A MODEL TO INCREASE SME'S PERFORMANCE: THE MODERATING ROLE OF SOCIAL CAPITAL

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ABSTRACT

This study aims to analyze the performance improvement model of SMEs with the role of social capital as a moderating variable. The rapid development of technology and information in the era of digitalization has become an inseparable part of people around the world, including in Indonesia. The use of technology provides many conveniences for the community in supporting every activity and activity. In this case, Micro, Small and Medium Enterprises (SMEs) are one of the drivers of the people's economy and play an important role in national economic growth. This study will examine the role of financial technology and financial inclusion as determinants of SMEs performance. Then this study will also examine the moderating role of social capital in supporting the improvement of SMEs performance. The method that will be used is explanatory research with a quantitative approach. The sampling method that will be used in this research is purposive sampling. Respondents who will be used in this study consist of 100 SMEs actors in Central Java and their business financing has used loan funds and digital literacy. Data collection will be done by using a questionnaire via google form. The data analysis that will be used is Smart PLS type 3.3. The results of the study indicate that financial technology and financial inclusion have a positive and significant impact on the performance of SMEs. Meanwhile, social capital mediates the relationship between financial technology and SMEs performance. And social capital mediates the relationship between financial inclusion and SMEs performance.

***Keywords**: financial technology, financial inclusion, social capital, SMEs performance*

INTRODUCTION

The very rapid development of technology and information in the current era of digitalization has become an inseparable part of society throughout the world, including in Indonesia. The use of technology provides a lot of convenience for the community in supporting every activity and activity. Based on a report published by the Association of Indonesian Internet Service Providers (APJII) in November 2015, internet users in Indonesia reached 88.1 million (34% of the total population), social media users 79 million (31%), and mobile phone users 318, 5 million (125%). The financial sector is the sector most affected by the development of technology and information today. The National Digital Research Center (NDRC) in 2017 explained that fintech refers to innovation in the field of financial services or financial innovation that is given a touch of modern technology. One of the important points contained in the latest POJK regulation No. 13/2018 concerning Digital Financial Innovation (IKD) in the Financial Services Sector explains that fintech companies are required to carry out activities that are able to increase financial inclusion to the public. The community here, of course, includes micro, small and medium enterprises (SMEs) where Micro, Small and Medium Enterprises (SMEs) are one of the drivers of the people's economy and play an important role in national economic growth.

The emergence of fintech provides fresh air for SMEs business players. Fintech refers to the use of technology to provide financial solutions (Arner, et al., 2015). Specifically, fintech is defined as the application of digital technology to financial intermediation problems (Aaron, et al., 2017). Research conducted by Hamidah et al (2020) in their research states that financial technology has a positive and significant effect on the performance of SMEs. In addition, there is research from Godgif, et al (2018) which states that fintech has a positive effect on the growth of SMEs, where fintech can be one of the most powerful tools to support small businesses and thereby stimulate sustainable economic growth. With the integration of Financial Regulators into the entire Fintech ecosystem, small businesses can participate in many solutions that were previously only available to large companies. Financial technology provides convenience in supporting business activities because it is considered more effective and efficient and the application is easy to obtain.

Financial inclusion is a person's ability to gain access to various financial products and services that are affordable and according to their needs (Riwayati, 2013). Financial inclusion is able to make changes in the mindset of economic actors in seeing money and profits (Agarwal, 2016). Several studies on the relationship of access to finance and financial management have been identified as the most important factors in determining the survival and growth of SMEs. (Beck and Demirguc, 2006) argue that access to finance enables business actors to develop economic systems and apply investments productively to develop business processes, obtain the latest technologies that encourage business competitiveness and increase innovation. This statement is supported by (Tiwari et al., 2013) where business organizations that lack access to financing to various funding sources can lead to conditions of poverty (Davidsson et al., 2010) and are far from sources of employment. Regarding financial inclusion on the performance of SMEs. Research conducted (Ibor et al., 2017) shows that financial inclusion has a positive and significant effect on the growth of SMEs s in Nigeria. This is related to the distance to financial service access points and the lack of infrastructure that challenges fast and effective access to services by SMEs.

The sustainability of the SMEs business is supported by the existence of business capital, one of which is the support of social capital. Social capital is the result of working together, developing trust, and building social networks. Financial technology is related to social capital, namely Capital through financial technology services can be more effective when using social capital, where social capital will be more of a liaison between SMEs actors and capital providers. In addition, related to financial inclusion, such as the microfinance movement, most of them rely on social capital to expand financial services to SMEs actors.

The formulation of the problem of this research is " How to improve SME's Performance with moderated social capital.

