

## THE ROLE OF SOCIAL CAPITAL IN MSIs PERFORMANCE IN A DEVELOPING COUNTRY WITH SECONDARY DATA: EVIDENCE FROM INDONESIA

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### ABSTRACT

This study examines the role of social capital (SC) on micro and small industries (MSIs)' performance at the macro level using secondary data. Three indicators used to assess the role of SC of MSI owners/entrepreneurs are the number of clusters, the number of MSIs that are members of cooperatives, and the number of MSIs that have partnerships. By using export as a performance measure, the scatter diagram findings may suggest that the three SC indicators do have a positive effect on exporting MSIs. However, this research has several weaknesses. One of them is that there is no information on whether those who are members of the cooperative or those with partnerships or MSIs in the cluster are exporting.

**Keywords:** SC, MSIs, MSMEs, Clusters, Cooperatives, Partnership

### 1.0 INTRODUCTION

It has been recognized worldwide that micro, small, and medium enterprises (MSMEs) play a vital role in economic development. In developing and least developed countries, including small island developing states, MSMEs are the majority of firms. Thus, they are very important for job creation, poverty alleviation, improvement of income distribution, development of the manufacturing industry, rural economic development, and growth of export especially manufactured goods, and gross domestic product (GDP) growth. They also provide business opportunities to women, the unemployed, and less educated youths. MSMEs are important because they are labour-intensive (Tambunan, 2021). By extrapolating data from the World Bank's Enterprise Surveys, a report from the International Finance Corporation (IFC, 2017) shows that there are close to 162 million formal MSMEs in developing and least-developed countries, of which 41 million are microenterprises (MIEs), and 21 million are small and medium enterprises (SMEs). Countries like Brazil, China, and Nigeria, contribute 67 percent to the total number of MSMEs, which is equivalent to 109 million enterprises. There are close to 12 million MSMEs in China alone, which represent 56 percent of all MSMEs in developing countries. China also has 44 million MIEs, representing 31 percent of all MIEs in developing countries. There is a large concentration of MSMEs in the East Asia region (64 million), followed by Sub-Saharan Africa, which has 44 million enterprises, most of which (97 percent) are MIEs.

In Indonesia, data from the State Ministry of Cooperatives and SMEs (Menekop & UKM), as well as the Central Bureau of Statistics (BPS), showed that there were approximately 39.765

million MSMEs in all sectors which represents 99.8 percent of the total business establishments in Indonesia in 1997. The number continues to grow every year and as can be seen in Table 1, in 2019 the number of MSMEs reached more than 65 million enterprises or about 99.99 percent of total companies in the country with MIEs as the majority accounting for around 98,7 percent.

**Table 1 Number of MSMEs and Their Workers by Sub-category in Indonesia, 2018-2019**

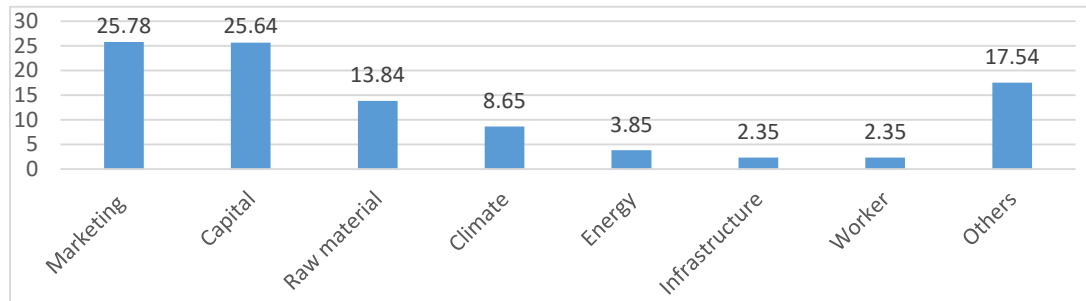
Description	unit of measure	2018		2019	
		Total	Share (%)	Total	Share (%)
MSMEs	Unit	64,194,057	99.99	65,465,497	99.99
-MIEs		63,350,222	98.68	64,601,352	98.67
-SEs		783,132	1.22	798,679	1.22
-MEs		60,702	0.09	65,465	0.10
LEs		5,550	0.01	5,637	0.01
MSMEs + LEs		64,199,607	100.00	65,471,134	100.00
MSMEs	People	116,978,631	97.00	119,562,843	96.92
-MIEs		107,376,540	89.04	109,842,384	89.04
-SEs		5,831,256	4.84	5,930,317	4.81
-MEs		3,770,835	3.13	3,790,142	3.07
LEs		3,619,507	3.00	3,805,829	3.08
MSMEs + LEs		120,598,138	100.00	123,368,672	100.00

**Source:** Menekop & UKM (<http://www.depkop.go.id/>)

However, as also evident in many other developing countries, the development or growth of MSMEs in Indonesia has been hindered by many obstacles which differ in intensity based on regions, rural and urban areas, sectors, and even between companies in the same sector. The main problems include limited working capital and investment; difficulties in marketing, distribution, and procurement of raw materials and other inputs; limited access to information about market opportunities and others; limited skilled personnel or low-quality human resources; low technological capabilities; high transportation and energy costs; limited communication; high costs due to complicated administrative and bureaucratic procedures, especially in business licensing; and uncertainty due to unclear or uncertain economic regulations and policies.

The data from the 2010 National Survey on Micro and Small Enterprises (MSEs) in the manufacturing industry (say, micro and small industries or MSIs) showed that approximately 78 percent of all MSIs which represents 2,732,724 units experienced difficulties in running their businesses and the most prevalent ones were associated with funding, marketing, and raw materials with 806,758 units, 495,123 units, and 483,468 units respectively (BPS, 2010). Moreover, the MSIs in the food industry had the greatest difficulties with 745,824 units (34.96%) which include those related to the capital with 255,793 units, raw materials with 206,309 units, and marketing 146,185 units. The same trend was also observed in the data from the 2020 National Survey on MSIs as indicated in Figure 1 (BPS, 2020). Around 64.88 percent of MSIs or as many as 2.73 million businesses experience difficulties in running their business. MSIs in the base metal industry experienced the biggest obstacle/difficulty, reaching 91.68 percent. Likewise for MSIs in the computer, electronic goods, and optical industries, as much as 90.18 percent of MSIs experienced business problems. Meanwhile in other types of industry, less than 80 percent of MSIs experience business problems.

**Figure 1 Percentage of MSIs by Types of Main Constraints, 2020**



**Source:** BPS (2020)

It is believed that in addition to such as education or training, transfer of technology, and access to capital, the social capital (SC) SCof MSME owners or entrepreneurs can be very helpful in overcoming the problems they face. Florin et al. (2003) state that SC enhances a business's ability to gather resources through which it improves performance. According to Fafchamps and Minten (2002), the positive influence of SC on entrepreneur performance arises from (1) relationships with other entrepreneurs, (2) relationships with lenders, and (3) family relationships. Social networks also enable entrepreneurs to work in an atmosphere of trust to exchange information and credit and improve performance by reducing transaction costs, which can ultimately lead to better efficiency results. Many research studies have been conducted to study the relationship between SC and MSME performance. Alekam et al. (2018), for instance, show that there is a significant positive relationship between SC and MSME performance. The relationship between SC and MSME performance will be enhanced by the factors of innovation ability, marketing ability, emotional intelligence, mutual trust, entrepreneurial ability, and dynamic ability.

