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The effects of social capital and human resources on financing and SMEs performance

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ABSTRACT

BACKGROUND AND OBJECTIVES: Small and medium enterprises (SMEs) still exhibit dominant contribution to the economy. SMEs manage to absorb greater labor force and to survive the economic crisis. Various efforts to empower SMEs have been less successful. Financing constraint, low quality of human resources, and limited marketing competence have been the typical problems of SMEs that harm SMEs' performance. Despite these problems, SMEs still manage to survive.

METHODS: Using the sampling method of stratified random sampling with area strata, this study generates 203 small business units as the sample. The research was conducted by using accidental sampling. The quantitative and qualitative data are from primary and secondary sources. The data was collected by using observation, interview, and in-depth interview. The variables in this research was analyzed by using path analysis.

FINDINGS: Social capital positively affect SMEs' financing as indicated by the significance value of 0.000 ($\alpha = 5\%$). The stronger social capital of SMEs implied greater access of external financing sources. Social capital, and SMEs' financing positively affect SMEs' performance with 1% confidence level, and human resources positively affect SMEs' performance with 6% confidence level. The finding shown the stronger social capital and human resources increases SMEs performance.

CONCLUSION: The results show that social capital and SMEs' financing positively affect SMEs' performance, and human resources positively affect SMEs' performance. The results imply that stronger social capital and human resources increases SMEs performance. Social capital facilitates access to finance, marketing, production, and information. The results shows that human resources affect SMEs' performance. Social capital and human resources positively affect SMEs' financing. Similarly, social capital, human resources, and financing positively affect SMEs' performance.

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INTRODUCTION

Lack of management competence, low quality of human resources, and limited access to financial institutions (especially banks) have been the typical problems of SMEs (small and medium enterprises). With regard to financing constraint, the government has launched numerous efforts to mitigate the problem such as people business credit (*KUR – Kredit Usaha Rakyat*) to assist SME owners to overcome their financing problems. However, SME owners have not optimally utilized this credit scheme because of numerous requirements of the credit. The government-sponsored financing potentially mitigates SMEs' financing problems. However, greater financing constraint arguably hampers firm growth (Beck et al., 2005) in Beck and Demirguc-Kunt (2006). In this respect, external equity financing plays a significant role in overcoming limited financing sources (Colombo and Grilli, 2005). External financing constraints faced by entrepreneurs are closely related to information asymmetry and moral hazard problems (Denis, 2004). Thus, it is very important to maintain relationships in the form of networks to gather valid information about financing problems and to enhance the role of social capital to facilitate trust in engaging transactions and eventually to minimize moral hazard risk. Chua et al., (2011) explain that social capital reduces the concern of limited financing from financial institutions. Similarly, Bosse (2009) also emphasizes the important role of social capital in applying for credits. Koszan et al., (2011) suggest the importance of maintaining a relationship. Specifically, they demonstrate that a key variable to predict small firms' growth dynamics uses three different factors, namely personal, financial, and relational capital. Investors invest their resources carefully. Thus, investor protection positively affects the access to external financing regardless of the investor type (Nofsinger and Wang, 2011). Wu et al., (2007) explain that equity financing is very important in financing firm growth. Alternative financing forms, such as non-bank and non-market financing constitute the most important external financing for small firms that usually operate outside formal institutions and are supported by various financing mechanisms such as reputation, relationship, and trust (Allen et al., 2012). The alternative financing sources are not explicitly associated with firms' financial performance, but with firm growth. Eventually, firm growth, as indicated

by sales growth, reflects firm performance. Human resource characteristics such as age, education level also likely affect firm financing. Younger entrepreneurs are more willing to take risks than the older ones. In a similar vein, the educational level is closely related to the willingness to make decisions related to external financing. Younger and less educated SME owners are more active in relying on external financing while older and more educated (arguably wiser) SME owners rely less on external financing (Vos et al., 2007). Further, educational level and training contribute to SMEs' growth. Consequently, educational level and experience as the characteristics of human resources significantly affect firm performance, both in manufacturing and service industries (Okafor, 2012). Innovation leads to creativity that manages to distinguish firms' products to exhibit excellence (Tayyebirad and Vakil Alroaia, 2020). Through innovation, firms adapt and affect their surrounding environment by developing and sustaining their competitive advantage in various forms that eventually facilitate their survival and growth. Thus, it is important to investigate the role of social capital in contributing to SMEs' innovative performance (Roxas, 2008). Firms with innovative employees exhibit the intellectual capability of their resources as their key success factors. Institutional environment and cultural attributes will determine the relative weight of certain elements of intellectual capital that are closely related to each other. For example, relational capital is very important for Chinese and Japanese firms (Adreeva, T, and Garanina, T, 2017). Innovation produces highly qualified outputs and increases firm revenues. If SMEs manage to survive market competition, they can increase their sales and eventually their performance. Various indicators represent firm performance, such as increased sales or revenues. When industries grow, eventually economy also grows (Purnomo, 2008). Human resources, social, and financial capitals facilitate entrepreneurs to run more profitable businesses and to contribute more to an economy (Vakil Alroaia and Mesaeli, 2020). Human resources (education and experience) are very important for service and manufacturing firms. Meanwhile, financial capital, including the intention to use bank credit, is more significant for manufacturing firms than for service firms (Okafor, 2012). Human capital (age, professional education, entrepreneurial