THEORETICAL BASIS

Technology Acceptance Model or TAM is the result of further development of the Theory of Reasoned Action (TRA), which was previously developed by Fishbein and Ajzen (1980) which explains that user reactions and perceptions of an information system or technology will determine the attitudes and behavior of users. According to Davis in Ramdhani (2007) explains the behavior of individuals to use IT (Information Technology) starting from the perception of the benefits and perceptions of the ease of using IT (ease of use). These two elements when with TRA are part of Belief. Perception of usefulness is defined by Davis based on the definition of usefulness that is able to be used profitably, or can be used for profitable purposes. Individuals believe that usability can provide benefits if individuals use IT. This use is also with improvement of business performance that directly or indirectly has an impact on business people to gain profits.

HYPOTHESES

SMEs performance

SMEs performance is a measure of the success of a business entity in achieving its goals. According to Mutegi et al., (2015) defines SMEs performance as the work achieved by individuals and adapts to individual roles or tasks in a company for a certain period of time, which is related to a certain value measure or company work standard. The performance of SMEs generally associates increased company performance with increased profitability, higher efficiency and increased output (Fitriati et al., 2020). Performance can be characterized as the company's ability to create acceptable results and actions (Eniola & Entebang, 2015). Based on the definitions above, it can be concluded that SMEs performance is the level of success, the company's ability within a certain period of organizational goals that have been implemented

Financial Technology

Financial Technology or commonly referred to as fintech, is defined as technological innovation in financial services that can produce business models, applications, processes or products with material effects related to the provision of financial services (Financial Stability Board, 2017). Fintech refers to the use of technology to provide financial solutions (Arner, et al., 2015). Specifically, fintech is defined as the application of digital technology to financial intermediation problems (Aaron, et al., 2017). Fintech provides many financial solutions, especially for small and medium businesses that want to grow. Regarding fintech on MSME performance, Rahadjo's research (2019) shows that fintech plays an important role in supporting SMEs performance, namely in the form of increasing efficiency both operationally and the efficiency enjoyed by its members.
H1: financial technology has a significant positive effect on SME's Performance

Financial inclusion

Financial inclusion is seen as the ability of individuals to access and use basic financial services such as savings, loans, and insurance that are designed in a convenient, reliable and flexible way (World Bank, 2014). In addition, in relation to business performance and growth, it is also necessary to strengthen SMEs financial access to the banking sector with several banking programs such as: lending, branchless banking, and savings, as well as financial education which is expected to improve business performance (Dahmen & Rodríguez, 2014). This is because access to finance can provide more resources, provide working capital, encourage innovation and stronger company dynamics, increase entrepreneurship, encourage more efficient asset allocation and increase the company's ability to take advantage of growth opportunities (Terzi, 2015). Financial inclusion is an activity to increase all forms of price and non-price barriers to access to financial services, so that people have a prosperous life (Onuka, 2016). The financial inclusion policy opens the widest access for business actors to the entire financial system to support business capital (Usama et al., 2018). Several studies have shown that the ease of accessing finance has an influence on the performance of SMEs in a sustainable manner. (Omar & Inaba, 2020) said financial inclusion allows SMEs actors to build businesses and implement more productive investments, utilizing the latest technology that will increase competitiveness and create innovation. This relationship logically explains that the ease of access to capital can encourage business actors to innovate so that they can create new business opportunities, so that it will help improve the performance and income of SMEs.
H2: Financial inclusion has a significant positive effect on SME'S Performance

Social capital

Social capital is a person or group who believes in knowledge, understanding, norms, rules and expectations related to binding roles with interpersonal relationships and membership, as well as connecting social networks that are implemented in a collective action. Capital is the most basic problem and is often faced by SMEs actors. Companies usually offer loan services directly or by using investments to channel capital. In addition to capital in the form of funds, a number of previous studies have shown that social capital is considered a non-economic factor that can facilitate better cooperation in providing services that provide benefits to SMEs actors. Therefore, social capital can be called a non-economic factor that can bridge access to these resources. Financial Technology can enter to connect and strive to improve welfare, social capital will allow information and business development assistance to be more widespread. The use of social capital makes fintech companies more adaptive to enter the community, especially if the fintech company succeeds in implementing all the elements contained in social capital. Research conducted by Akintimehin et al (2019) stated that social capital will aim to understand trust, social bonds, and social interactions, and reciprocity. This can also involve an impact on competitive advantage and sustainable growth within the organization which will certainly improve the performance of the SMEs themselves.

H3: Social Capital moderates the influence of financial technology on SME'S Performance

Financial inclusion refers to all initiatives that make formal financial services available, accessible and affordable to all segments of the population (Chauvet & Jacolin, 2017). Several studies have documented the relationship between social capital and financial inclusion, social capital generates information channels, facilitates transactions and reduces costs in accessing financial services such as credit. In addition, Aryeetey (2005) argues that social capital is an important tool for screening microfinance loan applications and for ensuring that contracts are enforced among borrowers. This reduces transaction costs incurred when conducting transaction activities between financial service providers and SMEs actors. Financial inclusion, such as the microfinance movement, mostly relies on social capital to expand financial services to SMEs actors. Their success relies heavily on network mechanisms, especially to monitor and sanction SMEs actors (Woolcock, 1999).