In Indonesia, there is still little research on the impact of SC on the performance of MSMEs. Among the very few is Meflinda et al (2017) who examine the impact of SC and knowledge sharing on MSME sustainability strategies and performance. The results show that SC and knowledge sharing have a significant effect on MSME sustainability strategies. Also, the strategy of sustainability and sharing of knowledge affects the performance of MSMEs significantly. However, surprisingly, SC does not affect its performance.

## 2.0 OBJECTIVE AND RESEARCH QUESTIONS

Existing studies regarding SC generally use a survey approach by interviewing respondents. No research with secondary data has been found. Therefore, the main objective of this study is to examine the role of SC on MSMEs' performance at the macro level using secondary data from a national survey by the Central Bureau of Statistics. Due to data constraints, this study focuses only MSIs. Three indicators used to assess the SC of MSI owners/entrepreneurs at the macro level are the number of clusters, the number of MSIs that are members of cooperatives, and the number of MSIs that have partnerships. More specifically, this study tries to answer the following three questions:

- 1) Does clustering make MSIs' performance better?
- 2) Can cooperation between MSI producers within a cooperative boost their performance?

3) Are partnerships a determining factor in the performance of MSIs?

### 3.0 METHODOLOGY

Methodologically, this study adopted descriptive analysis, using secondary data from two publications from the Central Bureau of Statistics. First, profiles of MSIs 2020. The data presented in this publication includes data on the number of businesses/companies, workers, employee benefits, expenses, income, capital, business difficulties, business services and guidance, internet usage, and marketing distribution. Data are presented according to the two-digit Indonesian Business Field Standard Classification Code (KBLI). and by province. Second, the 2020 Indonesian industrial center directory. This publication is the result of the 2020 Industrial Center Verification (VSI20). Data collection on the implementation of VSI20 was carried out through interviews with industrial center managers, business actors, members of the center, or community leaders in the industrial center area in December 2020. The data presented include name, address, type of industry, and the amount of business cargo in the industrial center.

### 4.0 STUDY OF LITERATURE

SC is one of the most important values that maintain community cohesion. SC is the most influential concept of social behavior (Lin, 2017; Kuruppuge, et al., 2017). It is a vital resource that provides access to other resources. SC is classified into two main categories bonding and bridging SC. Bonding SC is the relationship between known people such as family and friends, which provide consistent access to resources. Bridging SC refers to the relationship between diverse groups or backgrounds such as companies or organizations (e.g. Herreros and Criado, 2008; Dąbrowski, 2014)

However, until now there is no standard and precise definition of SC. For example, according to Jalali et al. (2013), SC is the number of relationships and repeated bonds with other people and the mutual trust of people and companies. Whereas Nahapiet and Ghoshal (1998) define SC as the sum of actual and potential resources, embedded in, available through, and derived from a network of relationships owned by individuals or social units. They recognize three dimensions of SC: structural, relational, and cognitive. The structural dimension refers to the configuration of linkages, i.e. the pattern of relationships between people (focus on network ties, centralization, and density of linkages). The relational aspect considers the type or nature of personal relationships that originate from social interactions among people, based on mutual trust, shared norms, perceived obligations, and a sense of mutual identification. Finally, the third dimension concerns resources derived from mutual understanding, shared language, shared perspectives, and sharing of shared narratives. The cognitive dimension can be considered the cultural dimension of SC.

SC has shown a positive effect on business success. SC enhances a business's ability to gather resources through which it improves performance (Florin et al., 2003). Business success is thought to depend on the ability of managers to build social networks around the company. The amount of SC generated by managers is a function of personal and organizational transactions. In addition, it is highly related to the coordination between the company and its partners. SC facilitates the flow of information between departments and increases the ability to start new businesses (Griffith and Harvey, 2004).

Following organizational transactions, SC plays an important role in interpersonal transactions in the market. According to Fafchamps and Minten (2002), the positive influence of SC on entrepreneur performance arises from (1) relationships with other entrepreneurs, (2) relationships with lenders, and (3) family relationships. Social networks also enable entrepreneurs to work in an atmosphere of trust to exchange information and credit and improve performance by reducing transaction costs, which can ultimately lead to better efficiency results.

SC can also be applied to MSMEs, with a focus on interpersonal relationships within and outside the company boundaries. Many research studies have been conducted to study the relationship between SC and MSME performance. Results from a number of studies from, for example, Meng et al. (2016), Easmon et al. (2019), Boohene et al. (2019), Primadona and Emrizal (2018), Worokinasih and Potipiroon (2019), and Alekam et al. (2018) shows that there is a significant positive relationship between SC and MSME performance. The relationship between SC and MSME performance will be enhanced by the factors of innovation ability, marketing ability, emotional intelligence, mutual trust, entrepreneurial ability, and dynamic ability. It should be noted that SC has a positive and significant relationship with innovation (Wadhwa et al, 2017) and innovative capabilities have a direct and positive influence on company performance results (Easmon et al., 2019).

It is clear that without SC, MSME organizations are impossible to function, especially in the era of economic globalization. Building and maintaining SC requires sustained effort and constant investment by MSME entrepreneurs, who recognize that solid SC creates value for both the company and the social context in which the company operates. The innovative, collaborative, and competitive capacity of industrial district MSMEs is based on a relationship of mutual trust between enterprises. According to Adler and Kwon (2002), MSMEs can effectively contribute to building SC that performs important functions; it helps workers find work (Lin and Dumin, 1996); which facilitates the exchange of resources between units and product innovation (Tsai and Ghoshal, 1998); that creates intellectual capital (Nahapiet and Ghoshal, 1998); which reduces turnover rates (Krackhardt and Hanson, 1993); that facilitate entrepreneurship (Chong and Gibbons, 1997); and those forming start-up companies (Walker et al., 1997).

According to Nahapiet and Ghoshal (1998), MSME entrepreneurs must realize the importance of SC as a means to obtain information, knowledge, and resources, which are needed to ensure the survival of the company through the creation of a long-lasting competitive advantage. Differences between firms, including differences in performance, can represent differences in their ability to create and exploit social capital. SC represents the values embedded in individual and collective social relations (e.g. Payne et al., 2011). Specifically, SC is the sum of actual and potential resources, embedded in, available through, and derived from a network of relationships owned by individuals or social units (Nahapiet & Ghoshal, 1998).

Through high levels of SC, companies gain access to unique and appropriate resources but share them with others. Consequently, high-quality relationships make the organization more successful than its competitors. Moreover, SC solves coordination problems, reduces transaction costs, facilitates the flow of information and knowledge dissemination, and



promotes economic activity among people who have shared the necessary cultural capital (Bolino et al., 2002; Light and Dana, 2013).

The source of SC lies in the social structure in which the company is placed. This social structure is characterized by three levels: market relations, hierarchical relations, and social relations in which favors and gifts are exchanged (Adler and Kwon, 2002). These social relations actually represent the roots of SC.

According to Sandefur and Laumann (1998), the main benefits of SC are represented by information (in terms of quality, relevance, and timeliness), influence, and solidarity. Solid SC allows easy and fast access to quality sources of information. Furthermore, the central actor who is able to connect networks, which were previously unconnected, gains the power and capacity to influence the behavior of other actors and thus he can take advantage of the leader's position. Finally, when social norms and practices are strong and shared, the need for formal control diminishes and social solidarity is promoted and spread as a result.

