THE CONTRIBUTION OF NON-FINANCIAL PERFORMANCE INDICATOR DIMENSION IN ASSESSING THE INFLUENCE OF SOCIAL CAPITAL ON BUSINESS PERFORMANCE IN SMES

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ABSTRACT

This study aims to examine contribution of Non-Financial Performance Indicator (NFPI) to business performance and their effects on social capital of small and medium enterprises (SMEs) in embroidery and weaving craftsmanship in West Sumatra, Indonesia. This research was conducted in eight regions in West Sumatera with a total sample of 235 SMEs. All SMEs owners served as the informants for this study and whose responses to a questionnaire were used the data further analysed using SEM (Structural Equation Modelling) by means of AMOS software. This study found out that NFPI has the greater contribution in building SMEs' business performance as compared to other dimensions. Social capital variables have played positive and significant roles upon the business performance. Nevertheless, this study was disadvantaged from the lack of samples and the use of only quantitative method of analysis. Further studies can expected to fill in the gap by applying qualitative method to a larger size of samples from a variety of respondents, not only from SME owners.

Keyword: Business Performance, Social Capital, NFPI, SEM.

INTRODUCTION

In the modern era, a company's business performance cannot be measured only from its financial capacity. The strong traditional view which considers financial report as the key for a company's performance fails to maintain the argument that financial reports serve as the only measurement for business performance. The newly-established non-financial performance measurements that improve business performance assessment should also be viewed fairly. Maintaining consumer loyalty and establishing relations with clients as well as building their trust are also parts of the measurements. Currently, non-financial performance measurements are applicable in manufacturing companies (Ahmad and Zabri, 2016) because controlling and distributing this type of company can be best done through the application of non-financial actions (Abdel-Maksoud et al., 2005).

As this study was situated in West Sumatra, a brief introduction of the region and the people is deemed necessary. West Sumatra is a western part of Indonesia which is very close to Malaysia and Singapore. This area is populated by Minangkabau ethnic group who have maintained a long tradition of wandering. Nevertheless, cultural order and communal way of life upholding local values and beliefs are preserved although the majority of community members live in other parts of the country or even of the world. The local communities are still capable of safeguarding the originality of some available local products (Primadona, 2016). The community

has proven their survival ability to go through the difficult time in the 1998 monetary crisis by adopting the concept of creative economy.

Creative economy in Indonesia is a new concept offered after the 1998 monetary crisis. Despite being introduced in early 2006, the new concept of creative economy has allowed the region to provide some spaces to develop local original products most of which can, in turn, build regional identity. Among them, small and medium enterprises (SMEs) in embroidery and weaving industries are the integral parts of the creative industries in West Sumatra. These SMEs have been administered through generations where 74% of the current companies are currently run by the second and the third generations (Primadona, 2017).

Furthermore, social capital is one important point maintained particularly by the Minangkabau ethnic group in their entrepreneurship (Primadona, 2016). Many enterprises which have been managed through many generations have been operational until now. This has been influenced by the social capital that Minangkabau ethnic group has established from a long time ago. Now, such social capital has played a significant role in determining the company's success (Kaasa, 2009). Since social capital aspects such as networks, norms, and trusts can support an entrepreneur's success, such social capital is necessarily evident in SMEs (Li et al., 2009). Networking and trust are instrumental in advancing a business, especially for start-up companies (Jonsson, 2014). Many studies have identified these non-financial dimensions in the context of both general and specialized businesses (Liao and Welsch, 2005; Klyver and Hindle, 2007; Baron and Markman, 2003; De Carolis and Saparito, 2006).

The establishment of an SME cannot be relied merely on the available social capital but also on the SME's capacity and potentials. The common business performance measurement tends to rely on financial capabilities, which is categorized as the traditional view adhered by most big companies (Johnson and Kaplan, 1987). Nevertheless, this common view does not discourage small businesses in advancing their operations and business performance. This view has been gradually overturned since 1980s.