experience, working experience, and the relationship with banks) significantly predict firm performance (average ROA). From various human capital indicators, working experience is the most significant predictor of firm performance (Ha Lien Chi, 2016). Financial, human, and social capitals facilitate firms to access human and financial resources (Tihula and Uovinen, 2010). Further, social capital facilitates financing, marketing, production, and information access (Fornoni et al., 2012). Highly qualified human resources do not only depend on formal educational level, but also on high skills from informal education. Formal and informal institutions will affect individuals' behavior in interacting with each other to produce outputs, such as economic performance, efficiency, and economic growth (Kherallah and Kirsten, 2001). Highly qualified human resources arguably produce highly qualified products that significantly contribute to the development of product quality and production process (Shaikh, 2012). Thus, greater human capital will significantly enhance firm performance (Oforegbunam and Okorafor, 2010). Innovative entrepreneurs will develop their social capital by building networks that provide external information sources, financial supports, and skills that enable them to learn from and help each other (Cope et al., 2007). Wu (2008) shows that information sharing play an important mediating role between the three dimensions of social capital (trust, networks, and continuous transactions) and increasing firm competitive advantage. Networks between creditors and debtors will enable financing access. More networks with other parties will enhance the access to bank credits. Further, more networks between SMEs and financial institutions imply greater probability that firms will easily have financing access (Kurniawan, 2018). The important roles of SMEs in various economic conditions makes SMEs need more attention to be more survive. The government has made some regulations to support SMEs, but the results have not been optimal. This is partly due to limited funding and the low quality of human resources. The existence of the importance of SMEs requires further analysis of what has led the government program to support SMEs so far. Therefore, researchers conducted a study on whether financing, human resources, social capital greatly influence the development of SMEs, so that the results of this study can be an input in making

regulations by the government. By using the ability to create the uniqueness of the resulting product so that it can compete with similar products, for example wood crafts with distinctive carvings, employees who come from a business environment with their skills can contribute to improving the performance of SMEs in trading businesses with packaging attractive, and delicious taste, service businesses with friendly service, and using environmentally friendly materials such as salon services, SMEs are able to establish relational relationships by forming networks of new entrepreneurs as well as with raw material suppliers and customers. So that information can be received symmetrically. Although the level of ability in the SMEs studied is relatively low, they still try to increase innovation. Based on these arguments, the research problem of this study is the enhancement of SMEs' performance in the Sarbagita Area, Bali Province. This study aims to answering the new issues of the constraints of SMEs' in Bali especially Sarbagita Area, it's because the other researcher were analyzed about of human capital and social capital affecting to SMEs', but basically the problem of SMEs' to grow up is about the financing. In this research will be analysed how the important of social capital and human resources support the financing of SMEs', based on these conditions, the aims of the research are: 1) analyze the effects of social capital and human resources on SME financing in the Sarbagita Area, Bali Province; 2) analyze the effects of social capital, human resources, and financing on SMEs' performance in Sarbagita Area, Bali Province; 3) analyze the role of financing in mediating the effects of social capital and human resources on SMEs' performance. The current study has been carried out in Sarbagita Area (Denpasar, Badung, Gianyar, and Tabanan Regency) in 2018.

Literature review

Social Capital

Social capital is information, trust, and norms from reciprocity attached to social networks (Woolcock 1998, in Voydanoff 2001). Social capital refers to the characteristics of social organizations such as networks, norms, and trust that facilitate reciprocally beneficial coordination and cooperation. Social capital also adds subjective elements and cultural processes such as trust and norms from reciprocity that facilitate social actions.

The difference shows the reciprocal relationship between social capital, social organization, and social networks. Social networks and organizations provide resources to facilitate actions. In turn, social capital produces resources that further contribute to social organizations and networks (Chitsaz *et al.*, 2019). Bowles and Grintis (2001) explain that in general social capital refers to trust, care for others, and willingness to behave guided by existing norms in a community and to accept sanctions when violating these norms. Putnam (2000) emphasizes the role of social organizations, involvement in public affairs, societal voluntary, informal friendship, and social trust in shaping the whole social capital within a society. The differences exist between capital ties, or values given to homogenous inter-group social networks, and social networks between heterogeneous social groups. The fundamental principles of social capital claim that the capital sources are larger communities in which business organizations are attached. Capital from networks, social norms, and trust are equally important as financial and human capital in sustaining firms' value creation, such as organizational innovative performance (Renko *et al.*, 2002; Tsai, 2006). Coleman (1988) defines social capital based on its functions. Social capital is a complex entity that consists of several aspects of social structure that facilitates certain actions of actors, both individuals, and firms, within the structure. Similar to physical and human capital, social capital cannot be fully explained but can be specifically explained in certain activities. Conceptually, social capital is a debatable concept. A disputed issue is whether social capital differs from existing concepts such as communities or institutions (Lochner *et al.*, 1999). Studies on social capital within societies as a whole and its relationship with business organizations such as SMEs are very rare (Westlund and Bolton, 2003; Suseno and Ratten, 2007 in Roxas, 2008). Another main issue lies in the aggregation levels (households, organizations, societies, or nations) as the focus (Schuller *et al.*, 2000). Further, other issues are the argument whether social capital is the effect, not the cause (or vice versa), and whether the quantitative or qualitative method measures social capital better (Patulny and Svendsen, 2007). Firms' competitiveness mostly enhances their innovative

