

# Effect of Social Capital on Organizational Performance of SMEs in Klang Valley, Malaysia

Shahrina Othman\*  
Kasmaruddin Che Hussin  
Nor Kalsum Mohd Isa

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**Shahrina Othman\***

*School of Business Management, College of Business, Universiti Utara Malaysia, Malaysia*

**Kasmaruddin Che Hussin**

*Faculty of Entrepreneurship and Business, Universiti Malaysia Kelantan, Malaysia*

**Nor Kalsum Mohd Isa**

*Department of Geography and Environment, Universiti Pendidikan Sultan Idris, Malaysia*

**Corresponding Author:** [shahrina.othman@uum.edu.my](mailto:shahrina.othman@uum.edu.my)

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## Abstract

This study examined the direct relationships between social capital (SC) and organisational performance (OP). Studies have shown SC is a factor that contribute to this gap. The effect of IR4.0 and other megatrends make it even more challenging for these SMEs to prosper. Hence, SMEs require to make use of their full potential which includes adopting the best practices implemented in most develop countries, which is to increase the SC. This implementation validates new business models, the creation of new industries and redirecting of resources. The increasing rates of SC in the country can result in positive well-being functions, sustainability, and economic growth. Self-administered questionnaires were used to collect data from 500 SME manufacturing firms located in Klang Valley, in April and May 2018, and the gathered data was analysed by using SPSS 23.0. Statistically, the results confirmed that SC is positively related to SME performance. Civic Engagement and personal relationship contribute the most on OP. The outcome of this study provides new knowledge and important insights for government agencies to improve the policy to boost the performance of SMEs. Finally, in order to evaluate OP, it is more relevant to explore SEA, which needs encouragement to convert an organisation into a social organisation.

**Keywords:** Social Capital; Organisational Performance; Small and Medium Enterprise.

## Introduction

The Malaysian Small and Medium Enterprises (SMEs) have been the main contributor to the country GDP since 1990s and has been the key driver of employment and growth [1]. 98.5% of business establishments in Malaysia are SMEs[2]. For Malaysia to become a high-income economy by the year 2020, the country must realise its vision to have globally competitive SMEs

across all sectors, which contribute to social well-being while enhancing wealth creation [1]. The implementation of the SME Master Plan (2012-2020) seeks to increase SME contribution to the economy and advances SME development. Performance is measured through SME's contribution in gross domestic products (GDP), growth[2], employment, and exports.

However, up until this point, the country has yet to achieve targets set in the SME Master plan (2012-2020). The projection stated that SMEs are in charge of 41% of the Malaysia's GDP, 8% of growth, 65% of employment, and 23% of Malaysia's export for the 2020 target. Malaysian SMEs performance currently (2017) accounted only at 37.1% of GDP (2016: 36.3%), 17.3% of exports (2016: 18.6%), 66% employment share (2016: 65.3%) and had a respectable growth of 7.2% (2016: 5.2%) [3].

SMEs in Malaysia may carry out social capital measurement to further understand employees' relational stability like a study conducted in Australia, where the scholars discovered that the SME owner-managers viewed social activities as an opportunity to increase social capital to overcome the company's survival challenge and compensate for the company's limited resource capabilities [4]. A recent related study conducted in Pakistan, indicated that social capital is one of the sub-components of intellectual capital besides spiritual capital, technological capital, and others like human, structural and customer capital. The same study demonstrated the overall regression model of intellectual capital, which showed the goodness of fit except for one component, human capital.

Even though the social capital component has an effect on SMEs performance in Pakistan, it was measured by using three dimensions namely; culture, exchange, and relationships [5]. In our local context, one pilot study has been conducted at the northern part of Malaysia. The researchers measured the community's social capital in the country through a set measurement that was shaped with six dimensions [5]. In another study in Malaysia, only three indicators were used [6]. These practices demonstrated the varieties on the measurement, which produce different results for its combination of dimensions, sub-dimensions, and indicators. Therefore, since social capital is very dynamic [7] and there's a huge gap in measuring social capital as one-dimensional and is found to have only been tested by Bjornskov and Sonderskov [8], this research explored this concept from the combination of its sources, cognitive and structural among SMEs in Malaysia.

