



Article Type: Research Paper

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

Kussudyarsana¹, Huda Maulana^{1*}, Muhammad Halim Maimun¹, Budi Santoso², and Munajat Tri Nugroho³



AFFILIATION:

¹ Department of Management, Faculty of Economics and Business, Universitas Muhammadiyah Surakarta, Central Java, Indonesia

² Department of Communication, Faculty of Communication and Informatics, Universitas Muhammadiyah Surakarta, Central Java, Indonesia

³ Department of Industrial Engineering, Faculty of Engineering, Universitas Muhammadiyah Surakarta, Central Java, Indonesia

***CORRESPONDENCE:**
huda.maulana@ums.ac.id

THIS ARTICLE IS AVAILABLE IN:
<http://journal.umy.ac.id/index.php/mb>

DOI: 10.18196/mb.v14i1.15887

CITATION:

Kussudyarsana, K., Maulana, H., Maimun, M. H., Santoso, B., & Nugroho, M. T. (2023). The Role of Social Capital, Innovation, and Capabilities on MSMEs' Resilience in Economic Hard Times. *Jurnal Manajemen Bisnis*, 14(1), 72-89.

ARTICLE HISTORY

Received:
16 Aug 2022
Revised:
01 Oct 2022
18 Feb 2023
Accepted:
20 Feb 2023



This work is licensed under a Creative Commons Attribution-ShareAlike 4.0 International (CC BY-SA 4.0)

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, which often possess limited organizational resources and capabilities. Referred to the ability to evolve as the environments do, resilience has been seen as a mantra for MSMEs' 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 a quantitative approach, hypothesis testing utilized Partial Least Square (PLS) data analysis techniques with the SmartPLS 3.0 program. The population in the current inquiry was MSMEs owned by families in Solo Raya, Indonesia. The number of MSMEs involved was 215 MSMEs owned by families.

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

Theoretical contribution/Originality: The research findings provide a business resilience construct in third-world, grassroots enterprises where social and cultural factors dominate.

Practitioner/Policy implication: Governmental programs, such as exhibitions or workshops, aimed at strengthening MSMEs' social capital and internal capabilities and cultivating innovation culture are encouraged to assist MSMEs' 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. Further studies thus are encouraged to test the results in other economic and cultural settings.

Keywords: Resilience; Small and Medium Enterprises; MSME performance; COVID-19; Social Capital; Economic Crisis

Introduction

The COVID-19 outbreak that started in 2019 had a negative impact on the global economy, including Indonesia. The COVID-19 pandemic reduced economic activity and lowered business performance, as documented by (Sulastri et al., 2021). This impact is not only limited to large companies but

also includes micro, small, and medium enterprises (MSMEs). The pandemic hit both the demand and supply sides in Indonesia, creating cash flow problems that caused many MSMEs to struggle to pay their employees or even close their businesses, as the International Labor Organization (ILO) noted. It is problematic because entrepreneurship plays a central role in the economy, with experts suggesting that at least 2% of a country's population should become entrepreneurs (Mukharomah et al., 2017; Rosyadi, 2014). In Indonesia, the role of entrepreneurial ventures is very significant since unskilled workers often rely on small-scale businesses to find work (Setiaji et al., 2019).

Previous studies on business resilience have focused on the role of resources and strategic aspects in determining a business's ability to adapt and succeed in facing challenges. However, limited research specifically examines the impact of factors, such as innovation, resource capability, and social capital, on the resilience of MSMEs in a pandemic. For this reason, this study aims to fill this gap by examining the effect of these factors on MSME resilience in Indonesia and the relationship between company performance and resilience.

Recent studies have also focused on the theme of organizational resilience, particularly in the context of the global pandemic. Hutchinson et al. (2021) investigated how small business entrepreneurs exhibited resilience in navigating the crisis, while Prayag et al. (2019) explored the impact of individual resilience on the resilience of a tourism community in New Zealand and its effect on life satisfaction. Besides, Ngoc Su et al. (2021) examined the strategies employed by the hospitality sector in Vietnam in response to the sudden lockdown caused by the pandemic, including defensive strategies such as enforcing health and safety protocols and offensive strategies such as talent management and resource network enhancement.

Therefore, ever since the pandemic became a global economic crisis over two years, this innate organizational ability to overcome crises 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. (2019) extensively studied a tourism community wrecked by a recent earthquake in New Zealand. They found that individual resilience contributes not only to organizational resilience but also to 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 the sudden lockdown in the aftermath of the pandemic and how it forced organizations to exercise their resilience through the organizational process. Among the findings was how businesses employed 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) brilliant metaphor of the pandemic, which can be considered as the gym of adversity with which organizations train their muscle resistance and come out of it stronger.

Thus, this study has several objectives related to MSME resilience. First, this study aimed to examine 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 and Hypotheses Development

Social Capital and Entrepreneurial Resilience

Originally derived from the Latin word “*resilere*,” which means “to spring back” (Rodríguez-Sánchez et al., 2019), entrepreneurial resilience is viewed as a person's ability to withstand and 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 also often used to describe an individual's ability to easily and quickly overcome difficulties, both in career and life (Zautra et al., 2010). In this regard, resilience is deemed essential for entrepreneurs because of the uncertainties they face every day.

Studies on resilience have shown that it is not only an innate trait but also a construct that develops over time (Bonanno, 2004; Orr et al., 2013; Eicher et al., 2015; Corner, Singh and Pavlovich, 2017). The Connor Davidson Resilience Scale (CD-RISC) model has often been used to measure a person's level of resilience. Fisher, Maritz, and Lobo (2016) argue that this model is suitable for use in entrepreneurship research and has been used in several previous studies, such as Ayala and Manzano (2014) and Fisher, Maritz, and Lobo (2016).