H4: Social Capital moderates the influence of financial inclusion on SME'S Performance

METHOD

The sample of this research is SMEs in Central Java Province. A total of almost 250 SMEs actors from the research population, and the sample size is 100 people. This research uses purposive sampling. For this purpose, sampling takes into account the characteristics of the population so that the sample becomes a representative study. By considering the sample size of the existing population, a sample size of 100 was calculated using purposive sampling. To that end, 100 google forms were distributed to the respondents and the questionnaire was finally analyzed. Data analysis used correlation test and structural equation modeling using PLS type 3.3 (partial least square) software to analyze the data.

RESULTS AND DISCUSSION

Validity and Reliability

Latent Variable	Indicators	Convergent Validity		Internal Consistency Reliability		Descriminant Validity
		loadings	AVE	Composite Reliability	Cronbanch Alpha	HTMT
		>0.70	>0.50	>0.70	>0.70	<1
Financial Technology	FT.1	0.873	0.885	0.958	0.934	YES
	FT.2	0.971				
	FT.3	0.974				
Financial inclusion	FI.1	0.787	0.572	0.842	0.752	YES
	FI.2	0.797				
	FI.3	0.718				
	FI.4	0.718				
Social Capital	SC.1	0.904	0.894	0.962	0.941	YES
	SC.2	0.964				
	SC.3	0.968				
SMEs Performance	SP.1	0.945	0.900	0.973	0.963	YES
	SP.2	0.902				
	SP.3	0.975				
	SP.4	0.970				

Based on the results of the evaluation of the PLS Algorithm run 1 model, it shows that the value of from the outer loading all variable indicators are more than 0.70. Cronbach's Alpha>0.7 and composite reliability value > 0.7. Then based on the results of the R-squared test, the F-squared says and Q-square states that all variables have a moderate influence, except for financial inclusion on SMEs performance has a weak effect, namely the F-square test has a weak effect. This proves that all indicators in this research variable are valid, so there is no need for indicators removed.

Path Coefficient And Hypothesis Test Results

	Original Sampel (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (|O/STDEV|)	P Values	Result
Financial technology→ SMEs Performance	0.365	0.363	0.071	5.107	0.000	Accepted
Financial inclusion→ SMEs Performance	0.159	0.161	0.065	2.453	0.015	Accepted
Moderating effect Financial technology* Social capital → SMEs Performance	0,202	0.205	0.069	2.928	0.004	Accepted
Moderating effect Financial inclusion* Social capital → SMEs Performance	0.174	0.180	0.063	2.760	0.006	Accepted

Financial technology and SMEs Performance

The results of testing hypothesis 1 show that the financial technology variable has a positive and significant effect on SMEs Performance. with path coefficient (O = 0.365) and t values 5.107> 1.96 with p values showing 0.000 < 0.05 then H0 is rejected and H1 is accepted so that it can be concluded that financial technology has a positive and significant effect on SMEs Performance. Thus, the first hypothesis proposed in this study, namely that financial technology has a significant effect on SMEs Performance, is accepted. An SMEs requires fintech as an increase in the performance and quality of the products produced (Gathogo & Ragui, 2014). When SMEs have confidence in fintech to develop their businesses, are able to utilize them properly according to their needs, and are easy to use and apply, they can support SMEs to generate maximum income as measured by sales growth, profitability, asset growth and customer growth. This research is in support of research conducted by Godgif, et al (2018) with a sample of SMEs in Nigeria where fintech can be one of the most powerful tools to support small businesses and thereby stimulate sustainable economic growth. Where this one important tool is one thing that must be maximized by SMEs actors by using financial technology in their business activities and of course it will have an impact on opening up opportunities for convenience between business actors and consumers because it is faster and can reach a wider market and SMEs performance as well will increase Financial inclusion and SMEs Performance

