Social Capital, Entrepreneurial Leadership and SMEs Performance: The Mediating Effect of Innovation Capability

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Abstract: This study aims to solve the problems of SMEs' performance in the culinary and hospitality sectors in Pekanbaru by involving several companies' internal environmental factors to build a competitive strategy. The variables engaged in this study consisted of social capital, entrepreneurial leadership, innovation capability, and performance. It involves 200 SMEs consisting of 167 culinary enterprises and 33 hospitality enterprises in Pekanbaru City in Riau of Indonesia. Using the structural equation model (SEM) approach, the results show that social capital has no significant direct effect on the business performance of culinary and hospitality SMEs in Pekanbaru. However, social capital indirectly affects SMEs' performance through innovation capability. In addition, entrepreneurial leadership, directly and indirectly, affects the financial and non-financial performance of SMEs through capability. Culinary and hospitality SMEs in Pekanbaru must do a job in relationships partnerships with withs with common goals in furthering SMEs business. This active participation helps SMEs nurture knowledge and the latest information in the business world. Furthermore, culinary and hospitality SMEs actors were dominated by young entrepreneurs. It could be a valuable capital for SME act to be more innovative and creative in company improvement strategies, especially in coping with the COVID-19 pandemic.

Keywords: Social capital, Entrepreneurial leadership, Innovation capability, SMEs performance

INTRODUCTION

Fostering SMEs in Indonesia has linked in supporting the progress of national tourism. In addition to infrastructure, food, energy, and maritime, tourism has been regarded as the national priority sector. Tourism also contributes to GDP, foreign exchange, and employment in Indonesia. Approximately 9.8 million employments or 8.4% of total national employ work ranks fourth out of the other easiest and cheapest industrial sectors (BPS, 2020). For this reason, tourism is the most appealing and promising sector to be the core business. Furthermore, the domino effect of tourism is also tremendous and significant in the economy, especially in the culinary and hospitality industries.

In 2019, tourism and other business sectors faced dramatic changes caused by the Covid-19 outbreak. The growth of the culinary and hospitality sectors both in Indonesia and in the Province of Riau, in particular, has stagnated. The contribution data of GRDP of Riau Province for culinary and hospitality SMEs starting from the third quarter of 2019 to the second period of 2020 declined by 16% and only 8% increase in the third quarter of 2020. The data show three business sectors most affected by the Covid-19 pandemic: culinary/food with 43.09%, service with

26.02%, and convection business with 13.01% (BPS, 2020). The most prominent causes of this decline are the temporary yet mandatory closure of business, stuttered operations, increased operating costs, and low purchasing power.

This study aims to identify the solutions to the performance problems of SMEs from the culinary and hospitality sectors in Pekanbaru using many companies' internal environment factors, such as innovation capability, social capital, and entrepreneurial leadership. The theoretical approaches adopted in this study were the Resource Advantage Theory (RAT) of Competition by Hunt and Morgan (1997), and Dynamic Capability (DC) by Teece et al. (2009). According to the RAT theory, a company's resources will influence its market position in the form of competitive advantage, competitive average, and competitive disadvantage. A company's financial performance will affect its market position, determining whether it performs better than, on average, or worse than other firms in the same arena. While DC refers to a concept in which companies must create dynamic and flexible conditions in facing the opportunities and risks of competition. Combining these two theories is an important answer to the performance of SMEs because they are known to be the fastest to adapt and move amidst environmental changes.

SMEs social capital is a feature of social network life, norms, and values that allows SMEs members to work together more successfully to achieve common goals. Sugiyanto and Marka (2017); Oliveira (2013); Ozigi (2018) studied the effect of social capital measured from three aspects, namely cognitive, relational and structural, and their effects on SMEs' financial and non-financial performance. There is a similarity between the three aspects where all of them positively affect SMEs' performance financially or non-financially. On the contrary, Hartono and Soegianto (2013) indicated different results regarding social capital. In their study, capital aspects were measured using indicators of financial support, networking, and morale, and it had no significant effect on SME performance. The study by Meflinda et al. (2018) noted that social capital measured using indicators of trust, caring, willingness to live up to the norm also had no significant effect on company performance.