Furthermore, business performance highly depends on the business capability and it is very different for all types of organizations and companies (Gerogescu, 2010), including SMEs that are generally limited in their internal resources and other capacities (Liao et al., 2009). Building business performance will also require different dimensions according to the needs of the company or the business so that measuring the relationship between business performance and social capital must take into account these dimensions contributing to the formation of business performance. For SMEs, measuring the performance based on only financial capability will not be appropriate because SMEs do not generally provide common financial reports.

This study intends to prove the role of non-financial performance indicators (NFPI) and the influence of social capital on the business performance. NFPI will become a dimension from business performance variables on SME of embroidery and weaving craftsmanship in its relations with social capital. This paper is divided into four sections. The first section exposes the important reasons for the contribution of social capital and business performance in SMEs. The dimensions and variables being investigated are presented in the second part. The third section elaborates the methods of the research and the results obtained. As the result, a new research model in investigating the relationship between social capital research and business performance is offered. Finally, the last part describes the implications of this study.

LITERATURE REVIEW

Social Capital

Social capital has been the topic for academic discussions from different angles. Previous studies have shared a number of perspectives on social capital (e.g. Coleman, 1998; Ghosal, 1998; Putnam, 2000; Burt, 2000; Woolcock and Narayan, 2000; and Mouw, 2006). These views have defined the concept of social capital from economic, social, and also political perspectives. Social capital is commonly viewed as an intangible capital in an organization with significantly influential impacts on business progress because it can be viewed from various fields (Nahaphit and Ghosal, 1998).

Although many previous studies have contributed to translating social capital (Collin, 1981; Bourdieu, 1986; Colemen, 1992, 2001; Putnam, 1993; Fukuyama, 1995; and Narayan 2000), the significant role of social capital in viewing business performance has been undeniably necessary (Chen, 2007; Perreault and Brenner, 2007; Khan, 2013). Social capital is defined as a relationship or a network with assets that refer to the features of social organization, such as trust, norms, and networks that can improve community efficiency (Putnam, 1993). Social capital also serves as a social infrastructure in the intangible capital that has a great influence on development (Livermore, 1998).

Recently, Nahaphit and Ghosal have categorized social capital dimensions into three major groups that can be seen cognitively, structurally, and relationally (1998). Social capital is cognitively developed by taking into account the shared systems of meanings so that it is capable of producing sustainable relationships and producing continuous impacts in the group (Putnam, 1993; Cox, 1995). Social capital can be identified based on the relationship between values and the existing traditions. To improve the cognitive capacity of the social capital means that the entrepreneurs or SME owners must learn to communicate with other employers and other parties associated with the SME including clients, competitors, suppliers, and resource providers (DeCarolis and Saparito, 2006). The structural dimension of social capital refers to the relational pattern established among individuals or groups (Burt, 2001; Putnam, 1993) whereas the relational dimension refers to the inherent and affective translation of social capital that is capable of producing psychological benefits of socialization that are expected to generate confidence, hopes, and norms (Putnam, 1993b; Cox, 1995). Relational social capital concentrates on the norms of trust, reciprocity, common obligation, and hope all of which influences the attitudes of the associated members of such social network. The extent of hopes and trust from the available relational dimension can then be measured. This very study investigates social capital from three aspects: network, trust, and values of SME as related to the Nahaphit and Ghosal's theory (1998).

BUSINESS PERFORMANCE

So far, companies hold on to the traditional view in measuring business performance where the financial statements and the number of sales are still their top priorities. This is actually more applicable to large companies (Johnson & Kaplan, 1987). Being small companies, SMEs also require appropriate measurement for their business performance and development.

Many inequalities emerge when performance measurements for SMEs are inappropriate because the dimensions to measure the business performance are not relevant with the current SME conditions (Kaplan and Norton, 1992; Intner and Larcher, 2003). Financial statements become SMEs' weakness and SMEs generally do not have financial statements so that business performance measurement cannot be done (Clarke, 1995). Thus, Wu and Zhao (2008) suggested a proper dimension of measurement for SMEs, namely ability, resources, environment, strategy, process, result of work, and purpose. Wu & Zhao (2008) argued that all of these dimensions are indispensable in viewing business performance but the adoption of such measurements has yet addressed all such expected dimensions in viewing non-financial performance indicators (NFPI) of business performance as efficiency, convenience, innovation, flexibility, and education, which are also influential as far as business performance is concerned (Dyckman et al., 1994).

