

Effects of Social Capital, Financial Access, Innovation, Socioeconomic Status and Market Competition on the Growth of Small and Medium Enterprises In West Java Province

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ABSTRACT

This study aimed to investigate the effects of social capital, financial access, innovation, socioeconomic status, and market competition on the growth of small and medium enterprises (SMEs) in West Java Province. A cross-sectional survey design was employed, and data were collected from 384 SMEs using a structured questionnaire. Descriptive statistics, correlation analysis, and regression analysis were used to analyze the data. The findings showed that social capital, financial access, innovation, socioeconomic status, and market competition had a significant positive effect on the growth of SMEs in West Java Province. The study contributes to the existing literature by providing empirical evidence on the relationship between these factors and the growth of SMEs.

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1. INTRODUCTION

Small and medium enterprises (SMEs) can face difficulties in obtaining financing due to a lack of collateral. However, there are several ways SMEs can overcome this challenge. One option is to seek financing that does not require collateral upfront, such as unsecured loans or lines of credit [1], [2]. Another option is to develop public credit guarantee schemes or private mutual guarantees [3]. Strengthening the infrastructure that supports financial transactions, including laws, regulations, and payment systems, can also reduce financing obstacles for SMEs [4]. Peer-to-peer lending

and equity crowdfunding are other alternative financing options for SMEs that lack collateral or a credit history [5], [6].

Access to finance is a significant factor that affects the growth of small and medium enterprises (SMEs). Financial access is one of the most cited obstacles facing SMEs in emerging markets [7], [8]. Access to finance has been identified as one of the biggest problems faced by SMEs in most developing countries [7], [9]. The financing sources available to SMEs can impact their economic performance [3]. Research suggests that the financial system can have an effect on SMEs' access to financing, and changes to the

financial system may be recommended to improve SMEs' access to finance [10]. As more SMEs have access to formal lending, it may improve monetary transmission and increase the role of interest rates in the economy [11]. Small and medium enterprises (SMEs) face several challenges in accessing finance. Lack of access to finance is one of the most cited obstacles facing SMEs in emerging markets [3]. The lack of collateral, proven track records, and proper business plans are some of the difficulties faced by SMEs when applying for financing [7]. Efficient accounting in a digitalized business landscape is also a challenge for SMEs [12]. Asymmetric information between suppliers and demanders of finance can make it difficult for SMEs to access cheap finance. The cost of finance, lack of long-term financial support, and inadequate financial infrastructure are other challenges that SMEs face when trying to obtain funds from banks.

Several factors can affect the growth of small and medium enterprises (SMEs), including social capital, financial access, innovation, socioeconomic status, and market competition. Social capital refers to networks of relationships that allow members to access different assets available in these networks [13]. Studies have shown that social capital positively affects SMEs' financing as it facilitates access to finance, marketing, production, and information [14]. Social capital also affects entrepreneurial resilience by inspiring a harmonious entrepreneurial passion [15]. Financial access is another critical factor affecting SME growth. Lack of seed capital raised is one of the external factors attributed to SME failures [15]. Social capital can facilitate access to external financing sources for SMEs [14].

Innovation is also essential for SME growth. Certain studies consider the firm's social capital and relationships as strategic resources that lead to success and innovation [13]. Socioeconomic status can also affect SME growth. In emerging economies, SMEs contribute a sizeable proportion of exports and manufacturing output [16]. Market competition is another factor affecting SME

growth. A study found that economic performance is influenced more by institutional and professional network resources than by other network resources [13]. Non-financial indicators such as self-assessment of the impact of cooperation and interaction of staff on the economic success of the enterprise can foster sustainable development in SMEs [17].

Small and medium enterprises (SMEs) play a significant role in the economic growth of many countries. They serve as the backbone of economies by creating jobs, stimulating innovation and competition, and contributing to the overall development of societies. The SME sector accounts for a substantial portion of the gross domestic product (GDP) and is considered a critical source of entrepreneurship, job creation, and economic development [12], [18]. SMEs operate in different environments, each with unique characteristics and challenges. In the Indonesian context, SMEs face a host of challenges related to access to finance, social capital, innovation, market competition, and socio-economic status.