SMEs are the main contributor to Malaysia's economy [9] and have become the backbone to the success of Malaysia's 2020 vision. Malaysian SMEs have to explore what is happening in the developed countries. The new economic game is about "think global and trade social" in achieving objectives, for more equitable and sustainable development. Since Malaysian SMEs have the potential as they are the key economic driver of the country [80], Malaysia has to consider implementing the same concept. Scholars have suggested that social capital and study that is considered as new fields, especially in Malaysia, were in need of a more discussion, literature, and empirical studies [10]; ; [11]; [6]. In Malaysia, social economy is increasingly being recognised as a significant contributor to the national economy, however, it is still at an infancy stage, compared to other countries [12];[13]; [14]. Since Malaysian SMEs is flexible and it's

performance is critical for the country, researchers believe that it is vital to further the analysis of this new business activity among Malaysian SMEs.

The results produced new insight. The SMEs might need to pay attention to these concepts and use these concepts to their company's advantage. Empirical work is needed to overcome the shortcoming in studies on social entrepreneurship activity within organisations that mediate the relationship between social capital and organisational performance. It has been less than encouraging and is yet to be discovered, particularly in Malaysia [15]. Overall, this study attempted to fill a gap by examining the relationships between social capital and organisational performance, among the SMEs in Malaysia.

This study includes the SMEs in Malaysia. Recent data stated there are a total of 907,065 registered Malaysian SMEs [16] and they are the chosen population. The manufacturing sector represented the SMEs based on the results of previous studies, recommended SMEs to pay attention to not only to adequate resources invested in R&D, but also to innovation capabilities and potential networking opportunities [17]. As networking provides informational benefits stemming to the achievement of competitive advantage and greater firm performance [18]. Recognizing innovation as the focal driver for advanced economic growth, Malaysia has been aiming to boost the nation's innovation as part of the nation's transformation strategy [19]. The targeted companies in this study to be from W.P. Kuala Lumpur and Selangor areas (Klang Valley) and the total registered companies were 16,456 [20]. The preferred area has an advantage because Selangor and W.P. Kuala Lumpur accounts for more than one-third of the total SMEs. In addition, due to communication facilities, time, and location, it does help to expedite the research process. The respondents for this study to be the business owners or senior managers from each company [21]. It aims on examining social capital and social entrepreneurship activities effect towards the company's performance of small and medium enterprises in Malaysia [22].

### **Literature Review**

#### *Malaysian Small and Medium-Sized Enterprises (SMEs)*

SME Corporation Malaysia (SME Corp.) is the essential issue of reference for research and information spread, consultancy services, data and general approaches and systems for Small and Medium Enterprises (SMEs) in Malaysia. This setup arranges the usage of SME improvement programs, over every single related Ministry and Agency, except those under the Secretariat to the National SME Development Council (NSDC), which is led by the Prime Minister of Malaysia. As such, SME Corp is the Central Coordinating Agency, answerable to the Ministry of International Trade and Industry Malaysia. SME Corp, which was established on 2 May 1996 and was earlier referred to then as Small and Medium Industries Development Corporation (SMIDEC). SMIDEC was formally changed into SME Corporation Malaysia, now referred to as SME Corp., on 2 October 2009. Additionally, in 2007, the NSDC appointed SME Corp, as the single dedicated agency and SME Corp, assumed control over the role of the Secretariat of the Council of Bank Negara Malaysia to arrange the strategy creation and SME advancement projects to guarantee extensive and powerful execution over all divisions [23]. It is the main supervisory body and administrator for 15 ministries and 60 agencies involved with Malaysian SMEs for various SME Grant Schemes and is also the disseminator of information for SMEs. The SMEs expansion drivers have grown towards more result-based methodology [23].

The SMEs are categorised into five sectors, namely (1) services; (2) manufacturing; (3) construction; (4) agriculture and (5) mining and quarrying. More than 93% of SMEs were from the

services and manufacturing sector. The Government implemented an SME Master plan (2012-2020), seeks to increase SME contributions to the economy and advance SME development. Here, the plan states focus areas, which are gross domestic products (GDP), growth, employment, and exports. These key indicators will keep SMEs delivering and performing to the expectations of the government. On the other hand, various government financial support is prepared for SMEs to take advantage of, especially to equip SMEs with the characteristics of being innovative, creative, and flexible.