In addition to internal factors, such as individual attitudes and behavior, situational factors were also found to influence entrepreneurial success (Duchek, 2017). Entrepreneurial resilience depends not only on one's characteristics but also on external and structural factors (Hedner et al., 2011). They further described seven aspects of resilience developed by (Ungar et al., 2007), including aspects of internal resilience (such as experiences of power and control) and aspects of general external resilience (such as access to supportive relationships).

In conclusion, entrepreneurial resilience is an important trait for entrepreneurs and depends on both internal and external factors. Understanding how entrepreneurs survive crises is, therefore, vital, and several models have been developed to measure a person's resilience. Current research includes social capital in its investigations, and further investigation is needed to understand the concept of entrepreneurial resilience fully.

Social capital is valuable since it contributes to protecting the material and symbolic benefits accumulated from membership in a group (Yukl, 2008). This capital is located within the nexus of acquaintance and recognition (Nahapiet & Ghoshal, 1998). The value of social capital itself is determined by the quantity and quality of resource variations in relationships within the nexus (Bourdieu, 1986).

Social capital can be useful for organizations and communities through bonding and bridging mechanisms (Adler & Kwon, 2002; Davidsson & Honig, 2003; Putnam, 2001). In the bonding mechanism, the focus of substance, resources, and effects is on the internal community. In bonded social capital, interactions between members of a community or organization encourage the achievement of collective goals (Adler & Kwon, 2002). Meanwhile, the bridging mechanism focuses on the benefits of the relationship between individuals within the organization and actors outside the organization (Davidsson & Honig, 2003). Direct or indirect relationships with external organizations will help individuals or groups obtain resources unavailable within the organization (Adler & Kwon, 2002; Setyawan et al., 2022).

On the other hand, family firms can acquire resources by bridging social capital mechanisms (Salvato & Melin, 2008). Bridging the social capital mechanism emphasizes the benefits of relationships among individuals and actors in the external environments of the group (Salvato & Melin, 2008). Family companies also 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 allow family companies 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).

Moreover, social capital becomes essential for business entities because of its ability to produce certain resources. This capital is built through a person's capability to develop his social network. A business person with social capital can start and grow a business, even if they do not have money. By relying on trust, he will get financial support from investors and creditors or raw materials from their business partners. Within the organization, social capital, reflected through trust and adherence to organizational values, will encourage cohesiveness, thereby increasing integration. In the end, it can increase the competitiveness of companies.

H₁: It is predicted that social capital positively influences the performance of MSMEs in the economy's hard times.

Social capital has been identified as a key factor in community resilience and disaster recovery. Communities with strong social capital are better prepared to deal with the impact of disasters because they can connect with external parties to obtain assistance and resources (Kerr, 2018). A study highlighted the important role of teachers and social networks in increasing student resilience in natural disasters (Edmeade & Buzinde, 2021). It underlined the impact of narrative processes and social networks on the recovery of disaster victims.

Likewise, Villena et al. (2010) stated that dimensions of social capital, such as cognitive, relational, and structural social capital, play an important role in improving buyer-supplier relationships. This dimension can reduce opportunistic behavior and increase cooperation

between buyers and sellers. Cognitive-social capital, which includes shared norms and culture, can motivate each party to have a collective interest that limits unwanted behavior. Trust is also a crucial element of relational social capital for collaboration and success in repeated exchanges. The success of collaboration depends not only on individual performance but also on how well both parties perform (Mayer et al., 1995). Overall, social capital fosters cooperation and trust, essential for community resilience and effective disaster recovery.

H₂: It is predicted that social capital positively influences the resilience of MSMEs in the economy's hard times.

Innovation and Performance

Innovation is a critical element for organizational success and maintaining competitive advantage. Innovation should not be considered a luxury but must become a core part of an organization (Damanpour & Gopalakrishnan, 2001; Nuryakin, 2022). It is emphasized that innovation must be deeply rooted in the organization to ensure its success and is based on careful planning (Reddy & Reddy, 2014). It is important because innovation has been proven to lead to economic growth and increase the capacity of companies to be resilient, with resilient and innovative organizations sharing similar characteristics.

In competition, companies aim to win customers and beat their competitors by offering something new and unique. Innovation in products, services, and processes is considered an effective way to attract consumers and gain a competitive advantage (Gartner, 1985; Rosenbusch et al., 2011). In this case, small and medium enterprises (SMEs) have an advantage in innovation due to their small size and agility, enabling them to quickly fill gaps in market opportunities (Rosenbusch et al., 2011).

Innovation is also often associated with a competitive advantage for organizations. Companies strive to improve product and service quality, reach new customers and markets, and improve their market position through innovation (Hogan & Coote, 2014). Efforts to create new products are usually not only associated with manufacturing companies but also occur in the service sector (Ettlie & Rosenthal, 2011; Storey & Kahn, 2010). Innovative behaviors like developing new products, services, and solutions lead to positive performance.

H₃: It is predicted that innovation positively impacts the performance of MSMEs in the economy's hard times.

Family firms are often faced with limitations in terms of resources and innovative behavior compared to non-family firms. Family firms may struggle to recruit and retain the best talent due to their preference for family members in key positions, hindering the entry of superior resources (Dyer, 2006; Verbeke & Kano, 2010). In addition, the desire to pass on

the business to the next generation often results in a lack of risk-taking, closely related to innovation (Zahra, 2006).