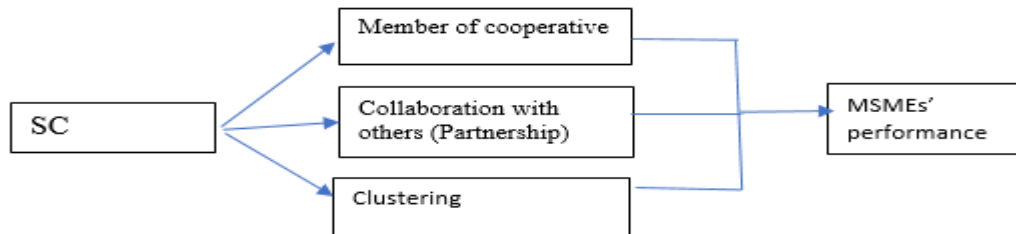
In the past 20 years, there has been increasing attention from researchers about SC and the resilience or performance of MSMEs in facing competition. Evidence from Rubera and Kirca (2012) shows a direct effect of marketing capabilities, innovation capabilities, and SC on firm performance. Wadhwa et al, (2017) and Easmon et al. (2019) show that there is a strong mediating relationship between innovation capability and SC and MSMEs and a strong direct relationship between SC and innovation. Also, their research results show a positive relationship between SC and exports through innovation and market capabilities which are the main drivers of export performance. Also results from a number of studies e.g. Tian et al. (2018), Rieckmann et al. (2019), Easmon et al. (2019) show that MSME SC has the strongest influence on export performance. It also evaluates the significant positive relationship between SC and SME performance (Boohene et al., 2019; Primadona and Emrizal, 2018; Meng et al., 2016; Ismail, 2014, 2015). Research from e.g Marjański et al. (2019) and Meng et al, (2016) show SC reduces transaction costs and creates collective activities or actions,

## 5.0 THEORETICAL FRAMEWORK

Among the factors that influence the performance of MSMEs, especially the production or export growth, is SC. SC consists of "internal" SC and "external" SC. Forms of external SC are for example being a member of a cooperative or partnering with fellow MSMEs in the clusters, large businesses, business associations, associations of entrepreneurs, financial institutions, government departments, regional governments, and chambers of commerce and industry (Kadin). Many studies use network size as a measure of external SC (e.g, Fafchamps and Minten 2002; Granovetter, 1973; Kreiser et al. 2013). In theory, being active as a member of a cooperative and/or establishing partnerships with many parties will have a positive impact on MSME performance through its impact on expanding access to critical resources such as knowledge, funding, technology, skill, and innovative idea?

So, by using the number of clusters and entrepreneurs who are members of a cooperative and/or have partnerships with many parties as indicators of SC, it can be assumed that the greater the SC of MSE entrepreneurs in a region, the greater the number of MSE clusters and the number of MSEs entrepreneurs who are members of a cooperative or who have partnerships with many parties in that region, *ceteris paribus* (Figure 2).

**Figure 2 Impact of SC on MSME Performance**



## 6.0 FINDINGS AND DISCUSSION

### 6.1 Three Social Indicators

#### 1. Clusters

There is no single formal definition of the concept of the industrial cluster. Some researchers such as Porter (1998), Porter and Ketels (2009), Rosenfeld (1997), Schmitz (1999), Altenburg dan Meyer-Stamer (1999), Hoen (1999, 2001), Tambunan (2005), among others, proposed definitions regarding this concept, but the concept of the cluster goes beyond the networks developed by companies that operate in the same market of final goods, which are part of the same industry and which cooperate in certain areas, including strategic alliances. Many researchers agree that the cluster consists of a critical mass of companies, generally small and medium-sized, specialized in the same sector or related productive activities, located in a specific and relatively small geographical area. Other authors suggest that a cluster includes institutions that interact with companies that affect their competitive performance (literature reviewed by Vargas-Hernández, 2020).

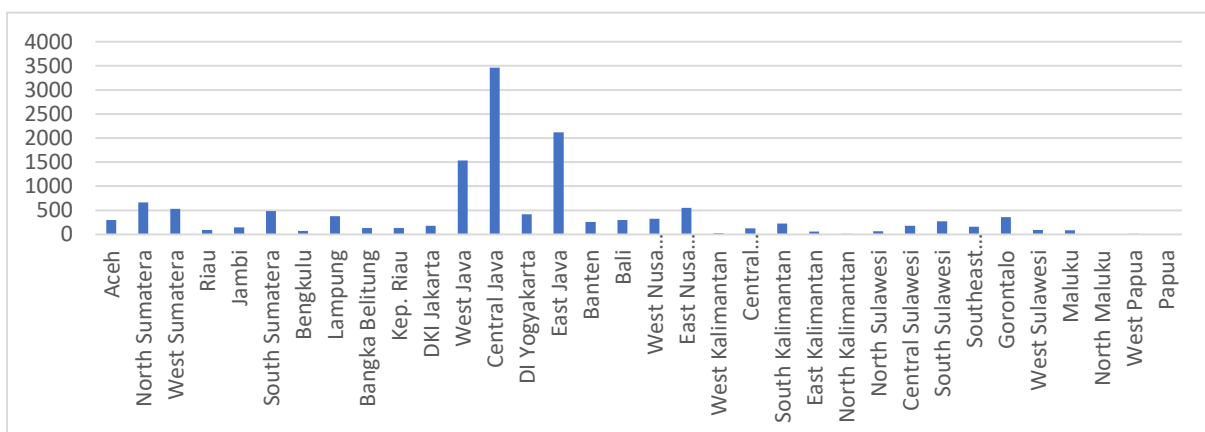
Industrial centers or clusters referred to by BPS (2021) are locations for concentrated industrial activities which generally produce similar products, use similar raw materials, and/or carry out the same production process, equipped with supporting facilities and infrastructure designed based on the development of regional resource potential, as well as managed by professional management or known to the surrounding community as an industrial center. The Sentra is named after the name of the main product (specialization). Examples: Shoe Center, Batik Center, Pottery Center, Tempe Center, etc

Indonesia has a very long tradition of MSME centers or clusters, and especially clustering of manufacturing MSMEs is a highly significant phenomenon. Within this group of enterprises, MSEs tend more than MEs to cluster geographically and according to the manufacturing subsector. Most MSME clusters were established naturally as traditional activities of local communities whose production of specific products has long been proceeding and the workers have special skills in making such products (Tambunan, 2005). Based on the comparative advantages of products they made, at least with respect to the abundance of local raw materials and workers who have special skills in making such products, many of these clusters have a large potential to grow. For example, clusters of batik producers, the traditional Indonesian textile, have long been in existence in various districts in Java island (e.g. in D.I. Yogyakarta, Pekalongan, Cirebon, Surakarta, and Tasikmalaya).

Most recent data from 2020 show that the number of MSME industrial centers is 13,762 with more than 75 percent being dominated by micro-scale processing industries. The clusters are found in many industries, including craft, furniture, garments, batik, food processing, refractory bricks, roof tiles, wearing apparel, iron, and steel basic products, and some clusters are also export-oriented, although indirectly through production or commercial subcontracting arrangements (Loebis and Schmitz, 2005).

The clusters are scattered in all provinces over the country. However, the majority of them are in Java Island. As shown in Figure 3, based on regional distribution, the three provinces with the highest number of industrial centers are Central Java, East Java, and West Java with 3,460 centers, 2,119 centers, and 1,538 centers respectively. Meanwhile, the three provinces with the number of centers with the fewest industries are North Maluku Province, Papua Province, and North Kalimantan Province with 4 centers, 5 centers, and 12 centers respectively.

