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IS THERE A DIFFERENCE PERFORMANCE BETWEEN INDUSTRY BASE SMEs IN THE SARBAGITA BALI? : A COMPARATIVE APPROACH

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ABSTRACT

This study seeks to: 1) analyze differences in social capital, human resources, and financing sources of small and medium enterprises (SMEs) based on the industry in the Sarbagita Area, Bali Province; 2) analyze performance differences among SMEs based on the industry in the Sarbagita Area, Bali Province. By using a location-stratified random sampling technique to determine the number of samples and accidental sampling to determine respondents, this study used 203 SME business units. We used both primary and secondary data sources to generate quantitative and qualitative data. Data was ge rated by non-behavior observations, structured interviews, and in-depth interviews. The study then analyzed the data using the ANOVA analysis. The results show that: 1) the manufacturing and trade industries have different social capital; there is a difference in human resources between the trade and service Industries; the manufacturing and service industries have different financing sources, especially for internal financing sources while other financing sources do not exhibit different significant difference; 2) SMEs in the manufacturing and trade industries have different performance. Based on the results, this study suggests that: 1) SMEs need to rely on not only internal financing sources because external financing is sufficiently available with affordable interest rates; 2) SME owners need to enhance their networks with their fellow entrepreneurs or with their suppliers to improve their business performance.

Keywords: Social Capital; Human Capital; Financing; and Performance.

INTRODUCTION

Small and Medium Enterprises (SMEs) contribute significantly to the Indonesian economy because they absorb the labor force, create job opportunities, and survive during economic crises. Further, SMEs in leading sectors contribute significantly to the economic sector by increasing Gross Domestic Product (GDP), reducing unemployment and poverty rates, and promoting tourist activities (Sitharam & Hoque, 2016). However, SMEs still suffer various problems, mainly limited business and managerial skills, low-quality human resources, and limited financing sources (especially from banks), limited access to information, and lack of innovation.

In this respect, SMEs can use external financing sources such as cooperatives, Village Credit Institution (*LPD-Lembaga Perkreditan Desa*), state-owned and private banks, and even friends or relatives. They can also combine internal financing sources with external ones. However, entrepreneurs also often experience information asymmetry and moral hazard problems in financing their businesses (Momtaz, 2021). Thus, SME owners need to initiate mutual trust to reduce moral risk as a reflection of social capital. Social capital likely reduces concerns about difficulties in accessing capital from financial institutions (Chua et al., 2011). Similarly, Bosse (2009) holds that social capital is crucial in receiving loans. Further, personal, financial, and relational factors are key variables to predict the dynamics of small firms' growth (Kozan et al., 2012).

Besides social capital, human capital, such as education level and age, can also affect individuals' likelihood to receive loans. Human capital, such as education and experience, significantly affects firm performance in both the manufacturing and service Industries

(Okafor, 2012). Meanwhile, Ha L. C. (2016) find that working experience is the most significant predictor of firm performance.

Financial, human, and social capital enables firms to access financial resources (Atsan, 2016). Further, entrepreneurs' social capital enhances financial, marketing, production, and information access (Fornoni et al., 2012). Improved human capital significantly increases firm performance (Al-Sharafat, 2017). Also, SMEs that develop more networks with financial institutions are likely to have financing access (Kurniawan, 2014). Based on these arguments, the research problem of this study is " Are there differences in SMEs' social capital, human resources, financing sources, and performance based on industry type (manufacturing, trade, and service) in the Sarbagita Area, Bali Province?"

Literature review

Social capital is information, trust, and mutual norms within individuals' social networks Woolcock in (Korte & Lin, 2013). Further, social capital also refers to trust, care for others, and willingness to comply with existing norms of a certain community and to receive sanctions when disobeying the norms according to Bowles and Grintis (2001) in (Arjona, 2017). Social capital offers economic value for individuals (Engbers et al., 2017) and communities (Engbers et al., 2017; Oh et al., 2014) who invest in it. Strong social networks facilitate entrepreneurial spirits (Bouncken et al., 2018). Social capital refers to interpersonal resources that can be accessed by individuals through strong and weak social networks (Beaudoin, 2011). Referring to (Renko, Autio, & Tontti, 2002; Tsai, 2006), capital from networks, social norms, and trust is equally important with financial and human capital in preserving the creation process of firm value, such as organizations' innovating performance.

