

# THE INFLUENCE OF SOCIAL CAPITAL TO ENTREPRENEURIAL SUCCESS

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## **Abstract**

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*The study aims at examining whether the social capital is really influencing entrepreneurial success of small and medium scale enterprises/SMEs in embroidery and weaving business in West Sumatra, Indonesia. Using the quantitative approach, the study was undertaken in some regions in West Sumatra Province, which are famous as the centre of SMEs in embroidery and weaving business. All SMEs operated in 8 regions were used as study population. The number is 235 of SMEs. In measuring the influence of social capital on SMEs entrepreneurial success, the SEM (Structural Equation Modeling) was used as the tool for analysis.*

*The study has found that the social capital has a negative impact on entrepreneurial success. This is a contradictory finding with the previous studies elsewhere. A severe competition between SMEs in this business is found as the major reason of why the social capital is no longer be considered as an intangible asset that can be used in the business survival in the study context. Findings of this study have a value and originality as a discourse in the social capital topic, since many research and studies found and viewed that the social capital is one of the most prominent factors in entrepreneurial success.*

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**Keywords:** *Entrepreneurs; Social Capital; Entrepreneurial Success*

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## **1. Introduction**

The concept of social capital has emerged as an important aspect that can influence the performance of various sectors and it has been considered from different point of views (see studies of Portes, 1998; Woolcock and Narayan, 2000; Burt, 2005; Mouw, 2006). In the field of entrepreneurship, it is argued that even though the social capital is not relatively a new approach, it still needs to be deeply considered when entrepreneurship is discussed (Greve and Salaff, 2003). Some studies found that the social capital can stimulate the success of entrepreneurs (Gompers *et al.*, 2006; Morisette and Schraeder, 2007). Some fields of research and study in entrepreneurship have even investigated in detail how social capital can influence other sectors, such as innovation (Xu, 2014), the flow of information in SMEs (Feroni *et al.*, 2012) and network establishment, trust and value development in SMEs (Batjargal, 2003). In another occasion, Johnson (2014) shows that the social capital can also contribute to entrepreneurial success in terms of their ability to access the financial institutions for their business. However, Shane and Cable (2002) in contrary view that in a certain circumstance, the social capital cannot positively contribute to the entrepreneurial success.

As in the other regions, SMEs in West Sumatra also play a vital role in the economy of the province. Looking at SMEs in embroidery and weaving business in West Sumatra, they are considered as having a strategic position in developing creative industry in the province. SMEs assist societies at large by producing local content products and usually use local human resources. The nature of this SME as a hereditary business has become one of the major identities of the business sector of SMEs in West Sumatra.

As a consequence of a hereditary business, SMEs in embroidery and weaving also experienced the importance of social capital in their operation. As Primadona states (2014), the existence of social capital in terms of trust and network is relevant to the creation of entrepreneurial success of the Minangkabau ethnic group, the biggest native ethnic group in the West Sumatra Province. Social capital has emerged as an important factor in SMEs in West Sumatra where several specific sectors of SMEs are growing fast, such as embroidery and and weaving business. Some production centres of this kind of business are famous not only among the West Sumatran people but also among the people from outside the province, either nationally or internationally. The regions of Silungkang, Pandai Sikek or Ampek Angkek are just some of the well-known production centres of embroidery and weaving business in West Sumatra.

However, in several years – this business has become stagnant and tended to have slower development in the business scale. Analysing this phenomenon and looking at the fact that there is a severe competition

among SMEs in this business, the researchers consider and further analyse the possibility of several factors in terms of business performance, social capital and entrepreneurial orientation which are viewed as the influencing factors in entrepreneurial success of SMEs in this business. However, the researchers particularly focus the discussion on the social capital as they found that this factor has an uncommon thing in creating entrepreneurial success within the context of this study.

## **2. Literature Review**

In general, social capital is viewed as an intangible asset that can influence organisation, and it depends on the members of an organisation to use it to respond to new ideas and opportunities. In terms of entrepreneurship, Nahapiet dan Ghoshal (1998) view social capital from three dimensions in order to understand it. The first dimension is a structural dimension, which refers to the nature of social network between entrepreneurs that can be seen from the measurement, density and the diversity of things in the business. The second dimension is a relational dimension which refers to the beliefs of entrepreneurs as an access for them to operate their business. This dimension focuses on norms, reciprocal beliefs and obligations that are viewed to be able to influence entrepreneurs' behaviour. The third dimension is a cognitive dimension, which refers to how entrepreneurs can communicate each other, or to communicate with other parties who have interests, such as customers, suppliers etc. (DeCarolis and Saporito, 2006).