Leadership qualities, management, networking skills, technical abilities, and entrepreneurial education levels are crucial for SMEs to achieve maximum performance (Meflinda et al., 2018; Lateh et al., 2018; Putri, 2018). For this reason, in managing their business, one should possess good managerial skills and proper entrepreneurial orientation. Leadership as a kind of entrepreneurial activity is critical because it aids in recognizing values and other aspects of organizational sustainability, such as fostering innovation and adapting to changing surroundings (Renko et al., 2015). Studies on entrepreneurial leadership using indicators of vision, innovation, proactive, and risk-taking by researchers such as Shamsu et al. (2018); Zainol et al. (2018); Sandybayev (2019); Mgeni (2015) showed that entrepreneurial leadership significantly affect SMEs' performance. However, the results contradict the results from Jagdale and Bhola (2014), which showed that entrepreneurial leadership had no significant effect on SME performance.

For that purpose, to address research gaps related to social capital and entrepreneurial leadership on SMEs' performance, this study applied innovation capability as mediating variable. Innovation strategy is needed in a dynamic environment. SMEs need the capacity to create something new to achieve a

competitive advantage. It is known as innovation capability. SMEs must learn new knowledge to develop new products to attract new markets and customers because innovation is the fuel that keeps an organization running. Research related to innovation capability on performance has been conducted among others by Saunila et al. (2014); Wang and Wang (2012); Aini et al. (2013) in Turkey, Malaysia, Spain, Finland, and Indonesia, which show that innovation capability has a positive effect on the performance of SMEs, especially for the company's financial performance.

METHODS

Population
Population in a study refers to a group of individuals or objects that exhibit common characteristics. The population in this study were Small Medium Enterprises (SMEs) in the Culinary and Hospitality Sector in Pekanbaru, Riau of Indonesia totaling 599 SMEs, where 501 of those were culinary, and 98 were hospitality SMEs (Information Center for Indonesian Investment Data and Riau SMEs, 2020).

Samples and Sampling Techniques
Hair et al. (2012) suggested that the proper sample size for SEM analysis tools is between 100-200 with the intention that it can be used in estimating interpretations by SEM. This study followed that and used 200 respondents as the samples. The complete questionnaires were obtained from 167 culinary SMEs (83.5%) and 33 hospitality SMEs (16.5%), with 200 SMEs. Based on the number of samples that have been calculated proportionally, the sampling of this study was carried out using a simple random sampling approach. Considering that the unit of analysis in this research was SMEs, the respondents were the owner of the SMEs, and one owner would represent one SMEs.

Research Instrument
The survey was provided two ways: one was given to groups in person and sent by mail. The questionnaire employed a 5-point Likert scale for measuring. SMEs performance factors were employed as measuring indicators in this study, including 1) quality and quantity, 2) time, 3) finance, 4) customer satisfaction, and 5) human resources (Hudson et al., 2010). The ability of SMEs to innovate was assessed using several indicators, including 1) learning capability (Romijin & Albaladejo, 2000), 2) innovation source (Filippetti & Archibugi, 2011), 3) technological endeavors (Romijin & Albaladejo, 2000), 4) innovation culture oriented toward continuous improvement (Rajapathirana & Hui, 2017), 5) external parties' involvement (Romijin & Albaladejo, 2000), and 6) support from other institutions (Romijin & Albaladejo, 2000In this study, social capital was assessed using three variables devised by Nahapiet and Samanta (1998); Claridge (2004): 1) relational capital, 2) cognitive capital, and 3) structural capital. In this study, proactivity (Zyl & Mathur-Helm, 2007; Greef, 2014), propensity to take risks (Mokhber et al., 2016; Zyl & Mathur, 2007), innovativeness (Zyl & Mathur-Helm, 2007), building commitment (Gupta et al., 2004), and ethics were adopted as indicators of entrepreneurial leadership behavior (Surie & Ashley, 2008).

Conceptual Framework and Hypothesis
Based on this background, this study proposes the following conceptual framework and hypothesis (see Figure 1).
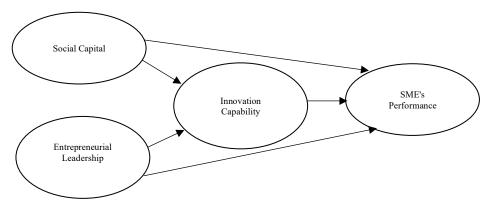

Figure 1. Conceptual Framework

Based on previous studies mentioned previously, the research hypothesis is formulated as follows.
H1. Social capital has a significant effect on the SMEs performance.
H2. Entrepreneurial leadership has a significant effect on the SMEs performance.
H3. The significant effect of social capital on SMEs performance mediated by innovation capability.
H4. The significant effect of entrepreneurial leadership on SMEs performance mediated by innovation capability.