Empirically find that SMEs in China exhibit the reciprocal relationship between the micro-macro managerial values, social capital, and firm performance (Wu & Leung, 2005). In particular, they measure social capital with trust and firm performance with overall performance and improved competitiveness. Social capital as a social network also mediates the impact of internationalization on SMEs' performance. Hanka & Engbers (2017) establish that social capital develops the economy. Fatoki (2011) empirically finds the significantly positive relationship between social capital, human capital, and financial capital with SMEs' performance (Fatoki, 2011). The findings are consistent with the human capital theory of Schultz (1961) and Becker (1964) that argue that investments in human capital improve human performance. The results are also consistent with Hisrich and Drnovsek (2002) who argue that experience and education positively affect new firms' performance (Hisrich & Drnovsek, 2002). Their results are consistent with Ojokuku, R.M & Sajuyigbe, A.S. (2015) who observe that the human resource development variable significantly affects SMEs' performance. In a similar vein (Ojokuku & Sajuyigbe, 2015), Tessema (2014) documents that human capital investments increase firm performance (Tessema, 2014). Meanwhile, Bartocho demonstrates that financial resources significantly affect employees' performance which in turn plays a key role in organizational performance (Jerotich & Bartocho, 2016).

Empirically show that internal financing sources positively affect performance, while external financing sources also positively affect performance, albeit insignificantly (Palacios et al., 2016). Conclude that business financing sources such as commercial loans, retained earnings financings, and trade financing significantly affect SMEs' financial performance (Manini et al., 2016). Indicate that financial resources (such as personal savings, and formal and informal financing sources) significantly affect business performance (Oladele et al., 2014). Their statistical results show that formal financing sources are the most significant independent variables in explaining SMEs' performance in Ado-Ekiti metropolitan city. Biney, C. (Biney, 2018) demonstrates that SMEs that receive venture capital financing exhibit better performance in terms of sales and employee growth. Government-owned external financing sources (SFI) play the main role in improving SMEs' technical efficiency and export performance. However, only a few Thai manufacturing SMEs actively seek external financing from these institutions. In this respect, foreign commercial banks actively help improve SMEs' technical efficiency.

RESEARCH METHOD

The study used a comparative research design by using latent variables, namely SMEs' performance, social capital, human capital, and financing sources. We used the Likert scale that ranged from one to five and reflected respondents' perceptions from strongly disagree to strongly agree. This study was conducted in the Sarbagita Area, Bali Province which consists of Denpasar City, Badung Regency, Gianyar Regency, and Tabanan Regency. We then used the product-moment correlation to test the validity of our instrument. The correlation value above 0.3 indicates that the research instrument is valid. Meanwhile, the reliability test relies on the internal consistency method (Cronbach's Alpha value). Cronbach's Alpha which is greater than 0.6 implies that the research instrument is reliable.

By using the location-stratified random sampling technique to determine the number of samples and the accidental sampling to determine respondents, we generated 203 business units. The study collected the data through non-behavior observations, structured interviews, and in-depth interviews. We then quantitatively analyze the data by using descriptive statistics and running the inferential analysis with the Anova analysis.

RESULTS AND DISCUSSION

As indicated by Table 1, the ANOVA results demonstrate the differences in social capital from the norms, trust, and network indicators based on industry. Meanwhile, Table 2 displays the results of the Post Hoc Test with the Tukey HSD method to identify which Industries exhibit differences in the indicators of social capital. The detailed ANOVA and Post Hoc Test analysis will be discussed in more in details the following parts.

