

The Role of Social Capital, Innovation, and Capabilities on MSMEs' Resilience in Economic Hard Times

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The Role of Social Capital, Innovation, and Capabilities on MSMEs' Resilience in Economic Hard Times

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Abstract:

Research aims: As the dust of the Covid-19 pandemic settles, one apparent theme of the resulting economic crisis is uncertainties. The uncertainties especially hurt the MSMEs, who often possess limited organizational resource and capabilities. Referred as the ability to evolve as the environs do, resilience has been seen as a mantra for MSME's survival and success. The purpose of the current study is twofold. Firstly, this study seeks to examine the effect of innovation, resource capability, and social capital on the resilience of MSMEs in Indonesia. Secondly, this study is aimed to examine the relationship between company performance and resilience.

Design/Methodology/Approach: Employing quantitative approach, hypothesis testing employed Partial Least Square (PLS) data analysis techniques with the SmartPLS 3.0 program

Research findings: Resource capability, innovation and social capital are found to positively influence the performance of MSMEs which in turn affects the resilience of MSMEs

Theoretical contribution/ Originality: The research findings provide business resilience construct in third-world, grassroot enterprises in which social and cultural factors are dominant

Practitioner/Policy implication: Governmental programs, such as exhibitions or workshops, aimed at strengthening MSME's social capital as well as internal capabilities and cultivating innovation culture are encouraged to assist MSME's survival during economic hardships

Research limitation/Implication: This study only focused on MSMEs in the Greater Solo Region of Central Java, Indonesia during the Covid-19 pandemic hit. Further studies are encouraged to test the result in other economic as well as cultural settings

Keywords: Resilience, Small and Medium Enterprises, MSME performance, Covid-19, social capital, economic crisis

Introduction

The Covid-19 outbreak started in 2019 had negative impacts on the global economy, including on Indonesia. The Covid-19 pandemic decreased economic activities and reduce business performance (Sulastri *et al.*, 2021). This does not only give significant impact on big companies, but particularly for MSMEs. ILO documented that in Indonesia Pandemic Covid-19 hit demand and supply side therefore created cashflow problem.

As a result many MSMEs cannot pay their

employees and some of them stopped their business. This is not ideal as entrepreneurship plays a central figure in an economy, with experts suggesting at least 2% of the population of a country should be entrepreneurs (Mukharomah, Soepatini and Praswati, 2017). The role of entrepreneurial ventures is particularly more pertinent in Indonesian economic context as small-scale ventures are often relied by unskilled workers to find jobs (Setiaji *et al.*, 2019).

Despite the Covid-19 pandemic has caused many MSMEs to go bankrupt, it leads to new ways of doing business. In addition, the Covid-19 pandemic has produced several business people who can survive and then generate more profits. Business resilience is actually best proved in the immediate aftermath of a crisis (Susilowati, 2021). Therefore, inquiries on how MSMEs survive and strive amidst external pressures are impertinent. Studies on resilience can provide information about what and why a business actor can survive, while another business actor does not.

Many previous studies on the resilience of business actors have been carried out. In general, studies are centered on the resource aspect such as those conducted by Chahal and Bakshi (2015); Acquah, Amoako-Gyampah and Jayaram (2011); Gunasekaran, Rai and Griffin (2011) which examined both tangible and intangible resources. Several other researchers examined resources in an organizational context (Alberti and Pizzurno, 2013; Carvalho *et al.*, 2016). However, there are other researchers who highlight strategic aspects such as competitive strategy issues (Demmer, Vickery and Calantone,

2011; Gunasekaran, Rai and Griffin, 2011). In general, these studies are carried out not in the context of a pandemic, but in almost the same context, namely great business pressure. There are still few who associate business resilience with the pandemic factor (e.g. Hidayat *et al.*, (2020)).