The concept of social capital can be seen and considered from various field of expertises such as economy, sociology, politics, and management theory (Portes, 1998; Woolcock and Narayan, 2000; Burt, 2005; Mouw, 2006). The main difference between social capital and other kinds of capital lies in the relational context of an individual or groups. According to Coleman, (1998) the social capital is not the same as the financial capital or physical capital. Social capital is more to an intangible asset whilst the other forms of capital are more to the tangible one. Inherently, the social capital can be understood as a capital which is embedded in the structure of relationship between actors, and contextually, it is related to the social interaction between individual and groups and can be viewed as an accumulation of obligations in the reciprocal norms as Coleman (1990) argues.

Adler and Kwon (2002) have previously analysed and synthesised various definitions of social capital which have been recognized from social literatures and they define social capital as a *goodwill* that is available to individuals and groups. Another argument to understand the social capital is previously conveyed by Bourdieu (1985) who defines the social capital as an aggregate of actual and potential resources which is related to the

longlasting ownership of the network and tied-up relationship based on the conviction of individuals. Meanwhile, Leana and Van Buren (1999) and Burt (2005) define the social capital as an asset that is embedded to the social relationship and network. The main importance resource of the social capital is on the structure and content from the relationship between actors (Adler and Kwon, 2002). Social capital can also refer to informal cooperation norms between individuals and groups (see the studies of Fukuyama, 2001; Stephan and Uhlaner, 2010) or in a broader sense, it can also refer to networks, norms and social beliefs that can facilitate coordination and profitable cooperation (Putnam, 1995).

Social capital as a social phenomenon is believed to be able to improve individuals' creativity and ideas, and facilitate innovative behaviour and their response to risks, as Coleman says (1998). Apart from that, the social capital can also improve output through the improvement of the source of information which is at the end, will positively impact economy (Feldman and Zoller, 2012). The study by Cook (2007) previously finds that the higher the social capital that a society has, then the more vibrant that society is. This can be seen in the ability to cope risks and the existence of innovative activities which at the end, can improve performance. Social capital is also found and viewed as a part of innovation in entrepreneurial processes, (see studies of Alpkhan *et al.*, 2010, Romero-Martínez *et al.*, 2010; Un and Montoro-Sánchez, 2010; Zhang, 2010). From a different point of view, the social capital is argued as a productive resource which can facilitate individual action to create opportunities in entrepreneurship, (Marsden and Hulbert, 1988; Tsai and Ghoshal, 1998), to expose business operation, (Bates, 1995; Burt, 2005), to create values in business (Tsai and Ghoshal, 1998), and to create channels that allow businessmen to optimize their effort in gathering information (Oh *et al.*, 2006).

Related to entrepreneurship as a field of study, Light and Dana (2013) have highlighted that the creation of supportive climate and environment for entrepreneurship in communities is not only depended on social capital, but also requires the cultural capital of that communities. As Light and Gold, (2000) cultural capital occurs and depends on the habitus of the members of communities that is enable the whole groups to find their usual occupations in the usual way. A dual habitus can liberate entrepreneurship, but a unitary habitus tends to enslave groups to the reproduction of traditional livelihoods (Light, 2010). In regards of the presence of social and cultural capital, Light and Dana (2013) further stressed four possible consequences for entrepreneurship within a community:

- [a] a strong social capital which is followed by the presence of negative cultural capital will be a detriment circumstance for entrepreneurship;
- [b] a strong social capital which is followed by the presence of positive social capital will be a supportive circumstance for high entrepreneurship;

- [c] a weak social capital which is followed by negative cultural capital will impact to the condition of no entrepreneurship;
- [d] a weak social capital which is followed by positive cultural capital will create low entrepreneurship.

Therefore, from general perspectives and different contextual overview, it has been argued that the social capital will increase entrepreneurial attitude (Martínez-Gómez *et al.*, 2010 and Mas-Verdú *et al.*, 2010), can be used as an access to create new entrepreneurs (Hoang and Antonic, 2002), and can be used to detect business opportunities and to facilitate access of entrepreneurs to the resources used for their business (Fornoni *et al.*, 2012).

A more equal overview regarding social capital in entrepreneurship was proposed by Dana and Light (2012) who mentioned that the social capital may support or may be a detriment for entrepreneurship. They argued that the social capital will support entrepreneurship if it could create supportive social networks which allow entrepreneurs to access essential resources. Meanwhile, the obstruction of social capital to entrepreneurship occurs if social networks of communities exclude prospective entrepreneurs from essential resources, reward safety and mediocrities rather than risk and entrepreneurship, or impose mental conformity upon network participants.