Differences in Social Capital based on Industry

Our Anova analysis produces the F-test value of 3.659 (sig = 0.027 < 0.05). As shown by Table 1, the Post Hoc Test with the Tukey HSD method produces the results suggest that there are differences in social capital among SMEs in the manufacturing and trade Industries as measured with the norms indicator. For the trust indicator, the ANOVA analysis suggests that there are differences in social capital based on industry, as indicated by the F-test value of 2.754 (sig = 0.066< 0.010). The Post Hoc Test with the Tukey HSD method indicates that there are differences in social capital between SMEs in the trade and service Industries for the trust indicator (sig = 0.059 < 0.10) (Table 1).

Table 1
ANOVA Analysis – Differences in Social Capital (Norms, Trust, and Networks) Based on Industry

ANOVA

Norms					
	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	2.142	2	1.071	3.659	.027
Within GrouPs	58.545	200	.293		
Total	60.687	202			
Trust					
	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	1.012	2	.506	2.754	.066
Within Groups	36.747	200	.184		
Total	37.759	202			
Networks					
	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	.033	2	.017	.103	.902
Within Groups	32.492	200	.162		
Total	32.525	202			

However, for the networks indicator, our ANOVA analysis suggests that SMEs in the three Industries do not exhibit significant differences in social capital, as indicated by the F-test value of 0.103 (sig=0.902>0.05) (Table 1). The Post Hoc Test documents that for the networks indicator, SMEs in these three Industries do not exhibit statistically significant differences in

social capital (significance value is higher than 0.05) (Table 2).

The processing and trade business sectors differ in social capital norms in terms of respondents' perceived appreciation of the instruments used. We use two instruments to measure norms, namely hard work, and honesty. Both processing and trade business sectors consider hardworks and honesty norms as the indicators of social capital very important, as indicated by their perceived appreciation values rrangingbetween four (agree) to five (fully agree) on the statement that hard works and honesty are very important norms. Processing firms interact not only with their raw material suppliers but also with their customers and peers. Meanwhile, trading firms mostly interact with their suppliers and distributors.

Table 2
The Post Hoc Test (Tukey HSD) of the Differences in Social Capital (Norms, Trust, and Networks) Based on Industry

Multiple Comparisons

Dependent Variable: Norms Tukey HSD						
(I) Industry	(J) Industry	Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval	
					Lower Bound	Upper Bound
Manufacturing	Trade	.25196*	.09315	.020	.0320	.4719
	Service	.13337	.09534	.343	-.0918	.3585
Trade	Manufacturing	-.25196*	.09315	.020	-.4719	-.0320
	Service	-.11860	.09124	.397	-.3340	.0968
Service	Manufacturing	-.13337	.09534	.343	-.3585	.0918
	Trade	.11860	.09124	.397	-.0968	.3340
Dependent Variable: Trust Tukey HSD						
(I) Industry	(J) Industry	Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval	
					Lower Bound	Upper Bound
Manufacturing	Trade	-.11051	.07380	.294	-.2848	.0638
	Service	.05549	.07554	.743	-.1229	.2339
Trade	Manufacturing	.11051	.07380	.294	-.0638	.2848
	Service	.16599	.07229	.059	-.0047	.3367
Service	Manufacturing	-.05549	.07554	.743	-.2339	.1229
	Trade	-.16599	.07229	.059	-.3367	.0047
Dependent Variable: Networks Tukey HSD						
(I) Industry	(J) Industry	Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval	
					Lower Bound	Upper Bound
Manufacturing	Trade	.02757	.06940	.917	-.1363	.1914
	Service	.00181	.07103	1.000	-.1659	.1695
Trade	Manufacturing	-.02757	.06940	.917	-.1914	.1363
	Service	-.02577	.06797	.924	-.1863	.1347
Service	Manufacturing	-.00181	.07103	1.000	-.1695	.1659
	Trade	.02577	.06797	.924	-.1347	.1863