Within the strategic management literatures, Barney, (1986, 1991) and Barney and Tyler (1990) elaborately mentioned how firms can attain and sustain competitive advantage. It is further noted how the immediate environs of firms will dictate how firms would react and adapt to the business surrounding (Burnard and Bhamra, 2011). It is correctly assumed that firms are under constant hardship with the everchanging external environment (Burnard and Bhamra, 2011). Therefore, organizational resilience not only refers to the perceived ability of firms to adapt to the changing environments, but, more crucially, to which extent they can snatch business opportunities emanating from the changing environment (Smit and Wandel, 2006; Hall, Prayag and Amore, 2018). Consequently, organizational resilience is best described as how well an organization is able to get back to the possible best shape amidst a crisis, instead of reverting back to the previous shape before the crisis struck. Such as the case since business environment is never constant and unexpected turbulence may occur at any given time (Conz, Denicolai and Zucchella, 2017).

Therefore, since the pandemic became a global economic crisis well over two years ago, this innate organizational ability to come through crisis and become successful has been a recent research theme surrounding resilience. For instance, Hutchinson *et al.* (2021) studied how small business entrepreneurs "flex their leadership muscle" in navigating the crisis and come through successfully by exercising resilience. Moreover, Prayag *et al.*, (2020) extensively studied a tourism community wrecked by a recent earthquake in New Zealand. They found that individual resilience contributes to not only to the organizational resilience, but also for the life satisfaction of the tourism actors. An identical inquiry was conducted by Ngoc Su *et al.* (2021) who explored how the hospitality sector in Vietnam coped with sudden lockdown in the aftermath of the pandemic, and how it forced organizations to exercise their resilience through organizational process. Among the plethora of the finding was how businesses employ both defensive strategies, such as enforcing health and safety protocols, and offensive responses such as talent management, job redeployment and resource network enhancement (Ngoc Su *et al.*, 2021). These instances further proved Hutchinson's (2020) brilliantly put metaphor regarding the pandemic, which can be considered as the gym of adversity with which organizations train the resistance of their muscle and come out of it stronger.

This study has several objectives related to MSME resilience. First, this study was aimed at examining the effect of innovation, resource capability, and social capital on the

resilience of MSMEs in Indonesia. Secondly, the current study seeks to examine the relationship between company performance and resilience.

Literature Review

Resilience

Originally derived from a latin word “resilire” that means “to spring back” (Rodriguez-Sanchez *et al.*, 2021, p. 442), entrepreneurial resilience is viewed as a person's ability to withstand as well as quickly face difficulties (Fatoki, 2018). Resilience refers to the capacity of a person to adapt in the face of tragedy, trauma, or other challenges (Bonanno, 2004). Resilience is often used to describe an individual able to easily and quickly overcome difficulties, both in career and life (Zautra, Hall and Murray, 2010). Understanding how entrepreneurs are able to survive a crisis is very important (Fatoki, 2018). Resilience invites various interpretations and operational definitions (Fatoki, 2018). Several previous studies used the Connor Davidson Resilience Scale (CD-RISC) model such as Ayala and Manzano (2014) and Fisher, Maritz and Lobo (2016). This scale consisting of 5 factors has often been used by entrepreneurship researchers to measure a person's level of resilience (Fisher, Maritz and Lobo, 2016). Fisher, Maritz and Lobo (2016) also argued that this scale is suitable for use in entrepreneurship research.

Resilience refers to how well someone able to bounce back after encountering difficulties (Zautra, Hall and Murray, 2010). Therefore, for any entrepreneurs, resilience is a crucial trait due to the uncertainties they face daily. Indeed, in entrepreneurship contexts, resilience refers to which extend entrepreneurs show stable function in the long term in spite of problematic events (Corner, Singh and Pavlovich, 2017). Consequently, it is conceivable to think that resilience is an innate characteristic an individual has. Interestingly, (Duchek, 2018), whose well cited research invited eighty successful entrepreneurs, concluded that aside from internal-related factors such as their attitudes and behaviors, situational factors were also found to have impacts on their entrepreneurial success.