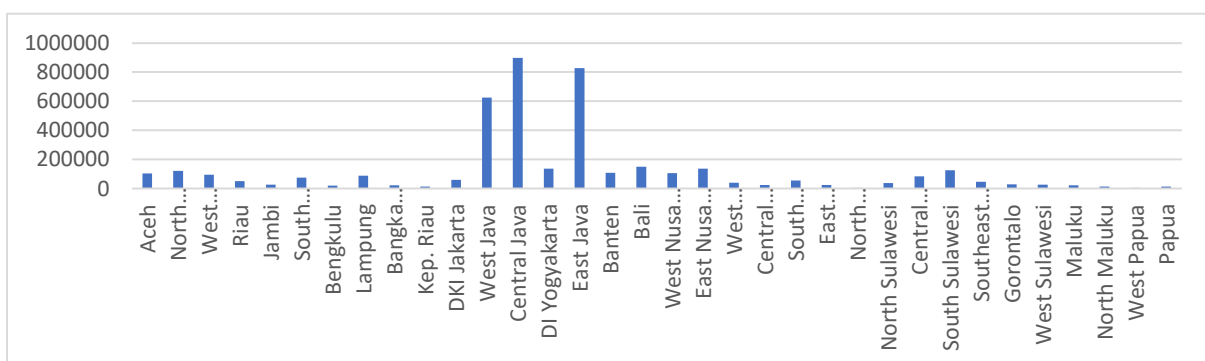
**Figure 3 Number of MSME Industrial Centers/Clusters by Province, 2020**



Source: BPS (2020).

Comparing Figure 3 with Figure 4 below which shows the number of MSIs per province, it may suggest that there is a tendency for provinces with a large number of MSIs to have also a large number of clusters.

**Figure 4 Number of MSIs by Province, 2020**



Source: BPS (2020).



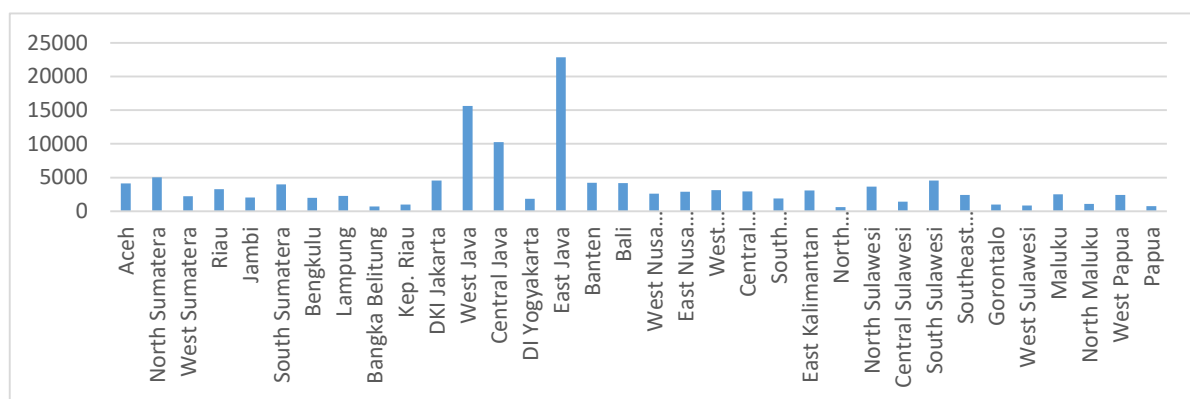
2) Cooperative

The International Cooperatives Alliance (ICA), headquartered in Manchester, England, 1995 officially defined a cooperative as an autonomous collection of persons united voluntarily to meet their common economic and socio-cultural needs and aspirations through a company that they jointly own and democratically control (this means, according to the ICA, cooperatives are not only economic but also non-economic motivated). Cooperatives are based on the values of self-help, self-responsibility, democracy, equality, justice, and togetherness. Following the traditions of its founders, cooperative members believe in the ethical values of honesty, openness, social responsibility, and concern for others (<https://www.ica.coop/>).

In Limbong (2010), it can be quoted that according to Hans H. Muenkner, the notion of cooperatives can be distinguished between cooperatives in the economic sense and in the sociological sense. In an economic sense, a cooperative is an economic organization whose members have at least one common economic or business interest, self-motivated in a jointly funded and supervised company with the aim of increasing the progress of the company and member households (member promotion).

As of December 2001, based on data from the Ministry of Cooperatives and Small and Medium Enterprises (Menekop & UKM), there were more than 103,000 cooperatives throughout Indonesia, with a total membership of 26,000,000 people. As of 31 December 2014, the number of cooperatives in Indonesia reached 209,488 units with more than 34 million members. Meanwhile, according to the latest data, the development of the number of cooperatives in Indonesia in 2021 will reach 127,846 units. Figure 5 presents data on the number of cooperatives in provinces.

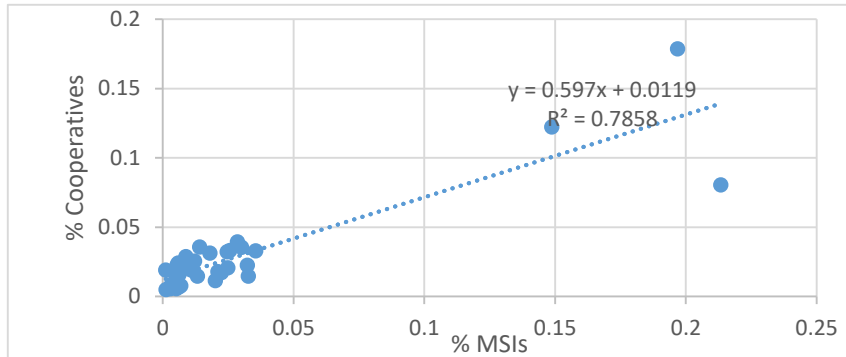
Figure 5 Number of Cooperative by Province, 2021



Source: State Ministry of Cooperative and SME (<https://kemenkopukm.go.id/>).