performance that is conditioned by their technological ability. However, small firms, especially in developing countries, exhibit weak technological ability and innovative performance, especially those that are related to the ability to adjust with the advancement of knowledge and technological system (Arnold *et al.*, 2000). With regard to the fact that SMEs have poorer networks with other SMEs or with other agents such as universities, governmental agencies, and other industries, their ability to share and acquire knowledge is limited (Intarakumnerd *et al.*, 2002). Pittaway *et al.*, (2004) argue that it is very necessary to fill in the research gap in investigating how informal networks (social capital) are related to various innovation, such as process and product improvement. Lastly, in investigating the economic behavior of SMEs, it is important to analyze social capital as an economic concept, namely as a form of capital (Westlund, 2006, in Roxas, 2018), while financial capital has been a general issue. In analyzing SMEs' growth, social capital provides another dimension in analyzing why business organizations survive, generate profits, or decline. By improving social networks, norms, and trust as the capital sources, it is likely to quantify social capital similar to financial and human capital to measure firm performance. Human Capital and Firm Performance. Human capital can be defined as the attribute inventory of competence, knowledge, and personality competence that deliver economic value (Sullivan and Sheffrin, 2003). Individuals or organizations invest in human capital to improve their economic productivity. Chitsaz *et al.*, (2019) shown there is a significant effect of dimensions of human and social capital on entrepreneurial activities. The human capital theory is proposed by Schultz (1961) and extensively developed by Becker (1964) (Fatoki, 2011). Public investment through education and training is the concept of human capital. Schultz compares the acquisition of knowledge and skills to acquire productive tools. Schultz argues that human capital investment improves individual productivity that eventually increases return (Fatoki, 2011). Hatch and Dyer (2004) demonstrate that firm performance depends on firms' knowledge and human capital. Further, Ofoegbu *et al.*, (2013) indicate that firms, especially SMEs, need sufficient human capital development.

Human capital is an important variable in determining firm performance. Because it is closely related to intellectual capital, human capital is a dimension of intellectual capital from the human perspective and their experience that together with other elements affect firm value (Mushrel, 2014). Firms that employ more experienced and knowledgeable individuals are more likely to increase their added values. Employees can improve their competence through training. They can also acquire knowledge through formal and informal education to enhance their competence. Highly competent individuals tend to be better able in managing firms and improving firms' competitiveness. There are several basic characteristics that can be measured from human capital, such as training, experience, competence, recruitment, mentoring, and individual potentials and learning program (Brinker, 2000). Meanwhile, Mayo (2000) holds that human capital can be classified into three dimensions, namely ability and potentials, motivation and commitment, and innovation and learning. Humans exhibit different ability and potentials. Thus, it is necessary to develop their ability and potentials. Competitive advantage plays an important role in explaining SMEs' performance by fully mediating the effects of human and entrepreneurial capital on performance. Ngatno and Widayanto (2016) show that human and entrepreneurial capital intrinsically improve SMEs' performance as manifested by competitive advantage. Competitive advantage is an important mediator in the relationship between human and entrepreneurial capital and SMEs' performance. Human and entrepreneurial capital exhibit similar effects on SMEs' performance. Human capital can be classified into general and specific human capital. General human capital is usually measured by educational qualification and years of working experience. Specific human capital consists of business-specific elements, such as education, specific skills, and industry-related and managerial experience (Ganotakis, 2010). Leitao and Franco (2008) empirically show that studies on the relationship between human capital and performance exhibit inconsistent results. For example, Shiu (2006), Appuhami (2007) and Chan (2009) find an insignificant relationship between human capital and firm performance. Thus, these

findings do not support the hypothesis that predicts that human capital significantly affects performance. However, Fatoki (2011) find a significantly positive relationship between social capital, human capital, and financial capital and SMEs' performance. The findings are consistent with the human capital theory of Schultz (1961) and Becker (1964) In Fatoki (2011) that argues that human capital investment improves human productivity. Further, social and human capital positively affect the empowerment of woodcraft small firms in Bangli Regency (Yuliarmi and Setiawina, 2017). In line with Pena (2001) and Sharafat (2017) concludes that training and experience in economic activities significantly affect firm growth. These results are also consistent with Hisrich and Drnovsek (2002) who argue that education and experience positively affect new firm performance.

Firm Performance

Petersen and Robert (2002) demonstrates that a higher dependency on internal financing sources limits SMEs' growth. The results indicate that external (debt) financing access likely improves firm performance. Performances as the results of organizational activities or investment in a particular period (Fatoki, 2011). Further, Fatoki (2011) explains that numerous studies that consider a single dimension or a narrow range of performance (e.g. several profitability indicators) are subject to descriptively and normatively theoretical errors. Studies have to cover several performance indicators, including sales growth, market share, and profitability. In general, performance assessment in an organization should have the characteristics to foster creativity and entrepreneurship in an organization in a better way (Salamzadeh *et al.*, 2019). Besides, nonfinancial factors such as customer satisfaction are also very important to evaluate performance, especially in private firms. These arguments are in line with Zahra (1993) who emphasizes that firms have to use both financial and nonfinancial objectives in evaluating organizational performance. In the SME context, it is important to consider more detailed environmental factors to reflect SMEs' condition better and to provide more effective guidance to evaluate SMEs' performance, especially in relation with government-backed credit supply.