Resilience was initially understood as a trait, but studies of resilience especially in the psychology realm found that resilience is a construct that evolves over time instead of something that someone has or does not have (Bonanno, 2012; Orr *et al.*, 2013; Eicher *et al.*, 2015; Corner, Singh and Pavlovich, 2017) (Bonanno, 2012; Orr *et al.*, 2013; Eicher *et al.*, 2015; Corner, Singh and Pavlovich, 2017). With that in mind, Hedner, Abouzeedan and Klofsten (2017) argued that entrepreneurial resilience may not only depend on one's characteristics, it is also dependent upon external as well as structural factors. Extending that idea, (Hedner, Abouzeedan and Klofsten, 2017) elaborated 7 resilience aspects as developed by (Ungar *et al.*, 2007) which includes internal aspects of resilience (including experiences of power and control) and general external aspect of resilience

(e.g. access to supportive relationships. With this in mind, the current research includes social capital in its inquiry.

Social Capital

Kerr (2018) highlights the function of social capital for community resilience in the aftermath of disasters. In Kerr's (2018) view, communities that have strong social capital will more quickly overcome the impact of disasters. Through bridging social capital, they can contact parties outside the affected area to help them. Through this social capital, affected communities can obtain the resources they need in the disaster recovery process. Edmeade and Buzinde (2021) photographed the relationship between the teachers' role and social capital in increasing students' resilience in handling natural disasters. The results of the study by Edmeade and Buzinde (2021) indicate that teachers and social networks have a very important role in the process of natural disaster resilience, in relation to overcoming psychological impacts. The recovery process for victims of natural disasters will be helped by the attitudes that are formed from the narrative process they receive and the social networks they have.

Social capital's role in entrepreneurship is a topic that is increasingly being discussed in the business world (Light and Dana, 2013). Social capital can be useful resources for an organization through the mechanism of bonding and bridging social capital (Putnam, 2001; Adler and Kwon, 2002; Davidsson and Honig, 2003). Social capital mediates the running of an organization (Gedajlovic *et al.*, 2013). Nahapiet and Ghoshal (2009) propose three dimensions of social capital; the structural, relational and cognitive dimensions. Various interpretations of social capital have been carried out (Gedajlovic *et al.*, 2013) which complicate studies in this area. In this study, social capital is viewed as a resource that is embedded within a network and can be accessed through social links (McKeever, Anderson and Jack, 2014). Social capital is not only a characteristic of an individual, but also a characteristic of a community and is an important asset for the formation of resilience.

Social capital can be a useful resource for organizations and communities through bonding and bridging mechanisms (Putnam, 2001; Adler and Kwon, 2002; Davidsson and Honig, 2003). In bonding mechanism, the focus of substance, resources and effects is on the internal community. In bonded social capital, interactions between members in a community or organization encourage the achievement of collective goals (Adler and Kwon, 2002). Meanwhile, bridging mechanism focuses on the benefits of the relationship between individuals within the organization and actors outside the organization (Davidsson and Honig, 2003). Direct or indirect relationships with external

organizations will help individuals or groups obtain resources that are not available within the organization (Adler and Kwon, 2002).

Family firms have the potential to acquire resources brought about by ⁴bridging social capital mechanism (Salvato and Melin, 2008). Bridging social capital mechanism focuses on the benefits of relationships among individuals and actors in the external environs of the group (Salvato and Melin, 2008). Family companies develop good relationships with family company shareholders including customers, suppliers and employees. They even often last across generations of family companies and personal attachments are involved (Dyer, 2006). Those stakeholders provide family companies with the opportunity to connect with stakeholder contacts to assist with resource acquisition. Moreover, lasting relationships and commitments with stakeholders can benefit familial firms in “developing and maintaining social capital” (Dyer, 2006, p. 263).

Villena, Revilla and Choi (2011) actualize social capital dimensions in buyer-supplier relationships. They argue that the dimensions such as cognitive, relational and structural social capital can enhance the development of relationships between buyers and sellers. These elements of social capital provide a mechanism to reduce opportunistic behavior and increase collaboration between buyers and sellers. Through shared norms and culture that are part of cognitive social capital, for example, each party can be motivated to have a collective interest that limits unwanted behavior (Coleman, 1988). Trust is a crucial element of the relational dimension of social capital (Nahapiet and Ghoshal, 2009). In repeated exchanges, trust can reduce opportunistic behavior because broken trust can have negative consequences in future exchanges (Carson, Madhok and Wu, 2006). The success of every kind of collaboration necessitates a minimum level of trust, hence trust is also necessary for collaboration. (Cristina Costa and Bijlsma-Frankema, 2007). When people cooperate, the results depend not only on how well one party performs but also on how well the other party performs. (Mayer, Davis and Schoorman, 1995).