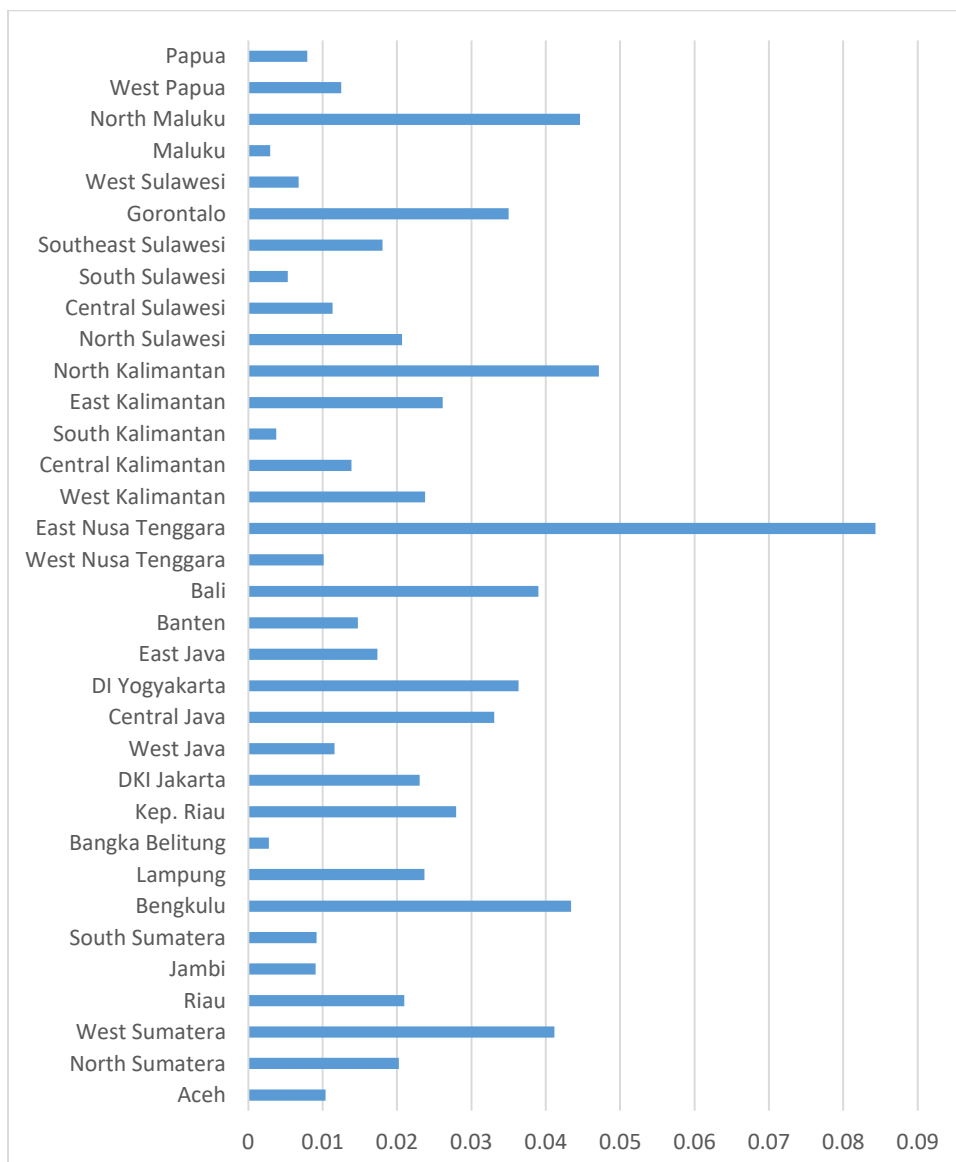
By plotting data on the percentage distribution of MSIs by province with that of cooperatives, the scatter diagram in Figure 6 may suggest that provinces with many MSIs tend to have more cooperatives than vice versa. However, not all MSIs are members of cooperatives for various reasons, including that in their area there are no cooperatives yet, owners of MSIs feel that they do not need to be members of cooperatives, or being a member of a cooperative is unprofitable (usually because the cooperative is not active) (Figure 7).

Figure 6 Percentage Distributions of Cooperative (2021) and MSIs (2020) by Province



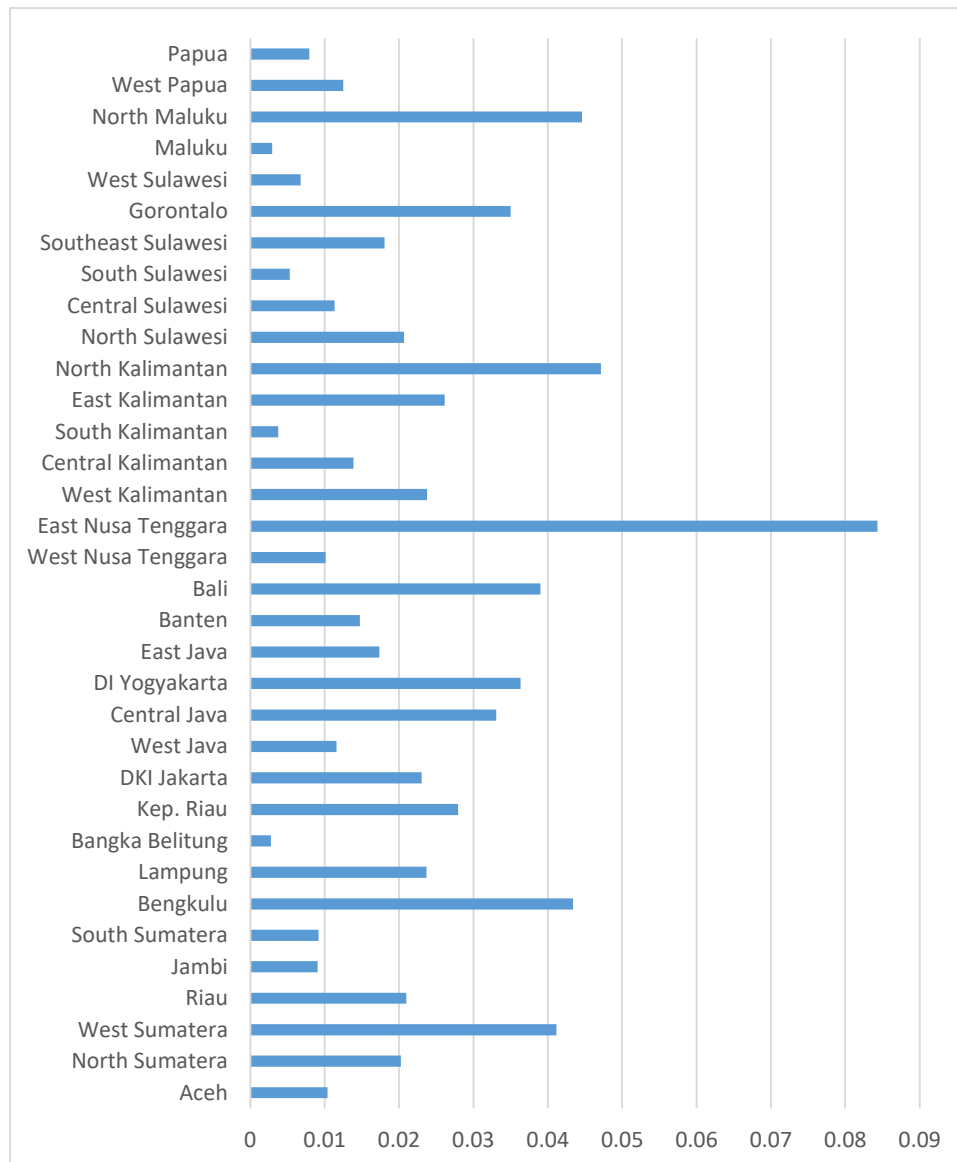
Source: BPS (2020).

Figure 7 Percentage of MSIs as members of Cooperative by Province, 2020



Source: BPS (2020).

Figure 7 Percentage of MSIs as members of Cooperative by Province, 2020



Source: BPS (2020).

### 3) Partnership

In Indonesia, one of the government’s efforts to support the development of MSMEs, especially MSEs, is by issuing some regulations and providing incentives to promote partnerships between MSEs and larger enterprises, and other agencies. The partnership in question is the establishment of business cooperation mutually beneficial between MSME businesses and other parties accompanied by coaching and development so that they are mutually beneficial in need, benefit, and strengthen. BPS defines partnership as a cooperative relationship with other businesses/companies (including state-owned companies) mutually benefiting, strengthening, and supporting.