As in the other Asian countries, the main economic activity in Indonesia is dominated by the presence of: [a] the bazaar, [b] the state controlled economic and business activities, and [c] the private firms. There are entrepreneurs, however, who actively engage in informal businesses, internal economic activities, covert, and fictitious economic activities, Dana (2014). From the context of Indonesian SMEs, rigorous research and studies regarding the relationship of the social capital to entrepreneurship are still seldom found. A recent study from Anggadwita *et al.* (2017) for example, is one of some limited studies that tried to highlight the characteristics of Indonesian entrepreneurs which would possibly lead to entrepreneurial success. Taking 250 muslim entrepreneurs, Anggadwita *et al.* (2017) found that the characteristics of Indonesian muslim entrepreneurs have always begun with five main attributes: *fathonah*, *amanah*, *siddiq*, *tabligh*, and *istiqomah*, and may have been contributing to promoting their success. *Fathonah* means the character which is related to an intention to continuously learn and understand the concept of entrepreneurship which may further improve their competencies. The characters of *siddiq* and *amanah* are related to one's determination to act as trustworthy or not, has integrity or not, being truthful or not, in which all of them depend on the intention. Meanwhile, the character of *tabligh* is an indication of one's ability to convey information and to elegantly communicate with others. Lastly, *istiqomah* views that one's all efforts should be consistent with his/her intentions since the beginning. In other study, Anggadwita *et al.* (2017) also exposed facts about Indonesian women entrepreneurs to highlight other character-

istics of Indonesian entrepreneurs. They mentioned that socio-cultural factors of women entrepreneurs in the context of their study have affected the behavior and involvement of women in entrepreneurial activities. These socio-cultural factors include: [a] tolerance, [b] mutual cooperation and, [c] kinship – and all of these three will influence women entrepreneurial behaviour, which includes [a] honesty, [b] hard work and, [c] risk-taking.

### **3. Design and Methodology**

The study uses eight regions and cities in West Sumatra Province, Indonesia as the location of the research: the regions of Tanah Datar, Padang Pariaman and Agam as well as the cities of Padang, Pariaman, Sawahlunto, Payakumbuh and Bukittinggi. Area sampling technique is used to categorize sample of the research, which is 235 SMEs in embroidery and weaving industry. These 235 SMEs are then used as the unit analysis of the research.

The study used quantitative methodology as the main design for data analysis. Cross-sectional data and information were mainly collected by using questionnaire which had been disseminated to the sample. Responses from the owner and manager of SMEs were collected in the questionnaire. Data and information collected from the questionnaire were then analysed by using Structural Equation Modelling (SEM) Method to investigate the relationship and influence between the variables of the research. As in SEM method, data of the research were analysed by evaluating *measurement model* and *structural model*. The measurement model was undertaken by measuring *individual item reliability*, *internal consistency*, and *discriminant validity*. Meanwhile, the structural model was undertaken by proving hypothesis of the research – which is: there is a positive and significant influence of the social capital on entrepreneurial success of SMEs in embroidery and weaving industry in West Sumatra, Indonesia.

The choice of quantitative methodology used in this paper is based on the objective of this study i.e. to reveal and to examine the phenomenon of social capital within a large geographical scope (in one province). We merely used SEM as the method of analysis based on the consideration that it can show the combination of factor analysis and multiple regression. It can further use to analyze the structural relationship between measured variables and latent constructs.

However, we realize and understand that the use of quantitative methodology in entrepreneurship may have certain limitations as it could not completely and holistically explore the research phenomenon as the qualitative approach does. As Dana and Dana (2005), the use of qualitative study in entrepreneurship will bring a deeper holistic result and understanding by reducing Type III error (asking the wrong question) and Type IV error

(solving the wrong problem). Similarly, Neergard and Ulhøi (2007), also revealed that the operation of qualitative approach inn research could go more beyond description. However, since this study uses relatively big samples (235 SMEs) as the unit of analysis and covers a very large geographical area (eight regions and cities in West Sumatra Province which covers areas about 42,013 km<sup>2</sup>), we view that the qualitative study is a difficult choice to operate (contextual related circumstances) and as it is not rigorous enough (Hindle, 2004) to generalize and to represent the analysis of our samples. As Neergard and Ulhøi (2007), many qualitative studies were undertaken as a single or multiple case study, where primary data was merely collected by using archival data and interview data. Based on that reasons, we considered that the qualitative data collection method for this study (in terms of observation and in-depth interview) is also a difficult choice and task to do. Additionally, due to the absence and unreliable archival data in the context of the study, we cannot use it as the basis to support analysis of this study. This is another reason why we decided to undertake a quantitative study by using survey as the data collection method.