However, despite these limitations, family firms have certain characteristics that support their ability to innovate. For example, family firms have the advantage of financial support from their family members, who can help them weather difficult times and invest in new businesses and technologies (Sirmon & Hitt, 2003). Besides, the long-term nature of investment in family businesses can provide stability and support for entrepreneurial activities, leading to a higher probability of innovation (Lv et al., 2018). Moreover, start-ups and small companies can overcome their limitations and succeed through innovation (Rosenbusch et al., 2011).

H₄: It is predicted that innovation positively influences the resilience of MSMEs in the economy's hard times.

Resource Capability and Organizational Performance

The resource-based views argue that organizations attain and sustain competitive advantage through both tangible and intangible resources (Barney, 1991; Barney, 1995; Barney, 1986; 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 the crisis (Channa et al., 2019; El Dessouky & Al-Ghareeb, 2020; Ngoc Su et al., 2021). While resilience in navigating a crisis was traditionally seen as a defensive response (Duchek, 2019), it is now considered an offensive and even anticipative strategy (Boin & van Eeten, 2013; Duchek, 2019; Ngoc Su et al., 2021), with the human capital deemed as the crucial enabler (Channa et al., 2019; El Dessouky & Al-Ghareeb, 2020). Therefore, the current study refers to resource capability as human resource capability.

On the other hand, Dyer (2006) argued that family firms have unique human capital because of family relationships and the learning process environment. In a family company, family members often learn the business from a young age because they live and develop in that environment. They learn how the business is run, how to handle customers and deal with their competitors and get hands-on experience from family leaders with the skills and knowledge. This process is a competitive advantage obtained from high knowledge and skills sources.

H₅: It is predicted that resource capability positively influences the performance of MSMEs in the economy's hard times.

Human resources' role in a crisis is especially called in the Indonesian MSMEs context. Firstly, with cultures being a major contributor to organizational processes (Mullins, 2001), individuals become the central orientation in cultures, of which the center is the people. Indeed, in collective societies such as Indonesia, strong relationships between individuals have always been a strong feature in the culture and society, even outside of

the pandemic (Schooler, 1983). Ngoc Su et al. (2021) found that employees were willing to go beyond their responsibilities to help their company and the people by, for example, taking unpaid leave and taking multiple positions within the company. Secondly, with most grassroots enterprises in Indonesia being labor-intensive as opposed to technology-intensive, the presence of a capable labor force is at the center of their existence and success.

Indeed, Stokes et al. (2018) identified strategic human resource management as an antecedent in shaping a resilient organization during crises and other non-extreme situations. Researchers have also identified how human resources, which are considered an organization's "asset" (Azmy & Priyono, 2022), help firms navigate the crisis with at least two crucial roles. Firstly, individual human resources capabilities, such as crisis awareness and resource allocation, can collectively improve the organizational crisis response (Wang et al., 2009; Ngoc Su et al., 2021; Nizamidou & Vouzas, 2021). Secondly, and more importantly, capable human capital provides practical problem-solving abilities (Ngoc Su et al., 2021).

H₆: It is predicted that resource capability positively influences the resilience of MSMEs in the economy's hard times.

According to Dyer (2006), family ties and the environment for learning contribute to the distinctive human capital that family businesses possess. Since they grow up and learn in a family business, family members frequently get familiar with the industry at a young age. They also gain practical experience from family leaders who have the necessary skills and knowledge, and they learn how the company is operated and how to deal with customers and competitors. This process gives the company a competitive advantage thanks to high-quality information and talent sources.

The relationship between family members potentially produces bonding social capital (Gudmunson & Danes, 2013). Bonding social capital links individuals with others within a group to facilitate the evaluation, procurement, and utilization of necessary resources to exploit opportunities (Davidsson & Honig, 2003). Through bonding social capital, a family enjoys internal cohesiveness, trust, and solidarity among family members in shared goals commitment (Gudmunson & Danes, 2013).

Organizational Performance on the Resilience

There are varying views on the definition of organizational performance. Also included in this case is the relationship between a firm's performance and resilience. It is because there are many concepts and approaches to what and how to measure organizational performance. Resilience "is having the capacity to persist in the face of change, to continue to develop with ever-changing environments" (Folke, 2016). In comparison, performance is "the evaluation of the constituents that try to assess the capability and ability of a company in achieving the constituents' aspiration level using efficiency, effectiveness, or social referent criteria" (Jenatabadi, 2015).

Companies with good performance in the market may not necessarily be able to survive in difficult times. However, it should be suspected that companies with good performance will be more able to survive than companies with poor performance. Thus, the ability to survive is influenced by the performance of an organization in the market and finance. Companies with good performance will also be able to survive when the company experiences shocks. Besides, companies whose products are accepted in the market will bring in income for these companies and become blood and fresh breath when they face difficult situations.

H₇: It is predicted that organizational performance positively influences the resilience of MSMEs in the economy's hard times.

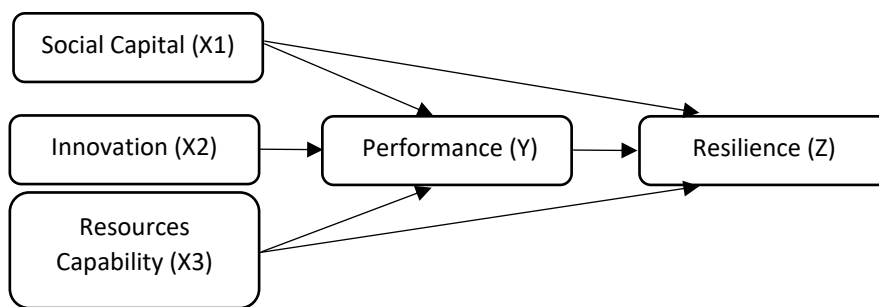


Figure 1 Theoretical Framework

Research Methods

This study employed a quantitative design to analyze the research hypothesis. Seven hypotheses were answered in this study. To answer the hypotheses, data were collected by administering questionnaires to MSMEs in Solo Raya.