However, data from 2020 indicates that the number of MSIs that have partnerships was relatively small, only 0.93 percent of 4.21 million units. Although, as shown in Table 2, the ratio varied by a group of industries.

**Table 2: Number and Percentage of MSIs that have Partnership by Group of Industry, 2019**

Industry	Number of MSIs	Partnership	
		Number	%
10	1518924	4528	0,29810576
11	93285	1316	1,41073056
12	197342	13500	6,84091577
13	287747	1955	0,67941629
14	591390	7240	1,22423443
15	53362	639	1,19748135
16	632184	1263	0,19978361
17	6435	0	0
18	28788	1348	4,6825066
20	33522	900	2,68480401
21	14242	12	0,08425783
22	14064	550	3,91069397
23	234042	1685	0,71995625
24	3991	8	0,20045101
25	118342	1220	1,03091041
26	866	1	0,11547344
27	950	21	2,21052632
28	3836	94	2,45046924
29	2110	9	0,42654028
30	6255	185	2,95763389
31	141021	1672	1,18563902
32	221687	1093	0,49303748
33	5432	18	0,33136966

Note: 10: food, 11: beverages, 12: tobacco processing, 13: textiles, 14: apparel, 15: leather, leather goods, and footwear, 16: wood, wood products and cork (excluding furniture), woven articles from rattan, bamboo and the like, 17: paper and paper articles, 18: printing and reproduction of recorded media, 20: chemicals and articles of chemical substances, 21: pharmaceuticals, chemical medicinal products, and traditional medicine, 22: rubber, articles of rubber and plastics, 23: non-metal minerals, 24: base metals, 25: non-machined metal goods and their equipment, 26: computers, electronic and optical goods, 27: electrical equipment, 28: YTDL machinery and equipment (excluding others), 29: motor vehicles, trailers and semi-

trailers, 30: other means of transportation, 31: furniture; 32: other processing; 33: repair and installation of machinery and equipment

**Source:** BPS (2020)

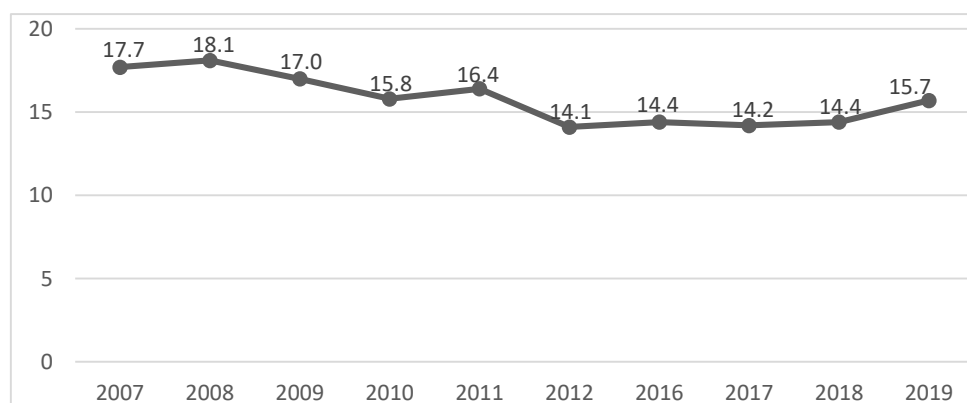
The most type of partnership carried out by MSIs is a marketing partnership around 54.73 percent. Then the second is a partnership in terms of procurement of raw materials of 28.70 percent and the third is a partnership related to capital by 9.14 percent. Agencies/institutions that play a major role in establishing partnerships with the MSI are private parties, namely 59.22 percent. The role of the government in this case is state-owned companies only 8.05 percent, even for local governments/services/cooperatives only reached 4.95 percent. This is a challenge for the government to can partner with MSIs so they can solve problems and the difficulties faced by these enterprises. Other institutions participating in partnering with MSIs are banking and foundations/NGOs. Although the number of partnerships is relatively small, namely 2.16 percent and 0.89 percent (BPS, 2020).

## 6.2 Impacts on Export

The performance of MSMEs can be measured in various ways: the growth in average production per year, productivity, profit on average per year, expansion of business scale from, for instance, micro or small businesses to medium or large businesses, and expansion of marketing from previously only serving the local market, now they sell abroad. This paper focuses on MSEs' export performance.

MSMEs in Indonesia are also expected to contribute to export growth especially the export of manufactured goods in addition to their contributions to employment generation and gross domestic product (GDP). However, data provided by the Minister of Cooperatives & UKM showed that the share of MSME exports in the country's total exports is always very small with 17.7% recorded in 2007 and dropping to 15.7% in 2019 as indicated in Figure 8.

**Figure 8 Export development of Indonesian MSMEs, 2007-2019 (% of Total Exports)**



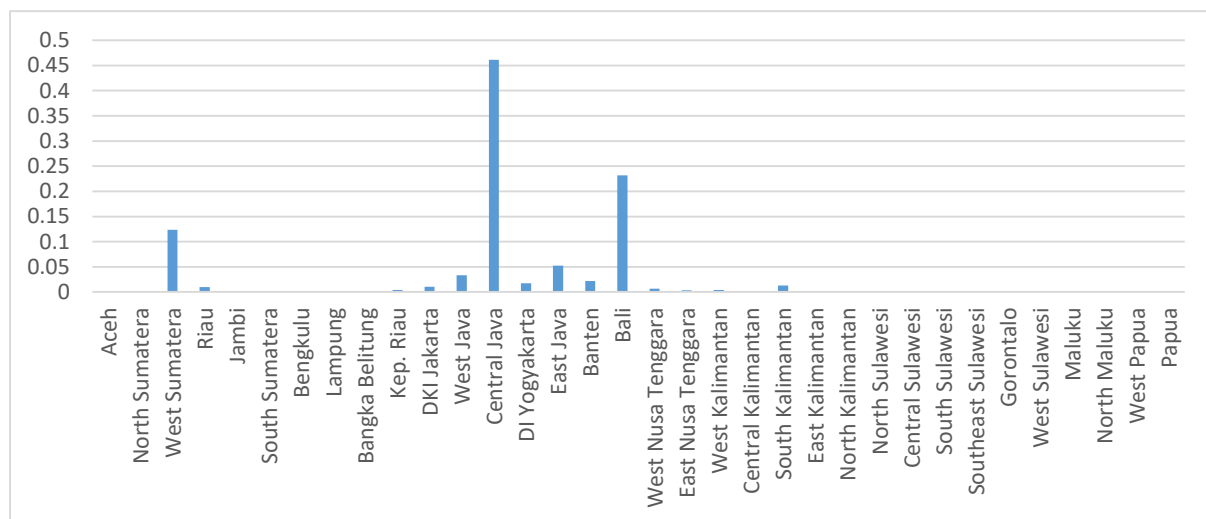
**Source:** Menekop & UKM (online)

In the manufacturing industry, not all MSIs export, especially in areas outside Java (Figure 9). There are two categories of exporting MSIs: they do it themselves by exporting directly to

foreign buyers or they do it through intermediaries such as collectors who travel between villages to buy MSI products for further export, cooperatives, and trading houses who then sell to foreign visitors, or exporting large sized companies.

For many exporting MSIs, there are reasons not to ship directly. It could be that the number of goods they produced was not sufficient for direct export because their production capacity was limited. So export costs, especially transportation, were costly; or lack of experience to export directly or the local producers do not have buyers abroad. So it is much cheaper and more profitable for them to export by partnering with, e.g. international trading companies with many experiences and already market networks abroad.

