# **Research Article**

# The Effects of Social Capital on Performance of Coffee-Based Agribusiness Smes in Tabanan Regency, Bali Province, Indonesia

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**Abstract:** Small and Medium Enterprises (SMEs) is one of the businesses that have an important role in the country's economy. The potential of these SMEs needs to get serious attention from the local government in order to increase the potential of the local area in supporting the economy. Several SMEs have been developed in Tabanan Regency considering local potential-based agribusiness, namely coffee processing agribusiness, especially Robusta coffee. The development of SMEs does not only require financial capital but also requires social capital. The purpose of this study was to analyze the effect of social capital on the performance of coffee-based agribusinessSMEs in Tabanan Regency, Bali Province. The social capital in thisstudy includes trust, norms and networks, Sampling was taken by using Solvin technique from the members of 16 SMEs, counting to 73 respondents. The location of the study was conducted by purposive sampling. The data used were qualitative and quantitative data and analyzed by using Partial Least Square (PLS) - SEM analysis.

The result shows that the construct of trust had an effect on the performance of SMEs of coffee-based agribusinesses of 0.482 (48.2 per cent) with the level of significance of p values < 0.05. The construct of norms affected the performance of SMEsby 0.326 (32.6 per cent) with the significance level of p values < 0.05. The network construct influenced the performance of SMEsby 0.287 or 28.7 per cent with the significance level (p values < 0.05). The results of combined analysis show that social capital consisting of trust, norms, and networks on the performance of coffee-based agribusiness SMEshad a coefficient of determination (R-square) of 0.448, reflecting the effect is categorized moderate. In this study it shows that social capital consisting of trust, norms, and networks had a positive and significant effect on the performance of coffee-based agribusinessSMEs in Tabanan Regency. There needs to be strengthening of social capital from both SME players and government officials for business developmenttogether with other capital to achieve business success.

Key Words: social capital, SMEs performance, coffee-based agribusiness.

# Introduction

Micro, Small and Medium Enterprises (MSMEs) are one of group of business actors that play an important role in the country's economy. The existence of SMEs proved to be reliable, for example during the Indonesian economic crisis in 1998, when many large companies went bankrupt, SMEs were relatively able to survive. In the context of the implementation of the Asean Economic Community (MEA) which has been in effect since 2016, business competition will undoubtedly be increasingly stringent. The ASEAN region will be a free area for trade in goods, services and investment. On the one hand, it provides broader business opportunities for SMEs, but on the other hand it also has consequences on tighter competition conditions. Competitors are coming not only from domestical markets but also from overseas.

The representative office of Central Bank for Bali Province (Bank Indonesia) noted that the share of MSME loans in the second quarter of 2016 increased 1.35% compared to the first quarter of 2016. Bank Indonesia's Bali Representative Head explained that the increase in credit share was also followed by an increase in Micro-Small Medium Enterprises (MSME) loan

growth implying that business growth of MSMEs in Bali is quite promosing.

Tabanan regency is one of the regenciesin Bali Province develops SMEs based on local potency. This area is known for the center of coffee plantation, mainly robusta. Coffee processing agribusiness has developed in Tabanan Regency, especially in Pupuan Sub-District. Coffee commodities are plantation products that have the potential to be developed and have high export opportunities. The coffee agribusiness center in Pupuan Sub-District, Tabanan Regency is able to employ as many as 17,504 workforce families for Robusta coffee and 1,573 farm families for Arabica coffee (Tabanan Forestry and Plantation Office, 2016). Therefore, the development of SMEs is very necessary to increase benefit from the agricultural sector. To support the development of coffee agribusinessbased SMEs, the government has made many efforts in helping SMEs such as credit facilities, partnership programs, mentoring programs, and others.

Bank Indonesia has issued a regulation requiring banks to allocate credit or financing to SMEs starting from 2015 at 5%, and continue to increase by 5% annually. At the end of the 2018 revised year, it increased by 20%. These efforts are

expected to be able to improve the performance of SMEs (Bank Indonesia, 2015).

There are 16 SMEshas been developedin Pupuan Sub-District in Tabanan Regency that based on local potentialresources, namely coffee processing which has been actively producing and conducting marketing activities. These SMEs have received technical guidance and marketing supports from the Village-Owned Enterprises (*BUMDes*). In the context of empowering the MSME business, all SMEshave received coffee processing equipment and product sales assistance by *BUMDes*. The development of SMEs requires not only financial capital but also social capital. One of the resources of SMEs that can be developed and used as the basic capital of business development is social capital.