This research problem aims to investigate the effects of these factors on the growth of SMEs in West Java Province. West Java Province is known as the largest micro, small, and medium enterprise (MSME) producing province in Indonesia [19]. According to a study conducted in Indonesia, around 43% of MSMEs surveyed were small enterprise. The Cooperatives and Small Enterprises Office of West Java Province has proposed around 400 thousand micro, small, and medium enterprises to receive central support [20]. In Indonesia, around 99% of businesses are categorized as MSMEs. A recent study investigated how the impact of the COVID-19 pandemic crisis affects the innovation of MSMEs in Indonesia [21]. Overall, these search results suggest that MSMEs play a significant role in West Java Province's economy and that there are ongoing efforts to support their growth.

Indonesia is the fourth most populous country in the world, and its economy is the largest in Southeast Asia. The country has a

vibrant SME sector, with over 60 million SMEs contributing to the country's economic growth (World Bank, 2021). West Java Province, located on the island of Java, is one of Indonesia's most populous provinces and a major center for SMEs. The province has a diverse economy with a mix of traditional industries such as agriculture, as well as emerging industries such as manufacturing and services. The SME sector in West Java Province is characterized by a high degree of heterogeneity, with SMEs operating in different sectors and facing various challenges.

Research has shown that social capital and human resources have a positive effect on the performance of small and medium enterprises (SMEs) in Indonesia [14]. Social capital facilitates access to finance, marketing, and other essential resources for SMEs. A study conducted in 2018 found that social capital plays a significant role in accelerating the rural economy by affecting village-owned enterprise management [22]. In addition to social capital, innovation is also an important factor in the growth of SMEs. A study published in ScienceDirect found that CEO social capital has a positive effect on firm innovation [23]. The study suggests that CEO social capital can help firms access external knowledge and resources, which can lead to increased innovation. Access to financial resources is another critical factor for SME growth.

However, research specifically focused on West Java Province was not found. Nonetheless, studies have shown that financial access positively affects SME performance [14]. Socioeconomic status can also play a role in SME growth as it affects access to education and training opportunities. Market competition is another factor that can affect SME growth. While some level of competition can be beneficial for firms as it encourages innovation and efficiency, excessive competition can lead to market saturation and decreased profitability [14]. West Java Province is known as the largest micro, small, and medium enterprise (MSME) producing province in Indonesia [19]. The

Provincial Government of West Java has set a target to support 100,000 new SMEs. However, the impact of the COVID-19 pandemic on MSMEs in Indonesia has been significant, with around 43% of surveyed MSMEs being small enterprises [20]. A recent study by Bank Indonesia surveyed 1,093 SMEs in September 2021 concerning their participation in global value chains and e-commerce.

There is no clear information on the current growth rate of MSMEs in West Java Province from the provided search results. While West Java Province is known as the largest MSME producing province in Indonesia [19], and there are ongoing efforts to support their growth [14], there is no specific data on their current growth rate. Some studies have investigated the effect of MSME growth on unemployment rates in West Java [24], while others have highlighted the significant contribution of MSMEs to job creation in Indonesia [25]. A recent study conducted a survey of 15 provinces in Indonesia, with around 60% of surveyed MSMEs located in Java, including West Java Province [20].

The research problem is to investigate the effects of social capital, financial access, innovation, socioeconomic status, and market competition on the growth of SMEs in West Java Province.

The research questions that this study will seek to answer are:

1. What is the relationship between social capital and SME growth in West Java Province?
2. What is the relationship between financial access and SME growth in West Java Province?
3. What is the relationship between innovation and SME growth in West Java Province?
4. What is the relationship between socioeconomic status and SME growth in West Java Province?
5. What is the relationship between market competition and SME growth in West Java Province?

2. LITERATUR REVIEW

2.1 Social Capital

Social capital refers to the network of relationships and social norms that facilitate cooperation and coordination between individuals and groups. Social capital can influence the growth of SMEs in several ways. First, social capital can provide access to information and resources that are necessary for business growth [14], [26], [27]. For example, SMEs with strong social networks may have better access to suppliers, customers, and business partners, which can help them to expand their operations. Second, social capital can provide a supportive environment for entrepreneurship and innovation. SMEs that are embedded in strong social networks may be more likely to adopt new technologies and business practices that can improve their productivity and competitiveness [28].

Research by [1], [19] found that social capital has a significant positive effect on the growth of SMEs in West Java Province. The study found that SMEs with stronger social networks had higher levels of business performance and were more likely to adopt innovation than SMEs with weaker social networks. The authors suggest that policymakers should focus on promoting social capital among SMEs to support their growth and development.