Financial Capital and Firm Performance

Similar to other capital, financial capital finances firms, including SMEs. In their initial stage, firms need financial capital to acquire physical needs, working capital, and other assets. [Elsenhardt and Martin \(2000\)](#) use resource theory to show the importance of financial capital in explaining SMEs' performance. Access to financial capital to acquire current and fixed assets is very important to sustain firms' competitive advantage. The empirical study of [Zhou and Chen \(2008\)](#) identify that SMEs need financial capital to acquire physical capital and exploit business opportunities. [Bartocho \(2016\)](#) finds that financial capital greatly affects employee performance and eventually organizational performance.

MATERIALS AND METHODS

Research Design

This study is a quantitative research that uses associative research design. The variables in this research are latent ones, namely SMEs' performance, social capital, human capital, and financing. Each latent variable uses several perceptual indicators that are measured with the Likert Scale. This scale ranges from one to five that reflects perception from "fully disagree" to "fully agree". [Fig. 1](#) below explains the relationship between a latent variable and other latent variables.

Research Location

This study is located in Sarbagita Area (Denpasar City, Badung Regency, Gianyar Regency, and Tabanan Regency) in Bali Province. This area contributes the largest SMEs in the province (61%). Based on the data of SME and Cooperatives Provincial Office, there are 265,558 SMEs in this province.

Variable Identification

There are three variables in this study: 1) exogenous variable, 2) mediating variable, and 3) endogenous variable. There are two exogenous variables: social capital (X_1) and human resources (X_2) while the mediating variable is financing (Y_1) and the endogenous variable is SMEs' performance (Y_2). This study classifies the research variables into two groups, namely latent variable that is formed from observed indicators. This variable is not directly measured but formed by several observed dimensions through factor analysis ([Agung, 2003](#)). The latent variables in this study are 1) social capital, 2) human resources, 3) financing and 4) SMEs' performance. Meanwhile, the measured variable is directly measured through field research.

The Operational Definition of Variables

This study uses four latent variables, namely social capital, human capital, financing, and SMEs' performance. All of the latent variables derived

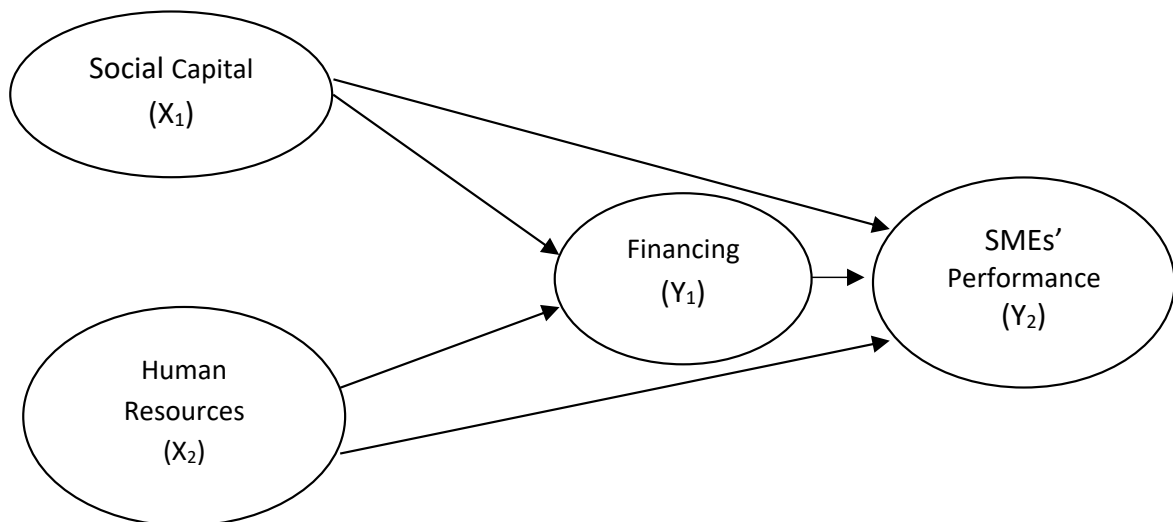


Fig. 1. Research Design ([Writer, 2018](#))

into several research indicators and instruments. Latent variables was measured by using respondents' perception about their understanding of the variables. The Likert scale that measures respondents' perception of which option ranges from strongly disagree to strongly agree. Specifically, the following is the value range of our Likert scale: SA= strongly agree (5), A = agree (4), MA= moderately agree (3), D= disagree (2), SD= strongly disagree (1). SMEs' performance is the ability of SME owners to manage their firms sustainably that is measured by three indicators, namely innovative capacity, ability to increase sales, and ability to retain customers to be loyal to their products. Social capital is a complex entity that consists of several aspects of social structure and facilitates certain actions of both individuals and firms in the structure. The social structure was measured by using norms, trust, and networks. Human resources are the dimension of intellectual capital based on human knowledge and experience that will affect firm values through other elements. Further, human resources are measured with knowledge, skills, and commitment. In this study, financing refers to the ability of SMEs to actualize their financing sources to run their businesses and to improve operational performance. Financing sources are from self-financing, rural credit institutions (*LPD – Lembaga Perkreditan Desa*), banks, cooperatives, and friends/families.