Holmes and Smith (2014) suggested that applying NFPI in improving business performance for the future is necessary to anticipate the SME owners' reluctance specifically in providing financial statements. In addition, the changing view upon business performance towards the more complex direction also necessitates NFPI dimensions to be highly instrumental in improving process-based business performance (Nelly, 1998).

NON-FINANCIAL PERFORMANCE INDICATOR

NFPI emerges due to the inherent needs of companies to adjust their organisation to the current development. NFPI were proposed in early 1980s due to the failure of the traditional view of business performance in making necessary adjustments for the company's needs. The traditional view prior to 1980s focused more specifically on detecting the number of financial achievements (Kaplan and Norton, 2001). The emergence of NFPI was highly celebrated because the traditional measurement maintaining the financial report as the only tool for measuring performance became highly insufficient in providing statements that can cover all elements of the company's performance (Kinnerley and Nelly, 2002). Due to this traditional view's substantial shortcomings, an innovatively new performance measurement covering non-financial aspects of the operational performance could be successfully introduced so that additional information the traditional view failed to provide can gradually surface (Drury and Tayles, 1993; Gomes et al., 2004; Ismail, 2007). Van der Stede et al. (2006) also pointed out that non-financial performance measurements are far better used as compared to financial action to help the organisation implement and manage new initiatives.

Consequently, a number of studies that attempted to adjust the company's need for NFPI were reported. Wu and Zhao (2008) offered a grand concept for measuring SME performance by listing the details of SME's necessities, ranging from big companies to SMEs. Despite having not fully adopted NFPI as one indicator, the grand concept offers a new model for measuring business performance on the basis of five measuring dimensions, namely capacities, resources, environment, strategy, and process for achieving goals. This concept responds to the important call for companies to establish relations with their clients (Marie et al., 2014). Therefore, NFPI is necessary to be included in order to recognize business performance of an SME.

SOCIAL CAPITAL AND BUSINESS PERFORMANCE

Many studies investigating the relationship between social capital and business performance have been conducted. For example, Nan-Chen (2007) revealed that, for start-up companies, there is a significant relation between social capital and business performance. A

new company that fails in maintaining a good quality of networking, external networks, and social interaction will suffer from negative impacts on their operation. Parreault and Brenner (2007) justified that social interaction and keeping a close relation with clients will be very helpful in improving business performance among a number of ethnic-based companies with a total sample of 573 Chinese, Indian, and Jewish companies. Ahmed (2013) also presented a clear description of how social capital strongly influenced business performance among corporations in Bangladesh by focusing on sustaining performance. The role of social capital is not only seen in the company but in the family business also occurs the formation of sosia capital (Arregle et al, 2007). Research on the formation of social capital in family firms is a very interesting issue to research because it contributes to business success ((Samara and Arenas, 2017).

In general, research on social capital and business performance are conducted more on the middle-sized and bigger companies. A few studies have been conducted on SME in developing countries on the ethnic basis. The study that this paper is presented fills in the gap by investigating the relationship between social capital and business performance in Minangkabau SME of embroidery and weaving craftsmanship that have been managed through generations. Adopting NFPI dimensions in measuring business performance serves as an interesting novelty for the investigation on these SMEs.

This research's hypothesis tests whether social capital influences business performance of SMEs of embroidery and weaving craftsmanship in West Sumatera by viewing the role of NFPI dimension in their business performance variables.

H: Social capital influences business performance.

DESIGN AND METHODOLOGY

This research uses the quantitative method using a survey questionnaire as the primary research instrument in eliciting data from several places in West Sumatra, Indonesia. This study examines the influence of social capital variables on business performance variables at SMEs in embroidery and weaving industries in West Sumatera. These variables are used to identify the dimension of social capital and business performance. Social capital is described in their three dimensions (Nahaphit and Ghosal, 1998) namely relational, cognitive, and structural. Meanwhile, business performance is measured through five dimensions of ability, resources, environment, strategy and process, and results and purpose. As one business performance variable (Wu & Zoo, 2008), NFPI dimension is highlighted to see whether it can contribute to the business performance. Data were collected through a survey questionnaire and analysed through SEM (Structural Equation Modelling) method. The result of SEM analysis is evaluated through measurement and structural models.

