

The effect of social capital and knowledge sharing to the small medium enterprise's performance and sustainability strategies

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Abstract

Purpose – The development of small- and medium-sized enterprises (SMEs) in Indonesia is one of the national economic development priorities. SMEs have given benefits for society, especially in creating a fair income distribution and supporting economic growth. This paper aims to examine and analyze the impact of social capital and knowledge sharing on the sustainability strategy and performance of SME and to formulate policies about SMEs in the future.

Design/methodology/approach – This research was carried out in Riau Province, which is the closest province to Malaysia and Singapore. The authors collected data from 56 SMEs in trading and craft industries by using the purposive sampling method. The data were analyzed using partial least square technique.

Findings – The result of data analysis shows that social capital and knowledge sharing significantly affect the sustainability strategy of SMEs. Furthermore, sustainability strategy and knowledge sharing affects SME performance significantly, whereas social capital does not affect its performance.

Originality/value – A participatory approach (partial least square) was used, the location of the research was Riau Province, Indonesia and the participants in this study are the perpetrators of the micro-, small- and medium-sized enterprises. This method and location have not been considered in earlier studies.

Keywords Performance, Knowledge sharing, Social capital, Small medium enterprise, Sustainability strategy

Paper type Research paper



1. Introduction

The concept of social capital was introduced by Bourdieu in the early 1980s, which means a whole good resources to actual or potential that can be owned by a person thanks to the existence of a network of institutional relations are well maintained. The definition of social capital concept refers to social relationships, institutions, social norms and trust between people or other groups, as well as having a positive effect on the improvement of the life of the community.

Small- and medium-sized enterprises (SMEs) are one of the strategic sectors in the national economy. This is reflected in the magnitude of labor absorption by the SME sector. The data of the Central Bureau of Statistics 2012 mentions that the number of workforce in the sector of SME is about 107.6 million workers or about 97 per cent of the total number of workers in Indonesia. Most of the workforce is employed in micro enterprises (90 per cent). The workforce in SMEs reach 4 and 3 per cent, respectively.

The existence of SMEs will show an increase in SME performance. Performance improvement of SMEs requiring the quality of human resources that is inseparable from the values and norms that are inherent in the life of society itself. Social values affect the treatment and actions of individuals and members of society. SME is the potential business that is highly encouraged by the government. The more community entrepreneurship, the better and stronger regional economy because the local resources, local workers and local financing can be absorbed and beneficial optimally.

In addition to social capital, other factor considered important in developing the SME is knowledge sharing. Sharing knowledge stimulates individuals in an organization to be able to think critically and creatively (Lindsey, 2006) and in the end to be able to produce new knowledge that is useful for the organization. The benefits of knowledge management are pushing the learning process that implicates increased innovation capability through the creation of new knowledge (Tobing, 2007). Managing knowledge resources is one of the key functions in modern organizations. Knowledge is treated as a potential and strategic resource (Alavi and Leidner, 2001).

The development of SMEs in Riau Province, which is close to Singapore and Malaysia, has increased every year. Unfortunately, the increasing in SME quantity is not supported by the increase in SME quality. The main problem is the lack of performance, which leads to a very wide gap between businessmen of small, medium and large businesses. Performance in this term relates to:

- poor quality of human resources of SMEs, especially in the field of management, organization, marketing and mastery of technology; and
- the low level of entrepreneurial competencies of SMEs.

Increased productivity of SMEs is needed to overcome the inequality between personal, community and revenue areas, including poverty reduction, and to encourage increased national competitiveness.

The problems discussed and examined in this research are related to the effects of social capital on the strategy of survival of SMEs, of sharing knowledge on the strategy of survival of SMEs, of social capital on the performance of the SMEs, of sharing knowledge on performance and of survival strategies on the performance of SMEs and the formulation of policies relating to SMEs in the future.

2. Literature review

Drucker (1992) suggests that the key to success for improving the well-being and the quality of individual and group work in organizations is the discovery and deepening the knowledge possessed by each individual user. Perception of knowledge management is varied, but the main goal is to share and gain knowledge. Knowledge involves the collection, structuring, saving and accessing information to build knowledge. Hsien and Chien (2007) state that the creation and transfer of knowledge within an organization has become a very important factor in achieving success and excellence competitiveness of organizations.

The social capital indicators according to [Fukuyama *et al.* \(2000\)](#) are trust, caring and a willingness to live with the norms. Definition of knowledge sharing is the level of confidence to share knowledge with other members of the organization.

Sustainability according to [Elkington \(1998\)](#) is a balance between profit, people and planet, known to the concept of triple bottom line (TBL). The concept of sustainability business is actually a concept that shows the success of a company to be able to exist even in the presence of strong competitors and being resistant to shaking that affects its performance, growth indicators, developments and strategies ([www.oregon.gov](#)).