**Figure 9 Percentage of Exporting MSIs by Province, 2020**



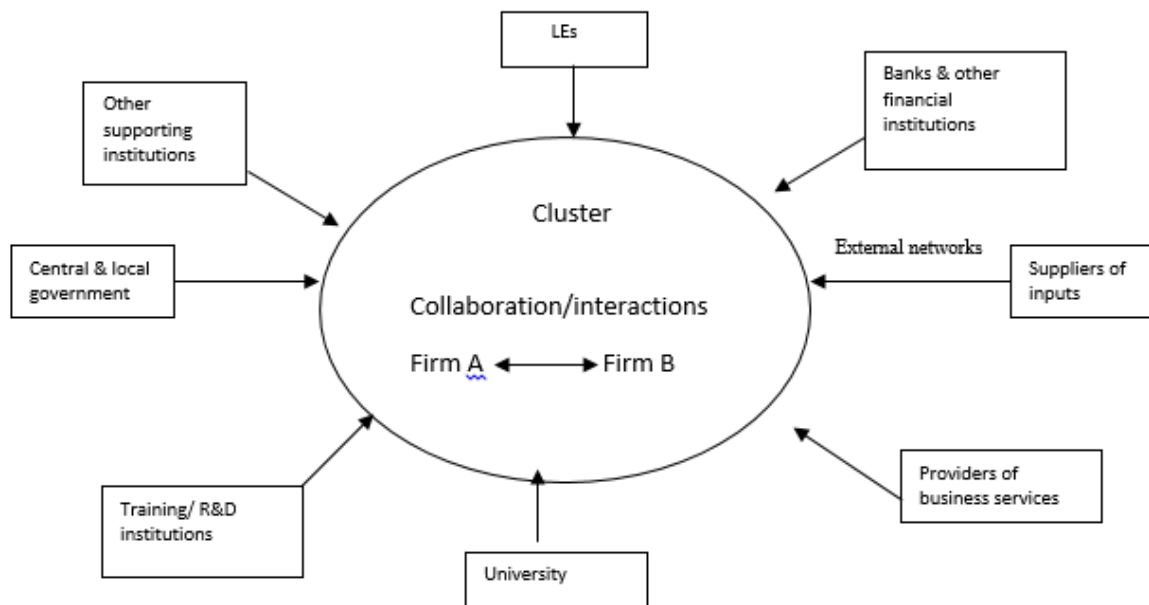
Source: BPS (2020)

**1) Cluster**

Clustering creates external economies and joint actions and increases scope. In effect, individual enterprises in a cluster can gain collective efficiency, which is among the crucial determinants of competitiveness and sustainable development of an industrial cluster. Close proximity facilitates the establishment of business networks by enterprises in the locality of industrial links without substantial transaction costs or difficulties. However, these economic advantages can only be achieved if the cluster has well-developed internal and external networks. Internal networks can be defined as business co-operations or links among enterprises inside the cluster, which can be in various forms, for example, marketing, distribution, production, procurement of materials, training for workers, innovation, and so on. Good cooperation among firms inside clusters can lead to economies of scale and economic scope and hence reduce production costs and strengthens competitiveness. External networks, on the other hand, are business and other forms of relationships between enterprises inside the cluster and actors outside the cluster such as large companies, including foreign firms (which are mainly LEs), suppliers of inputs, providers of business services, and so on (Figure 10).

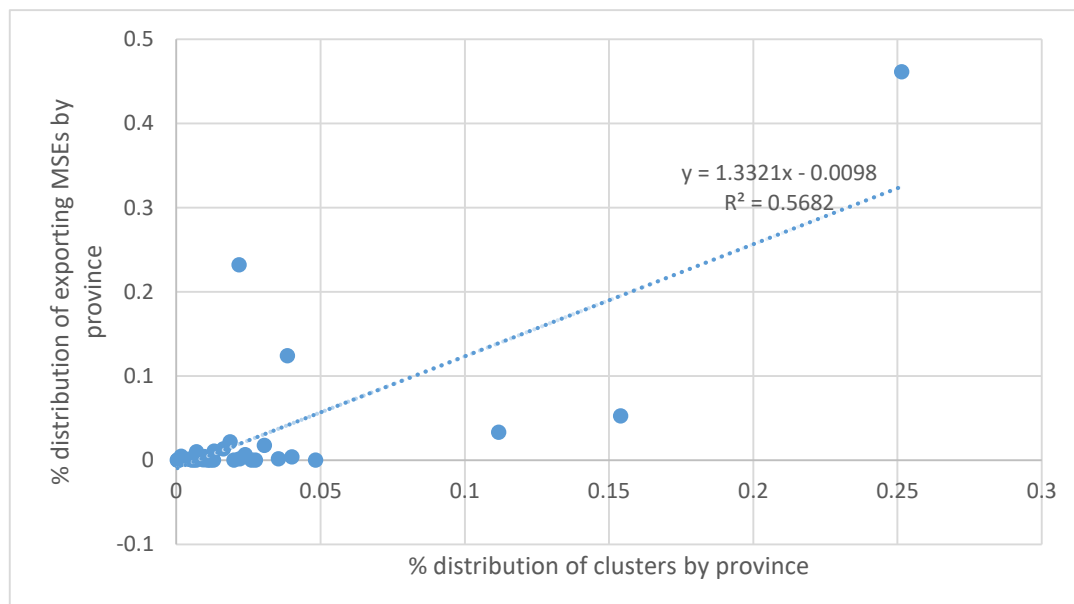
**Figure 10 Internal networks inside and external networks of a cluster**





So, if export is a performance measure, it is hoped therefore that the good development of MSME clusters with strong internal cooperation among MSMEs owners in the cluster and an extensive external network between the cluster and other key stakeholders as illustrated in Figure 10 will encourage not only the number of MSMEs capable of exporting but also their export volume, ceteris paribus (Figure 11).

**Figure 11 Percentage Distributions of MSME Clusters and Exporting MSIs by Province**



Source: BPS (2020).

### 6.3 Cooperatives

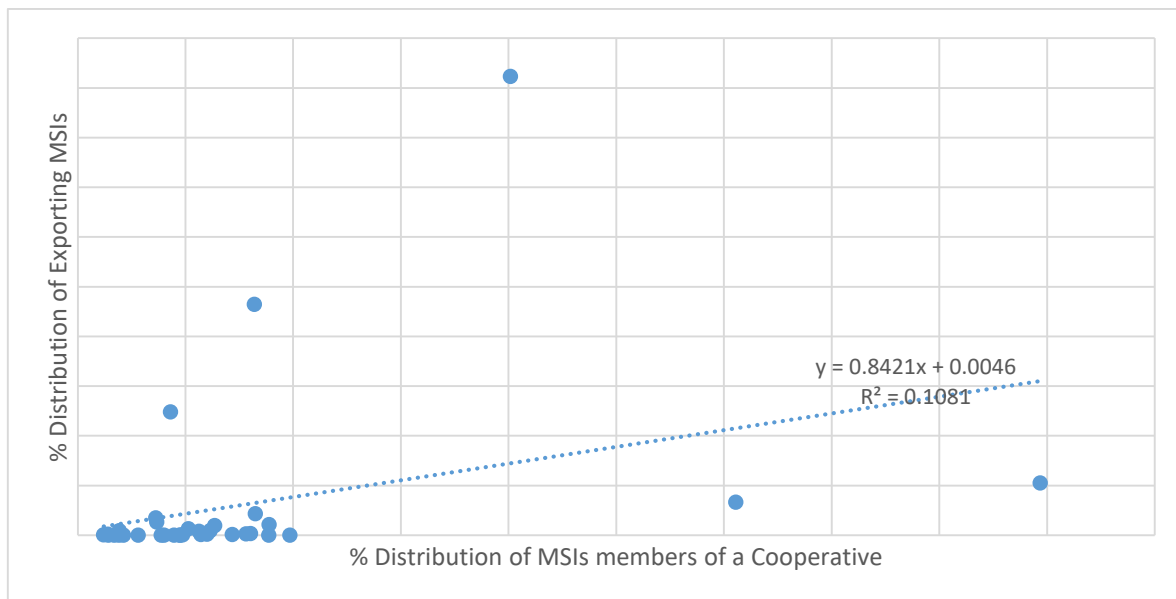
Cooperatives can be a place that can help MSIs continue to grow and have the potential to have a long life. There are at least five main benefits of cooperatives for MSI actors:

1. Ease of access to obtain business capital. Capital is a 'classic' problem that is often faced by business people. Not having sufficient capital and limited access to capital loans can be a problem that hinders a business. By joining a cooperative, an MSI owner can gain access to business capital;
2. Ease of production process to marketing. In addition to capital, sometimes what hinders the development of a business is the production and marketing process. Joining a cooperative can help MSIs in this regard. Cooperatives themselves are a priority for the Indonesian government. So, when MSIs join a cooperative, they have the opportunity to get assistance in the production process of their products to marketing activities so that they sell well in the market. Even through cooperation between fellow members, namely owners of MSIs in a cooperative, they can come up with creative new ideas and innovative products and production processes;
3. Training and personal development opportunities. As it is a priority for the Indonesian government, cooperatives usually work together with government agencies to provide free training. Of course, this can be used by its members to be able to develop themselves and their businesses. The training is intended to develop MSIs so they can continue to grow. The types of training held can include training on business management, product quality, finance, halal, and business licensing, to training so that MSI products can penetrate foreign markets;
4. Improving the welfare of all members. Because it is based on a family system, a cooperative will certainly prioritize the welfare of its members. If an MSI owner joins a cooperative, of course, other members who are also MSI owners will also help in the success of his/her business. He or she can easily exchange knowledge with other members who also have businesses. So it is not only the cooperative that is successful, but the businesses owned by each member will also develop;
5. Building business relationships. If an MSI owner is active as a cooperative member, of course, he/she will have relationships with other members. He /she can use this to expand his business network and also increase his/her business opportunities. He/she can also see and learn about various other types of businesses owned by other cooperative members.

According to data from 2020 on MSIs, most types of cooperative services they received is loan that reached 77.77 percent. Capital loans from cooperatives are becoming more desirable due to their greater benefits and much more flexibility than other types of services. Besides that, they also accept types of goods procurement services capital/equipment (5.84 percent), raw materials (5.58 percent), marketing (3.22 percent), machines (2.64), and others.

So, a good cooperative performance will result in good business performance for its members (owners of the MSIs), in this case they able to do export or their export will increase, *ceteris paribus*. (Figure 12).

**Figure 12 Percentage Distributions of MSIs who are Cooperative Members and Exporting MSIs by Province**



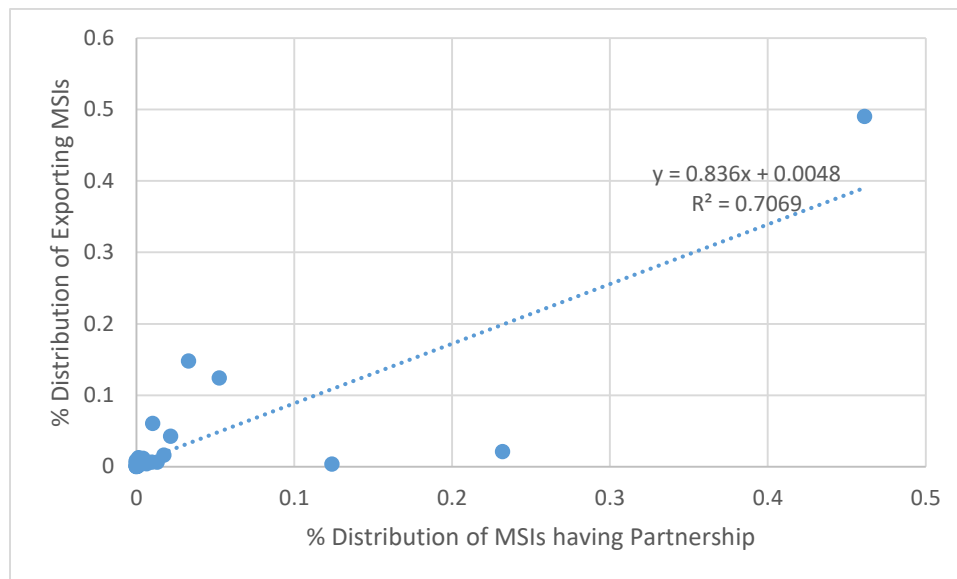
Source: BPS (2020).

### 6.4 Partnership

Most of the partnership patterns carried out by MSIs were general trading, namely 43.49 percent. What is done in the general trade partnership pattern is that larger businesses help smaller businesses in the form of product marketing cooperation, provision of business locations, receipt of supplies from small business partners to meet the needs required by larger businesses in accordance with product requirements and quality. that has been agreed. The second most partnership pattern is subcontracting of 28.20 percent. The pattern of operational cooperation partnerships reaches 12.05 percent, namely cooperation in running a temporary business until the work is completed. The profit sharing partnership pattern is 6.96 percent where the MSIs is domiciled as an executor who runs a business financed or owned by a larger business by sharing the profits of the business. While the joint venture and Inti-plasma partnership patterns are also run by MSIs but far fewer than the four partnership patterns above, respectively 2.17 percent and 1.89 percent of all MSIs that have established partnerships, the majority or 92.98 percent stated that the partnerships that had been implemented so far had been profitable, and only 7.02 percent stated that they had not been profitable. There are several things that need to be improved so that partnerships become more profitable, including guaranteeing price stability, guaranteeing timely payments, guaranteeing the quality of raw materials, guaranteeing the absorption of production results, the portion of production sharing, and others.

So, for MSIs that have partnerships with others e.g. will boost their export or will help them become exporters, *ceteris paribus*. (Figure 13).

**Figure 13 Percentage Distributions of MSIs that have Partnerships and Exporting MSIs by Province**



Source: BPS (2020).

## 7.0 CONCLUSION AND RESEARCH LIMITATION

This study has examined the role of SC on MSIs’ performance at the macro level using secondary data. Three indicators used to assess the SC of MSI owners/entrepreneurs at the macro level are the number of clusters, the number of MSIs that are members of cooperatives, and the number of MSIs that have partnerships. By using export as a performance measure, the findings may suggest that the three SC indicators do have a positive effect on exporting MSIs. So, it can be expected that, for instance, MSEIs inside a cluster have more capability to export compared to those outside the cluster, or those that are members of a cooperative or that have partnerships are more able to do export than otherwise. However, this research has several weaknesses. One of them is that there is no information on whether all MSIs that are members of the cooperative or those with partnerships or those located in a cluster are exporting.

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