Research Model Testing with SEM AMOS
Confirmatory Factor Analysis (CFA)
The approach to measuring the model was composite reliability and variance extracted for each construct. Reliability refers to a measure of the internal consistency indicator of a construct. High-reliability results ensured that the individual indicators were all consistent with their measurements. The generally accepted reliability level is > 0.70, while the reliability < 0.70 is accepted for exploratory research (Ghozali, 2017). Variance extracted as a measure of validity. The recommended variance extracted is > 0.50 (Ghozali, 2017).

Testing Goodness of Fit
SEM model testing was a comprehensive model evaluation that included an integrated structural and measurement model that included the complete model. When a model is backed conceptually or theoretically by facts, it is concluded to be fit.

Data Processing and Hypothesis Testing
The next step was processing data using SPSS 21 and AMOS 21. The results obtained could be directly treated to hypothesis testing. Hypothesis testing was done by looking at the results of the Critical Ratio (CR) value greater than 1.96, and p-value in AMOS. If the p-value was ≤ 0.05 (alpha 5%), it was concluded that Ho was rejected and vice versa. Next, the Sobel test was used to test the strength of the indirect effect

of exogenous variables on endogenous variables through intervening variables. The indirect effect test in this study used an online Sobel calculator.

RESULTS & DISCUSSIONS

Respondent Profile

The demographic data of SMEs in the culinary and hospitality sector in Pekanbaru are presented in the Table 1.

Table 1. Demography of the Respondent

Category		SMEs Sector (unit)		Total	(%)
		Culinary	Hospitality		
Annual Revenue (IDR)	300 million – 2.5 billion	146	14	165	82.5
	>2.5 – 50 billion	21	19	35	17.5
Working experience	Less than 5 years	45	7	52	26.0
	5 years - 10 years	30	9	39	19.5
	More than 10 years	92	17	109	54.5
Gender	Male	78	24	102	51.0
	Female	89	9	98	49.0
Age	Less than 35 years old	76	9	85	42.5
	35 - 50 years old	72	16	88	44.0
	more than 50 years old	19	8	27	13.5
Education	Diploma/Bachelor	94	18	112	56.0
	Master/PhD	15	8	23	11.5
	High School	57	16	63	31.5
	Middle School	1	1	2	1.0
	Total	167	33	200	100

Table 1 illustrates the number of companies with revenues between IDR 300,000,000 to IDR 2,500,000,000 per annual or in the small business category was 165 business units (82.5%). The culinary business was dominated by small enterprises with 146 business units from each business sector, while medium-sized enterprises in this sector were only 21 business units. 109 enterprises from both sectors have run their business for more than ten years. The majority of SMEs were managed by male respondents, with 102 enterprises (51%). For the hospitality sector, 24 of the respondents were male, and only nine of the respondents were female. For both sectors, the dominant age of the respondents was between 35 to 50 years, totaling 88 respondents. For the education level, most SMEs owners have diploma/bachelor degree education, totaling 112 respondents (56%), and 31.5% of owners were graduates from high school/vocational school education.

Confirmatory Factor Analysis (CFA)

Confirmatory Factor Analysis (CFA) was performed to test the validity and reliability of the latent constructs. The Loading Factor value of all statement items in this study was greater than 0.5, which meant that the research constructs were valid. Furthermore, for construct reliability, the required extracted variance value must be equal to or greater than 0.5. Meanwhile, the required construct reliability

value must be equal to or greater than 0.70. From Table 2, it is known that all research variables have a variance extracted value greater than 0.5 and a construct reliability value higher than 0.7. Thus, it can be concluded that the construct reliability has met the requirements.

Goodness of Fit (GoF)
The model can be said to be good (fit) if empirical data conceptually and theoretically supported the model. The goodness of fit test for the overall model is provided in Table 2.

Table 2. Test Goodness of Fit Indices

No	Goodness of Fit Index	Cut off Value	Result	Conclusion
1	Chi-Square		414.398	
2	Significant Probability	≥ 0.05	0.471	Good Fit
3	G F I	≥ 0.90	0.888	Marginal
4	A G F I	≥ 0.90	0.841	Marginal
5	T L I	≥ 0.90	0.938	Good Fit
6	C F I	≥ 0.90	0.952	Good Fit
7	N F I	≥ 0.90	0.931	Good Fit
8	I F I	≥ 0.90	0.952	Good Fit
9	RMSEA	0.05 - 0.08	0.077	Good Fit

Table 2 informs the results of the GoF Indices test. Significant probability, TLI, CFI, NFI, IFI, and RSMEA obtained model-fit results, while GFI and AGFI obtained marginal fit results, though in this case, marginal fit results were acceptable.