Population and Sample

This research was conducted in West Sumatera Province, Indonesia, and particularly located at eight regencies: Tanah Datar regency, Padang Pariaman Regency, Agam Regency, Padang City, Pariaman City, Sawahlunto City, Payakumbuh City, and Bukittinggi City. There are 235 SMEs of embroidery and weaving industries. The area sampling technique was used in collecting the data sample.

According to *Dinas Koperasi Perindustrian dan Perdagangan* / Department of Industry and Trade Cooperation, there were 600 SMEs of all types in West Sumatera in 2016.

Table 1 PROVIDES A COMPLETE PICTURE OF THEIR DISTRIBUTION IN CITIES AND MUNICIPALITIES		
No.	**Area**	**Population**
1.	Padang Pariaman City	33
2.	Kabupaten Agam City	85
3	Kabupaten Tanah Datar City	48
4.	Sawahlunto City	52
5.	Padang City	42
6.	Payakumbuh City	58
7.	Pariaman City	80
8.	Bukittinggi City	202
Total		600

Source: Department of Cooperatives and SMEs West Sumatra 2016 (processed)

From this SME population, the selection of number of research sample refers to Sekaran's (2006) formulation. Theoretically, sample size in the range of 200-400 will apply models with 10-15 indicators. In this study, the indicators are more than 20 for the size of 235 samples of SMEs of embroidery and weaving industries. Therefore, this sample size meets the expected requirement for using the analytical tools. Table 1 describes the number of samples in this study.

Data Analysis

This study employs the Structural Equation Model (SEM) analysis by means of Analysis Moment of Structures Software (AMOS). AMOS was used to model and test the research hypothesis. By means of SEM analysis, the extent of NFPI contribution in business performance variables can be identified because SEM is capable of detecting the relationship between the dimension construct and other constructs. To do the analysis, the first step was to perform Confirmatory Factor Analysis (CFA) by using AMOS to test reliability and validity of the measuring model. Then, reliability items and convergence which were differentiated from validity were measured through data analysis.

Research Variables

This study uses two variables, i.e. social capital and business performance variables. Social capital variables consist of three dimensions whereas business performance comprises six dimensions (Table 2).

Table 2 RESEARCH QUESTION			
Reseaach Question	Research Purposes	Hypothesis	Author
Does Social Capital affect business performance	To know the effect of social capital on business performance with NFPI on Business Performance	Social Capital affects business performance	1. Farsi et al. 2013 2. Hary Pratono. 2013 3. Wang. 2012 4. Nahaphit & Ghosal. 1998 5. Johnsoon. 2014 6. Shi. 2015 7. Batjargal. 2000 8. Wo & Zhao. 2008 9. Devinney & Kafauros. 2016 10. Khan & Rowe. 2013

Results and Findings

Information related to SME is described based on gender, education, age, experience, and business age, and marketing area (Table 3).

Characteristics of Respondents

Table 3 CHARACTERISTICS OF RESPONDENTS (N=235)		
Description	Category	Percentage (%)
Gender	Man	20
	Women	80
Age	17-30 year	5
	31-45 year	25
	46-55 year	41
	> 55 year	29
Education	Primary school	5
	Junior high school	14
	Senior High School	45
	Bachelor	36
Long business	< 5 year	20.2
	5-10 year	28.1
	> 10 year	51.7
number of employees	> 5 year	38.7
	5-10 year	25.1
	> 10 year	36.2
Produc Marketing	Local	28.9
	Indonesia	4.2
	Overseas	1.2
	Local, national and international	29.3
	Local, national	36.4
Income	< 10 million	42.9

	10-20 million	21.1
	21-30 million	13.1
	> 31 million	22.9

Through this research, the profile of SMEs can be described in the following criteria:

(1) From the gender point of view, female entrepreneurs outnumber the males in this embroidery and weaving industries where 80% of the respondents were female and 20% were male. Minangkabau matrilineal system and the tradition of passing the company to the next generation may explain this result because Minangkabau women have the inheritance rights.
(2) From the education point of view, 36% respondents have an undergraduate degree, 45% are high school graduates, 14% completed junior high education, and only 5% finished elementary education. The high number of high school graduates running this business may be due to the tradition of inheriting the company from parents right after their children finished high school. In some areas, such succession has been initiated as early as in the elementary school. While the next generation was going to elementary school, they were also taught the ways to make the products (weaving). This early training is common in Pandai Sikek region.
(3) By age, 41% of owners of SMEs were generally 46-55 years old, 29% of them were over 55 years of age, 25% were 31-45 years old, and only 5% were in their 17-30 years of age. This age distribution is also influenced by the hereditary nature of this business so that elderly people are still running or also controlling this business.
(4) Based on the business age, 51.7% of the businesses had stood more than ten years which confirms the hereditary nature of the business and explains the reason for their long standing ground.
(5) In reference to the marketing area, products of these SMEs have been marketed to all levels of marketing target, starting from the local, national, and international levels.

MODEL SPECIFICATIONS MEASUREMENT AND RESULTS OF CONFIRMATORY FACTOR ANALYSIS (CFA)

A. Convergent Validity Analysis

Convergent Validity Analysis showed a very good result in that all dimensions were able to build the investigated variables. This means that all dimensions can be used to explain the variables because the result is above 0.5.

Table 4
CONVERGENT VALIDITY

Variable	Indicator	*Standardized Loading* ≥ 0.50	AVE ≥ 0.50	Information
Social capital	KGT (Cognitive)	0.85	0.65	Good validity
	STR (structural)	0.63		Good validity
	RLS(Relational)	0.91		Good validity
Business Performance	KM (ability)	0.83	0.70	Good validity
	SD (resource)	0.74		Good validity
	LK(environment)	0.83		Good validity
	STP(Strategies and processes)	0.90		Good validity
	HKT (Work and goals)	0.83		Good validity
	NFPI (non financial performance indicator)	0.89		Good validity

Source: data processed 2017

B. Discriminant Validity Analysis

To identify the value of Discriminant Validity, the analysis should be related to the principle that different constructs should not have a high correlation (Abdillah & Hartono, 2015) in order to do measuring based on the AVE root square values to the correlation values between variables. This study discovered that the social capital has the value of 0.65 AVE and 0.80 AVE root square while for business performance, the value was 0.70 AVE with 0.84 AVE root square. The first requirement to be met in performing the AVE test is that the AVE value must be greater than 0.5. Hair (2014) stated that the AVE root square value must be greater than the maximum correlation value of each construct. Based on the results of data processing, it can be seen that all variables have an AVE value greater than 0.5 and has an AVE root square value greater than 0.7. As the result, the first requirement has been met. It can be further claimed that the research model has met the discriminant validity because the requirement is based on the root value of AVE> 0.7 and the value of AVE > 0.5.

C. Composite Reliability Analysis

Composite reliability test is done by two methods: Cronbach's Alpha and Construct Reliability methods. Cronbach's Alpha measures the lower limit of the reliability value of a construct while Construct Reliability measures the true value of the reliability of a construct. The minimum value that must be met by either Cronbach's Alpha or Construct Reliability is 0.7 (Hair, 2010). Based on the results of data processing, a value of Composite Reliability was above 0.7, that is 0.84 for social capital and 0.76 for business performance. Cronbach's Alpha value for social capital was 0.73 and business performance of 0.85. Thus, the conditions were met.

D. Results of Model Processing

Data processing with SEM (Structural Equation Modelling) is intended to test the model so that CFA (Confirmatory Factor Analysis) has two focuses of inquiry: (1) are unidimensionally formulated indicators valid?, (2) and what are the dominant indicators that form the constructs being studied?