H1: It is predicted that social capital has a positive influence on the resilience of MSMEs in the midst of the COVID-19 pandemic.

Innovation

One of the crucial elements for achieving ¹⁷organizational success and maintaining a competitive edge is innovation. (Damanpour and Gopalakrishnan, 2001). Reddy and Reddy, (2014) reminded that innovation should not be considered as a luxurious character that only a handful of business actors have, innovation should be a core part of an organization. An understanding of innovation must be deeply rooted in an organization so that the results of innovation are based on a careful planning and not just an accidental result. This must be considered and prioritized because it is proven that macro innovation will lead to economic growth. This is not surprising because

innovation can increase a company's capacity to have resilience and has a positive relationship to the performance of an MSME. Not only that, resilient and innovative organizations were found to have the same characteristics.

Process innovation in the form of renewing production methods also needs to be considered (Bessant and Tidd, 2011). MSMEs must consider production techniques that might minimize the utilization of fixed expenses. Fixed costs are costs that remain constant regardless of production volume. In times of low demand, product unit fixed costs are considerable. The wage of permanent staff is a component of fixed costs. With the new method of operation, it is intended that fixed-cost-based payroll models will be replaced with variable-cost models. This is possible in SMBs, where the payroll system tends to be more flexible than in large corporations.

When businesses move their outdated products to new markets, this is known as positioning innovation. Positional innovation involves corporations trying to make changes to allow their outdated products to be acceptable in new markets.. For example, films that should be shown in theaters, offered to pay television networks, or home cleaning products are offered to the health market. Currently, there are many MSMEs in the convection industry, some of which shift their fashion products to PPE, masks and other products related to personal protection. Finally, paradigm innovation, related to changing the way organizations view what they do. Big companies such as Amazon, Google, and Skype, have redefined the advertising, retail and telecommunications industries through online media. In this approach, MSMEs need to redefine their business, so that it is more relevant to the current business.

H2: It is predicted that innovation has a positive influence on the resilience of MSMEs in the midst of the COVID-19 pandemic

Resource Capability

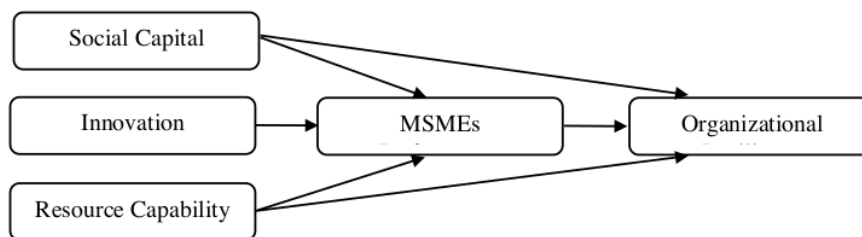
The resource based views argued that organizations attain and sustain competitive advantage through both tangible and intangible resources (Barney and Tyler, 1990; Barney, 1991, 1995; Dess *et al.*, 2019). Especially applicable during and after a crisis, such as the current pandemic, is human resource capability's role in driving organizations through crisis (Channa, Shah and Ghumro, 2019; Dessouky and Al-Ghareeb, 2020; Ngoc Su *et al.*, 2021). While resilience in navigating crisis was traditionally seen as a defensive responses (Duchek, 2020), it is now considered as offensive and even anticipative strategy (Boin and van Eeten, 2013; Duchek, 2020; Ngoc Su *et al.*, 2021), with the human capital considered as the crucial enabler (Channa, Shah

and Ghumro, 2019; Dessouky and Al-Ghareeb, 2020). Therefore, the current study refers resource capability to human resource capability.

Indeed, Stokes *et al.*, (2019) identified strategic human resource management as an antecedent in shaping resilient organization, both during crisis and other non-extreme situations. Researchers have identified how human resource, being considered as the “asset” of an organization (Azmy and Priyono, 2022, p. 20), help navigate firms through crisis with at least two crucial roles. Firstly, individual human resource capabilities, such as crisis awareness and resource allocation, can collectively improve the organizational crisis response (Jia, Hutchins and Garavan, 2009; Ngoc Su *et al.*, 2021; Nizamidou and Vouzas, 2021). Secondly, and more importantly, capable human capital provides practical abilities in managing crisis (Ngoc Su *et al.*, 2021).

