ghozali, 2013). Hair, C., Barry, Rolph, & Anderson (2017) state that Cronbach Alpha can be said to be reliable if the value is> 0.70.

**Data Analysis Technique**

The method of analysis used in this study is Structural Equation Modeling (SEM). The variant / covariance matrix or the correlation matrix were used as data input matrix in this study. Meanwhile, the model estimation technique proposed is maximum likelihood (ML). The detection of multivariate outliers is conducted by taking into account the value of the mahalanobis distance with the criteria based on the value of chi-squares (X2) in the degree of freedom, namely the number of observed variables at the output of AMOS 22, with a significance level of p <0.001.

**Model Estimation and Hypothesis Measurement**

The Goodness of fit test is conducted after the model is declared as fit. The Chi-square (X2) is used as fit indexes for hypothesis testing. The tested model is considered as good or satisfactory when the Chi-square value is low with a cut off value of p > 0.05 or p > 0.10 (Ferdinand, 2006) and NFI (Ghozali & Fuad, 2005). The cut off value limit for IFI is > 0.90 while the GFI value is ≥ 0.90. Ferdinand (2006) states that the RMSEA ranges from 0.08 to 0.1, which states that the model has a fairly good fit, while an RMSEA that is greater than 0.1 indicates a very bad fit. The recommended value is AGFI ≥ 0.90 and the greater the AGFI value, the better the fit of the model. TLI ≥ 0.90; NFI ≥ 0.90; CMIN / DF <3.0 to prove the existing hypothesis. In two-tailed testing, the hypothesis is accepted (Ha is accepted and H0 is rejected) in which with a significance level of 0.05 the critical ratio value is> 1.96 and with a significance level of 0.01 the critical ratio value is> 2.58.

The approach used to test the mediation hypothesis in this study is the product of coefficient strategy by testing the significance of the indirect effect (multiplying the direct effect of the independent variable on the mediator, p1 to the direct effect of the mediator on the dependent variable, p2, to obtain the indirect effect of p1 * p2). The significance test of the indirect effect p1 * p2 is based on the ratio between the p1 * p2 coefficient and the standard error which will then produce a statistical z-value (z-value). The standard error of the p1 * p2 coefficient is calculated based on the Aroian version of the Sobel test which was popularized and recommended by (Baron & Kenny, 1918), which is the square root (p2 ^ 2 Sp1 ^ 2 + p1 ^ 2 Sp2 ^ 2 + Sp1 ^ 2 Sp2 ^ 2). If the z-value in absolute = 1.96 or the level of statistical significance z (p-value) = 0.05, it means that the indirect effect of the
independent variable on the dependent through the mediating variable is significant at the 0.05 significance level (Preacher & Hayes, 2004).

### Results and Discussion

The instrument test is conducted to produce valid data, in accordance with scientific research principles. The first step is to conduct a validity test and a data reliability test. The results of the validity test are shown in Table 1. From the results of the validity test using Confirmatory Factor Analysis (CFA), the value of KMO = 732 can be concluded that factor analysis can be conducted. Likewise, with the Barlett Test value with Chi-square = 314.446 and significant at 0.000, it can be concluded that the factor analysis test can be continued.

**Table 1. KMO and Bartlett's Test**

| KMO                         | Bartlett's Test of Sphericity |
|-----------------------------|-------------------------------|
| Kaiser-Meyer-Olkin Measure  | Approx. Chi-Square             |
| Adequacy                    | df                            |
| 732                         | 314.446                       |
| Source: Processed Primary Data, 2020 |

Reliability test with the Cronbach Alpha statistical test on each instrument, namely Entrepreneurship Orientation, Networking ability, Social Capital, Financial Capital, and SME Performance can be seen in Table 2 which shows that all constructs in this study are reliable, where the value of the Cronbach Alpha coefficient each construct shows a value of > 0.70 (Nunnally, 1978).