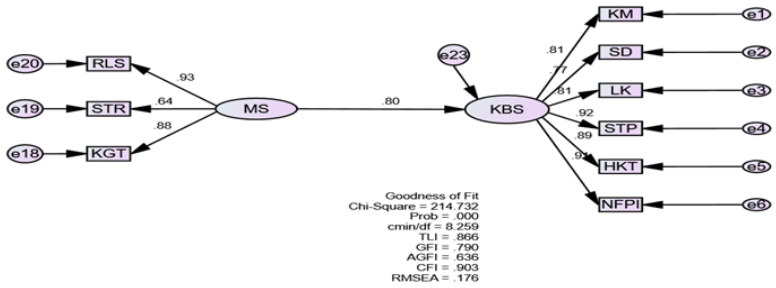

FIGURE 1
MODEL CFA

Based on Figure 1, the value of all indicators forming each construct was above 0.5. The value for relational indicators that built the social capital construct was 0.93 and the value for structural indicators was 0.64. Meanwhile, the value for cognitive indicators was 0.88. Since all the indicator values were above 0.50, the indicators were proven valid dimensions to build the construct of social capital. As to the business performance construct, each indicator had various values. The value for capacity (KM) was 0.81, 0.77 for resource (SD), for environmental indicator (LK), 0.81 for indicator of strategy and 0.92 for process (STP), 0.89 for Indicators of work and goals (HKT) while 0.97 for NFPI indicator. As described in figure 4.1, all indicators were proven valid to build the construct.

CFA results indicate the analysis of social capital variables and business performance. The analysis of standardized regression revealed the relationship between constructs and their indicators indicating that the loading factor of each indicator of the construct was above 0.5. This means that these factors were valid and the indicators could be admitted to be capable of contributing in building the construct in this study. More detail information is presented in Table 5.

Table 5
RESULTS OF THE STANDARDIZED REGRESSION COEFFICIENTS BASED ON THE CFA MODEL

			Estimate Coefficients
KBS	<---	MS	0.799
KM	<---	KBS	0.814
SD	<---	KBS	0.774
LK	<---	KBS	0.811
STP	<---	KBS	0.917
HKT	<---	KBS	0.885
NFPI	<---	KBS	0.906
KGT	<---	MS	0.884

STR	<---	MS	0.644
RLS	<---	MS	0.926

In addition to confirmatory measurements, a measurement of fit model was deemed necessary to determine whether the existing model is in accordance with the *good fit* criteria. In the fit model measurement, the measured criteria were chi-square, CMIN / DF, GFI, RMSEA, AGFI, TLI, NFI, PNFI, PGFI. This is done with three parts: Absolute Fit Measurement by measuring Chi Squares (X^2), CMIN / DF, GFI and RMSEA. Meanwhile, the *Incremental Fit Measures* section was done by measuring AGFI, TLI, and NFI. The third part was Parsimonious Fit Measures by measuring PNFI and PGFI. Table 6 presents the results of this fit model in this study.

Tabel 6
THE VALUE OF GOODNESS OF FIT INDICES

Goodness of Fit index	Acceptable Level	Value	Fitness of the Model
Absolute-Fit Measurement Values			
Chi Squares (X^2)	p-value >0.05	0.000	Poor Fit
CMIN/DF	1<CMIN/DF<5	8.259	Good Fit
GFI (Goodness-of-Fit)	GFI>0.90	0.790	Marginal Fit
RMSEA (Root-Mean Aquare Error of Approximation)	RMSEA<1 PCLOSE >0.05	0.176	Marginal Fit
Incremental-Fit Measurement Values			
AGFI (Adjusted Goodness-of-Fit)	AGFI > 0.90	0.636	Marginal Fit
TLI (Tucker-Lewis Index)	TLI > 0.90	0.866	Marginal Fit
NFI (Normed Fit Index)	NFI > 0.90	0.892	Marginal Fit
Parsimonious Fit Measurement Values			
PNFI	0.60-0.90	0.644	Good Fit
PGFI	Approaching 1	0.456	Good Fit

Table 6 also shows the value of the fit model that has been generated from data processing.