Hypothesis Testing
The t-value was used to test hypotheses with a significance threshold of 0.05. The critical ratio (c.r.) value on regression weights was the t-value in the AMOS 21 software. H0 was rejected when the critical ratio was larger than 1.96, or the probability (P) was less than 0.05, indicating that the hypothesis was accepted. Table 3 summarizes the study's hypothesis findings.

Table 3. Hypothesis Testing

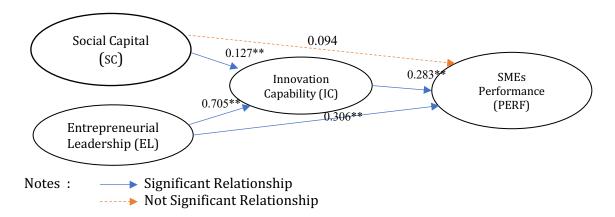|	Hypothesis	C.R.	P	Conclusion
H1	Social Capital > SMEs performance	1.685	0.092	Rejected
H2	Entrepreneurial leadership > SMEs performance	3.129	0.002	Accepted
H3	Social Capital > Innovation Capability > SMEs performance	2.317	0.047	Accepted (Fully Mediation)
H4	Entrepreneurial leadership > Innovation Capability > SMEs performance	3.423	0.005	Accepted (Partial Mediation)

Figure 2. Hypothesis Testing Model

Social Capital and SMEs Performance

The findings of the tests on social capital and SMEs' performance demonstrate that social capital factors have no meaningful impact on SMEs' performance. This means that social capital does not guarantee an immediate boost to their bottom line. The results show that the indicators of relational social capital obtain the lowest response value among other indicators of social capital. The relational social capital shows how SMEs are involved in association activities related to business and how active and committed SMEs in Pekanbaru are in the association. Considering the respondent responses, this may cause the insignificant effect of social capital on SMEs' business performance in both sectors. The low responses may be caused by the lack of involvement of these SMEs in formal SMEs associations such as government associations. Some SMEs in the culinary and hospitality sector in Pekanbaru rarely participate in coaching activities carried out by the Government. In addition, complicated administration processes such as permits and taxes discourage SME actors from directly participating in office activities.

Furthermore, relational capital modal can also be sourced from other networks that hand support and guidance to SMEs, such as financial institutions. Usually, SMEs develop good relationships with financial institutions to gain easier access to capital. However, most SMEs in the culinary and hospitality sector in Pekanbaru in this study, based on the open questions given, rarely borrow from banks or other financial institutions. This happens because SMEs are considered as businesses that require relatively affordable amounts of capital, and in case the capital loan is needed, SMEs are more likely to rely on capital or investment from their family or relatives than on banks or other financial institutions, mainly due to, unsurprisingly, requirements and administrative matters which are sometimes complicated. This is in line with the data of Kemenparekraf in 2018, showing that 94.43% of SMEs, especially those in the culinary sector, rely on personal capital for funding.

The results are in line with the studies by Ansari et al. (2012); Hartono and Soegianto (2013), finding that social capital as measured by cognitive, relational, and structural aspects does not have a significant effect on the performance of SMEs, both financial and non-financial. The results are contradictory with the study by Sugiyanto and Marka (2017); Oliveira (2013); Vosta and Jalilvand (2014), where

social capital has a significant effect on the performance of SMEs from both financial and non-financial aspects.

Social Capital, Innovation Capability and SMEs Performance
This study notes that there was no direct relationship between social capital and SME performance, however, indirect effect test results using the Sobel test showed a relationship between social capital and SME performance fully mediated by innovation capability. This implies that good social capital can increase the company's innovation capabilities, leading to improvement in SMEs performance. Innovation capabilities act as a full mediator of the relationship between social capital and the performance of SMEs in the culinary and hospitality sector in Pekanbaru.

The findings contribute to creating the resource-based view theory and the resource advantage theory, which explain how organizations might use organizational resources to establish competitive rivalry. Compared to other productive economic elements, social capital possessed by corporate employees is a strategic non-depreciable resource. Social capital is often dynamic, which encourages SMEs to innovate and, as a result, has a beneficial impact on the financial and non-financial performance of SMEs in the culinary and hospitality sectors in Pekanbaru.

The application of social capital by SMEs in the culinary and hospitality sector in Pekanbaru can be seen from the openness of these SMEs in exploring with outside parties or third parties. Through this collaboration, SMEs that were previously unable to create their technological innovations currently do not need to bother to obtain marketing technology that is already sophisticated and available, for example, GrabFood, GoFood, Traveloka, and others. Based on the data of the Statistics Indonesia (BPS, 2020), the culinary sector is one of the recent businesses that utilized the internet and technology during the pandemic, with 7.10%, after other three sectors, namely education (9.40%), processing industry (7.90%) and trade and trade repair (7.30%).