The results of testing hypothesis 2 show that the financial inclusion variable has a positive and significant effect on SMEs Performance. With the path coefficient (O = 0.159) and t values 2.453> 1.96 with p values showing 0.015 < 0.05, H0 is rejected and H2 is accepted, so it can be concluded that financial inclusion has a positive and significant effect on SMEs Performance. Thus, the second hypothesis proposed in this study, namely financial inclusion has a significant effect on SMEs Performance, is accepted. The more affordable and adequate access to financial services and the ease of obtaining business capital, the easier it will be for SMEs to increase sales and earn increased profits. In addition, with the existence of financial inclusion, SMEs will use financial products for activities to smooth business so that it is easier to process funding and business transactions which in turn will increase sales and business performance. This study supports previous research conducted by Omar & Inaba, (2020) on SMEs in Dar es Salaam City, Lakuma, et al (2019) on SMEs in Uganda, and (Ibor et al., 2017) on SMEs in Nigeria. The results of the study explain that financial inclusion allows SMEs actors to build businesses and implement more productive investments, utilizing the latest technology that will increase competitiveness and create innovation. On the other hand, financial inclusion is an important element in supporting the acceleration of economic growth, namely by optimizing the contribution of the financial sector and opening the widest access to financial services to the public, especially to business actors such as SMEs, who need to receive capital support in order to increase their business and help their business performance. Sanistasya et al., 2019).

Social Capital Moderates Financial Technology and SMEs Performance

The results of testing hypothesis 3 show that the social capital variable moderates the relationship between financial technology and SMEs Performance. With path coefficient (O = 0.202) and t values 2.928 > 1.96 with p values showing 0.004 < 0.05, H0 is rejected and H3 is accepted, so it can be concluded that social capital variable moderates the relationship between financial technology and SMEs Performance. Thus, the third hypothesis proposed in this study, namely social capital moderating the relationship between financial technology and SMEs performance, is accepted. The idea of social capital emerged based on the idea that solving various problems cannot be done individually. Therefore, it is necessary to have good cooperation and togetherness from the community to achieve certain goals (Syahra, 2003). Social capital is able to moderate financial technology, showing that in the process of cooperation, between SMEs actors and the community, that good individual and business relationships arise because of a sense of trust. The existence of trust can encourage the growth of individual business networks which in turn can create greater economic growth. Trust here is able to encourage SMEs to believe in using financial technology to support their business activities. In addition, the form of social capital that arises can also be in the form of knowledge sharing and skill sharing. Knowledge sharing itself is knowledge sharing, providing opportunities for members of a group, organization, agency or company to share their knowledge with other members. Good, constructive knowledge sharing that occurs in an SMEs group and good skill sharing will also encourage SMEs actors to want to learn about the use of fintech and the benefits obtained to support the achievement of maximum SMEs performance. This research supports previous research conducted by Dini Nur Fajrina, (2019), explaining that financial technology that is created well can increase public trust in financial technology that is created properly can improve business performance, as well as the process of exchanging ideas, ideas, and skills to convince someone. that is good for utilizing financial technology is also able to improve SMEs performance to be more leverage.

Social Capital Moderates Financial Inclusion and SMEs Performance

The results of testing hypothesis 4 show that the social capital variable moderates the relationship between financial inclusion and SMEs Performance. With path coefficient (O = 0.174) and t values 2.760 > 1.96 with p values showing 0.006 < 0.05, H0 is rejected and H4 is accepted, so it can be concluded that social capital variable moderates the relationship between inclusion and SMEs Performance. Thus, the fourth hypothesis proposed in this study, namely social capital moderating the relationship between financial inclusion and SMEs performance, is accepted. Social capital plays an important role in achieving economic success by establishing cooperation between the community and financial institutions that are expected to assist community business development, of course here one of them is in the form of community participation in accessing financial services. Social capital is able to moderate the relationship between financial inclusion and SMEs performance, showing that by utilizing financial services and products such as loans, transfers, storage, insurance, providing access to financial services in a safe, comfortable and affordable manner, financial services are able to enable SMEs actors to improve SMEs performance. Where financial services and products can be used and provide benefits for welfare, there is a collaboration between social capital with high trust, solidarity, knowledge, and understanding. So that with the very important role of social capital as a social asset, individuals and groups can work together efficiently to utilize financial services, which of course will also be followed by an increase in better SMEs performance. This study supports previous research conducted by George, Joseph & John., (2016), that social capital is able to mediate financial inclusion because social capital is able to encourage and unite SMEs actors who are bound in the same group to enable them to have access and use of services. In addition, people who learn by observing other people who they believe are credible and knowledgeable, then they are able to acquire the desired knowledge and skills that change their behavior and understanding to develop SMEs for the better and get a profit or profit.

CONCLUSION

Improving the performance of SMEs can be done by utilizing financial technology, financial inclusion and social capital as a mediating role. Financial technology is important if SMEs are able to trust, utilize, and easy to use. In addition, financial inclusion plays a role in meeting business funding needs, where with access and affordable financial services, ownership of financial products and assistance from financial institutions, business will be easier. Increase sales and earn profits so that SMEs performance will also be better. Meanwhile, social capital plays an important role because SMEs need a process of exchanging ideas, ideas, and knowledge with the same group, which is of course to achieve better SMEs performance.

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