1. *Absolute-Fit Measurement Values*, where chi-square value based on the p value of the model was 0.000, this means the match rate of this model was *poor fit*. In other words, chi-square value depends on the number of samples: the more the sample is, the more significant the model will be. If the value of CMIN / DF was 8.259 with the default value model located between saturated model and independent model, the model was considered good and could be used for the research. Meanwhile, the value of GFI was between 0 to 1. If the value approached 1, the model will explain the data better. In this research, the value obtained was 0.790 which means the model would be able to explain the obtained data. As to RMSEA, The farther the value than 1, the better the result will be in that the match level of this research will be considered good.

2. *Incremental-Fit Measurement Values*, table 6 indicates that the values of AGFI, TLI and NFI all reached the minimum threshold so that fitness of the model was in the fit marginal condition. All available results could explain the model marginally but the research can proceed.
3. *Parsimonious Fit Measurement Values*, Table 6 informs the values of PNFI and PGFI in Parsimonious Fit Measurement Values and the data processing results revealed the good fit condition. This means that the effectiveness of the model used in this study was in a good fit or simply fit if compared to other measuring instruments.

The results of model modifications and fit model analysis can be seen in Figure 2.

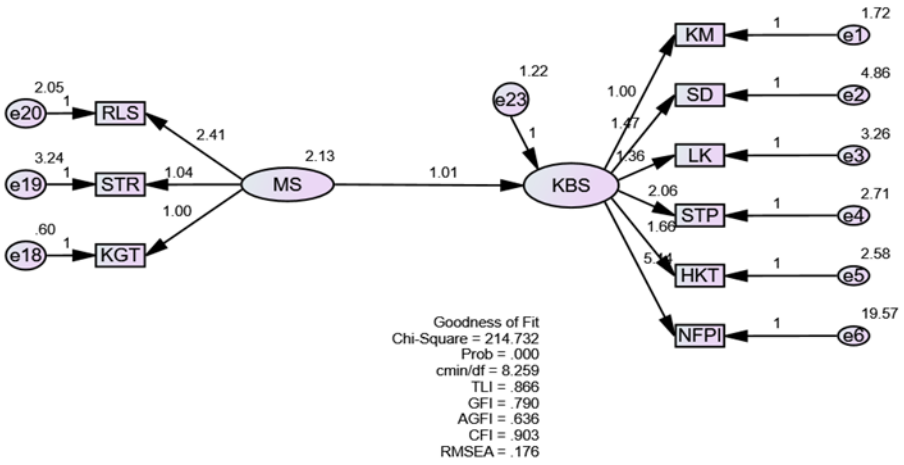

FIGURE 2
THE MODIFIED MODEL BASED ON THE GOODNESS OF FIT MEASUREMENT

Based on the modified model result, NFPI dimensions of SMEs of embroidery and weaving craftsmanship contributed to the business performance variables in the value of 5.14 and retained the highest measurement if compared to other dimensions. All dimensions contributed to the business performance variables and NFPI dimension were applicable to the SMEs. The results of the hypothesis can be seen in Table 7.

TABLE 7
THE TESTING OF HYPOTHESES THE DIRECT EFFECT

	Estimate	S.E.	C.R.	P	Label

KBS <--- MS	1.007	0 .082	12.300	***
KM <--- KBS SD	1.000			
<--- KBS LK <--	1.465	0 .107	13.688	***
- KBS	1.363	0 .093	14.642	***

Table 7 presents the results of hypothesis testing of this research showing that social capital had positive and significant influences on the business performance as reflected from the estimated value of 1.007, which was higher than 0.5-0.7. In the mean time, CR value was found to be higher than 1.96 and the required p value that must be lower than 0.5 was also met so that the hypothesis was accepted.

DISCUSSION

This study shows that social capital has a positive and significant influence on business performance on the basis of the statistical evidences that this research shows the estimate value of 1.007, CR value of 12.3000 and P value of 0.005. All results had passed the required minimum values for each item. Accordingly, it can be concluded that the hypothesis was acceptable because all testing values indicated the eligibility for the hypothesis to be accepted. The p value here indicates the relationship between two research variables with a value that must be lower than 0.05. This study found out the p value of 0.005 which confirms that the relationship between the two variables was real and unidirectional.