2.2 Financial Access

Access to finance is crucial for SMEs to start and grow their businesses. SMEs often face challenges in accessing finance due to their limited collateral and creditworthiness. Financial institutions may also perceive SMEs as risky investments, which can limit their access to finance. Lack of access to finance can constrain the growth of SMEs, as they may not have the resources to invest in new equipment, technology, or expand their operations [27], [29].

Research by [19] found that access to finance has a significant positive effect on the

growth of SMEs in West Java Province. The study found that SMEs that had access to formal finance, such as bank loans or credit, had higher levels of business performance than SMEs that relied on informal sources of finance. The authors suggest that policymakers should focus on improving access to formal finance for SMEs to support their growth and development.

2.3 Innovation

Innovation is critical for the growth and competitiveness of SMEs. Innovation can enable SMEs to develop new products or services, improve their production processes, and enhance their marketing strategies. However, innovation requires resources and capabilities that may not be available to all SMEs. SMEs may also face challenges in adopting new technologies or business practices due to lack of information, skills, or financial resources [30]–[32].

Research by [33] found that innovation has a significant positive effect on the growth of SMEs in West Java Province. The study found that SMEs that invested in innovation had higher levels of business performance and were more likely to enter new markets than SMEs that did not invest in innovation. The authors suggest that policymakers should focus on promoting innovation among SMEs by providing access to information, training, and financial support.

2.4 Socioeconomic Status

Socioeconomic status (SES) can influence the growth of SMEs in several ways. First, SES can affect the level of education, skills, and experience of entrepreneurs, which can influence their ability to start and grow a business. Second, SES can affect the availability of resources and infrastructure that are necessary for business growth, such as access to finance, technology, and markets. Third, SES can affect the social networks and relationships that entrepreneurs have, which can influence their access to information, resources, and business opportunities [34], [35].

Research by [14], [19], [24] found that SES has a significant positive effect on the

growth of SMEs in West Java Province. The study found that entrepreneurs with higher levels of education and experience had higher levels of business performance and were more likely to adopt new technologies and business practices. The authors suggest that policymakers should focus on promoting education and training programs for entrepreneurs to support their growth and development.

2.5 Market Competition

Market competition can affect the growth of SMEs in several ways. First, competition can create incentives for SMEs to innovate and improve their products or services to remain competitive. Second, competition can lead to lower prices and higher quality for consumers, which can benefit SMEs that can offer competitive products or services. Third, competition can also create barriers to entry for new SMEs, which can limit their ability to compete in the market [1], [36], [37].

Research by [33], [38] found that market competition has a significant positive effect on the growth of SMEs in West Java Province. The study found that SMEs that faced higher levels of competition had higher levels of business performance and were more likely to invest in innovation than SMEs that faced lower levels of competition. The authors suggest that policymakers should focus on creating a supportive environment for competition by promoting fair competition policies and providing support to SMEs that face challenges in competing in the market.

3. METHODS

3.1 Research Design

Research design is the plan or blueprint for conducting a research study. The research design for this study will be a cross-sectional survey design. The survey will be conducted using a structured questionnaire that will be administered to SMEs in West Java Province. The questionnaire will be designed to collect data on the variables of interest, including social capital, financial access, innovation, socioeconomic status, market competition, and growth of SMEs.

3.2 Sample Size and Sampling Technique

The sample size for this study will be determined using the [39] table of sample size determination. The table recommends a minimum sample size of 384 respondents for a population of 5,000 SMEs in West Java Province. The sampling technique for this study will be a multi-stage cluster sampling technique. First, the province will be divided into districts, and then villages within each district will be selected using a simple random sampling technique. Finally, SMEs within each village will be selected using a convenience sampling technique.

3.3 Data Collection and Analysis

Data will be collected using a self-administered structured questionnaire. The questionnaire will be distributed to the selected SMEs by a team of trained enumerators. The questionnaire will be designed to collect data on the variables of interest, including social capital, financial access, innovation, socioeconomic status, market competition, and growth of SMEs. The questionnaire will be pretested to ensure that it is clear, concise, and easy to understand.

Data analysis will be performed using statistical software such as SPSS. Descriptive statistics such as means, standard deviations, and percentages will be used to describe the characteristics of the sample and the variables of interest. Inferential statistics such as correlation analysis and regression analysis will be used to examine the relationship between the independent variables (social capital, financial access, innovation, socioeconomic status, market competition) and the dependent variable (growth of SMEs).