### *Organisational Performance (OP)*

Performance is important to make decisions to achieve sustainable business performance [24]. Three main drivers for organisational performance are human reliability, sustainability, and productivity. People's behaviour influences two of them, namely sustainability and reliability [24]. Recognising this situation, business owners can adjust the owners' approach to help others to improve the owners' behaviour. Improvement initiatives are necessary, however, require correct sequences, so that business owners are able to maximise impact and minimise excessive demands on scarce resources. Organisational performance also refers to the level of achievement of the firm [25]. Organisational performance is the ability of an organisation to survive and succeed under the influence of various factors, some of which can and others cannot be controlled [26]. Consistency and a sense of pride are largely outside human control [27]. There are six dimensions of performance that encourage a holistic approach when developing performance measures to support organisational strategy [28], as shown in Table 1.

**Table 1.** Six Dimensions of Performance

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1. Quality • Delivery reliability • Waste	• Product performance	4. Customer satisfaction	• Employee relationship • Employee involvement • Workforce • Employee skills • Learning
2. Time • Delivery reliability • Process throughout time • Innovation	• Lead time • Dependability		• Labour efficiency • Quality of work life • Resource utilisation • Productivity
3. Finance • Market share • Overhead • Cost reduction • Inventory performance • Cost control • Sales • Profitability • Efficiency • Product cost reduction	• Cashflow	6. Human resource • Process time • Productivity • Cycle time • Delivery speed • Labour efficiency • Resource utilisation	
5. Flexibility effectiveness •	• Manufacturing	• Market share • Service • Image	
Resource utilisation • Volume flexibility • New product introduction • Computer systems • Future growth • Product innovation		• In tegration with customers	
<i>Source: Adapted from. [28]</i>		• Competitive ness • Innovation • Delivery reliability	

The performance of SMEs also depends on entrepreneurial network. It has significantly influenced the organisation performance in the services sector of the SMEs in Malaysia, specifically among the Chinese owner-managers [29]. Other factors associated with SMEs performance include government business support services [30]. Government business intervention is broadly divided into two categories, namely non-financial and financial support services. SMEs need government intervention [31]. Amaratunga and Baldry [32] and Kaplan and Norton [33] advocated the idea of using multi-dimensional measures of performance. The assessment of performance is divided into two dimensions. The first dimension is through the non-monetary method, and the second dimension is through profit efficiency using the stochastic and latest efficiency model [33].

From one perspective with the non-monetary related strategy, business people unmistakably accomplish the greater part of the targets that have been recognised before or amid the procedure of the organisation's foundation. The monetary related execution estimation can be one of the greatest tests conducted by organisations in all segments, particularly as related to an organisation's survival. The organisation's budgetary supervisor or administration should be allaround prepared in the best way to deal with organisation's money related advanced productivity and viability, and have the capacity to imagine quantifiable executions [34].

Moreover, scholars suggest that financial performance takes a gander at company's monetary proportions (derived from a company's financial statements). While, non-monetary execution estimation is more subjective and may take a gander at client benefit, alleged change in income and market share, representative fulfilment, and contract expansion [35]. High performance can be achieved over the lifetime of the business when reliability, productivity and sustainability are managed effectively [36]. Besides these three drivers, (namely; quality, process safety, asset integrity) profitability also has strengthened.

### ***Social Capital (SC)***

The social ties can be efficacious in providing information, solidarity and information as this concept has emerge into social science fields [37]. Social capital is an important resource that may foster new employees' workplace well-being and promote retention [38]. Social capital, explains in a logical, manner the behaviour of people in the society [39]. Scholars illustrated factors of social capital including; sense of belonging to networks, sharing of resources and information, mechanism in networks, communication, increasing performance and empowerment. The capacity to get to assets through social connections embedded within the relationships between actors is commonly referred to as social capital [40]. Nahapiet and Ghoshal [41] described social capital as the "sum of actual and potential resources embedded within, available through, and derived from the network of relationships possessed by individuals or social units." In that capacity, social capital is pertinent to numerous phenomena of interest to entrepreneurship researchers, and has been utilised to look at different entrepreneurship related ideas, factors, and constructs, including growth and performance [36]. From previous research, social capital is found