#### 4. Results and Findings

The first result and finding of the research reveals the profile of sample of the study, which is derived based on [a] age, [b] level of education, [c] gender, [d] the duration of the business, [e] marketing area, and [e] the number of employees, and [f] monthly income of the owner. Sample profile is shown in the following table.

*Tab. 1: Sample Profile of the Study*

Category	Characteristics	Amount of Sample	Percentage (%)
Gender	Male	47	20.0
	Female	188	80.0
Age	17- 30 years	14	5.9
	31- 45 years	60	25.5
	46 - 55 years	97	41.2
	Above 55 years	64	27.4
Level of Education	Elementary School	13	5.5
	Junior High School	35	14.8
	Senior High School	102	43.4
	Undergraduate	85	36.3

Age of the business	Less than 5 years	48	20.2
	5 – 10 years	65	28.1
	More than 10 years	122	51.7
Number of employees	Less than 5 people	91	38.7
	5 – 10 people	59	25.1
	More than 10 people	85	36.2
Marketing area	Local/ West Sumatra Province only	68	28.9
	National/Indonesia only	10	4.2
	Abroad only	3	1.2
	Local, national and abroad	69	29.3
	Local and national only	85	36.4
Monthly income	Less than IDR 10 Mio.	101	42.9
	IDR 10 -20 Mio.	50	21.1
	IDR 21-30 Mio.	31	13.1
	More than 31 Mio.	53	22.9

The sample profile shows that most of the respondents are females (80%) with the majority of the sample are aged between 46-55 years (41.2%). Indonesia still has limited access to higher education institution, and this has been shown in the percentage of the sample which shows that most of the sample are from senior high school level (43.4%).

When our sample was asked about how long they have had their business – the majority of them said that they have had their business for more than 10 years (51.7%), but most of the samples are categorised as small enterprises since most of them only have less than 5 employees (37.3%). This has brought consequence that the main marketing areas of the sample are only limited to West Sumatra Province locally and Indonesia nationally. The next process of data analysis that was undertaken is the *Confirmatory Factor Analysis (CFA)*. In this study the CFA was used to investigate two latent variables which were the social capital and entrepreneurial success. Joreskog and Sörbom (1989) say that the CFA is used to examine reliability and validity of each investigated variable. The validity of each variable was measured by using *convergent validity* that contained the significant factor of loading and construct reliability (CR) as well as discriminant validity. This study found the convergent validity of the variables as follow.



Tab. 2: Results of Convergent Validity Analysis

Variables	Dimensions	Standardized Loading $\geq 0.50$	AVE $\geq 0.50$	Remarks
Social Capital	KGT	0.85	0.65	Good validity
	STR	0.63		Good validity
	RLS	0.91		Good validity
	KF	0.80		Good validity
Entrepreneurial Success	KO	0.81	0.70	Good validity
	KP	0.86		Good validity
	PGT	0.88		Good validity

KGT = Cognitive  
 STR = Structural  
 RLS = Relational

KF = Financial performance  
 KO = Operational performance  
 KP = Enterprises performance  
 PGT = Knowledge

From table 2 above, it can be seen that the highest loading factor for every dimension in the social capital as the variable is in the dimension of RLS or Relational while in the variable of entrepreneurial success, the dimension of PGT or knowledge has the highest loading factor. It can also be examined that every dimension of the two variables has the value of more than loading factor  $> 0,5$ , which means that every dimension of the variables is valid. Meanwhile, in the discriminant validity, the following results were found.

Tab. 3: The Square-Root of the Average Variance Extracted (AVE)

Variables	AVE	Square Root of AVE
Social Capital	0.65	0.80
Entrepreneurial Success	0.70	0.84

From table 3, it can be seen that both of variables are valid since all of the variables have the value of AVE bigger and the square root of AVE is bigger than 0,7. For composite reliability, the minimum value that needs to be achieved by each variable is 0.7 and the finding shows the following:

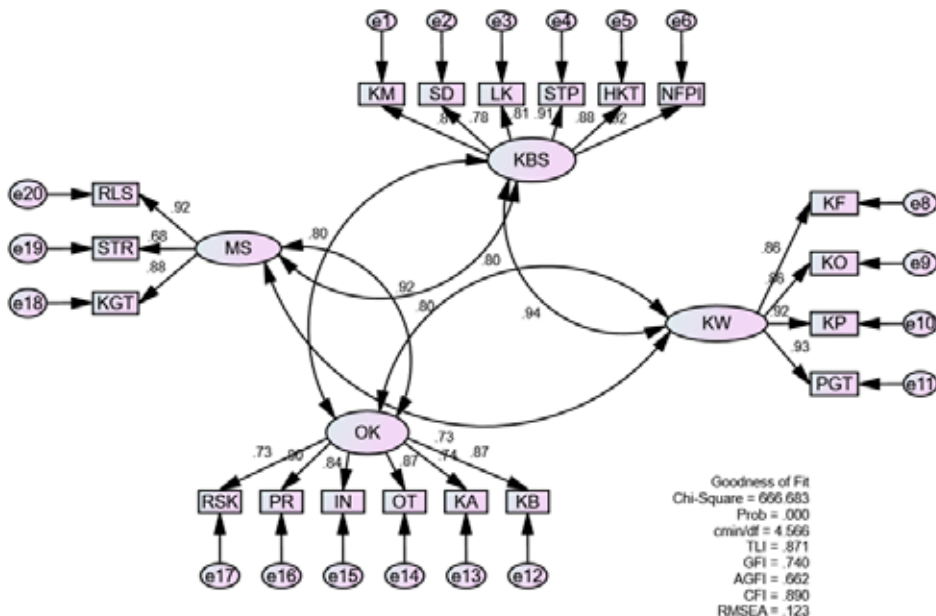
Tab. 4: The Value of the Composite Reliability

Variables	Cronbach's Alpha	Construct Reliability
Social Capital	0.73	0.84
Entrepreneurial Success	0.79	0.84

Table 4 suggests that both variables are reliable since each of the variable has reached the minimum values of composite reliability which is 0.7. Social capital has the value of Cronbach Alpha 0.73 with construct reliability of 0.84, whereas entrepreneurial success has the value of Cronbach Alpha 0.79 with the value of construct reliability of 0.84.

The findings were then analysed by processing them in the CFA model. The result of the process by using the CFA model will show the relationship between variables in this study. In the CFA model and as the general analysis in this research, four variables are examined, which are: [a] the social capital (MS), [b] entrepreneurial orientation (KO), [c] business performance (KBS) and, [d] entrepreneurial success (KW). All variables are shortened by using Indonesian words. The CFA model of our research (by using four variables) is shown in the following figure.

Fig 1: Confirmatory Factor Analysis (CFA) Model of the Research



From the CFA model, the analysis was focused on the variables of the social capital and entrepreneurial success and the standardized regression for each dimension of the variables was obtained. The standardized regression result for the dimension of variables that was analysed can be found in the following table.

*Tab. 5: Results of the Standardized Regression Coefficients based on the CFA Model*

			Estimated Coefficients
KGT	<---	MS	.878
STR	<---	MS	.677
RLS	<---	MS	.917
KF	<---	KW	.861
KO	<---	KW	.859
KP	<---	KW	.919
PGT	<---	KW	.926

KGT = Cognitive  
 STR = Structural  
 RLS = Relational  
 MS = Social capital  
 KW = Entrepreneurial success  
 KF = Financial performance  
 KO = Operational performance  
 KP = Enterprises performance  
 PGT = Knowledge

Apart from undertaking the confirmatory analysis, the measurement of the fit-model was also examined to investigate whether the model was appropriate or not. In measuring the fit-model, the following measurements were used:

- [1] the absolute-fit measurements that consist of [a] *chi-square*, [b] CMIN/DF, [c] GFI, and [d] RMSEA,
- [2] the incremental-fit measurement that consist of [a] AGFI, [b] TLI, [c] NFI,
- [3] the parsimonious-fit measurement that consist of [a] PNFI, and [b] PGFI.

Each of the model-fit measurement conducted has the following results:

### *1. The Absolute-Fit Measurement*

As mentioned before, the absolute-fit was measured by using the following indices: [a] *chi-square*, [b] CMIN/DF, [c] GFI, and [d] RMSEA. The calculation is shown in the following:

Tab. 6: The Values of Goodness of Fit Indices

Goodness of Fit Index	Acceptable Level	Value	Fitness of the Model
Absolute-Fit Measurement Values			
Chi Squares ( $X^2$ )	p-value > 0.05	0.000	Poor fit
CMIN/DF	$1 < \text{CMIN/DF} < 5$	3.371	Good Fit
GFI (Goodness-of-Fit)	GFI > 0.90	0.841	Marginal Fit
RMSEA (Root Mean Square Error of Approximation)	RMSEA < 1 PCLOSE > 0.05	0.101	Marginal Fit
Incremental-Fit Measurement Values			
AGFI (Adjusted Goodness-of-Fit)	AGFI > 0.90	0.755	Marginal Fit
TLI (Tucker-Lewis Index)	TLI > 0.90	0.914	Good Fit
NFI (Normed Fit Index)	NFI > 0.90	0.916	Good Fit
Parsimonious Fit Measurement Values			
PNFI	0.60 – 0.90	0.39	Good Fit
PGFI	approaching 1	0.622	Good Fit