Sample and Data Collection

The population in the current inquiry was MSMEs owned by families in Solo Raya, Indonesia. The population was unknown since this region has no official publication on Micro, Small, and Medium family businesses. Hence, the number of MSMEs involved was 215 respondents. The types of MSME businesses were quite diverse: culinary, crafts, clothing, and cosmetics. According to the type of business they operated, the characteristics of respondents revealed that 124 respondents, or 57.6%, operated a culinary business, whereas the percentage of respondents who operated a craft business was 14.4%, or 31 people operated a craft business. With a ratio of 7%, the respondents that operated a cosmetics business included as many as 15 individuals. The final group consisted of 45 respondents who owned a business in the fashion industry, representing a proportion of 21%. In addition, the sampling method employed was non-random sampling, also known as convenience sampling. Selected respondents were required to complete a Google form including research questions.

Construct Measurement

A quantitative design was used to answer the research hypotheses. Five constructs were tested in this study: 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 for strongly agree and 1 for strongly disagree. The instrument of the tested research construct was based on a literature review, which was then tested for validity and reliability. In addition, this study used six variables. Research indicators were adapted from the established study. Social capital variables were measured with four indicators developed by Dzisah and Etzkowitz (2008) in the context of the Triple Helix. The innovation variable was determined by four question instruments (Hogan & Coote, 2014), and the resource capability variable was gauged by three, as adapted from (Steele et al., 1993). As a mediator variable, performance was assessed by four questions, while organizational resilience was measured by four questions (Ayala & Manzano, 2014; Fisher et al., 2016).

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, 1998). The research data indicate that no indicator variable had an outer loading value of less than 0.5; hence, all indicators were considered viable or valid for use in research. Then, 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, 1998). To evaluate the instrument's reliability, the researchers utilized composite reliability and Cronbach Alpha. If a variable's composite reliability value is greater than 0.70, it can be declared to meet composite reliability requirements. The overall reliability of all research variables was 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. Afterward, the second test of reliability is Cronbach's Alpha. Using a statistical technique, Cronbach's Alpha measures the internal consistency of instrument reliability tests or psychometric data. If the Cronbach alpha value for the construct exceeds 0.60, it is deemed reliable. In this study, the Cronbach alpha value of all variables was greater than or equal to 0.6, indicating that the Cronbach alpha value met the criterion for all constructs to be considered reliable.

Goodness of Fit

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 usually determined by R Square (R²) and Q-Square (Q²) tests. Specifically, the R-Square value reveals the exogenous variable's relationship to the endogenous variable. The value of the coefficient of determination in this investigation is listed in Table 1.

Table 1 Determination Coefficient

	R-Square
MSMEs' performance	0.537
Resilience	0.722

Using the R-Square to determine the strength of the link between social capital, innovation, resource competence, and institutional resilience, with a value of 0.722 or 72.2%, it can be concluded that it was a strong association. Besides, 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 was moderate.

Hypothesis Testing Results

This study employed Partial Least Square (PLS) data analysis techniques with the SmartPLS 3.0 software for hypothesis testing. The first hypothesis investigated whether social capital positively and statistically significantly affected micro, small, and medium-sized enterprises (MSMEs) performance. The t-statistic value was 3.786, with a significant influence of 0.279 and a p-value of 0.000, as seen in the Table 2. With a t-statistic of more than 1.96 and a p-value less than 0.05, it can be stated that the first hypothesis was supported, as social capital had a positive and substantial effect on the performance of MSMEs.

The second hypothesis examined whether social capital significantly and positively affected 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 of more than 1.96 and a p-value less than 0.05, it can be stated that there was a positive and significant relationship between social capital and institutional resilience.

The third hypothesis scrutinized whether innovation had a significant and positive impact on the performance of MSMEs. The following table exhibits a t-statistic of 3.251, a significant influence of 0.275, and a p-value of 0.001. The second hypothesis was accepted since the t-statistic was more than 1.96 and the p-value was less than 0.05, indicating a positive and significant relationship between innovation and MSME performance.

The fourth hypothesis inspected whether innovation significantly and positively impacted institutional resilience. The Table 2 presents a t-statistic value of 2,417 with a significant influence of 0.095 and a p-value of 0.000. Since the t-statistic was more than 1.96 and the p-value was less than 0.05, the sixth hypothesis was accepted, denoting that innovation positively and significantly influenced institutional resilience.

The fifth hypothesis examined whether resource competence had a positive and statistically significant effect on MSMEs' performance. The preceding table shows a t-statistic of 2.588, a significant impact of 0.260, and a p-value of 0.010. The third hypothesis was accepted because the t-statistic was greater than 1.96 and the p-value was less than 0.05, signifying a positive and significant relationship between resource capabilities and MSMEs' performance.

The sixth hypothesis examined whether the performance of micro, small, and medium enterprises positively and significantly affected institutional resilience. The following table reveals a t-statistic value of 2.709, a significant influence of 0.242, and a p-value of 0.007. With a t-statistic of 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 was accepted.

Table 2 Path Coefficient (Direct Effect).