According to [Robbins and dan Mary \(2005\)](#), performance is the answer to the question “what are the results achieved after someone working on something?.” [Wood *et al.* \(2001\)](#) says that performance is the quantity and quality of the achievement of the tasks, either by individual, group or organization. The performance is the result of work that has strong ties with the strategic objectives of the organization and consumer satisfaction and that contributes to the economy ([Armstrong and Baron, 1998](#), p. 15). The indicators of performance of SMEs in research are economy, efficiency, effectiveness and the equation of service (Salim and Woodward, in [Nasucha, 2004](#)). The company’s performance is very important in ensuring the sustainability of the effort. The performance of the business other than as a reflection of the success or failure of a company can also describe the results achieved from the implementation of a series of company work functions or activities in a certain period ([Bernardin and Russel, 1993](#)).

3. Research method

This research was conducted at Riau Province, one of the provinces in Indonesia that shares borders with Singapore and Malaysia. Riau Province is located in the heart of the island of Sumatra with a very strategic layout and is the center of commerce and education. The population in this study are all the perpetrators of the micro-, small- and medium-sized enterprises. Sampling is carried out using purposive sampling, and participants were owner or management-rank people in SMEs engaged in the trade and craft industry. Structural model in used in this research is shown in [Figure 1](#).

Structural models can explain the following questions:

- Does social capital have an effect on the strategy of survival of SME?
- Does knowledge sharing have an effect on the strategy of survival of SME?
- Does social capital have an effect on the performance of SME?
- Does knowledge sharing have an effect on performance of SME?
- What is the strategy of the survival effect on performance of SME?

The concept of operational variables in this study is shown in [Table I](#).

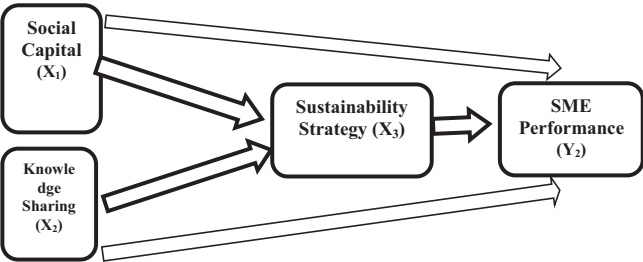


Figure 1.
Structural model

			Social capital and knowledge sharing
Variable	Concept of variable	Indicator	
Social capital (X ₁)	Human capital is a concept explained that people in organizations and businesses is an important and essential asset, which has a donation toward development and growth	Trust Care Willingness to live with norm Fukuyama <i>et al.</i> (2000)	991
Knowledge sharing (X ₂)	Confidence level is going to share your knowledge with other members of the organization. Chatzoglou and Vraimaki (2009)	Report usage Document usage, Instructions and mode, Know whom to share with Experience Expertise	
Business sustainability (Y ₁)	Elkington (1998) business continuity is a balance between profit, people, planet, known to the concept of TBL	Growth Development Strategy (www.oregon.gov)	
SME performance (Y ₂)	Performance is the quantity and quality of the achievement of the tasks, either do individual, group or organization (Hunt and Osborn, 2001)	Economy Efficient Effective Same service (Salim and Woodward in Nasucha, 2004)	
Source: From many studies			Table I. The concept of operational variables

For the purposes of data analysis, this research uses statistical analysis to test the hypothesis of research inferensial. Inferensial statistical method that we use in this research is partial least square (PLS).

4. Result

The output of the structural model test is shown in Figure 2, and data interpretation from PLS output is shown in Table II.

From the illustration, the following results are observed:

- *Direct effect of social capital (X1) on business survival strategies (X3):* From Table II, note that the calculated *t* value of 2.173251 is greater than *t* table of 2.00575. It means that there is a significant effect of the social capital variable (X1) on business continuity strategy variable (X3).
- *Direct effect of knowledge sharing (X2) on business survival strategies (X3):* The value calculated *t* value of 2.379021 greater than *t* table of 2.00575, meaning that there is a significant effect of knowledge sharing strategy variable on the continuity of effort.
- *Direct effect of business sustainability strategies on the performance of SME (Y):* The value calculated *t* value of 5.013270 is greater than *t* table of 2.00575, meaning that there is a significant effect of business continuity strategy on performance of SME.
- *Indirect effect of social capital (X1) on the performance of SME (Y):* The value calculated *t* value of 0.857815 is smaller than the *t* table of 2.00575, meaning that there is no significant effect of the social capital variable on performance SME.