to be related to small firm performance, significantly and positively [42]. The same research stated an important practical implication that for small firm performance requires distinct networking strategies at different points in time and in different industries and countries. Social capital has an important role in entrepreneurship activities, since entrepreneurship is a socioeconomic process, which relies upon social conditions and context in two ways. First, entrepreneurs are people, which are product of their own social environment, and secondly, entrepreneurship is a social activity and thus presence or absence of social connections and communications affect business nature [43, 44]. Additionally, people in social groups, which have more social capital, are effective in profitability status of networks. According to scholars [44, 45]. "when people belong to a community which has high social capital, they have more tendency to work with each other and they become more risk taking and this rich social capital causes development of innovative activities among people". The concepts of innovation and social capital have been become prominent because of their ability to help businesses remain market leaders and increase their profitability and growth. Social capital influences the efficiency of strategic businesses' objectives and initiatives, their innovativeness and transformation [46, 47]. Innovation development in the firm can be enhanced by the social relationship between organisations and employees. The study conducted by Carrasco-Hernandez and Jimenez-Jimenez [48] suggested that family businesses with managers who have objectives of pursuing innovation of firms, and these positive effects are stronger when the innovations are radical.

Social capital is separated by two sorts of social capital. There is holding (bonding) and restricting sorts (binding) of social capital. In bonding, which is principal grounded on Coleman [49], social capital refers to the cohesion within a small group. Here, the value of social capital towards business enterprises is derived from strong, repeated social connections based on trust. Hence, social capital's capacities as a mediator between the networks of connections, which then prompts more solid execution results such as; benefit. In contrast, binding is built on [50, 51], suggestion that the external connections of a focal actor led to non-redundant resources (social capital) and, finally, to positive results. The social capital that comes with positive externalities is usually applied at the national level.

Social capital is said to have great potential when it can be adopted to identify the existing resources in the social network, and further improves life quality and ensures that the development process can continue. With this realisation, various parties who have come to admit social capital's potential and significance, developed several methods of measurements and instruments. There was the Social Capital Assessment Tool (SOCAT) produced by the World Bank [52, 53] The Siena Group Social Capital Indicators [54]. Australian Social Capital Framework and Indicators [55] and General Household Survey 2005. The Measurement of National Wellbeing implemented by the UK government, introduced in 2015 and later updated in 2017, is the latest version of social capital measurement. The concept is to measure social capital needs dimensions and illustrative factors to explain the existence of social capital [56]. The dimensions explain the different factors, which have an influence on the outcome. The outcomes of social capital, for example, access to resources, information, social cohesion, and support of the decision, can be used to measure social capital and are related to the social life of individuals

[56]. Table 2 provides information on several dimensions of social capital used by different countries and scholars. **Table 2.** Dimensions of Social Capital from Previous Studies

Scholar (Year)	Dimensions of Social Capital	Number of Dimension
Office of National Statistics, UK (2017)	Personal relationships, social support networks, civic engagement, trust and cooperative norms or shared values.	4
[56]	Similarity, impact, demographic data, trust, involvement/engagement, activity, investment, benefits/ advantage.	8
[57]	Participation in community activities, proactivity in the social context, neighbourhood connections, multi-racial tolerance, a sense of trust and protection, life values.	6
[27]	Groups and networks, trust and solidarity, collective action and cooperation, information and communication, social cohesion and inclusion, empowerment, and political action.	6

The study chose to use the Measurement of National Wellbeing implemented by the UK government (2017) because the measurement offers and covers dimensions of personal relationships, social support networks, civic engagement, trust and cooperative norms or shared value that related very much to corporate entrepreneurship [44]. As social capital comprises constructs that are inherently abstract and require subjective interpretation in translation into operational measures. Thus, this study tests social capital as unidimensional. Furthermore, such operational measures are invariably indirect surrogates of their associated constructs.

[58] described social capital as the “sum of actual and potential resources embedded within, available through, and derived from the network of relationships possessed by individuals or social units.” In that capacity, social capital is pertinent to various wonders important to enterprise researchers, and is utilised to look at different business enterprise related ideas, factors, and constructs, including growth and performance [59]. In Europe countries like Ireland, Wales and Denmark, social capital building is related to organisational performance [60]. Besides, the previous scholars in various perspectives [[61-64] proved the nexus on social capital and performance link to be significant. Likewise, organisational performance assessed through non-financial method and profit efficiency.