The processing and trading firm respondents differ in their appreciation of norms. In this respect, 34% of the processing firm respondents fully agree that hard works are crucial in running the business, whereas 58% of the trading firm respondents fully agree with this statement. Meanwhile, 56% of the processing firm respondents and 59% of the trading firm respondent fully agree that the honesty norm is crucial in business. The emphasis on hard work and honesty instruments of the norms leads to different norms between the processing and trading firms. The trade and service firm respondents also differ in their appreciation of the trust indicator of social capital because they have a different emphasis on trust. Further analysis suggests the different descriptive values of the instruments used. We use two instruments to measure trust, namely protecting product quality and preserving trust from transacting partners. Respondents are considered to appreciate the trust indicator of social capital if they agree or fully agree with the instruments. About 50% and 46% of the trading firm and service firm respondents fully agree on the importance of protecting product quality. In a similar vein, 60% and 49% of the trading firm

and service firm respondents fully agree on the importance of preserving trust from transacting partners. Next, we analyzed differences in social capital from the three indicators (norms, trust, and networks) based on industry. As displayed by Table 3, the results inform that there are statistical differences in social capital based on industry as indicated by the F-test value of 2.483 (sig.= 0.086<0.10).

Table 3
ANOVA Analysis – Differences in Social Capital Based on Industry

ANOVA

Social Capital

	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	.662	2	.331	2.483	.086
Within Groups	26.670	200	.133		
Total	27.333	202			

As displayed in Table 4, we then ran the Post Hoc Test with the Tukey HSD method to identify further differences in social capital based on industry. The analysis results in a significance value of 0.070 < 0.10.

Table 4
The Post Hoc Test (Tukey HSD) of the Differences in Social Capital Based on Industry

Multiple Comparisons

Dependent Variable: Modal Sosial
Tukey HSD

(I) Industry	(J) Industry	Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval	
					Lower Bound	Upper Bound
Manufacturing	Trade	.13977	.06287	.070	-.0087	.2882
	Service	.06759	.06435	.546	-.0844	.2195
Trade	Manufacturing	-.13977	.06287	.070	-.2882	.0087
	Service	-.07218	.06158	.471	-.2176	.0732
Service	Manufacturing	-.06759	.06435	.546	-.2195	.0844
	Trade	.07218	.06158	.471	-.0732	.2176

Differences in Human Resources Based on Industry

From the human resources perspective, the analysis shows that there are differences in human resources based on industry (see Table 5), as indicated by the F-test value of 2.626 (sig. = 0.075<0.10).

Table 5
ANOVA Analysis – Differences in Human Resources Based on Industry

ANOVA

Human Resources

	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	.986	2	.493	2.626	.075
Within Groups	37.531	200	.188		
Total	38.517	202			

Further, the Post Hoc Test with the Tukey HSD method demonstrates that there are differences in human resources between the trade and service industries (sig. = 0.068<0.10) (Table 6).

Table 6
The Post Hoc Test (Tukey HSD) of the Differences in Human Resources Based on Industry

Multiple Comparisons

Dependent Variable: SDM
Tukey HSD

(I) Industry	(J) Industry	Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval	
					Lower Bound	Upper Bound
Manufacturing	Trade	-.11116	.07458	.298	-.2873	.0650
	Service	.05208	.07634	.774	-.1282	.2323
Trade	Manufacturing	.11116	.07458	.298	-.0650	.2873
	Service	.16324	.07305	.068	-.0093	.3357
Service	Manufacturing	-.05208	.07634	.774	-.2323	.1282
	Trade	-.16324	.07305	.068	-.3357	.0093

Differences in Financing Sources Based on Industry

SMEs in manufacturing, trade, and service industries exhibit varying financing sources, such as *LPD,* state-owned banks, private banks, cooperatives, and friends/ relatives. The ANOVA analysis finds that there are differences in financing sources based on the industry with the F-test value of 2.540 (sig. 0.081<0.10) (Table 7).