Human resource's role in the middle of a crisis is especially called in Indonesian MSMEs context. Firstly, with cultures being a major contributor to organizational process (Mullins, 2001), individuals become the central orientation in cultures of which center is the people. Indeed, in collective society such as Indonesia, strong relationships between individuals has always been a strong feature in the culture and society even outside of the pandemic (Hofstede, 1980). Ngoc Su *et al.* (2021) found employees were willing to go beyond their responsibilities to help their company and the people by, for example, taking unpaid leave and taking multiple position within the company. Secondly, with most grassroot enterprises in Indonesia are labor-intensive as opposed to technology-intensive, the presence of capable labor force is in the central of their existence and success.

H3: It is predicted that resource capability has a positive influence on the resilience of SMEs in the midst of the COVID-19 pandemic



Research Method

This study employed a quantitative design to analyze the research hypothesis. There are seven hypotheses that will be answered in this study. To answer the hypothesis, data collection was carried out by administering questionnaires to SMEs in Solo Raya.

Sample and Data Collection:

The sample in the current inquiry was SMEs in Solo Raya, Indonesia. The number of MSMEs involved were 215 respondents. The types of MSME businesses are quite diverse, namely the culinary field. Crafts, clothing and cosmetics. The characteristics of respondents according to the type of business they operate revealed that 124 respondents, or 57.6%, operated a culinary business. While the percentage of respondents who operate a craft business is 14.4%, there are 31 people who operate a craft business. With a ratio of 7%, the respondents that operate a cosmetics business include as many as 15 individuals. The final group consists of 45 respondents who own a business in the fashion industry, representing a proportion of 21%. The method of sampling employed is non-random sampling, also known as convenience sampling. Selected respondents were required to complete a Google form including a series of research questions.

Contract Measurement

Quantitative design is used to answer the research hypothesis. There are five constructs tested in this study, namely: social capital, innovation, resource capability, financial performance and resilience. The five constructs were measured using a 5-point Likert scale starting from a scale of 5 indicating strongly agree and 1 for strongly disagree. The instrument of the research construct that was tested was based on a literature review which was then tested for validity and reliability.

Validity and Reliability

The research construct's validity was determined using convergent and discriminant validity. The measurement scale for a loading value between 0.5 and 0.6 is deemed enough to meet the convergent validity standards (Chin, 1998a). The research data indicates that no indicator variable has an outer loading value of less than 0.5, hence all indicators are deemed viable or valid for use in research. The test for discriminant validity was conducted with the cross loading value. An indicator is said to have discriminant validity if the value of the cross-loading indicator on the variable is greater than that of other variables (Chin, 1998b). To evaluate the instrument's dependability, we utilized composite reliability and Chronbach Alpha. If a variable's composite reliability value is greater than 0.70, it can be declared to meet composite reliability requirements. The overall dependability of all research variables is greater than 0.70. The values of social capital, innovation, resource capability, MSME performance, and institutional resilience are as follows: 0.868, 0.867, 0.868, and 0.849, respectively. The

second test of dependability is Cronbach's Alpha. Cronbach's Alpha is a test that measures the internal consistency of instrument reliability tests or psychometric data using a statistical technique. If the Cronbach alpha value for the construct exceeds 0.60, it is deemed dependable.

The table 2 below demonstrates that the cronbach alpha value of all variables in this study is greater than or equal to 0.6, indicating that the cronbach alpha value meets the criterion for all constructs to be considered reliable.

This part includes the research design, subject/object/population/sample, operational definition and measurement of variable, data collection method and instrument, and data analysis methods.