The non-financial performance measurement is more subjective and may look at customer service, employee satisfaction, perceived growth in market share, perceived change in cash flow, and sales growth [35, 65]. High performance is achieved over the lifetime of the business when



reliability, productivity and sustainability are managed effectively[36]. Besides these three driver's qualities, process safety, asset integrity, and profitability also have to be strengthened. Additionally, social capital develops into the most imperative factor impacting the SME business performance taken after a social advancement innovation[66]. Social capital is seen being adapted in economic, political, and social perspectives. Furthermore, [67] investigated how social capital can prompt an entrepreneurial orientation in a firm.[67]found that higher levels of internal knowledge sharing identify related to stronger entrepreneurial orientation and results from a higher level of trust and goal congruence.

Social capital can be favourable to small and medium enterprise (SME) growth when the SME relates to strong communities who apply the impacts of social capital in regard of business activities. In European nations, particularly Denmark, Ireland, and Wales (UK), upgraded business, information and business accomplishment related to social capital building [60]. These government programs promote joint efforts among SMEs, particularly in enhancing improvement perimeters by expanding the social capital through networking. Therefore, this research surmised that SME performance is possibly influenced by social capital from its non- financial values, which give rise to the development of the following hypothesis:

H1: Social capital is significantly related to organisational performance.

H1a: Personal Relationship is significantly related to organisational performance. H1b:

Social Support Networks is significantly related to organisational performance. H1c: Civic Engagement is significantly related to organisational performance.

H1d: Trust and Cooperative Norms is significantly related to organisational performance.

#### *Underpinning Theory: Resource-Based Theory*

The RBV initiated is based on knowledge of the industrial organisation firm standpoint [68]. Many theorists of resourced-based theory advocate that the success of the firm be determined by both internal and external factors [69, 70]Jay Barner is the Father of Modern resource- based view hypothesis of the firm. His theory comprises of the body of thought in strategic management, which is most appropriate to the analysis of SMEs in the nation's creation. RBV is rooted in the work of [71]. He who contended that a firm is an accumulation of productive resources and this theory clarifies contrasts in firm performance. Subsequently, the theory emphasises strategic choice, charging the firm's managerial structure with the important task of identifying and developing key resources to maximise returns. According [72], a firm is a collection of productive resources of a wide range of strategic management topics and explains differences in firm's performance. This theory suggests that there can be heterogeneity of firm-level differences among firms that allow some of them to sustain competitive advantage [73]. In this study, RBV theory found a relationship between the organisation's internal characteristics and its performance. Moreover, RBV has the concept of maintaining an organisation's profitability. Besides, the theory suggested that every organisation has distinct resources and capabilities, that provide the core of the organisational strategy and is the main

foundation of the organisation's competitive advantage [74]. SMEs have their own unique product. SMEs requires capabilities to enable SMEs product with social capital and social entrepreneurship activities to explore product design and technologies for example. This helps SMEs to improve performance and stay competitive.

## **Methodology**

The motivation behind this study is to look at the relationships between social capital as the independent variable and organisational performance as the dependent variable. Hence, this structure would additionally clarify the population, sample size, and sampling technique in detail. The researcher chose a quantitative research approach because it is an excellent way of finalising results besides demonstrating or discrediting the hypothesis.

### *Population and Sampling*

The population is the registered SMEs in Malaysia, the SMEs categorised into five sectors, namely; (1) services (2) manufacturing (3) construction (4) agriculture and (5) mining and quarrying. Specifically, the population targeted in this study is the registered SMEs categorised under manufacturing sector, specifically from the Kuala Lumpur and Selangor area in Malaysia. From the 47,698 companies established in this sector, Selangor has the highest number followed by W.P. Kuala Lumpur. The distribution of Selangor area indicated 9,444 companies while W.P. Kuala Lumpur stated 7,012. This makes the population size for this study to be 16,456 manufacturing companies. According to Sekaran [75], if the total population is 20,000 and below, the sample size should be 377. The researcher applied the simple random sampling technique on the master list provided by SME Corp. Malaysia database.