Data Types and Sources

This research was conducted by using quantitative and qualitative data. Qualitative data is countable such as the number of business units, production volume, and number of employees, age, educational level, and income level. Qualitative data is non-countable data that takes the form of explanation and supports the analysis through in-depth analysis about SME owners' perception of social capital, human resources, financing, and SMEs' performance. According to the sources, primary and secondary data are used in this research. The primary data was collected through direct field research using questionnaires. The secondary data was collected from the Provincial Office of Cooperatives and SMEs, especially related to the number of SMEs in Bali Province.

Test of Research Instruments

The validity and reliability tests to test our research instruments that gather primary data on respondents' perceptions. Using product moment correlation, the validity test indicates that our research instruments are valid when the correlation coefficient exceeds 0.3. Meanwhile, the validity test uses the internal consistency method by analyzing Cronbach's Alpha. The instruments of this research will be valid when Cronbach's Alpha exceed 0.6.

Population, Sample, and Sample Determination

The population of this study is all SMEs in the Sarbagita Area, Bali Province. In 2016, there were 162,010 SMEs in this area. Using error level of 5%, Slovin's formula produces a sample number of 203 SMEs. Each business unit is represented by one sample that also acts as the business owner. Stratified Random Sampling used for the sampling method based on geographical location. Thus, we select a certain number of sample for each city/ regency in the Sarbagita Area to have the total sample size of 203. Further, we use accidental sampling to determine which sample units to be interviewed.

Data Collection Methods

We combine several data collection methods (Jogiyanto, 2004) as follow:

- a) Observation Method: the non-behavior observation method to collect secondary data from related institutions, such as the number of SMEs in the Sarbagita Area, Bali Province.
- b) Interview Method: We use both structured and in-depth interview methods. The structured method aims to gather primary data from SME owners by using a prepared questionnaire. Meanwhile, the in-depth interview collects primary data from the representatives of SME owners who are competent enough to provide relevant information.

Data Analysis Technique

This study uses both quantitative and qualitative analyses. The qualitative analysis gathers in-depth information from competent informants to answer issues asked by using interview guidelines. The data from informants will be analyzed to support the results of this research by using descriptive technique. Further, the quantitative analysis uses both descriptive and

inferential analyses using Path Analysis and the data from respondent been collected by using questionnaire analyzed by using SPSS Statistical Software to find the result of statistical analysis. The inferential analysis starts with factor analysis to generate factor score for each latent variable, and path analysis follows. The following is the structural equation used in this study are Eqs. 1 and 2 (Jogiyanto, 2004).

Explanation:

Y_2 = SMEs' performance

Y_1 = Financing

X_1 = Social capital

X_2 = Human resources

$\beta_1, \beta_2, \beta_3, \beta_4, \beta_5$ = Parameter

ε = Error

$$Y_1 = \beta_1 X_1 + \beta_2 X_2 + \varepsilon_1 \quad (1)$$

$$Y_2 = \beta_3 X_1 + \beta_4 X_2 + \beta_5 Y_1 + \varepsilon_1 \quad (2)$$

RESULTS AND DISCUSSION

The Characteristics of Respondents

Table 1 displays respondents' characteristics that consist of age, educational level, industry type,

Table 1: The Composition of Respondents' Age, Educational Level, Industry Type, and Length of Operation

No.	Age Group (Years)	Number of Respondents	
		Number	Percentage
1.	< 30	6	3.0
2.	30-34	22	10.8
3.	35-39	41	20.2
4.	40-44	65	32.0
5.	45-49	34	16.7
6.	50-54	19	9.4
7.	55-59	9	4.4
8.	60-64	5	2.5
9.	65+	2	1.0
Total		203	100.0
Educational Level			
1	Junior High School	27	13.3
2	Senior High School	128	63.1
3	Diploma	5	2.5
4	Bachelor	42	20.7
5	Master	1	0.5
Total		203	100.0
Industry Type			
1	Manufacturing	62	30.5
2	Trade	74	36.5
3	Service	67	33.0
Total		203	100.0
Length of Operation (Years)			
1	< 5	34	16.7
2	5-9	72	35.5
3	10-14	44	21.7
4	15-19	19	9.4
5	20-24	19	9.4
6	25-29	10	4.9
7	30-34	4	1.9
8	≥ 35	1	0.5
Total		203	100.0
Sales			
1	Remain constant	59	29.1
2	Increase	108	53.2
3	Decline	36	17.3
Total		203	100.0