	Hypothesis	Original Sample	t-Statistics	P-Values	Description
Social capital (X1) → MSME performance (Z)	H1	0.279	3.786	0.000	Positive, Significant
Social capital (X1) → Resilience (Z)	H2	0.112	2.820	0.007	Positive, Significant
Innovation (X2) → MSME performance (Z)	H3	0.275	3.251	0.001	Positive, Significant
Innovation (X2) → resilience (Y)	H4	0.095	2.417	0.00	Positive, Significant
Resource capability (X3) → MSME performance(Y)	H5	0.260	2.588	0.010	Positive, Significant
Resource capability (X3) → Resilience (Y)	H6	0.501	6.028	0.000	Positive, Significant
Performance → Resilience (X6)	H7	0.242	2.709	0.007	Positive, Significant

The seventh hypothesis studied whether resource competence significantly and positively affected 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 of more than 1.96 and a p-value of less than 0.05, it can be stated that the seventh hypothesis was accepted since resource competence had a positive and significant influence on institutional resilience.

To determine the value of t-statistics or p-values (critical ratio) and the original sample value for the path coefficient, bootstrapping was used. A P-value of 0.05 implies that there is a direct relationship between variables, while $p > 0.05$ indicates that there is no direct relationship between variables. In this investigation, the significance value utilized was 5%, corresponding 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.

Specific Indirect Model

The final stage was to test the indirect effect, which could 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. Conversely, the result is insignificant if the p-value is more than 0.05. It indicates that the mediator variable does not affect the relationship between exogenous and endogenous variables.

To put it another way, the result is direct (Juliandi, 2018). The value of the specified indirect model in this study is provided in Table 3.

Table 3 Indirect Effect

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
Innovation (X2) → MSME performance (Z) → Resilience (Y)	0.067	2.051	0.041	Positive, significant
Resource capability (X3) → MSME performance (Z) → Resilience (Y)	0.063	2.016	0.044	Positive, significant

Results and Discussion

This study examined 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 had diverse backgrounds, ranging from crafts to food.

The study's findings revealed that resource capabilities, innovation, and social capital had a beneficial effect on the performance of MSMEs, which in turn influenced their resilience. This study defines human resource capability as managing corporate operations, personnel, company finances, and serving consumers. The findings of this study corroborate the findings of numerous earlier studies indicating that human resource capabilities are a significant factor in company performance. Human capital also can facilitate the implementation of the company's competitive strategy (Sirmon & 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 MSMEs' financial resources and contributed to a fall in their income. More of their financial resources would be utilized for survival. Thus, innovations requiring substantial financial resources, such as introducing a new product, should be avoided. The emphasis of micro, small, and medium-sized enterprises (MSMEs) should emphasize 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, urgent things instead of less important, urgent goods. Therefore, the selected innovation is compatible not only with available resources but also with marketable.

According to past literature on social capital, family interactions can develop bonding social capital (Gudmunson & 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 & Honig, 2003). Through binding social capital, a family can experience internal cohesion, trust, and solidarity in the pursuit of common goals (Gudmunson & Danes, 2013). Parents and friends also assist aspiring entrepreneurs in the early stages of a business venture by leveraging their ties to social capital (Davidsson & Honig, 2003). Indeed, Au and Kwan (2009) discovered that Chinese entrepreneurs relied on family and friends when they required financial resources to support entrepreneurial endeavors and business expansion.

Limitations and Direction for Future Research

The scope of this research was limited to MSMEs in the Solo Raya region, Central Java, Indonesia. While these geographic boundaries can be seen as potential boundaries, they also provide unique value for research by examining the region's specific cultural and business environment. However, it is important to acknowledge that the findings of this study may not necessarily be generalizable to other regions or countries with different cultural and business contexts. In addition, this research focused on innovation, resource capability, and social capital as factors contributing to the success and resilience of MSMEs in the region, but other factors may also play a role in different contexts. In addition, it should be noted that social capital and resource capabilities can be influenced by cultural factors, which may limit the transferability of study findings to areas with different cultural norms and values. Therefore, it is crucial to interpret the findings of this research in the specific context of the Greater Solo region and be careful when applying them to other regions with different cultural and business environments.

The study provides key suggestions for both the government and grassroots business players. Governmental programs to enhance small-scale enterprises' survival should focus on improving 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.

This study further generates insights for micro, small, and medium entrepreneurs regarding which aspects they should prioritize for long-term success. This study suggests that building social network capital, enhancing internal human resource capability, and ingraining innovation into their enterprises (Setiawati & Ahdiyawati, 2021) should be the preponderance of their business process to improve both their short-term and long-term competitiveness.

Conclusion

Entrepreneurial resilience has invited various conceptualizations, ranging from the ability to bounce back to the agility to adapt to changing environments and anything in between. Specifically, MSME's resilience becomes a crucial talking point, especially in the Indonesian case, considering the great number of MSMEs within the economy. Therefore,

understanding the influence of resilience and how resilience is formed is pertinent amidst the health crisis, which has evolved into an economic downturn.

This study uncovered that resource capability, innovation, and social capital are influential in forming entrepreneurial resilience. This finding confirms prior MSMEs' performance literature within the MSME resilience realm (Davidsson & Honig, 2003; Gudmunson & Danes, 2013; Sirmon & Hitt, 2003). MSMEs' performance was found to have a positive relationship with MSMEs' resilience. Moreover, this finding is especially relevant considering the context of this research. Besides, the economic crisis due to the pandemic has resulted in massive uncertainties within the community and business environments, potentially hurting the MSME sector. With resilience associated with the agility to evolve according to the environments in this research, the ability to do so has been proven to catalyze MSMEs' survival and success.