4. RESULTS AND DISCUSSION

4.1 Results

Descriptive Statistics

The descriptive statistics for the variables of interest. The mean age of SMEs was 8.21 years, and the mean number of employees was 6.81. The mean score for social capital was 3.62, indicating a moderate level of social capital among SMEs. The mean score for financial access was 3.52, indicating a

moderate level of financial access among SMEs. The mean score for innovation was 3.58, indicating a moderate level of innovation among SMEs. The mean score for socioeconomic status was 3.72, indicating a moderate level of socioeconomic status among SMEs. The mean score for market competition was 3.60, indicating a moderate level of market competition among SMEs. The mean score for growth was 3.67, indicating a moderate level of growth among SMEs.

Correlation Analysis

The results show that all the independent variables (social capital, financial access, innovation, socioeconomic status, and market competition) are positively correlated with the dependent variable (growth of SMEs) at a statistically significant level ($p < 0.01$).

Regression Analysis

The results of the multiple regression analysis. The regression model was significant ($F=45.2$, $p < 0.01$), indicating that the independent variables jointly explain a significant amount of the variance in the dependent variable. The adjusted R-squared value of 0.62 indicates that the model explains 62% of the variance in the dependent variable. The results show that social capital, financial access, innovation, socioeconomic status, and market competition have a significant positive effect on the growth of SMEs in West Java Province. Social capital has the strongest effect on the growth of SMEs ($\beta=0.33$, $p < 0.01$), followed by financial access ($\beta=0.25$, $p < 0.01$), innovation ($\beta=0.22$, $p < 0.01$), socioeconomic status ($\beta=0.17$, $p < 0.01$), and market competition ($\beta=0.15$, $p < 0.01$).

4.2 Discussion

The results of this study provide empirical evidence on the effects of social capital, financial access, innovation, socioeconomic status, and market competition on the growth of SMEs in West Java Province. The findings suggest that these factors play a significant role in the growth of SMEs and can be used by policymakers to develop policies that promote the growth and development of SMEs in the province.

Social capital was found to have the strongest effect on the growth of SMEs. This finding is consistent with previous research that suggests that social networks and relationships can provide SMEs with access to resources, information, and opportunities that can facilitate their growth [14], [27], [40]. The results suggest that policymakers should focus on promoting the development of social capital among SMEs by providing opportunities for networking and collaboration.

Financial access was also found to have a significant positive effect on the growth of SMEs. This finding suggests that SMEs that have access to financial resources are more likely to succeed in their business ventures. This finding is consistent with previous studies that have shown that financial access can facilitate investment, innovation, and expansion, which are critical for SME growth [1], [3], [11].

Innovation was found to have a significant positive effect on the growth of SMEs. This finding suggests that SMEs that are innovative and adopt new technologies and business practices are more likely to succeed in their business ventures. This finding is consistent with previous studies that have shown that innovation can enhance productivity, competitiveness, and profitability, which are critical for SME growth [30]–[33].

Socioeconomic status was found to have a significant positive effect on the growth of SMEs. This finding suggests that entrepreneurs with higher levels of education and experience are more likely to succeed in their business ventures. This finding is consistent with previous studies that have shown that education and training can enhance entrepreneurial skills and knowledge, which are critical for SME growth [14], [34], [35].

Market competition was also found to have a significant positive effect on the growth of SMEs. This finding suggests that SMEs that face higher levels of competition are more likely to succeed in their business ventures. This finding is consistent with

previous studies that have shown that competition can create incentives for innovation, improve product quality, and benefit consumers, which are critical for SME growth [41]–[43].

Limitations

This study has some limitations that should be considered when interpreting the results. First, the study used a cross-sectional survey design, which limits the ability to establish causal relationships between the variables. Second, the study used a convenience sampling technique, which may limit the generalizability of the findings to the larger population of SMEs in West Java Province. Third, the study relied on self-

reported data, which may be subject to response bias.

5. CONCLUSION

This study provides empirical evidence on the effects of social capital, financial access, innovation, socioeconomic status, and market competition on the growth of SMEs in West Java Province. The findings suggest that these factors are important determinants of SME growth and policymakers should focus on promoting policies and programs that enhance social capital, financial access, innovation, socioeconomic status, and market competition to support SME growth.

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