Putnam (1993a and 1993b) emphasizes that social capital is an intangible resource within an organization, defining as trust, shared norms, and networks Social capital encourages organizational development and increases the efficiency of a society. The implementation of socal capital can improve the efficiency of the organization by facilitating coordinated action. In this way, social capital containing trust, norms and networks can make participants cooperate to achieve the goals of organization, thereby improving the organization's performance.

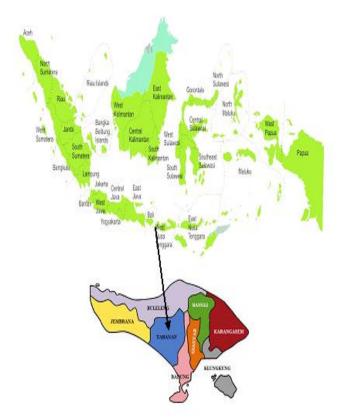
According to Lesser (2004) in Kimbal (2015), the presence of social capital in small industry businesses is very important for the community as it is 1) facilitating access to information for community members, 2) becoming power sharing in the community, 3) developing solidarity, 4) enabling community resource mobilization, 5) enabling mutual achievement, and 6) forming organizational togetherness behavior.

Coffee-based agribusiness SMEs in Pupuan Sub-District, Tabanan Regency there are several problems in running their businesses, that is network expansion and business sustainability. The social capital in the community is important to study to determine the condition, strength, and role of social capital in improving the performance of coffee-based agribusiness SMEs in the area. The concept of this research emphasizes the potential of groups and patterns of relationships between individuals in a group and patterns of relationships between groups. The relationship is formed in the form of three core of social capital, namely trust, norms, and networks. While performance is a manifestation of the success of personnel, teams, or organizational units in realizing previously set strategic targets.

Based on the above, the research question is: what is the influence of social capital on the performance of coffee-based agribusiness SMEs in Tabanan Regency, Bali Province? This study aims to analyze the effect of social capital on the performance of coffee-based agribusinessSMEs in Tabanan Regency, Bali Province.

# Methodology

This research is an exploratory study using the survey method. The types of data used are quantitative and qualitative data, which were then analyzed by using the Partial Least Square Structural Equation Model (PLS-SEM). The study was conducted in Pupuan Sub-District, Tabanan Regency of Bali Province (Figure 1). The research location was selected purposively with the consideration that Pupuan Sub-District is a Robusta coffee production center in Tabanan Regency. The populations in this study were farmers who are the members of the 16 coffee processing farmer groups that can be categorized as SMEs in Pupuan Sub-District spread over seven villages totaling of 266 people. The number of samples taken was 73 respondents using Slovin theory (Umar, 2004). The coffee processing groups have received funding assistance from the government through Village-owned Enterprises (*BUMDes*) and other supports from the Cooperative Office, Forestry and Plantation Office of Tabanan regency.



# Figure 1. Research location in Tabanan Regency of Bali Province

### (Source:https://goo.gl/images)

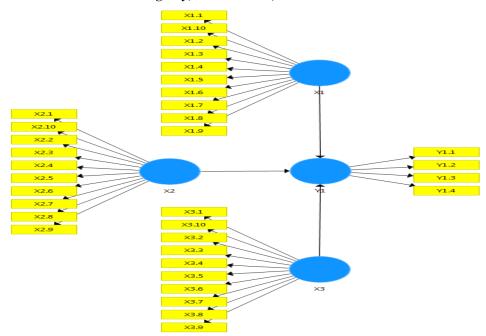
The classification of research variables consists of independent and dependent variables. The independent variables consist of components of social capital namely trust, norms, and networks. While the dependent variable is the performance of coffee-based agribusiness SMEs. Independent variables of social capital of trust (X1), norms (X2), and networks (X3) consist of 10 indicatorsrespectively, which are presented, in Table 1.