Figure 2.
Model output PLS

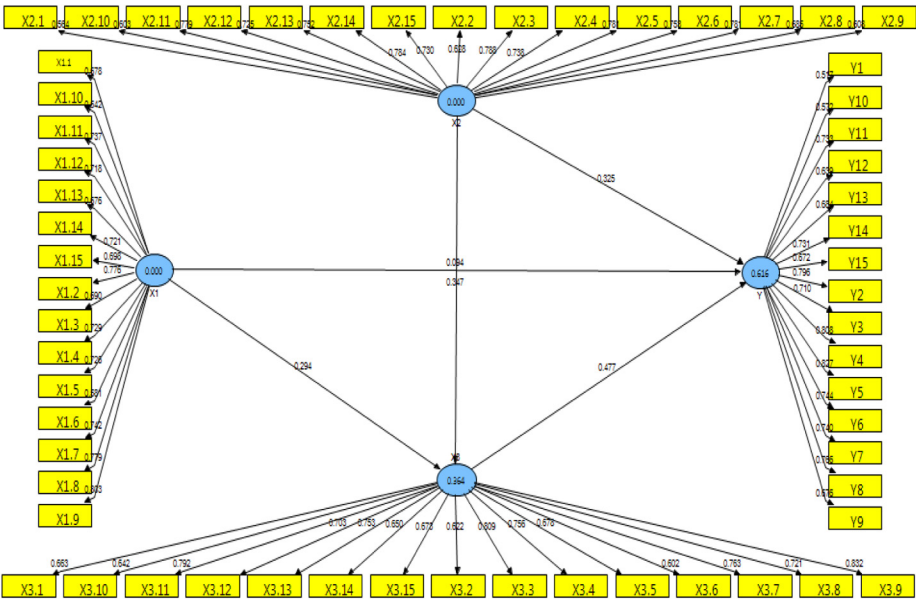


Table II.
Path coefficients
between observed
variable

Variable	Original sample (O)	t statistics (O/STERR)
X ₁ -> X ₃	0.294284	2.173251
X ₁ -> Y	0.093801	0.857815
X ₂ -> X ₃	0.346853	2.379021
X ₂ -> Y	0.324826	2.511516
X ₃ -> Y	0.476800	5.013270

Source: Processed data (2015)

- *Indirect effect between knowledge sharing (X₂) on the performance of SME (Y):* The calculated t value of 2.511516 is greater than t table of 2.00575, meaning that there is a significant effect of share their knowledge on the performance of SME.

5. Discussion

Social capital development is one of the social resources that can be used as an investment to get other new resources. This is because social capital affects the strength of the community and societal basis in solving the problems that arise. Social capital will provide the impetus for the success of many parties because it can encourage self-help societies to achieve the maximum. Bourdieu stressed that social capital consists of two elements, namely, the social weave of allowing each member can be connected directly in the group, as well as the number and quality of resources the group members (Leksono, 2009, p. 38). This is related to the existence of a social network that encourages the emergence of norms of mutual

reciprocity between certain members of the community that aim to help every member of the community to achieve personal goals or common purpose (the purpose of the community).

Of the structural model in Testing PLS retrieved results to the effect of social capital variables against direct variable business continuity strategy with value t calculate of 2.173251 greater than t table of 2.00575. It means that there is a significant effect of social capital variable (X1) on business continuity strategy variable (X3). Coleman in Yustika (2008, p. 185) states that the structure of social capital which is built on the basis of expectations will lead to mutual and beneficial cooperation (Yustika, 2008, p. 185).

The indirect social capital variable does not affect the performance of SME; the calculated t value of 0.857815 is smaller than the t table of 2.00575. In this case, there is some reference values and elements of social capital that is among others a participatory attitude, the attitude of caring, mutual give and take, mutual trust and strengthened by the values and norms that support it. Related to this issue, it can be concluded that the culture of SMEs is still very weak, especially in the trust and cooperation in developing SME business centers, which ultimately affects the SME growth and performance.

Knowledge sharing is currently the focus of attention of various circles of practitioners and academics. Knowledge is the key asset for organizations to have a sustainable competitive advantage. The main problem in sharing knowledge is how to encourage individuals in an organization to share the knowledge about what they know (Orr and Persson, 2003). It is because not everyone has willingness to share knowledge with others. Because not everyone has the social spirit and not everyone is so selfless while more people are questioning the benefits of sharing knowledge with others (Akram and Bokhari, 2011). So, there will be several people hiding and holding information in interpersonal interactions (Huysman and Wit, 2003). Therefore, many organizations that then motivates their employees to share information due to point of view that information is important and valuable. Also, information is not shared among various sections in an organization (Andriessen, 2004).

Knowledge sharing on the SME define as confidence level SME will share their knowledge with other members of the organization. It is indicated by of use of the annual report, other official documents, methodologies, models and instructions, know where to share knowledge and who should share knowledge, experience and know how to use it and the expertise of the education and training.

Of the structural model in testing PLS direct effect of the variable results obtained knowledge sharing strategy variables against the continuity of effort with a value of 2.379021 is greater than t table of 2.00575. It means that there is a significant effect of knowledge sharing strategy on the continuity of effort.