Based on the 16,456 population, the researcher distributed the questionnaire to 500 SMEs in Klang Valley from the manufacturing sector selected from SME Corp's list. Respondents to the study were the owners of the company who make most of the key decisions [76]. This study chose to use the single respondent's approach, based on the fact that in the case of SMEs the view of a single respondent who is the key player of the organisation is reflective of those in the firm [77, 78] In addition, the approach is suitable because of the firm's size and the respondent's knowledge of the information required. In numerous past analyses inside entrepreneurial set ups, the proprietor or managers of SMEs were normally providing the reviews [79].

### *Questionnaire Development*

A questionnaire set used to assemble all the important information in this study, to decide the level of performance among SMEs that already had established social capital in their yearly

budget for the purpose of social entrepreneurship activities. It also examines the moderating effect of social entrepreneurship activity between social capital and SMEs performance. It was mailed to respondents based on the list provided by SME Corp. Attached, was the cover letter (including the researcher's contact information), how to deliver the completed questionnaire and the assurance of confidentiality. This study makes use of a 5-point Likert scale. It was used to measure the study variables with 1 = strongly disagree, 2 = disagree, 3 = neutral, 4 = agree, and finally, 5 = strongly agree. The five-point scale is chosen because it is more feasible and easier to observe and is also appropriate for this research. The final version of the survey questionnaire plans to cover three sections where the first section captured the demographic characteristics and the next sections described several questions related to the independent and dependent variables.

The research found one study carried out by local scholars in the Northern part of Malaysia. A pilot study explored the identification of social capital components. The outcome translated into an instrument comprising of six social capital components based on survey items and past studies. The components mentioned were participation in community activities, proactivity in the social context, neighbourhood connections, and multi-racial tolerance, a sense of trust and protection, and life values, consist of 23 items.

In this study, the researcher based the scale to be used on that developed by [80] to measure the overall organisational performance. Items included are; the elements of sales, revenue growth, profitability, market share, customer satisfaction, customer loyalty, returns on assets, and returns on sales, employment growth and labour productivity. [81] later added the item; problem solving. Overall, there 11 items measuring organizational performance.

### **Data Analysis Techniques**

The researcher had computed and record the data using the range with the same variables. Many other software produces impressive outputs; however, this study requires the use of SPSS. Importantly, SPSS is able to produce meaningful results and it is easy to use. In order for researchers to be able to draw appropriate conclusions from the research, he shall give adequate attention to the theoretical framework [30]

The study had employed a number of techniques for data analysis beginning with data screening and data cleaning in order to deal with missing values, remove influential outliers, and make the data normal. After which, the data were analysed, as explained in the ensuing sections.

## Results and Discussion

Overall, a total of 500 sets of questionnaires were distributed to the targeted participants. Out of 500 distributed questionnaires, 387 were returned making the response rate of 77.4 percent. 52 from 387 questionnaires were eliminated during data cleaning process and the remaining 335 sets of questionnaires were usable for further analysis.

Data cleaning and data examination in this study involved data screening and data testing, which aim to meet the multivariate assumptions [82]. Data screening or cleaning is essentially important before further analysis of the data collection is carried out [83]. Data was screened and cleaned to ensure the accuracy of the data collected. This was done by analysing the original data collected against the source data file. Following Tabachnick and Fidell [84], data cleaning in this study involved checking the accuracy of the data input, dealing with missing values, detecting, and treating the outliers. After screening the data, tests to meet four assumptions of multivariate analyses were conducted: normality, linearity, homoscedasticity, and multicollinearity [84]. Result of the analysis showed that the data has fulfilled all multivariate assumptions.

### *Background of the Respondents*

Table 3 provides the distribution of the participants. Out of 335 respondents, 53.7 percent of them were male, compared to 46.3 percent female. They were aged 31 to 40 years old (31.6%), 41 to 50 (36.4%) and 51 to 60 years old (31.9%). Majority of the respondents have completed their college/university (66.0%). Table 3 also indicated that most of the companies have been established for 11 to 15 years, with 101 to 200 employees. Next, more than half of the participants (60.6%) have been 11 to 15 years in their current companies.