| Variables      | Indicator   | Notation |
|----------------|---|----------|
| Trusts         | st in actors among the coffee agribusiness SMEs   | X1.1     |
|                | Trust of coffee agribusiness SMEs to the group administrators   | X1.2     |
|                | Trust of coffee agribusiness SMEs to the group  | X1.3     |
|                | Trust of coffee agribusiness SMEs to the administrators of farm cooperatives  | X1.4     |
|                | Trust of coffee agribusiness SMEs to theForestry and Plantation Agency on<br>the coffee development in the area   | X1.5     |
|                | Tust of coffee agribusiness SMEs to the Cooperative Office  | X1.6     |
|                | Trust of coffee agribusiness SMEs to the Village Head   | X1.7     |
|                | Trust of coffee agribusiness SMEs to BUMDes   | X1.8     |
|                | Trust of coffee agribusiness SMEs to the marketing institution  | X1.9     |
|                | Trust of coffee agribusiness SMEs to Financial Institutions / Cooperatives /<br>Regional Banks / State Banks  | X1.10    |
| Norms          | Obedience of coffee agribusiness SMEs to the local custom / awig-awig   | X2.1     |
|                | Obedience of coffee agribusiness SMEs to the norms and sanctions that apply   | X2.2     |
|                | in the group<br>Obedience of coffee agribusiness SMEs to work norms and management  | X2.3     |
|                | sanctions<br>Obedience of coffee agribusiness SMEs to the rules of the marketing  |          |
|                | institutions<br>Obedience of coffee agribusiness SMEs to financial / cooperative / bank   |          |
|                | institutions  |          |
|                | Obedience of coffee agribusiness SMEs to regional government rules and sanctions  |          |
|                | Obedience of coffee agribusiness SMEs to the rules and norms of associations / SMEs associations  | X2.7     |
|                | Obedience of coffee agribusiness SMEs to the policies of the Agriculture /<br>Cooperative and SMEs Service / Office of Industry   | X2.8     |
|                | Obedience of coffee agribusiness SMEs to rules and sanctions by the Village /<br>Sub-District Head  | X2.9     |
|                | Obedience of coffee agribusiness SMEs to the norms and rules of Village Owned Enterprise ( <i>BUMDes</i> )  | X2.10    |
| Te terre allen | Internetion and a set of a based on the set of SME and set of the | X3.1     |
| Networks       | Interaction among coffee-based agribusiness SMEsplayers<br>Coffee agribusiness SMEs interaction with the management of Farmers<br>Cooperative   | X3.2     |
|                | Coffee agribusiness SMEs Interaction with Farmers Cooperative   | X3.3     |
|                | Interaction of coffee agribusiness SMEs with Farmers Group  | X3.4     |
|                | Interaction of coffee agribusiness SMEs with Compound Farmer Groups (Gapoktan)  | X3.5     |
|                | Interaction of coffee agribusiness SMEs with Provincial / Regency / Village level officials   | X3.6     |
|                | Interaction of coffee agribusiness SMEs with Financial Institutions such as Village Credit Institutions / Banks   | X3.7     |
|                | Interaction of coffee agribusiness SMEs with the marketing institution  | X3.8     |
|                | Interaction of coffee agribusiness SMEs with coffee shop managers / outlets / supermarkets / etc.   | X3.9     |
|                | Interaction of coffee agribusiness SMEs with Village-Owned Enterprises  | X3.10    |

# Table 1: Independent Variables of Social Capital of Trust (X1), Norms (X2) and Networks (X3)

The dependent variable in this study is the performance of coffee-based agribusiness SMEs, denoted as (Y), which includes; capital growth (Y1); labor growth (Y2); sales growth (Y3); and market growth (Y4) (Munizu, 2010; Zainal, 2012).

The empirical model of the relationship among variables and indicators can be seen in Figure 2



# Figure 2 :The Empirical Model of the Effect of Social Capital on the Performance of coffee agribusiness based - SMEs in Tabanan Regency, Bali Province

Scoring on social capital variables consisting of trusts, norms, and networks based on five categories, namely 1 to 5. Score 1 is given to the statement for very low and further score 5 is given to the statement for very high on each of parameter in respective trusts, norms and networks as stated in Table 1. Then the score achievement is divided into five intervals in each category using the following formula:

R (*range*) C (class interval) = -----

Notes:

R = the difference between the highest and lowest value of score= 5 - 1 = 4K = 5 Calculation C (class interval) = ----= 0,8

K (number of classifications)

The categories of trust, norms, networks and performance of coffee-based agribusiness SMEs on the achievement of scores can be seen in Table 2.