Goodness of Fit

In order to demonstrate the relationship between the manifest and latent variables of the primary predictor variables, mediators, and outcomes in a complex model, a structural model evaluation was done. This model's validity is determined by two tests: R Square (R2) and Q-Square (Q2). The value of R2 or R-Square reveals the exogenous variable's relationship to the endogenous variable. The higher the value of R2, the bigger the determination. R2 values of 0.75, 0.50, and 0.25 indicate that the model is robust, moderate (medium), and weak, respectively (Ghozali, 2011). The value of the coefficient of determination in this investigation is listed below.

Tabel 1 Determination Coefficient

	R-Square
SME performance	0.537
Resilience	0.722

Using the R-Square to determine the strength of the link between social capital, innovation, and resource competence and institutional resilience, with a value of 0.722 or 72.2%, it can be concluded that this is a strong association. With an R-Square value of 0.537 or 53.7%, it is possible to conclude that the impact of social media variables, packaging, and product quality on sales performance is moderate or moderate.

According to the aforementioned research, the Q-Square value is 0.871286. This figure indicates that 87,1286% of the diversity of the research data is explained by the research model, while the remaining 12,8714% is explained by elements outside the scope of the research model. Thus, based on these estimates, we may conclude that this study model has a good goodness of fit.

Hypothesis Tests

This study employs Partial Least Square (PLS) data analysis techniques with the SmartPLS 3.0 software for hypothesis testing. The following is a diagram of the tested PLS program model:

The first hypothesis investigates whether social capital has a positive and statistically significant effect on the performance of micro, small, and medium-sized enterprises (MSMEs). The t-statistic value is 3.786, with a huge influence of 0.279 and a p-value of 0.000, as seen in the table above. With a t-statistic more than 1.96 and a p-value less than 0.05, it can be stated that the first hypothesis is supported, as social capital has a positive and substantial effect on the performance of MSMEs.

The second hypothesis investigates whether innovation has a significant and beneficial impact on the performance of MSMEs. The preceding table displays a t-statistic of 3.251, significant influence of 0.275, and a p-value of 0.001. The second hypothesis is accepted if the t-statistic is more than 1.96 and the p-value is less than 0.05, indicating a positive and significant relationship between innovation and MSME performance.

The third hypothesis investigates whether resource competence has a positive and statistically significant effect on MSMEs' performance. The preceding table displays a t-statistic of 2.588, a significant impact of 0.260, and a p-value of 0.010. The third hypothesis is accepted if the t-statistic is greater than 1.96 and the p-value is less than 0.05, indicating a positive and significant relationship between resource capabilities and MSMEs' performance.

The fourth hypothesis examines whether the performance of micro, small, and medium-sized enterprises has a positive and significant effect on institutional resilience. The preceding table displays a t-statistic value of 2.709, a substantial influence of 0.242, and a p-value of 0.007. With a t-statistic more than 1.96 and a p-value less than 0.05, it is possible to conclude that the fourth hypothesis regarding the positive and significant relationship between the performance of MSMEs and institutional resilience is accepted.

The fifth hypothesis investigates whether social capital has a significant and positive effect on institutional resilience. The preceding table displays a t-statistic of 2.820, a significant effect of 0.112, and a p-value of 0.001. With a t-statistic more than 1.96 and a p-value less than 0.05, it can be stated that there is a positive and significant relationship between social capital and institutional resilience.

The sixth hypothesis investigates whether innovation has a significant and beneficial impact on institutional resilience. The preceding table displays a t-statistic value of 2,417 with a significant influence of 0.095 and a p-value of 0.000. The sixth hypothesis is accepted if the t-statistic is more than 1.96 and the p-value is less than 0.05, indicating that innovation has a positive and significant influence on institutional resilience.

Tabel 2 Path Coefficient (direct effect). Source: primary data

	Hypothesis	Original Sample	t-Statistics	P Values	Note
Social Capital (X1) → MSME performance (Z)	H1	0,279	3,786	0,000	Positive, significant
Innovation (X2) → MSME performance(Z)	H2	0,275	3,251	0,001	Positive, significant
Resource capability (X3) → MSME performance (Z)	H3	0,260	2,588	0,010	Positive, significant
MSME performance (Z) → resilience(Y)	H4	0,242	2,709	0,007	Positive, significant
Social capital (X1) → resilience (Y)	H5	0,112	2,820	0,001	Positive, significant
Innovation (X2) → resilience (Y)	H6	0,095	2,417	0,000	Positive, significant
Resource capability (X3) → resilience (Y)	H7	0,501	6,028	0,000	Positive, significant

The seventh hypothesis investigates whether resource competence has a significant and positive effect on institutional resilience. The preceding table displays a t-statistic value of 6.028, a significant influence of 0.501, and a p-value of 0.001. With a t-statistic more than 1.96 and a p-value less than 0.05, it can be stated that the seventh hypothesis is accepted, since resource competence has a positive and significant influence on institutional resilience.