Based on the table 6 above, it is found that the value of the chi-square is 0.000. In principle, the smaller the value of the chi-square is, the better it is. Comparing the value of the Chi-square with its acceptable level, it is concluded that the fit-rate based on the chi-square index is poor fit as the p-value from this model is significant ( $p \leq 0.05$ ). The value of CMIN/DF of the model is good fit because the value of the ratio between chi-square and the degree of freedom shows  $< 5$  as the fit-measurement. It is found in this analysis and calculation that CMIN/DF of the model is 3.371, which can be concluded that the model is good-fit. In the goodness of Fit (GFI), it is found that the value of the index is 0.841. Following the rules that  $0.80 \leq \text{GFI} \leq 0.90$  is marginal-fit and  $\text{GFI} \geq 0.90$  is good-fit, it can be simply concluded that the model is marginal-fit. Regarding the RMSEA (Root Mean Square Error of Approximation), the value of 0.101 is found. Following the values of RMSEA which states that the value  $0.05 \leq \text{RMSEA} \leq 0.08$  is marginal-fit and  $\text{RMSEA} \leq 0,05$  is good-fit and comparing them with our calculation, it is concluded that the RMSEA of the model is marginal-fit.

## 2. The Incremental-Fit Measurement

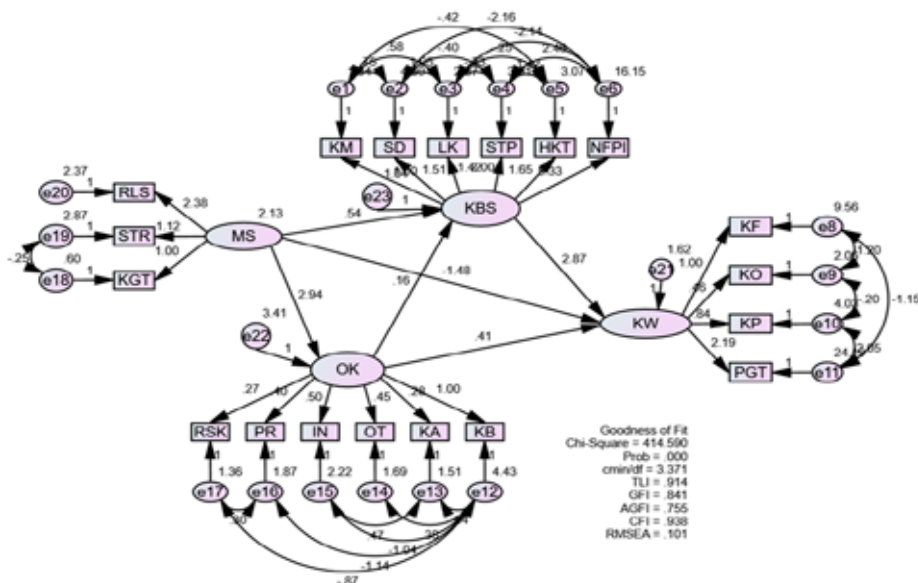
The incremental-fit measurement which consists of the indices of [a] AGFI, [b] TLI, and [c] NFI is depicted in Table 6. The calculation of the value of AGFI shows 0.755 and compares it with the principles of AGFI

acceptable level which states that  $0.80 \leq AGFI \leq 0.90$  is a marginal-fit and  $AGFI \geq 0,90$  is a good-fit, it can be concluded that the fitness of our model is in the marginal-fit. In TLI, the value of 0.914 is found. Comparing this result with the principles of TLI which say that the value  $0,80 \leq TLI \leq 0,90$  is a marginal-fit model and  $TLI \geq 0,90$  is a good-fit model, it can be concluded that this model is a good-fit model. Further index calculation by NFI have found the value of 0.916 and compared this value with the acceptable value of NFI, and it can be concluded that our model is a good-fit model.

### 3. The Parsimonious-Fit Measurement

The Parsimonious-Fit Measurement that consists of the indices of [a] PNFI, and [b] PGFI will show the fitness of the model based on its simplicity. The calculation of the indices of PNFI and PGFI is shown in the Table 6. As seen from table 6, the comparison between the values of indices and their acceptable level from both of the indices in the Parsimonious Fit Measurement have led to the conclusion that this model is a good-fit model. From the calculation of the goodness of fit of the model above, it is further summarized that the model is already fit now as it has filled the majority criteria of the goodness of fit. Based on the consideration of the goodness of fit above, the model is modified further, so it can be seen in the following figure.