length of operation, and sales condition. Age likely describes respondents' condition. In this respect, age informs whether the respondents can mostly be classified as productive or unproductive ages. However, all of our respondents are more than 15 years of age. Respondents who are between 15-64 years of age are classified as in productive ages while those who are more than 65 years are classified as in unproductive ages. Most of the respondents are in their productive ages (99%). The respondents can also be classified based on sex. Specifically, most of them are male (137 respondents or 68% of total respondents) while the rest are female. Further, most of them (about 63% of total respondents) are senior high school graduates with only 0.5% of respondents have master degree. We classify industry type into three: manufacturing, trade, and service. The respondents of this research, most of them were operated in trade industry (36%), service industry (33%), and manufacturing industry (30.5%). Meanwhile, respondents' length of operation varies, from less than 5 years to more than 35 years. Specifically, the respondents (about 46%) have the length of operation between 5 to 9 years. Only a small proportion of respondents operate more than 30 years. Besides internal financing, respondents rely on various financing sources, such as banks, cooperatives, LPD or Rural Credit Institutions, and friends/ families. Most of our respondents (about 62%) use external financing such as (private and state) banks, followed by LPD and cooperatives (about 28%), and about 5% from friends or families. The external financing supports business growth greatly. Greater trust from financing sources will enhance the likelihood that SMEs generate external financing and eventually improve their operational performance. Table 1 shows the composition of respondents based on age, educational level, industry type, and length of operation.

Besides financial capital, human resources are very important for firms. Most of our SMEs' employees are male (about 66%) while the rest are female. On average, SMEs have two employees. And more than a half of respondents (53%) have employees who require specific skills. Further, most of them (about 53%) opine that their sales fluctuated in the last six months, while 29% of total respondents hold that their sales remained constant and only 17% of total respondent's experienced sales decline

(Table 1). In general, economic condition significantly affects sales. Besides, competition between SMEs and novel sales platforms such as online marketing also exhibit a significant effect on sales. Our further analysis reveals that most of our respondents (87%) never participated in government-sponsored programs, such as business training, production training, low-interest lending, and exhibition. Thus, these figure indicates that the government has to be more active in implementing their programs to facilitate SMEs, especially those that are related to loans with low interest. This issue is important because only a small percentage of our respondents (about 9%) have received credits with relatively low interest. However, SME owners have to survive by continuously innovating to enhance their sales. Consequently, they can compensate their financing constraints with government-sponsored financing sources that offer low interest or by participating in training related to their business activities.

Validity and Reliability Test

Using the correlation coefficient of each instrument with the total score, our validity test produces a correlation coefficient greater than 0.3, indicating that our instruments are valid. Further, our reliability test produces Cronbach's Alpha greater than 0.6, thus implying that our instruments are reliable.

The Effects of Social Capital and Human Resources on SMEs' Financing in Sarbagita Area, Bali Province

Several indicators were used by the researchers such as norms, trust, and networks as the proxies of social capital. The results suggest that social capital positively affect SMEs' financing in Sarbagita Area, Bali Province as indicated by the significance value of 0.000 ($\alpha = 5\%$) (Table 2). Working hard and upholding honesty values reflect strong norms that need to be preserved by SME owners. Further, controlling product quality and increasing trust in transactions reflect trust. In a similar vein, maintaining networks with customers, suppliers, financial institutions (LPD, banks, cooperatives), and governments (training, technical assistance, etc.) reflects the importance of well-maintained networks. In this study, we use several indicators of the financing variable, namely internal financing, banks, LPDs, cooperatives, and friends/ families.

It then can be argued that stronger social capital of SMEs imply greater likelihood that they access external financing sources. Further, SMEs have to maintain and enhance their social capital because of the positive effect of social capital on access to financing sources. Human resources, with the indicators of knowledge, skills, and commitment, also positively affects financing SMEs in Sarbagita Area, Bali Province as indicated by the significance value of 0.038 ($\alpha=5\%$) (Table 2). The findings suggests that greater knowledge, skills, and commitment of SME owners imply better access to external financing sources from various institutions, such as banks, LPDs, and cooperatives. Entrepreneurs who are strongly committed to their firms' development

are more likely to generate trust from their financing sources. Consequently, there exists a synergy between human resources and financing sources to enhance operational performance. It is then very important to maintain highly qualified human resources that can be reflected by previously mentioned indicators to mitigate the problems of accessing external financing sources. It is expected that the positive effects of social capital and human resources on financing will increase SMEs' performance. Table 2, demonstrates the results of our regression analysis by using the factor score of social capital, human resources, and financing.

Previous studies support the results of this study. For example, Denis (2000) explains the

Table 2: The Results of the Regression Test – The Effects of Social Capital and Human Resources on SMEs' Financing in Sarbagita Area, Bali Province

Coefficients ^a					
Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	2.414E-016	.065		.000	1.000
1 REGR factor score 1 for analysis 2	.372	.065	.372	5.728	.000
REGR factor score 1 for analysis 3	.137	.065	.137	2.108	.036

a. Dependent Variable: REGR factor score 1 for analysis 4

Explanation:

REGR factor score 1 for analysis 2 = Social Capital

REGR factor score 1 for analysis 3 = Human Resources

REGR factor score 1 for analysis 4 = Financing

Table 3: The Results of Regression Analysis -The Effects of Social Capital, Human Resources, and Financing on SMEs' Performance in Sarbagita Area, Bali Province