References

- Adler, P. S., & Kwon, S.-W. (2002). Social Capital: Prospects for a New Concept. *Academy of Management Review*, 27(1), 17–40. <https://doi.org/10.5465/amr.2002.5922314>
- Au, K., & Kwan, H. K. (2009). Start-Up Capital and Chinese Entrepreneurs: The Role of Family. *Entrepreneurship Theory and Practice*, 33(4), 889–908. <https://doi.org/10.1111/j.1540-6520.2009.00331.x>
- Ayala, J.-C., & Manzano, G. (2014). The resilience of the entrepreneur. Influence on the success of the business. A longitudinal analysis. *Journal of Economic Psychology*, 42, 126–135. <https://doi.org/10.1016/j.joep.2014.02.004>
- Azmy, A., & Priyono, A. (2022). Leadership Roles For Improving Employee Productivity at Digital Start-Up Company. *Jurnal Manajemen Bisnis*, 13(1), 16–27. <https://doi.org/10.18196/mb.v13i1.11250>
- Barney, J. (1991). Firm Resources and Sustained Competitive Advantage. *Journal of Management*, 17(1), 99–120. <https://doi.org/10.1177/014920639101700108>
- Barney, J. B. (1986). Organizational Culture: Can It Be a Source of Sustained Competitive Advantage? *Academy of Management Review*, 11(3), 656–665. <https://doi.org/10.5465/amr.1986.4306261>
- Barney, J. B. (1995). Looking inside for competitive advantage. *Academy of Management Perspectives*, 9(4), 49–61. <https://doi.org/10.5465/ame.1995.9512032192>
- Boin, A., & van Eeten, M. J. G. (2013). The Resilient Organization. *Public Management Review*, 15(3), 429–445. <https://doi.org/10.1080/14719037.2013.769856>
- Bonanno, G. A. (2004). Loss, Trauma, and Human Resilience: Have We Underestimated the Human Capacity to Thrive After Extremely Aversive Events? *American Psychologist*, 59(1), 20–28. <https://doi.org/10.1037/0003-066x.59.1.20>
- Bourdieu, P. (1986). *The Forms of Capital*. Readings in Economic Sociology, 280–291. <https://doi.org/10.1002/9780470755679.ch15>
- Channa, N. A., Shah, S. M. M., & Ghumro, N. H. (2019). Uncovering the Link between Strategic Human Resource Management and Crisis Management: Mediating Role of Organizational Resilience. *Annals of Contemporary Developments in Management & HR*, 1(2), 15–27. <https://doi.org/10.33166/acdmhr.2019.02.003>
- Chin, W. W. (1998). Commentary: Issues and Opinion on Structural Equation Modeling. *MIS Quarterly*, 22(1), 7–16. Retrieved from <http://www.jstor.org/stable/249674>
- Chin, W. W. (1998). The partial least squares approach for structural equation modeling. In

Kussudyarsana, Maulana, Maimun, Santoso, & Nugroho
The Role of Social Capital, Innovation, and Capabilities ...

- G. A. Marcoulides (Ed.), *Modern methods for business research* (295–336). Lawrence Erlbaum Associates Publishers.
- Damanpour, F., & Gopalakrishnan, S. (2001). The Dynamics of the Adoption of Product and Process Innovations in Organizations. *Journal of Management Studies*, 38(1), 45–65. <https://doi.org/10.1111/1467-6486.00227>
- Davidsson, P., & Honig, B. (2003). The role of social and human capital among nascent entrepreneurs. *Journal of Business Venturing*, 18(3), 301–331. [https://doi.org/10.1016/s0883-9026\(02\)00097-6](https://doi.org/10.1016/s0883-9026(02)00097-6)
- Dess, G., McNamara, G., Eisner, A., & Lee, S. H. (2019). *Strategic management: Text and cases*. McGraw-Hill.
- Duchek, S. (2017). Entrepreneurial resilience: a biographical analysis of successful entrepreneurs. *International Entrepreneurship and Management Journal*, 14(2), 429–455. <https://doi.org/10.1007/s11365-017-0467-2>
- Duchek, S. (2019). Organizational resilience: a capability-based conceptualization. *Business Research*, 13(1), 215–246. <https://doi.org/10.1007/s40685-019-0085-7>
- Dyer L. (2011). *Critical thinking for business students* (2nd Ed.). Captus Press.
- Dyer, W. G. (2006). Examining the “Family Effect” on Firm Performance. *Family Business Review*, 19(4), 253–273. <https://doi.org/10.1111/j.1741-6248.2006.00074.x>
- Edmeade, J. N., & Buzinde, C. N. (2021). The role of educators in community resilience in natural disaster-prone communities. *Community Development Journal*, 57(3), 411–429. <https://doi.org/10.1093/cdj/bsab010>
- El Dessouky, N., & Al-Ghareeb, A. (2020). Human Resource Management and Organizational Resilience in The Era of COVID-19: Theoretical Insights, Challenges and Implications. *2020 Second International Sustainability and Resilience Conference: Technology and Innovation in Building Designs*(51154). <https://doi.org/10.1109/ieecconf51154.2020.9319967>
- Ettlie, J. E., & Rosenthal, S. R. (2011). Service versus Manufacturing Innovation*. *Journal of Product Innovation Management*, 28(2), 285–299. <https://doi.org/10.1111/j.1540-5885.2011.00797.x>
- Fatoki, O. (2018). The Impact of Entrepreneurial Resilience on the Success of Small and Medium Enterprises in South Africa. *Sustainability*, 10(7), 2527. <https://doi.org/10.3390/su10072527>
- Fisher, R., Maritz, A., & Lobo, A. (2016). *Does individual resilience influence entrepreneurial success*. Swinburne Research Bank. Retrieved from <http://hdl.handle.net/1959.3/433970>
- Folke, C. (2016). Resilience (Republished). *Ecology and Society*, 21(4). <https://doi.org/10.5751/es-09088-210444>
- Gartner, W. B. (1985). [Review of *Competitive Strategy; Competitive Advantage*, by M. E. Porter & M. E. Porter]. *The Academy of Management Review*, 10(4), 873–875. <https://doi.org/10.2307/258056>
- Gudmunson, C. G., & Danes, S. M. (2013). Family Social Capital in Family Businesses: A Stocks and Flows Investigation. *Family Relations*, 62(3), 399–414. <https://doi.org/10.1111/fare.12017>
- Hedner, T., Abouzeedan, A., & Klofsten, M. (2011). Entrepreneurial resilience. *Annals of Innovation & Entrepreneurship*, 2(1), 7986. <https://doi.org/10.3402/aie.v2i1.6002>
- Hogan, S. J., & Coote, L. V. (2014). Organizational culture, innovation, and performance: A test of Schein’s model. *Journal of Business Research*, 67(8), 1609–1621. <https://doi.org/10.1016/j.jbusres.2013.09.007>
- Hutchinson, K. (2020). Four techniques for developing your leadership ‘muscle.’ Chartered Management Institute. Retrieved from <https://www.managers.org.uk/knowledge-and-insights/article/four-techniques-for-developing-your-leadership-muscle/>