Fig. 2: The Modified Model based on the Goodness of Fit Measurement



## 5. Discussion

The calculation and findings which are further developed in the figure 2 above have made the researchers argue that in the context of this study, there is a significant influence of the social capital on entrepreneurial success which is shown in the p value of the research. However this significant influence is negative (-1.84) – which is believed that there is no influence of the social capital on entrepreneurial success of SMEs in embroidery and weaving business in West Sumatra Province. As many researches and studies found that the social capital contributes positively to entrepreneurial success, this study has surprisingly found the opposite findings and results. This will be, of course, an interesting phenomenon to be discussed. the question further is, why does this happen?

It can be clearly seen that this study does not support and cannot confirm the studies conducted by, for example, Bosma *et al.*, (2000) who have previously argued that entrepreneurial success can be seen from the social capital used by entrepreneurs, and Honig (1998) who revealed that the entrepreneurial success is influenced by three variables, which are [a] financial capital, [b] social capital and, [c] human capital, or Aldrich and Fiol (1994) who said that the tie of social capital will increase new venture creations.

It is believed and viewed that the result and findings of this study are merely influenced by the contextual related situation of SMEs in embroidery and weaving business in West Sumatra Province and the shifting of culture within the West Sumatran people. As a fact, SMEs in embroidery and weaving business in West Sumatra are currently having to face more severe competition than in the the past times, not only with larger garment corporations but also between themselves. The same locality/ concentration of business and production location between SMEs and the decreasing number of customers are believed to contribute to this more severe competition – which has significantly led SMEs in this business have to consider their own business, and paying no longer attention to the importance of tying up the social capital between themselves. The main consideration are more to get the cheaper materials for the production process and to get the customers as many as they can. They believe, by doing so, they will survive the business. This kind of business survival has led them to severely compete, with the choices: you die or I die – and as a consequence, the social capital such as trust, network, the feeling of togetherness etc. has decreased. Other things that was observed during our study is the fact that from the human capital point of view, there is a mindset shifting of entrepreneurs in this business. In the past, one important mindset of entrepreneurs in this business is to maintain good social relationships with other parties, either in or out of the business, as one of the ultimate goals of their

business (in the context of West Sumatra see also Elfindri *et al*, 2006). This mindset, unfortunately, has shifted during the years – as the entrepreneurs tend to become more aware and focused no longer on the good social relationship but rather on getting more and more profits/ financial focus from their business.

The commitment of entrepreneurs in this business is also currently being questioned. Disloyalty and the dual roles that have been chosen by entrepreneurs are the sources of this. The fact in this business has shown that entrepreneurs are easily choosing to run their business production by using the sub-contractor production system, in which they choose to relocate the production process of their products to other places outside of their current business and production facility which is in West Sumatra Province. Despite improving the weaknesses and inefficiency in their production facility and business process, the entrepreneurs tend to choose to relocate their production to other places which can offer a faster production process. Unfortunately, the uniqueness of embroidery and weaving products which should be labelled as ‘Made in West Sumatra’ cannot force them to rethink and reconsider to bring production process back to West Sumatra. As Putnam (1995) claimed that the decrease of the social capital within the US citizen is the consequence of more limited time to socialize (because of the bustle, more activities and more mobility of the citizen), this study tends to find the same circumstance and conclusion with Putnam (1995). It is found that individuals actively engaged in SMEs in this business tend to have lesser socialization process as they have more and more limited time to do so.

The culture shift within the West Sumatran people is also believed to contribute to this negative influence of the social capital on entrepreneurial success in the context of the study. In the past, the West Sumatran entrepreneurs developed their business by using two of the most prominent philosophies: [a] trust and, [b] network (Elfindri and Effendi, 2004; Elfindri *et al.*, 2006). Both of these philosophies have emerged as the trademark of the West Sumatran entrepreneurs and have become one of their competitive advantages compared with entrepreneurs from other provinces in Indonesia. The existence of those philosophies is sourced from spiritual belief arising within the West Sumatran people and entrepreneurs in the past, that *rezeki* (the sustenance or the profit) of the business has been arranged by God, and the entrepreneurs’ obligation are only to work hard to get the profit and to simply maintain a good social relationship with others. One cannot interfere others’ *rezeki* as it has been well arranged by the God. The current phenomenon within the West Sumatran people unfortunately shows that the individualism has got more awareness rather than the feeling of togetherness. This has also influenced the philosophy of entrepreneurs which no longer view trust and network as important sources of suc-

cess in their business. As Setiawan and Setiawati, (2016) recently argued that the West Sumatran entrepreneurs like to get along with each other but they are very difficult to cooperate.