**Table 2. Reliability Test**

| No  | Variable               | Cronbach's Alpha | Explanation |
|-----|------------------------|------------------|-------------|
| 1   | Entrepreneurship       | 0.882            | Reliable    |
|     | Orientation            |                  |             |
| 2   | Networking Ability     | 0.842            | Reliable    |
| 3   | Social Capital         | 0.839            | Reliable    |
| 4   | Financial Capital      | 0.853            | Reliable    |
| 5   | SME Performance        | 0.971            | Reliable    |

Source: Processed Primary data, 2020

Upon conducting the normality and reliability tests, the model assumption was tested by testing the normality of the data to evaluate normality both univariate and multivariate. The Univariate data in this study were moderately non-normal due to the mean value of C.R. skewness for all question items which shows a value of > 2, while for the values of C.R kurtosis, show a value of <7 for almost all question items. Thus, the uni-variate is not normally distributed. C.R. kurtosis of 10,709 indicated that the multivariate data in this study were moderately non-normal. The assumption of data normality is required in SEM analysis because the non-normal data is expected to result in interpretive bias as the chi-square value of the analysis results tends to increase which will result in the decrease of probability level. However, the Maximum Likelihood Estimates (MLE) technique used in this study is not too affected (robust) to the multivariate normality deviation (Ghozali, 2013). This is caused by the fact that the data used in this study are primary data based on a very
diverse range of respondents’ answers, making it difficult to obtain data which follows a perfectly normal distribution.

The outliers test is then performed to the multivariate outliers using the mahalanobis distance criteria at the level of p < 0.001. There are 32 indicator variables used in this study. Therefore, all values that have a mahalanobis distance greater than $x^2 (32, 0.001) = 62.48722$ are multivariate outliers. The outliers test results show that there are two cases categorized as outliers, but these cases do not need to be excluded. In line with the research analysis which stated that if there is no specific reason to exclude cases that indicate outliers, then these cases must be included in further analysis (Ferdinand, 2002).

### The Analysis of Research Data

The next step is to analyze the research data. This analysis is conducted to test the sample adequacy assumption, normality assumption, outliers assumption and model suitability analysis (goodness of fit). Based on the normality processing test result, it shows that the C.R. skewness is more than -2.58. However, the C.R. Kurtosis does not have a value that exceeds -2.58 or +2.58, and has a C.R. multivariate kurtosis of <7, thus the data in this study are considered as normal. The first step to be taken before conducting the hypothesis test is to assess the suitability of the goodness of fit. The results of the goodness of fit value evaluation from the research model can be seen in Table 3.

### Table 3. Result of Goodness-of-Fit Model

| Goodness of Fit index | The Desired value | Result | Evaluation |
|-----------------------|-------------------|--------|------------|
| $x^2$ - Chi Square    | Is desired to be small | 740,500 | -          |
| Probability           | $\geq 0.05$       | 0.000  | Bad        |
| CMIN/df               | $<2 / < 3$        | 1.545  | Good       |
| RMR                   | $< 0.03$          | 0.056  | Good       |
| GFI                   | $\geq 0.90$       | 0.872  | Marginal   |
| AGFI                  | $\geq 0.90$       | 0.831  | Marginal   |
| TLI                   | $\geq 0.90$       | 0.929  | Good       |
| CFI                   | $\geq 0.90$       | 0.967  | Good       |
| RMSEA                 | $\leq 0.08$       | 0.097  | Good       |

Source: Processed Primary Data, 2020

Table 3 describes the results of the goodness of fit from the research model that has been conducted. Chi-square is very sensitive to sample size. The $x^2$ value in this study is 740,500 with a probability of 0.000, which generally indicates a bad indication. Thus, there is a difference between the sample covariance matrix and the observed population covariance matrix. The CMIN / df, RMR, TLI, CFI, RMSEA indices show good values, while the GFI and AGFI indices show marginal values. From the overall goodness of fit measurement above, it indicates that the model proposed in this study is acceptable.

### Hypothesis Test

After the criteria for the estimated goodness of fit of the structural model are met, an analysis of the model's structural relationships (hypothesis testing) is then can be carried out. The relationship between constructs in the hypothesis is indicated by the value of regression weights. Table 4 shows the regression weights value of the variables tested for causality.
Table 4. Regression Weights

| Regression Weights | Estimate | S.E  | C.R. |
|--------------------|----------|------|------|
| Networking Ability | 0.179    | 0.078| 2.104|
| SME Performance    | 0.130    | 0.053| 2.055|
| Social capital     | 0.085    | 0.061| 2.278|
| SME Performance    | 0.415    | 0.094| 2.338|