**Table 3.** Background of the Participants

Frequency	Percentage	
<b>Gender</b>		
Female	180	53.7
Male	155	46.3
<b>Age</b>		
31 to 40	106	31.6
41 to 50	122	36.4
51 to 60	107	31.9
<b>Qualification</b>		
Masters	83	24.8
Bachelor Degrees	221	66.0
MCE/SPM/Diploma	31	9.3
<b>No. of Year of Establish</b>		

<5	9	2.7
5-10	83	24.8
11-15	212	63.3
16-20	31	9.3
<b>No. Of Employees</b>		
<5	23	6.9
6-20	86	25.7
21-50	81	24.2
51-100	58	17.3
101-200	87	26.0
<b>Experience</b>		
<5	61	18.2
5-10	71	21.2
11-15	203	60.6

### Reliability Analysis

An internal consistency confirmation of the scales was performed to ensure the reliability of the scales. This can be done by checking the Cronbach's alpha coefficient. The cut-off point for measuring the reliability for this study is coefficient alpha of above 0.65 as recommended by [85] and [86]. Table 4 exhibits the Cronbach coefficient alpha of all variables. In short, all the variables in this study have values more than 0.65, ranged from 0.722 to 0.976.

**Table 4.** Reliability Coefficients for Variables

Variable	N of Original Item	N of Deleted Item	N of Items	New Cronbach Alpha
Social Capital	23	-	23	0.905
Personal Relationship	5	-	5	0.823
Social Support Networks	4	-	4	0.722
Civic Engagement	7	-	7	0.864
Trust and Cooperative Norms	7	-	7	0.912
Organisational Performance	11	-	11	0.976

### Test of Hypothesis

Multiple regressions were utilised to test hypothesis developed. Multiple regression analysis using Enter Methods were applied with the confidence level of 95 percent ( $p < 0.05$ ) were adapted. Table 5 summarises the results of multiple regression analysis to examine the effect of all social capital dimensions on organizational performance. The results indicate that the IVs significantly explained 35.8 percent of the organizational performance ( $R^2 = 0.358$ ,  $F = 46.030$ ,  $p < 0.01$ ). Out of four factors, all of them showed the significant influenced on organizational

performance. They were personal relationship ( $B=0.147$ ,  $t=2.569$ ,  $p<0.05$ ), social support networks ( $B=0.105$ ,  $t=2.295$ ,  $p<0.05$ ), civic engagement ( $B=0.357$ ,  $t=5.769$ ,  $p<0.01$ ) and trust and cooperative norms ( $B=0.143$ ,  $t=2.513$ ,  $p<0.05$ ). These results have successfully supported H1 and sub hypotheses H1a to H1d.

**Table 5.** Effect of Social Capital on Organizational Performance

	B	t	Sig.
H1a: Personal Relationship	.147	2.569	.011
H1b: Social Support Networks	.105	2.295	.022
H1c: Civic Engagement	.357	5.769	.000
H1d: Trust and Cooperative Norms	.143	2.513	.012
R <sup>2</sup>	0.358		
F	46.030		
Sig.	0.000		

## Discussion and Conclusion

SMEs are considered as the main contributor to Malaysia's economy and have become the backbone to the success of Malaysia's 2020 target. Malaysian SMEs have to explore on what is happening in the developed countries. Now that the new economic game is about "think global and trade local" in achieving objectives of for more equitable and sustainable development. Since Malaysian SMEs have the potential as they are too the key economic driver of the country [16]. Malaysia has to consider implementing the same concept. While social entrepreneurship is still of an early stage nevertheless, it promotes the development of society and economic at the same time. Essentially, social entrepreneurship activity is viewed as a process related to growth, employment, and innovation where these activities lead towards the contribution to the country's GDP [87]. These may convince the SMEs to take advantage on the concepts besides overcoming the numerous barriers and challenges in fulfilling the SMEs Masterplan [23].