The paradigm and mindset of the owner of SMEs regarding the values of trust in the business operation have also shifted into an unbelievable situation – as they have changed drastically. In the past, the business owners can put their truth on others, such as their employees, more than in today's situation. The decreasing values of trust to employees for example, have consequently put the owner into a situation in which he/she needs to expand his/her works and responsibilities to all systems in the business. As a result, there are excess activities that should be undertaken by owners – while in reverse, the employees have lesser works and responsibilities. The impact is clear. The owner has got lesser and lesser time to get socialize with his/her colleagues and psychologically, the impact can also be seen from a lesser creativity owned by the owner to develop himself/herself.

If the main finding of study is related to the gender's sample which is mainly females – it is believed that this finding can also show some particular consideration. Since the social capital is mainly related to the emotional feeling of the people and most of the sample are females, the researchers consider that this has contributed to their main finding saying that the social capital negatively impacts entrepreneurial success. Females are psychologically more sensitive in their emotional feeling rather than males and it seems to us that females' more sensitive feeling of distrusting other people has brought big impacts on the main result of this study. Other sample profile that we examined carefully is the level of education of the sample. Most of the sample have senior high school as their level of education. It is viewed that this finding also influenced the result of this study since it is believed that the higher the level of education of an individual, then the bigger the possibility for him/her to trust other people and to establish and to maintain network. The researchers argue that the higher level educational background has made people to become more tolerant, to be able to trust someone else and to be more willing to delegate the works and responsibilities to others, and those are the conducive circumstance that can develop and empower the social capital. Unfortunately, the fact of sample profile has hinted in reverse. A relatively lower level educational background of the sample has arisen the consequence that they are less tolerant to others, lesser trust to others and less willing to delegate the works and responsibilities in the business. Those circumstances are enough to conclude that they are more fragile to trust people – a situation that can also negatively impact the creation and development of the social capital. The biggest figure of the sample profile is individuals with less than IDR 10 Mio. income per month or around USD 750 per month. This figure infers that financially, this sample profile is not wealthy enough to fund their



daily needs, to allocate future savings or to sustain themselves in the business. Consequently, they will do the best they can to secure that – and, of course, competing with others is the most possible alternative. As a result, a severe competition is inevitable between themselves.

## **6. Conclusion**

Answering the topic of this paper, it is concluded that the social capital affects entrepreneurial success. However, as many researches and studies found that the social capital positively affects entrepreneurial success, this study has found the other way round. It is viewed in this study context that the social capital negatively influences entrepreneurial success. The calculation and statistical analysis by using SEM method in the study proved that. The main result of this study clearly demonstrates the originality and value of this paper – as it can be used as another reference for scholars who want to expand the research in this topic.

The main finding and result are also added with some discussions to reveal how this can happen. The aspects of contextual background of the study and the fact of cultural shift within the West Sumatran people are considered to strengthen our discussion. Lastly, the discussion was also added with the analysis of the sample profiles that can possibly be the answer of the main finding. As the study concentrated on the quantitative methodology, it will worth to add this study with the qualitative investigation of why it is concluded that the social capital negatively influences entrepreneurial success in the SMEs in embroidery and weaving business in West Sumatra.

## **7. Research Implication and Limitation**

Our study implies that theoretically, we should be revisit the concept of social capital in entrepreneurship and carefully consider the research context. As many studies and reseaches in social capital argued that the social capital brings positive influence to entrepreneurship, this study clearly shows that the switching values, norms and culture in a society which are significantly accompanied by the switch in business world as the result of competition will negatively affect entrepreneurial success. Practically, this study implies that communities in the context of this study should rebuild and reorganize their social capital if they want their SMEs to be succeed. A joint marketing place and platform which involve SMEs could be one practical implication that can be chosen by each community and the government to maintain trust, networks and cooperation between SMEs.

It is clear that this study study has certain limitations. As we merely concentrated to use quantitative approach, we cannot explore and reveal the deeper description about the phenomenon found in this study. As Dana and Dana (2005) and Neergard and Ulhøi (2007), the use of qualitative approach in entrepreneurship may give us a deeper holistic result, understanding and description about the phenomenon of the study. Considering the implication and limitation of this study, we further suggest the future research agenda that can be considered related to this topic. We suggest that the study of social capital in entrepreneurship should be undertaken in a more empirical and contextual based, by equally considering the social capital as a factor that may support and hinder entrepreneurship, especially entrepreneurial success. We believe that the social capital cannot be merely seen and considered as a success factor in entrepreneurship. Another future research agenda is related to the research design and methodology. We view that the use of qualitative and mix-research approaches in this topic would be beneficial as we can draw a more holistic description and conclusion that can answer the phenomenon of the changing nature of social capital within communities and how it affects entrepreneurship.

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