Using bootstrapping to determine the value of t statistics or p values (critical ratio) and the original sample value for the path coefficient. P Value of 0.05 implies that there is a direct relationship between variables, whilst $p > 0.05$ shows that there is no direct relationship between variables. In this investigation, the significance value utilized was 5%, which corresponds to a t-statistic of 1.96. If the t-statistic value is more than 1.96, a substantial effect exists. The SmartPLS (Partial Least Square) 3.0 software was utilized for hypothesis testing. The value of the test's path coefficient is provided below.

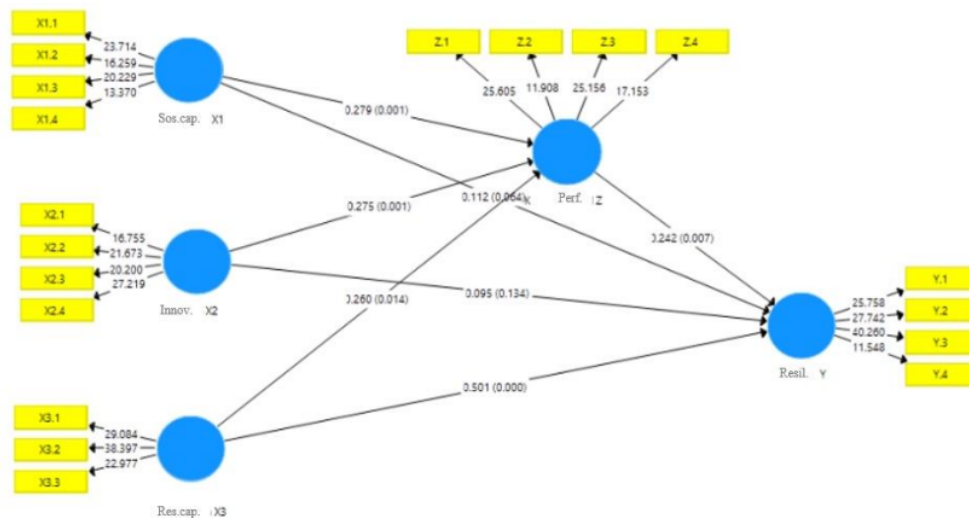


Figure 1 Path coefficient values

Specific Indirect Model

The final stage is to test the indirect effect, which can be determined based on the results of the specific indirect effect. If the P-Value is less than 0.05, the result is statistically significant. In other words, the mediator variable mediates the effect of an exogenous variable on an endogenous variable; the effect is indirect. If the P-Value is more than 0.05, then the result is not significant. This indicates that the mediator variable has no effect on the relationship between an exogenous variable and an endogenous variable. In other words, the result is immediate (Juliandi, 2018). The value of the specified indirect model is provided below.

Tabel 3 Indirect effect. Source: data analysis

Indirect Effect	Original Sample	t-Statistics	P Values	Note
Social capital (X1) → MSME performance (Z) → Resilience (Y)	0,067	2,168	0,031	Positive, significant
Inovasi (X2) → MSME performance (Z) → Resilience (Y)	0,067	2,051	0,041	Positive, significant
Kapabilitas Sumberdaya (X3) → MSME performance (Z) → Resilience (Y)	0,063	2,016	0,044	Positive, significant

Result and Discussion

This conducted study was to examine the roles of social capital, innovation, and resource capability on institutional resilience mediated by the performance of MSMEs in MSMEs throughout Solo Raya. The sample in this study amounted to 215 respondents who were MSMEs throughout Solo Raya. The MSMEs studied have diverse backgrounds, ranging from crafts to food.