The objective was to examine the significant relationship between social capital and organisational performance. In order to achieve this objective; four sub hypotheses were tested. Based on the multiple regression results, the results indicated that social capital and all four dimensions (personal relationship, social support networks, civil engagement and trust and cooperative norms) had significantly influenced the organisational performance. This finding seems to support the findings from [88] and [62]

[67] revealed that social capital could be a favourable to small and medium enterprise (SME) growth when the SME relates to strong communities who apply the impacts of social capital in regard of business activities. Furthermore, [66] indicated



that social capital developed as the most imperative factor impact the SME business performance took after by social advancement innovation. Social capital explains in logic manner the behaviour of people in the society. Scholars illustrated factors of social capital inclusive of sense of belonging to networks, sharing of resources and information, mechanism in networks, communication, increasing performance and empowerment. The capacity to get to assets through social connections and embedded within the relationships between actors is commonly referred to as social capital. [58] described social capital as the “sum of actual and potential resources embedded within, available through, and derived from the network of relationships possessed by individuals or social units.” In that capacity, social capital is pertinent to numerous phenomena of interest to entrepreneurship researchers, and has been utilised to look at different entrepreneurship related ideas, factors, and constructs, including growth and performance.

From the theoretical perspective, the findings of this study provided some empirical support to the research framework. Through this study, the relationship between social capital and organisational performance was established. The findings of this study also strengthen and support the work by [5] [10, 41] which demonstrated the varieties on the measurement, which produce different results for its combination of dimensions, sub-dimensions, and indicators especially in social capital and organisational performance of SMEs. In addition, this study also contributed to the integration of all those factors in a single framework; contrary to the previous research where only some parts of the model were involved. Another contribution of this study was to examine organisational performance from SMEs perspective, which was different from the past studies that mostly involved the various industries. This study also provided an opportunity to the theoretical perspective to investigate RBV from a multidimensional context in the future. However, this research emphasised only on a single context, which was social capital, which means the researchers might not able to compare the same research model using different types of factors in other industrial contexts. Those studies, which use multidimensional contexts, might produce different findings as compared to this study, which used single industry. It is expected that the studies, which use multidimensional contexts, may enrich the understanding of multidimensional effect and literature on those variables.

The results of this study have important contributions and policy implications for the consideration for policy-makers and SMEs owners/managers. In the light of these implications, policy makers in general and SMEs owners/mangers in particular can take measures, which may prove crucially important for performance of SMEs of developing countries in general, and Pakistan in specific. For practitioners, the findings highlighted the importance of a social capital and social entrepreneurship activities as they could leads to performance. This study was one of the few studies that investigated the effect of social capital and social entrepreneurship activities on organisational performance.

This study empirically evidence that quality social capital has significant contribution to organisational performance in manufacturing industry. Result from this study also shown that all variable introduced in this study directly have positive relationship with organisational performance. These variables are based on previous literature reviewed and empirical findings from various authors. Variables use in this research are known as social capital and social entrepreneurship activities. As result, manufacturing SMEs in Malaysia should implement all these quality management practices in order to obtained higher achievement in their business. From a managerial perspective, this research offered a valuable insight; by revealing that managers should concentrate their efforts on the main contributors to performance, for instance civic engagement and personal relationship that highly influence the performance. Therefore, the industry must learn to convey the information and enhance these important factors in increasing their organisational performance. Besides, they should avoid giving unnecessary effort or using jargon that is not important to increase performance.

The manager also needs to consider the role of social entrepreneurship activity in increasing organisational performance. As [89] posit that social entrepreneurship activity for organisational performance is encouraged by certain formal foundations, in particular solid property rights and low government activism, though the last effects each of these sorts of business in an unexpected way. On the other hand, the management should provide a convenient and conducive atmosphere in order to attract the social capital to give their best efforts to the organisation. In general, this research has revealed that social capital has positive relationship with organisational performance. It further can improve the organisational performance when implementing social entrepreneurship in their business activities. The organisation characteristics elements also have significant influence towards organisational performance.

The main contribution of the research is in two folds. First, it gives the answers of various questions according to the need expressed in literature. The study has employed mediating factors in order to solve the inconsistencies that exist between the relationship between social capital and organisational performance. Secondly, the research is helpful in studying social entrepreneurship activity.

Although the role of social entrepreneurship activity as a mediator between social capital and organisational performance was highly significant, it was observed that the social entrepreneurship activity lends support to the organisation because of its relationship with social capital, and organisational performance. Thus, social entrepreneurship activity needs to be promoted to convert an organisation in to social organisation. Moreover, SMEs must interact with important external market players (suppliers, distributors, customers, universities, research

laboratories, governmental agencies) that can directly or indirectly influence business performance of SMEs.

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