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	3.165E-016	.064		.000	1.000
1 REGR factor score 1 for analysis 2	.354	.065	.354	5.459	.000
REGR factor score 1 for analysis 3	.122	.065	.122	1.891	.060
REGR factor score 1 for analysis 4	.142	.065	.142	2.178	.031

a. Dependent Variable: REGR factor score 1 for analysis 1

Explanation:

REGR factor score 1 for analysis 2 = social capital

REGR factor score 1 for analysis 3 = human resources

REGR factor score 1 for analysis 4 = financing

REGR factor score 1 for analysis 1 = SMEs' financing

importance of maintaining a relationship in the form of networks to acquire valid information about financing problems. Further, [Chua et al., \(2009\)](#) emphasize that social capital reduces concerns on lack of access to external financing sources from financial institutions. In a similar vein, as suggested by [Bosse \(2009\)](#), the existence of social capital is important to apply for credits. SMEs with more networks with outside parties enable them to have greater access to bank credits ([Wu, 2008](#)). SMEs with more networks with credit-supplying financial institutions are more likely to access financing sources ([Kurniawan, 2018](#)). Investor protection positively affects external financing sources regardless of the types of investors ([Nofsinger and Weicheng \(2011\)](#)). This study is also supported by [Vos et al., \(2007\)](#) who indicate that human capital affects individuals in accessing financing sources. Altogether, financial, human, and social capital provide opportunities to access financing sources ([Tihula and Uovinen, 2010](#)). Social capital facilitates access to financing, marketing, and production, and information ([Fornoni et al., 2012](#)). SMEs performance was measured by using several indicators, namely innovation, sales, and customer retention. Our empirical results demonstrate that social capital and SMEs' financing positively affect SMEs' performance with 1% confidence level, and human resources positively affect SMEs' performance with 6% confidence level. The results imply that stronger social capital and human resources increases SMEs performance. Similarly, more financing sources that can be accessed by SMEs enhance SMEs' performance in the Sarbagita Area, Bali Province. Stronger social capital and more varied financing sources likely increase innovation, sales, and the ability to retain customers that facilitate firms' business sustainability. Thus, SMEs have to emphasize the importance of human resources as reflected by knowledge, skills, and commitment that will significantly enhance SMEs' performance. [Table 3](#) below demonstrates the results of the regression analysis using the factor score as suggested by structural [Eq.2](#).

This study is empirically supported by previous studies that also analyze the effects of social capital, human resources, and financing on firm performance, such as [Wu et al., \(2007\)](#); [Okafor, \(2012\)](#); [Ha Lien Chi \(2016\)](#); [Tihula and Uovinen,](#)

[\(2010\)](#). Also, our findings are also consistent with [Fornoni et al., \(2012\)](#) who indicate that entrepreneurs' social capital facilitates access to finance, marketing, production, and information. Capital that emerges from networks, social norms, and trust is equally important as financial and human capital in sustaining firms' value creation activities such as firms' innovative performance ([Renko, Autio, and Tontti, 2002](#); [Tsai, 2006](#)). Further, [Bartocho \(2016\)](#) show that the ability of financial resources to significantly affect employee performance plays an important role in organizational performance.

The results of this research shown that human resources affect SMEs' performance. These results do not supported by [Shiu \(2006\)](#), [Appuhami \(2007\)](#) and [Chan \(2009\)](#) who find the insignificant relationship between human resources and firm performance. Our findings are consistent with [Ngatno and Widayanto \(2016\)](#) who suggest that human capital and entrepreneurial capital are intrinsically important to improve SMEs' performance. This study is consistent with [Fatoki \(2011\)](#), [Sharafat \(2017\)](#), [Pena \(2001\)](#), and [Hisrich and Drnovsek \(2002\)](#) who find a significantly positive relationship between human capital and SMEs' performance.

The Effects of Social Capital and Human Resources on SMEs' Performance through Financing (the Mediating Role of Financing)

As shown by [Table 2](#) and [3](#), the results suggest that social capital and human resources positively affect SMEs' financing. Similarly, social capital, human resources, and financing positively affect SMEs' performance. The findings imply that financing partially mediates the effect of social capital and human resources on SMEs' performance ([Hair et al., 2010](#)). Consequently, SMEs' have to pay special attention to their financing sources to increase their performance. The importance of financing to enhance performance is also supported by [Petersen and Robert \(2002\)](#) who demonstrates that financing constraints limit SMEs' growth. The study implies that access to external debt financing likely increases firm performance. Similarly, [Bartocho \(2016\)](#) shows that the ability of financial resources in significantly affecting employee performance plays an important role in organizational performance. Also, [Zhou](#)

and Chen (2008) identify that SMEs need financial capital to acquire physical resources to enable them to exploit business opportunities.