The study's findings reveal that resource capabilities, innovation, and social capital have a beneficial effect on the performance of MSMEs, which in turn influences their resilience. This study defines human resource capability as the ability to manage corporate operations, manage personnel, manage company finances, and serve consumers. The findings of this study corroborate the findings of numerous earlier studies indicating that human resource capabilities are a significant factor of company performance. Human capital is able to facilitate the implementation of the company's competitive strategy (Sirmon and Hitt, 2003). It takes resource capabilities to produce products of optimum quality.

In a pandemic crisis, business innovation must pay close attention to two crucial factors: financial resources and markets. The pandemic has generally weakened MSME financial resources and contributed to a fall in their income. More of their financial resources will be utilized for survival. Thus, innovations requiring substantial financial resources, such as the introduction of a new product, should be avoided. The emphasis of micro, small, and medium-sized enterprises (MSMEs) should be on cost-effective innovation, such as process and position innovation. In contrast, the market is characterized by a decline in purchasing power and a shift in customer preferences. Consumers prefer to shop for significant and urgent things as opposed to less important and urgent goods. Therefore,

the selected innovation is not only compatible with available resources, but also marketable.

According to past literatures on social capital, family interactions have the ability to develop bonding social capital (Gudmunson and Danes, 2013). The social capital that bonds individuals to one another in a group aids the evaluation, acquisition, and application of the required resources to capitalize on opportunities (Davidsson and Honig, 2003). Through binding social capital, a family can experience internal cohesion, trust, and solidarity in the pursuit of common goals (Gudmunson and Danes, 2013). Parents and friends provide assistance to aspiring entrepreneurs in the early stages of a business venture by leveraging their ties to social capital (Davidsson and Honig, 2003). Indeed, Au and Kwan (2009) discovered that Chinese entrepreneurs rely on family and friends when they require financial resources to support entrepreneurial endeavors and business expansion.

Concluding Note

Entrepreneurial resilience has invited various conceptualizations, ranging from the ability to bounce back to the ability to adapt to changing environments, and anything in between. SME resilience becomes a crucial talking point especially in Indonesian case considering the great number of SMEs within the economy. Therefore, amidst the health crisis which has evolved into an economic downturn, understanding the influence of resilience and how resilience is formed is pertinent.

This study found that resource capability, innovation and social capital are influential in forming entrepreneurial resilience. This finding confirms prior literatures within the MSME resilience realm including (Davidsson and Honig, 2003; Sirmon and Hitt, 2003; Gudmunson and Danes, 2013). More importantly, resilience is found to have positive relationships with MSMEs' performance. This finding is especially relevant considering the contexts by which this research was conducted. The economic crisis as a result of the pandemic has resulted in massive uncertainties within the community and business environments which potentially hurt the MSME sector. With resilience associated as the ability to evolve according to the environs in this research, the ability to do so is proven to be the catalyst of MSMEs' survival and success.

While this study's inclusion of only MSMEs in the Greater Solo region of Central Java, Indonesia may be a possible hindsight of this inquiry, this scope limitation generates the value of the research. This research found that innovation, resource capability, and social capital are inherent in MSMEs' success and resilience in the context of the region,

given its specific cultures and business environments. Indeed, among the variables, social capital and resource capital are both prone to cultural influences.

Finally, the study provides key suggestions for both the Government and grassroots business players. Governmental programs to enhance the survival ability of small-scale enterprises should be focused on improving the internal resource capability. The Government can also be the ideal partner for MSMEs in strengthening their social connections (Setyawan *et al.*, 2015). Therefore, exhibitions, workshops and other activities by which new business networks can be made and maintained are ideal Government programs to stimulate grassroots enterprises' resilience. These programs are also quintessential in stimulating business innovation.

Last but not least, this study generates insights for micro, small and medium entrepreneurs to which aspects they should prioritize for their long-term success. This study suggests that building social network capital, enhancing internal human resource capability and ingraining innovation into their enterprises (Setiawati and Ahdiyawati, 2021) should be the preponderance of their business process to improve both their short term and long-term competitiveness.

References

The Role of Social Capital, Innovation, and Capabilities on MSMEs' Resilience in Economic Hard Times

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