Source: processed Primary Data, 2020

Table 5 shows that Hypothesis 1 is accepted at the level of significance $\alpha = 0.05$ based on the value of C.R. amounting to 2.104 with an S.E value of 0.080. Therefore, it can be concluded that entrepreneurship orientation has a positive and significant influence on networking abilities. This is in line with research conducted by Karami & Tang (2019) which states that SMEs with a higher entrepreneurship orientation have a tendency to find better business opportunities, as their limited resources require them to take advantage of all available opportunities to build networks with other SMEs. By having an extensive network, SMEs will have new knowledge about new products and market opportunities in which the ability to build this network will ultimately improve the performance of the SMEs. Miller (1983) mentions that one of the dimensions of entrepreneurship orientation in this study is risk taking. Risk taking is the opportunity-taking behavior adopted by entrepreneurs to faster improve their business performance. One of the aspects that can help with successful risk-taking is to improve social relationships. Darsono (2015) states that the factors which influence business performance are the internal environment which includes entrepreneurship orientation, ownership and access to resources, control and the use of information technology, management systems, culture, capital strength, partnerships and business networks with external parties.

Based on the calculation results described in Table 5 where the value of C.R. Networking Ability on SME performance is 2.055 at a significance level of $\alpha = 0.05$ with an S.E value of 0.053, it can be concluded that Hypothesis 2 is accepted. This means that statistically, it can be shown that networking abilities have a significant positive influence on the performance of SMEs. The ability of entrepreneurs to build networks is very important as networks post a greater impact on company performance, not only on the financial sector but also on the entrepreneur’s perception on the success of their business. With the ability of building a network, the company’s competitive advantage can be increased by sharing information and knowledge, resources and services among members of the network. It also provides support for new innovations, provides legal and advocacy services, as well as other business development services when needed. Entrepreneurs who are able to build networks will have the same vision and trust from members of the network and have the potential to increase company innovation through sharing of information, knowledge, facilities and human resources. This research supports research conducted by Karami & Tang (2019).

Based on the calculation results shown in Table 5 where the value of C.R. Social capital on financial capital is 2.278 at a significance level of $\alpha = 0.05$ with an S.E value of 0.061, it can be concluded that Hypothesis 3 is accepted. This means that statistically, the social capital has a significant positive influence on financial capital. This shows that the better an entrepreneur is in networking with various groups, the better his financial management ability and will generate more opportunities...
to gain access of funding from various financial institutions. Shane, Cable, Shane, & Cable (2002) stated that social capital through networks can help to reduce information shortages about credit processing and credit fluidity. Many small entrepreneurs are unable to receive loans from financial institutions due to lack of information. By cooperating with other entrepreneurs, information will run smoothly. In addition, with strong social capital, entrepreneurs can form cooperation to meet the financial capital needs of their members independently and on a familial basis. Strengthening financial capital is very important especially in the culture and customs of the Indonesian people who have a very priceless cultural heritage such as mutual cooperation. The results of this study support the results of research conducted by Philomina et al. (2012) and Pramestiningrum & Iramani (2019).

Based on the calculation results described in Table 5, where the value of C.R. Financial capital on the performance of SMEs is 2,338 at a significance level of $\alpha = 0.05$ with an S.E value of 0.094, it can be concluded that Hypothesis 4 is accepted. This means that statistically it can be seen that financial capital has a significant positive influence on the performance of SMEs. Financial capital in this case is the ability to manage finances and access to loans from financial institutions. The results of this study indicate that the better the financial aspects of an SME, the better the performance of the SME. Financial aspects are important aspects that must be taken into account in running a business. In several theories related to capital show that financial capital is the principal capital which must be fulfilled. Financial capital can be in the form of owner’s capital or loan capital from other parties (Le & Nguyen, 2009). In a modern economy, access to financial loans from official financial institutions is absolutely necessary. The problem that often occurs is the fact that there are still many SME actors who have not received access to loans from financial institutions, which will hamper the development of their businesses. Shane et al. (2002) claim that social capital through networks helps reduce information irregularities in credit and debit relationships. In this case, the government needs to step in by providing training for SME to make them bankable entrepreneurs to ensure that business development will run well. The results of this study support the results of research conducted by Munizu (2010) and Nelfa, Zuraidah, & Sartika (2019).