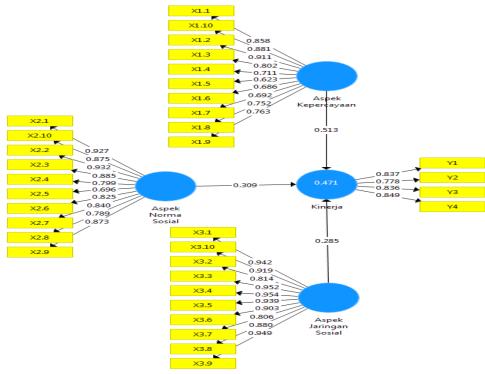
Table 2 : Categories and Criteria for Assessing Level of Achievement of Scores

| Scoring categories | Classification limits (scoring) |
|--------------------|---------------------------------|
| 1. Very            | low 0 – 1.80                    |
| 2. Low             | 80 - 2.60                       |
| 3. Medi            | um 60 – 3.40                    |
| 4. High            | 40 - 4.20                       |
| 5. Very            | high 20-5.00                    |

PLS analysis uses the help of the PLS visual program version 2.0. From the model, the measurement model or outer model was then carried out with reflective indicators evaluated by convergent validity and discriminant validity from the indicator and composite reliability for the block indicator. The convergent validity test of reflective indicators can be seen from the value of loading factor for each construct, where the value of the recommended loading factor must be greater than 0.700.

### **Results and Discussion**

The convergent validity test results from all indicators of the component of social capital in this study are presented in Figure 3. As can be seen from Figure 3, there are three indicators on the trust variables that were invalid and must be excluded from the model namely X1.5, X1.6, and X1.7 and one indicator on the norm variable, which was invalid, namely X2.5. The indicator is declared valid if the value of the loading factor is above 0.700 (Ghozali, 2012; Hair et al. 2014).



## Figure 3 : Output of structural models with PLS

Re-estimation of convergent validity testing after the reduction of invalid indicator is presented in Figure 4. All indicators are valid because the value of the loading factor is above 0.700.

To see discriminant validity is by looking at the square root of average variance extracted value  $\sqrt{AVE}$ . expected AVE value > 0,5 (Ghozali, 2012;Hair et al. 2014), aspresented in Table 3.

| Variables   | AVE   | $\sqrt{AVE}$ | Description |
|-------------|-------|--------------|-------------|
| Trust       | 0.654 | 0.8087       | Valid       |
| Norms       | 0.744 | 0.8626       | Valid       |
| Networks    | 0.823 | 0.9072       | Valid       |
| Performance | 0.681 | 0.8252       | Valid       |

Source: Primary Data Analysis, 2018

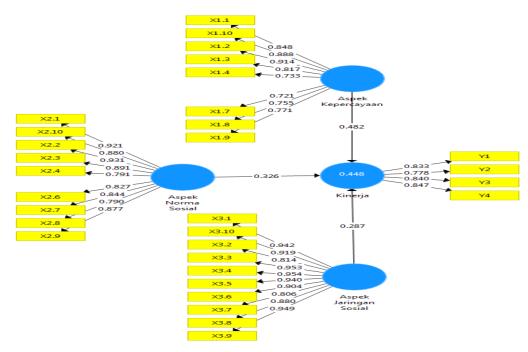


Figure 4 : Output of empirical models by final PLS

Reliability testing was conducted by looking at the composite reliability values of indicators that measure the construct and the value of cronbach's alpha. The composite reliability results will show a satisfactory value if above 0.700 and the recommended Cronbach's alpha value is above 0.600. Reliability composite value andCronbach's alpha can be seen in Table 4.

| Construct   | Composite reliability | Cronbach's alpha | Description |
|-------------|-----------------------|------------------|-------------|
| Trust       | 0.938                 | 0.924            | Reliable    |
| Norm        | 0.963                 | 0.957            | Reliable    |
| Network     | 0.979                 | 0.978            | Reliable    |
| Performance | 0.895                 | 0.846            | Reliable    |

Source: Primary Data Analysis, 2018

Testing the structural model (inner model) was carried outby looking at the R-square value of endogenous latent variables as the predictive power of the structural model. The construct R-square value can be seen in Table 5.

Table 5 : Value of R-Square Construct (SEM-PLS Analysis)

| Construct       | Original Sample (O)                 | Sample Mean (M) | Standard Deviation<br>(STDEV) | <i>t</i> -Statistics ( O/STDEV ) | ρValues |  |
|-----------------|-------------------------------------|-----------------|-------------------------------|----------------------------------|---------|--|
| Performance     | 0.448                               | 0.480           | 0.067                         | 6.664                            | 0.000   |  |
| Source: Primary | Source: Primary Data Analysis, 2018 |                 |                               |                                  |         |  |

The influence of social capital of trusts, norms, and networks on the performance of SMEs in coffee-based agribusiness reveals in a R-square value of 0.448. This means that the construct variability of performance that can be explained by the variability of constructs of trust, norms, and networks of 44.8%, which shows that the performance of SMEs in coffee-based agribusiness is moderate (Ghozali, 2012).