Furthermore, SMEs must also maintain good relationships with customers where customers are directly involved in formulating company ideas. Moreover, SME activities in the culinary and hospitality sector are dominated by service delivery activities that engage the customers closely. Professionally handling customer problems, responsive responsiveness in meeting customer needs, and creating good service quality are certainly the best sources of innovation for SMEs in this sector to thrive (Horng et al., 2012). The exploration activities carried out by SMEs implement the Dynamic Capability (DC) theory.

The mediating role of innovation capability in influencing capital social effect on SMEs performance has never been seen before. However, several studies have found a mediating role of innovation capability on some variables affecting SMEs performance. For example, Tjahjadi et al. (2019), where innovation capability is the mediator between seniority-based management and SMEs performance in start-up companies in Indonesia.

Entrepreneurial Leadership, Innovation Capability and SMEs Performance
The results of the experiment on the impact of entrepreneurial leadership on SMEs performance through the mediation of innovation capabilities demonstrate a relation between entrepreneurial leadership and SMEs performance that is partially mediated by innovation capabilities. This suggests that robust entrepreneurial leadership may increase a company's innovative potential, increasing SMEs' performance. In Pekanbaru, the role of young leaders or entrepreneurs in the management of SMEs in the culinary and hospitality sector has one important characteristic that all business people in this sector must possess: the ability to innovate by leveraging technological advancements, which are critical in today's digital era. Strong mainstream skills in quality, efficiency, speed, and flexibility are now supporting innovation capabilities that result in enhanced performance of SMEs (Lawson & Samson 2001). Innovations enable businesses to take the lead in increasing performance and securing the future of SMEs.

Entrepreneurial leadership helps SMEs in Pekanbaru to maintain performance financially and non-financially. This is evident from the responses obtained for the performance variable from a financial perspective, where changes in the business environment due to COVID-19 did not cause a significant decrease in financial aspects, only leading to a stagnant performance in the past year. This is also in line with the GRDP data in the third quarter of 2020, where the GDP of the culinary and hospitality sector in Riau, which in the second quarter of 2020 had decreased by 16%, gradually recovers as much as 8% (BPS, 2020). One of the factors causing the gradual recovery in business conditions in the culinary and hospitality sector in Pekanbaru is, without doubt, the important role of entrepreneurial leadership.

The innovations that many SMEs have carried out in the culinary and hospitality sector in Pekanbaru are a form of business diversification to survive amid the pandemic. The data showed that the culinary and hospitality business sector (accommodation and food and drink) are the three sectors that diversified the most amid the pandemic with a percentage of 19.88%, along with other sectors, namely processing industry (21.97%) and trade and vehicle repair (16.71%). Another reinforcing study is Chamsuk et al. (2017), finding that innovations (explorative & exploitative) mediate the relationship between entrepreneurial leadership and performance of emerging Chinese companies.

CONCLUSIONS

This study notes that social capital has no significant direct effect on the business performance of culinary and hospitality SMEs in Pekanbaru. However, it is found that innovation capabilities may mediate the relationship between social capital and business performance. The role of innovation capability in the relationship between social capital and business performance shows that social capital is an important capital for SMEs in the culinary and hospitality sector in Pekanbaru, where this capital plays a role as a determinant of a company's innovation ability. The leadership of entrepreneurs in the culinary and hospitality sector in Pekanbaru has an important role through capabilities in improving SMEs' financial and non-financial performance. Through proactive attitudes, risk-taking, innovation, and

ethics, entrepreneurial leadership can be an important factor driving innovation in SMEs organizations.

This study has addressed the problem of SMEs' business performance in the culinary and hospitality in Pekanbaru, where the impact of the Covid-19 pandemic is thoroughly felt in both SMEs sectors, especially with the free-falling number of tourists and business visits to Pekanbaru. However, this study also found that strong social capital and entrepreneurial leadership facilitate the creation of innovative operational or marketing strategies to survive amidst the pandemic. The various strategies that have been pursued by the culinary and hospitality sector SMEs in Pekanbaru have made these two sectors able to survive in the midst of a pandemic, at least to anticipate non-financial performance so as not to decline. This study seeks to reveal how the application of resource theory in competitive advantage, namely Resource Advantage Theory (RAT) and Dynamic Capability. However, the study results have not found the relationship between SMEs' performance and business sustainability because competitive advantage aims to grow and maintain their competition constantly. Therefore, further research can further examine and explain the relationship between the strategy of improving the performance of SMEs and business sustainability.

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