It is in line with the opinion of Akram and Bokhari (2011), who state that the sharing and utilization of knowledge in organizations is one of the most important factors in the success and continuity of a contributed to the effort. It, however, indirectly affects knowledge sharing variable performance of SME with a calculated t value of 2.511516, which is greater than t table of 2.00575.

Some literature suggests that knowledge sharing has a long-term relationship with company performance and competitiveness. Tsai *et al.* (2010) show that the sharing and utilization of knowledge has a very important role in the performance of an organization. The same was stated by Matzler *et al.* (2008) that sharing knowledge in the organization will contribute to organizational performance.

Porter (1990) suggests that an organization that is able to create and share knowledge will be more effective and efficient than their competitors. Von Krogh *et al.* (2000) states that there is effect of knowledge sharing on performance of the business, such as organizational creativity, operational effectiveness and value of a product or service. In the meantime,

research conducted by [Davenport and Prusak \(1998\)](#) suggests that organizations that succeed are those that are good at managing knowledge.

[Handzic \(2004\)](#) conclude that behavior of knowledge sharing is needed to improve the competitive advantage in the new business environment. It is important for SMEs to be able to manage the knowledge that it expected its performance will be better than the SME that do not have it ([Churchill and Hatten, 1997](#)).

Of course, every entrepreneur wants his/her business investments to succeed more than their competitor. Changing environmental conditions demand management to be able to respond quickly and accurately. Companies must continually strive to achieve success with competitive advantage in the marketplace as a result of the strategic planning and operations. In other words, the company should be able to create a strategy for the pencapaian of their products and services in such a way for creating greater value for customers.

[Elkington \(1998\)](#) states business continuity is a balance between profit, people and planet, known to the concept of TBL. Of the structural Model in Testing PLS retrieved results to the effect of direct business continuity strategy variables on performance against kinerja SME with a value t calculate of 5.013270 greater than t table of 2.00575, means that there is a significant effect among business continuity strategy against variable performance of SME.

The concept of organizational performance relates to the survival and success of an organization. As competition increases, SMEs should create strategies to sustain their efforts and improve the performance of its employees so that objectives of the organization are achieved. Of the structural model in testing PLS, indirectly social capital variables does not affect the performance of SME Whereas in variable knowledge sharing effect indirectly with the performance of SME The next variable is the strategy of the survival effect directly against the performance of SME.

6. Government policy

With the change in governmental system of centralization to decentralization, which creates regional autonomy, Riau Province Government generated policies to develop SMEs. In line with the regulation, there are several expectations from business owners to the local government. It is particularly about creating a situation and good economic conditions so that they could rapidly increase the development of business activities. Based on the results of a survey on SMEs, the expectations are as follows.

From [Table III](#), it can be noted that the desirable expectations of SMEs against the government are related to the presence of capital assistance as much as 35 people (62.5 per cent) SME also need a coaching for training and promotion of the business (26.4 per cent). There are also several SMEs that responded to government needs to stabilize the economy, build infrastructure and conduct survey on Pekanbaru SMEs.

Expectation	Frequency	(%)
Capital and financial support	35	62.5
Economic stability	5	8.9
Infrastructure development	3	5.3
Training and promotion	11	19.7
Conduct survey	2	3.6
Total	56	100

Source: Processed data (2015)

Table III.
SME Expectation to
government

Few of the suggestions of the policy formulated by the government to maintain the continuity and improve the performance of SMEs are:

- construction and development of human resources through training in the form of management and technically coaching;
- providing assistance in the form of financing and partnership by providing loan and invitation for SMEs to join in various activities events, local or international;
- guarantee from the local government to create a good business climate associated with product innovation; and
- government's efforts to develop the entrepreneurial spirit and teach it in vocational high school.

7. Conclusion

The conclusions are as follows:

- Hypothesis testing of the direct effect of social capital variables on the business continuity strategy variables retrieved that there is a significant effect of variables of social capital variable strategies on the continuity of the business.
- Hypothesis testing of the direct effect of knowledge sharing on the business continuity strategy variables retrieved that there is a significant effect of share their knowledge on the strategies for survival effort.
- Hypothesis testing of the direct effect of business continuity strategy on performance of SME showed that there is a significant effect of business continuity strategy on performance of SMEs.
- Hypothesis testing of the indirect effect of social capital variables on performance SMEs showed that there was no significant effect of social capital variables on the performance of SMEs.
- Hypothesis testing of the indirect effect of knowledge sharing on the performance of SME showed that there is a significant effect of knowledge sharing on the performance of SMEs.
- The Government of Pekanbaru has already formulated policies to maintain continuity and improve the performance of SMEs, among others, to provide coaching and development to human resources, to provide assistance, to warranty to create a good business climate and to develop entrepreneurial spirit.

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