Furthermore, the path coefficient of the influence of social capital on the performance of coffee-based agribusinessSMEs in Tabanan Regency can be seen from all constructs that have a significant effect ( $\rho$  values <5%). The path coefficients of the structural model are presented in Table 6.

# Table 6 : Structural Path Coefficient Model (SEM-PLS Analysis)

| Construct              | Original<br>Sample (O) | Sample<br>Mean (M) | Standard<br>Deviation<br>(STDEV) | <i>t</i> -Statistics ( O/STDEV ) | ρvalues |
|------------------------|------------------------|--------------------|----------------------------------|----------------------------------|---------|
| Trust -> Performance   | 0.482                  | 0.487              | 0.075                            | 6.391                            | 0.000   |
| Norm -> Performance    | 0.326                  | 0.322              | 0.088                            | 3.709                            | 0.000   |
| Network -> Performance | 0.287                  | 0.280              | 0.108                            | 2.651                            | 0.000   |

Source: Primary Data Analysis, 2018

The construct of trust influences the performance of SMEs in coffee agribusiness(Table 6). This shows that there is a positive and significant influence of the trust parameters of coffeebased agribusiness SMEson the performance of SMEs. Based on the results of testing the inner model to find out the biggest and smallest contribution or influence of each indicator that forms the construct of trust, it is shown that the trustworthiness of actors ofcoffee agribusiness SMEs to the group administrators (X1.2) has the highest value of 0.914. Meanwhile the trust to village heads (X1.7) has value of 0.721. This is an indicator to consider in improving the performance of coffee-based agribusiness SMEs in Tabanan Regency is the trust to the group administrators.

As stated by Sedana et al. (2014), that the interaction between farmers as *subak* members (a paddy farmer organization in Bali), as well as between *subak* farmers and managers is based on mutual trust. In this context, it appears that trust in the group administrators shows that they trust the leadership of the

subak management. Trust can be due to a strong relationship between the management and group members. Based on the results of interviews with respondents, there is a kinship between them. They find it easier to work with relatives because they already know each other.

Based on the results of the analysis of structural coefficient model, the construct of trust influences the performance of SMEs in coffee-based agribusiness by 0.482 or 48.2% with a *t*statistic value of 6.391> t-table 1.96 with a significance level of 5%. This shows that there is a positive and significant influence between the trust variable of coffee agribusiness SMEs and the performance of SMEs. Building collaboration based on strong trust can be used as a basis for achieving higher performance (Vipriyanti, 2007). This is consistent with the opinion of Lesser (2004) in Kimbal (2015) that social capital (trust) in small industries can facilitate access to information for community members, develop solidarity, and enable shared achievement. Trust is based on a sense of confidence that other people will also do their best. This is

supported by the opinion of Putnam (1993) which states that trust is a form based on belief, where someone will do something as expected in a pattern of mutual support.

The norm construct influences the performance of SMEs in coffee agribusiness. This shows that there is a positive and significant influence between shared social norms to the performance of coffee agribusiness SMEs. Based on the results of testing the inner model to find out the biggest and smallest contribution or influence of each indicator that forms the construct of social norms, namely the adherence of coffee agribusiness SMEs to the norms and sanctions in force in group (X2.2) of 0.931 and adherence of coffee agribusiness SMEs towards the policies of the Department of Agriculture / Cooperative and SMEs/ Department of Industry (X2.8) of 0.790.The test results show that SMEs actors have a perception that the dominant indicator to be considered related to social norms in improving the performance of coffee-based agribusiness SMEs in Tabanan Regency is the adherence of coffee agribusiness SMEs to the norms and sanctions that apply in the group. Sanctions can be said to be effective in improving performance, because the right sanctions applied can increase the awareness of SME actors not to repeat the same mistakes. This is consistent with the opinion of Purwanto (2000) that sanction is given to someone consciously as an educational tool when a violation occurs so as not to repeat the mistake.