CONCLUSION

Most of the respondents were in trade industry (36%), service industry (33%), and manufacturing industry (30.5%). The respondents (about 62%) using external financing such as (private and state) banks, LPD and cooperatives (about 28%), and about 5% from friends or families. The external financing supports business growth greatly. Most of the SMEs' employees are male (about 66%) while the rest are female. On average, SMEs have two employees. In general, economic condition significantly affects sales. Besides, competition between SMEs and novel sales platforms such as online marketing also exhibit a significant effect on sales. Social capital positively affect SMEs' financing in Sarbagita Area, Bali Province as indicated by the significance value of 0.000 ($\alpha = 5\%$). In this study, the researcher was using several indicators of the financing variables, namely internal financing, banks, LPDs, cooperatives, and friends/ families. Financing variables shown that stronger social capital of SMEs implied greater likelihood that they access external financing sources. Social capital and SMEs' financing positively affect SMEs' performance with 1% confidence level, and human resources positively affect SMEs' performance with 6% confidence level. The results imply that stronger social capital and human resources increases SMEs performance. Social capital facilitates access to finance, marketing, production, and information. Our results show that human resources affect SMEs' performance. Social capital and human resources positively affect SMEs' financing. Similarly, social capital, human resources, and financing positively affect SMEs' performance. The finding implied that financing partially mediates the effect of social capital and human resources on SMEs' performance. Consequently, SMEs' have to pay special attention to their financing sources to increase their performance. The financing was being a constraint limit SMEs' growth. The study implies that access to external debt financing likely increases firm performance. The SMEs need financial capital to acquire physical resources to enable them to exploit business opportunities. The

results imply that stronger social capital and human resources increases SMEs performance. Similarly, more financing sources that can be accessed by SMEs enhance SMEs' performance in the Sarbagita Area, Bali Province. Stronger social capital and more varied financing sources likely increase innovation, sales, and the ability to retain customers that facilitate firms' business sustainability. The results of this research shown: 1). Social capital and human resources have a significant positive effect on funding for SMEs in the Sarbagita area of Bali Province; This can be explained that the stronger the social capital owned by SMEs, the easier it is to get funding from several financial institutions, both formal financial institutions such as those from government-owned and private-owned banks, as well as informal financial institutions, for example from family, friends, , as well as those from other financial institutions such as cooperatives and People's Credit Institutions (LPD). The higher the social capital shown by norms, trust, networks formed in the business environment, the easier it will be for SMEs to gain trust in relation to the company's funding needs. Likewise, related to the human resources of SMEs which significantly affect funding. The higher the capacity of human resources, which is shown by knowledge, skills and commitment to keep producing, the more trustworthy the funding sources will be to finance their capital needs, because there is a high willingness to succeed as an SME actor; 2) Social capital, human resources, and funding have a significant positive effect on the performance of SMEs in the Sarbagita area of Bali Province. The higher social capital can also improve the performance of SMEs. The stronger the network that is formed in the SME environment, both with fellow SME players and with other parties involved, can improve the performance of SMEs. The stronger the social capital of SMEs is shown by norms, trust and networks, so based on the honest behavior of SMEs, as well as relationships to obtain symmetrical information regarding the sources of raw materials used and other information, the performance of SMEs is measured using increased innovation. , increasing turnover and maintaining good relationships with customers or consumers. Likewise, the quality of human resources continues to be improved and maintains good relations with

financial institutions to obtain funding, so that the performance of SMEs also increases; 3) Funding partially mediates the influence of social capital on the performance of SMEs, and funding fully mediates the influence of human resources on the performance of SMEs in the Sarbagita area of Bali Province. If social capital is strong and human resources are in accordance with the criteria needed to carry out business activities, support from funding sources will be strong so that the performance of MSEs will also increase.

Suggestion

By the results of this research, this study suggests that: 1) SMEs have to sustain their social capital because it positively affects their financing and performance; 2) SMEs need to improve the quality of their human resources that is very important in increasing their performance; and 3) SMEs need to maintain their networks, especially with their financing sources and select financial institutions that offer affordable interest rates; 4) The government has to be more active in implementing their programs to facilitate SMEs, especially those that are related to loans with low interest.

Limitations

The limitations of this research are the researcher only using three variables that are perceived to affect the performance of SMEs, the variables are social capital, human resources, and financing, the next researcher can added other variables such as entrepreneurial and funding sources with venture capital and other variables that are relevant. The other limitations of this research is because of the geographical location between regency in Sarbagita Area, Bali located in different part of Bali and it makes the researcher need more time to collecting data than predicted.

CONTRIBUTION OF AUTHORS

N.N. Yuliarmi added reference data for background and conducted a literature review. N.P. Martini Dewi made research designs and instruments used in the study. S.D. Rustariyuni processed the data with the help of statistical tools. A.A.I.N Marhaeni conducted an analysis of the processed data and added literature review. G. Andika conducted data collection and further observation of the truth of the field data.

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CONFLICTS OF INTEREST

The authors of this study hereby declare that there is no potential conflict of interest regarding the publication of this research work. Matters relating to ethics in research such as plagiarism, informed consent, falsification of data, and related to publication have been fully witnessed by the author. So the author is responsible for it.

ABBREVIATIONS (NOMENCLATURE)

Y_2	SMEs' performance
Y	Financing
X	Social capital
X	Human resources
$B_1, \theta_2, \theta_3, \theta_4, \theta_5$	Parameter
ε	Error
<i>REGR factor score 1 for analysis 1</i>	SMEs' financing
<i>REGR factor score 1 for analysis 2</i>	Social Capital
<i>REGR factor score 1 for analysis 3</i>	Human Resources
<i>REGR factor score 1 for analysis 4</i>	Financing

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