- Hutchinson, K., Fergie, R., Fleck, E., Joufflas, G., & Parry, Z. (2021). Flexing the Leadership Muscle: An International Study of Entrepreneurial Resilience in Rural Communities During the COVID-19 Pandemic. *Journal of Small Business Strategy*, 31(4), 100–112. <https://doi.org/10.53703/001c.29484>
- Jenatabadi, H. S. (2015). An Overview of Organizational Performance Index: Definitions and Measurements. *SSRN Electronic Journal*. <https://doi.org/10.2139/ssrn.2599439>
- Kerr, S. E. (2018). *Social Capital as a Determinant of Resilience*. *Resilience*, 267–275. <https://doi.org/10.1016/b978-0-12-811891-7.00022-0>
- Ly, W.-D., Tian, D., Wei, Y., & Xi, R.-X. (2018). Innovation Resilience: A New Approach for Managing Uncertainties Concerned with Sustainable Innovation. *Sustainability*, 10(10), 3641. <https://doi.org/10.3390/su10103641>
- Mayer, R. C., Davis, J. H., & Schoorman, F. D. (1995). An Integrative Model Of Organizational Trust. *Academy of Management Review*, 20(3), 709–734. <https://doi.org/10.5465/amr.1995.9508080335>
- Mukharomah, W., Soepatini, S., & Praswati, A. N. (2017). Pengaruh Perceived Desirability dan Perceived Feasibility Terhadap Entrepreneurial Intention. *Proceeding 6th University Research Colloquium 2017: Seri Humaniora, Sosial, dan Agama*. Retrieved from <https://journal.unimma.ac.id/index.php/urecol/article/view/1347>
- Mullins, L. J. (2001). *Hospitality Management and Organisational Behavior*. 4th Ed. Pearson/Longman, Harlow.
- Nahapiet, J., & Ghoshal, S. (1998). Social Capital, Intellectual Capital, and the Organizational Advantage. *The Academy of Management Review*, 23(2), 242. <https://doi.org/10.2307/259373>
- Ngoc Su, D., Luc Tra, D., Thi Huynh, H. M., Nguyen, H. H. T., & O'Mahony, B. (2021). Enhancing resilience in the Covid-19 crisis: lessons from human resource management practices in Vietnam. *Current Issues in Tourism*, 24(22), 3189–3205. <https://doi.org/10.1080/13683500.2020.1863930>
- Nizamidou, C., & Vouzas, F. (2020). HR professionals cultivating resilience and crisis awareness toward a business excellence environment. *EuroMed Journal of Business*, 16(4), 399–415. <https://doi.org/10.1108/emjb-12-2019-0150>
- Nuryakin, N. (2022). Green Product Innovation, Green Process Innovation, and its Impact on Green Performance of Batik SMEs. *Benefit: Jurnal Manajemen dan Bisnis*, 7(1), 1-8. <https://doi.org/10.23917/benefit.v7i1.18132>
- Prayag, G., Spector, S., Orchiston, C., & Chowdhury, M. (2019). Psychological resilience, organizational resilience and life satisfaction in tourism firms: insights from the Canterbury earthquakes. *Current Issues in Tourism*, 23(10), 1216–1233. <https://doi.org/10.1080/13683500.2019.1607832>
- Putnam, R. D. (2001). Social capital: Measurement and consequences. *Canadian Journal of Policy Research*, 2, 41-51.
- Reddy, G. , & Reddy.S., V. (2014). Significance of Innovation in Business Process of Value Chain. *Journal of Behavioural Economics, Finance, Entrepreneurship, Accounting and Transport*, 2(1), 18-25. Retrieved from <http://pubs.sciepub.com/jbe/2/1/3/index.html#>
- Rodríguez-Sánchez, A., Guinot, J., Chiva, R., & López-Cabrales, Á. (2019). How to emerge stronger: Antecedents and consequences of organizational resilience. *Journal of Management & Organization*, 27(3), 442–459. <https://doi.org/10.1017/jmo.2019.5>
- Rosenbusch, N., Brinckmann, J., & Bausch, A. (2011). Is innovation always beneficial? A meta-analysis of the relationship between innovation and performance in SMEs. *Journal of Business Venturing*, 26(4), 441–457. <https://doi.org/10.1016/j.jbusvent.2009.12.002>
- Rosyadi, I. (2014). Strategi Pengembangan Usaha Mikro Milik Mahasiswa. *Benefit: Jurnal Manajemen dan Bisnis*, 17(2), 111-122. Retrieved from