Table 7
ANOVA Analysis – Differences in Financing Sources Based on Industry

ANOVA

Financing Sources

	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	5.056	2	2.528	2.540	.081
Within Groups	199.042	200	.995		
Total	204.099	202			

Further analysis with the Post Hoc Test with the Tukey HSD method shows that there are differences in financing sources between SMEs in the manufacturing and trade industries (sig. 0.095< 0.10) (Table 8).

Table 8
The Post Hoc Test (Tukey HSD) of the Differences in Financing Sources Based on Industry

Multiple Comparisons

Dependent Variable: Financing Sources
Tukey HSD

(I) Industry	(J) Industry	Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval	
					Lower Bound	Upper Bound
Manufacturing	Trade	-.35833	.17176	.095	-.7639	.0472
	Service	-.06789	.17580	.921	-.4830	.3472
Trade	Manufacturing	.35833	.17176	.095	-.0472	.7639
	Service	.29044	.16823	.198	-.1068	.6877
Service	Manufacturing	.06789	.17580	.921	-.3472	.4830
	Trade	-.29044	.16823	.198	-.6877	.1068

Differences in Performance Based on Industry

We measured business performance with the instruments of business innovation, sales, and the ability to preserve customer loyalty. Our ANOVA analysis shows that there are differences in business performance based on industry as indicated by the F-test value of 3.659 (sig. 0.027< 0.05) (Table 9).

Table 9
ANOVA Analysis – Differences in Performance Based on Industry

ANOVA

Performance	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	2.142	2	1.071	3.659	.027
Within Groups	58.545	200	.293		
Total	60.687	202			

The Post Hoc Test with the Tukey HSD suggests that there are differences in performance between SMEs in the manufacturing and trade industries (sig. 0.020 < 0.05) (Table 4.10).

Table 10
The Post Hoc Test (Tukey HSD) of the Differences in Performance Based on Industry

Multiple Comparisons

Dependent Variable: Performance
Tukey HSD

(I) Industry	(J) Industry	Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval	
					Lower Bound	Upper Bound
Manufacturing	Trade	.25196*	.09315	.020	.0320	.4719
	Service	.13337	.09534	.343	-.0918	.3585
Trade	Manufacturing	-.25196*	.09315	.020	-.4719	-.0320
	Service	-.11860	.09124	.397	-.3340	.0968
Service	Manufacturing	-.13337	.09534	.343	-.3585	.0918
	Trade	.11860	.09124	.397	-.0968	.3340

*. The mean difference is significant at the 0.05 level.

We measure business performance with three indicators, namely enhancing innovation, increasing sales, and maintaining customers. The analysis demonstrates that only about 4% of MSME owners do not significantly enhance their innovation. Next, only about 19% of the respondents indicate no significant increase in sales volume. Further, about 8% of the respondents mention that they maintain their existing customers moderately well, and 92% of the respondents consider maintaining good relationships with existing customers crucial. Hence, it is crucial to maintain existing customers to buy products from the respondents. By focusing on these three indicators of MSMEs' business performance, the respondents from the processing, trade, and service industries will potentially preserve their business performance. Although these three business sectors (processing, trade, and service) exhibit statistical differences in business performance, respondents from these three business sectors understand that preserving these indicators of business performance is very important.

CONCLUSION

To answer the research objectives, the study concludes the following: 1) there are differences in social capital between SMEs in the manufacturing and trade Industries; there are differences in human resources between SMEs in the trade and service Industries; there are differences in financing sources between SMEs in the manufacturing and service industries in terms of internal financing sources, while there are no differences for other financing sources; 2) SMEs in the manufacturing and trade industries exhibit different performance.

Although a quantitative approach through Anova analysis has been able to answer the objectives of the problem, a qualitative in-depth analysis should be able to better explain the differences in performance that occur. These limitations can later be used as new ideas in developing this research further. In addition, including social variables such as culture and customs will enrich the results of this study further.

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