Based on the analysis of the path coefficient structural model, the norm construct influences the performance of coffee-based agribusiness SMEs of 0.326 or 32.6% with a t-statistic value of 3.709> t-table 1.96 with a significance level of 5%. This shows that there is a positive and significant influence between shared social norms on the performance of coffee agribusiness SMEs. The norms or rules that are applied become the basis for running a business that must be obeyed. The social capital of shared norms can control the behavior of coffee agribusiness SMEsplayers in their activities so that the possibility of disputes that occur can be avoided or reduced. They strongly agree to accept sanctions if they violate the rules and choose peaceful ways in solving problems in the event of a dispute.

The network construct influences the performance of SMEs in coffee agribusiness. This shows that there is a positive and significant influence between the network and the performance of SMEs in the coffee business. Social networks are a reflection of the interaction between agribusiness SMEs and other parties (Roxas, 2008; Muchtar, 2009). Based on the results of testing the inner model to find out the biggest and smallest contribution or influence of each indicator that forms the network construct, namely the interaction of coffee agribusiness SMEs with farmer groups (X3.4) of 0.954 and the interaction of coffee agribusiness SMEs with Financial Institutions such as Rural Banks/ other Banks (X3.7) of 0.806. The results of the test indicate that players of SMEs have a perception that the dominant indicator to be considered related to the network in improving the performance of coffeebased agribusinessin Tabanan Regency is the interaction with farmer groups. Strong networks between farmer groups indicate that good social networks are established, and this not only shows a fair competition in business but shows a fair society (Putnam, 1993a). The formed network will facilitate communication and interaction within the community so as to strengthen cooperation.

Based on the analysis of the structural coefficient model, the network construct affects the performance of coffee-based agribusiness SMEs, which is 0.287 or 28.7% with a *t*-statistic value of 2.651>*t*-table 1.96 with a significance level of 5%. This shows that there is a positive and significant influence between the networks on the performance of SMEs in the coffee business. Social networks are a reflection of the interaction between agribusiness SMEs and other parties. The high quantity of interaction and based on trust and norms can improve performance.

Based on the four valid indicators used to measure performance variables, all were significant to construct the performance of SMEs at the level of 5%. Based on the estimation results, it is then evaluated the contribution and the biggest and the smallest influence of each indicator that forms the performance construct, namely market growth (Y.4) of 0.847 and labor growth (Y.2) of 0.778. The test results show that SMEs have a perception that the dominant indicator to consider related to the performance of coffee agribusinessbased SMEs in Tabanan Regency is market growth. Marketing of Robusta coffee from Tabanan Regency in addition to meeting the needs of local and national consumers, it has penetrated foreign markets, namely Italy, Taiwan, South Korea and Belgium. The role of the Village-Owned Enterprises (BUMDes)in assisting the market growth of the products of coffee-based agribusiness SMEs in Tabanan Regency is quite large. Collaboration between BUMDes and Local Government-Owned Business Enterprises (BUMDa) is well established in marketing coffee products to the market.

The results of combined analysis show that social capital consisting of trusts, norms, and networks on the performance of coffee-based agribusiness SMEs has a coefficient of determination (R-square) of 0.448. This means that the construct variability in performance of SMEs in Tabanan Regency can be explained by the variability of trust, norms, and network constructs by 44.8%, reflecting a moderate category. The contribution of social capital consisting of trust, social norms, and social networks to the performance of SMEs by 44.8%, providing opportunities to improve the performance of SMEs. The results of this study are in line with the research of Khoirin dan Kartika (2014), which shows that social capital has a positive effect on the performance of small businesses in the city of Bogor. Other supporting research is Andriani's research (2010) which shows that social capital can improve performance. High interaction and based on trust and norms can improve the performance of SMEs.

### Conclusion

It can be concluded the components of social capital that is trust has a positive and significant effect on the performance of SMEs in coffee agribusiness. The trust of coffee-based SMEs to group administrators is a dominant indicator in improving

the performance of coffee agribusiness-based SMEs. The component of social capital, i.e. norm has a positive and significant effect on the performance of SMEs in coffee agribusiness. The dominant norm indicator of improving the performance of coffee agribusiness-based SMEs in Tabanan Regency is the adherence of coffee agribusiness-based SMEs to norms and sanctions that apply in the group. The component of social capital, i.e. network has a positive and significant effect on the performance of SMEs in coffee agribusiness. The network of interaction between coffee agribusiness SMEs and farmer groups is a dominant indicator of the improvement in the performance of coffee agribusiness-based SMEs in Tabanan Regency. The results of the combined analysis show that social capital consisting of beliefs, norms, and networks has a positive and significant effect on the performance of coffee-based agribusiness SMEs in Tabanan Regency, Bali Province.

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