- <https://journals.ums.ac.id/index.php/benefit/article/view/1385>
- Salvato, C., & Melin, L. (2008). Creating Value Across Generations in Family-Controlled Businesses: The Role of Family Social Capital. *Family Business Review*, 21(3), 259–276. <https://doi.org/10.1177/08944865080210030107>
- Schooler, C. (1983). [Review of Culture's Consequences: *International Differences in Work-Related Values*, by G. Hofstede]. *Contemporary Sociology*, 12(2), 167–167. <https://doi.org/10.2307/2066725>
- Setiaji, B., Nofrandila, N., Maulana, H., & Nashir, H. (2019). The Life of The Old: Prior to National Welfare Program. *Humanities & Social Sciences Reviews*, 7(4), 845–851. <https://doi.org/10.18510/hssr.2019.74112>
- Setiawati, C., & Ahdiyawati, S. (2021). Kompetensi Kewirausahaan Para Knitting Entrepreneur Terhadap Kinerja Usaha (Kasus pada Sentra Industri Rajut Binong Jati Bandung). *Benefit: Jurnal Manajemen dan Bisnis*, 6(1), 25-40. Retrieved from <https://journals.ums.ac.id/index.php/benefit/article/view/14086>
- Setyawan, A. A., Isa, M., Wajdi, F. M., Syamsudin, & Nugroho, S. P. (2015). An Assessment of SME Competitiveness in Indonesia. *Journal of Competitiveness*, 7(2), 60–74. <https://doi.org/10.7441/joc.2015.02.04>
- Setyawan, A., Mudhofar, F., Arum, Y., Susila, I., & Nasir, M. (2022). Strategic Partnership between SME Retailers and Modern Suppliers in Indonesia: A Relationship Marketing Approach. *Organizations and Markets in Emerging Economies*, 13(2), 317–335. <https://doi.org/10.15388/omee.2022.13.82>
- Sirmon, D. G., & Hitt, M. A. (2003). Managing Resources: Linking Unique Resources, Management, and Wealth Creation in Family Firms. *Entrepreneurship Theory and Practice*, 27(4), 339–358. <https://doi.org/10.1111/1540-8520.t01-1-00013>
- Steele, C. M., Spencer, S. J., & Lynch, M. (1993). Self-image resilience and dissonance: The role of affirmational resources. *Journal of Personality and Social Psychology*, 64(6), 885–896. <https://doi.org/10.1037/0022-3514.64.6.885>
- Stokes, P., Smith, S., Wall, T., Moore, N., Rowland, C., Ward, T., & Cronshaw, S. (2018). Resilience and the (micro-)dynamics of organizational ambidexterity: implications for strategic HRM. *The International Journal of Human Resource Management*, 30(8), 1287–1322. <https://doi.org/10.1080/09585192.2018.1474939>
- Storey, C., & Kahn, K. B. (2010). The Role of Knowledge Management Strategies and Task Knowledge in Stimulating Service Innovation. *Journal of Service Research*, 13(4), 397–410. <https://doi.org/10.1177/1094670510370988>
- Sulastri, S., Mulyadi, H., Disman, D., & Hendrayati, H. (2021). SMEs Resilience During the Covid-19 Pandemic: A Case Study in Indonesia. *Proceedings of the 5th Global Conference on Business, Management and Entrepreneurship (GCBME 2020)*. <https://doi.org/10.2991/aebmr.k.210831.138>
- Ungar, M., Brown, M., Liebenberg, L., Othman, R., Kwong, W. M., Armstrong, M., & Gilgun, J. (2007). Unique pathways to resilience across cultures. *Adolescence*, 42(166), 287–310.
- Verbeke, A., & Kano, L. (2010). Transaction Cost Economics (TCE) and the Family Firm. *Entrepreneurship Theory and Practice*, 34(6), 1173–1182. <https://doi.org/10.1111/j.1540-6520.2010.00419.x>
- Villena, V. H., Revilla, E., & Choi, T. Y. (2010). The dark side of buyer-supplier relationships: A social capital perspective. *Journal of Operations Management*, 29(6), 561–576. <https://doi.org/10.1016/j.jom.2010.09.001>
- Wang, J., Hutchins, H. M., & Garavan, T. N. (2009). Exploring the Strategic Role of Human Resource Development in Organizational Crisis Management. *Human Resource Development Review*, 8(1), 22–53. <https://doi.org/10.1177/1534484308330018>

Kussudyarsana, Maulana, Maimun, Santoso, & Nugroho
The Role of Social Capital, Innovation, and Capabilities ...

- Yukl, G. (2008). How leaders influence organizational effectiveness. *The Leadership Quarterly*, 19(6), 708–722. <https://doi.org/10.1016/j.leaqua.2008.09.008>
- Zahra, S. A. (2006). An embeddedness framing of governance and opportunism: towards a cross-nationally accommodating theory of agency-critique and extension. *Journal of Organizational Behavior*, 28(1), 69–73. <https://doi.org/10.1002/job.404>
- Zautra, A.J., Hall, J.S., & Murray, K.E. (2010). Resilience: A new definition of health for people and communities. In J.R. Reich, A.J. Zautra, & J.S. Hall (Eds). *Handbook of Adult Resilience* (3-30). New York: Guilford.