Mediation Analysis

Mediation analysis was conducted using Sobel t Test. The result of Sobel t Test can be seen in table 5 below:

| Relationship among Research Variables. | T Test Value | T Table Value | Explanation |
|---------------------------------------|-------------|---------------|-------------|
| Entrepreneurship Orientation – Networking Ability-SME’s Performance | 2.041 | 1.9835 | Mediating |
| Social Capital-Financial Capital-SME’s Performance | 2.095 | 1.9835 | Mediating |

Source: Processed Primary Data, 2020

Based on table 5, it can be seen that the value of $t$ count is greater than $t$ table which can be concluded that $t$ count is in the rejection area H0. The results of calculations using the sobel test confirm the full mediation of networking ability and financial capital on the indirect relationship between entrepreneurship orientation and social capital on SME’s performance. Effectiveness theory emphasizes the importance of networks as a mechanism to
increase the initial facilities of SMEs into valuable resources (Saras Sarasvathy, Kumar, York, & Bhagavatula, 2014). Network as the main channel to get complementary resources (Chen & Jaw, 2014). In addition, with their social capital, SMEs will have positive relationships with other economic actors, where this relationship will strengthen access to external sources of funding, such as banks, to obtain financial capital. The stronger the social capital which is built, the wider / stronger the financial capital will be, perhaps it will increase the amount of funding that SMEs can obtain from banks and the accessibility of funding.

**Conclusion, Implication, and Limitations**

This study aims to determine the effect of entrepreneurship orientation and social capital on SME performance by mediating networking ability and financial capital. The results of this study indicate that first, entrepreneurship orientation has a positive and significant effect on networking ability. SMEs with a higher entrepreneurship orientation tend to find better business opportunities, as their limited resources require them to take advantage of all available opportunities to build networks with other SMEs. Second, networking ability affects the performance of SMEs. SMEs with high innovation, which are more proactive and willing to take risks, will be able to recognize, communicate and coordinate with other partners. This makes the relationship between potential partners stronger and closer. The ability of the SME network has made the performance of SMEs increase, which can be proven by the increase in sales and profit from the batik business, particularly in Madiun and in Indonesia in general.

Third, social capital has significant effect on financial capital. The better an entrepreneur builds the network with various community or circles, the better his ability of financial management which resulted in the broader opportunity to gain finding access from various financial institutions. Moreover, building networks with other entrepreneurs will facilitate information. Fourth, financial capital has a positive and significant effect on the SME performance. The financial capital refers in this study are the financial management ability or loans access from various financial institutions or bank. The results of this study show that the better the financial aspects of SMEs, the better the SMEs performance.

**Implications**

This study offers implications for practitioners as well. First, our results suggest that SMEs could benefit from networking abilities and social capital. Thus, founders and managers of SMEs should building multiple network relationships as it boosts the firm’s performance and long term competitive advantages. Second, This study suggests that networking with other successful SMEs can helps SMEs overcome various existing limitations. Networking increases the value of existing means of SMEs and turns them into valuable resources.

**Limitation**

This study has several limitations. First, this study investigates the performance of SMEs as the result of entrepreneurship orientation, financial capital, social capital and networking abilities influence. It doesn't consider the prominent role of the business founders or the owners. Future research can investigate and analyze in stages the characteristics of company's performance, as the theory developed by Sarasvathy (2001) offers insights by providing an explanation of the role of existing resources, including personal values, beliefs, knowledge, experience and relationships, in creating new opportunities in companies with high entrepreneurship orientation. Since the two respondents drawn from this study are only within the Madiun City, future research needs to be conducted in different objects in order to observe different variables effecting...
business performance. It is hoped that future research should expand the observation site not only in one city but wider. In addition, this research is limited to micro, small and medium enterprises. Doing research on a larger company may have mixed results.

Notes on Contributor

Aglis Andhita Hatmawan is a young researcher. He started his career as a Lecturer in Management Studies Program, and being the Dean of the Faculty Economics and Business at Universitas PGRI Madiun. He was a researcher who focused in the field of Sharia Economics and entrepreneurship, as well as the author of the book Research Methods, Quantitative Research, Research in the Field of Management, Engineering, Education, and Experimentation. Teaching courses in microeconomics, managerial economics, entrepreneurship, and Sharia banking. In 2019, He was graduated from Doctoral Program of Economics Studies at Universitas Sebelas Maret, Central Java, Indonesia

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