From the quantitative perspective, social capital was proven to influence the business performance of SMEs of Embroidery and Weaving industries in West Sumatra. The better the social capital is, the better the business performance will improve. On the contrary, the worse or the more declining the social capital is, the more declining business performance will do. Both variables have a significant relationship which means the accuracy and validity of the relationship is real and actual.

This finding is strongly supported by the social life of Minangkabau people who prefer to live in groups, emphasize togetherness, and get used to living habits of wandering and entrepreneurship. Minangkabau community is a matrilineal society where the mother's tribe determines the tribe of the children and is attached to the kinship system, the property of the people, and the system of inheritance. This matrilineal system is reflected from the gender profile of the respondents (owners of SMEs of embroidery and weaving craftsmanship) in which females dominate the figure by 80%. This trend naturally occurs because this business is hereditary and it will usually fall on the next female generation, i.e. daughters. In addition, it is also a fact that women constitute the major operators or players for this business either as a weaver, a sewing child, or even a manager.

Minangkabau people usually live a traditional life in extended family, tribe, or nagari (district administration). An extended family is led by *mamak* (uncles from the mother's side) who must lead in a democratic way. There are many types of *mamak* in Minangkabau social structures, such as customary *mamak* (*nini mamak*, i.e. leader of the tribe), *mamak ibadat* (*ulama*, i.e. religious leader), and clever figures. In this ethnic group, the most important values, other than the matrilineal system and the foundation of Islamic religion (sharia law), are the democratic life of confabulation and mutual cooperation which are rooted in the egalitarian

nature and view of the community. The confabulating habit has familiarized Minangkabau people with speaking fluently and articulately. Essentially, Minangkabau people tend to take the leading initiatives by themselves because of the philosophy of "being uplifted a few inch, being pushed a step forward" (which means being put forward and treated as leaders). These principles remind Minangkabau people to realize that they have the same rights and obligations as others do so that in running business in SMEs, the principles are applied and consequently capable of connecting all the existing levels of social capital with their business performance in the entrepreneurship.

The results of this study are supported by research conducted by Perreault & Brenner (2007) stating that social capital has a significant effect on business performance. This study, conducted in China, intended to see the relationship between these two variables. The study was conducted on Chinese Micro, Small, and Medium Enterprises (MSMEs) to improve their ability to enter the international competition.

Ofori and Sackey (2010) investigated 100 MSMEs in Ghana to see the network linkages in improving business performance. The results proved that the existing networks in social capital affect the company's business performance. Networks that were established between entrepreneurs and other parties, such as friends, were able to improve the company's development faster. In their conclusion, social capital plays a significant role in improving business performance.

Henry X. Shi's (2015) conducted a research in China on several MSMEs by observing the relational indicator, i.e. trusts, that is capable of bringing improvements to company performance. This study investigates the element of trust which becomes one indicator of social capital that can improve the development of the company as seen from the company's ability to earn profit.

Among all those studies, this current study contributes a novelty in terms of adopting NFPI indicators in business performance variables. So far, business performance was mostly seen and measured only from the financial ability (Wu & Zhao, 2008; Ghalayini & Noble, 1996). The traditional view emphasizes on financial measures such as profit, return on investment, and productivity in measuring business performance. This study argues that such emphasis has become the weakness of the traditional view of business performance measurement because it cannot fulfil the measurement that SMEs require. For SMEs, non-financial dimensions hold a greater contribution in establishing business performance. Other developments of measurement appear to also ignore some influential elements that serve some roles but have no clear function in the measurement of business performance, such as client satisfaction evaluation (Banker et al., 2000).

SMEs have been commonly disadvantaged from many limitations in the business performance measures when they are only measured from the objective financial aspect and figures because SMEs' financial statement and objective data to do the measurement are frequently unavailable or not well documented so that the measurement may be inappropriate. This is SMEs' substantial shortcoming in the traditional application of measurement. Therefore, the adoption of NFPI in the measurement mechanism becomes necessary for SME because, unlike the financial indicators that are short-termed in their orientation, NFPI addresses the long term projection of the business performance (Gomest et al., 2004). Van der Stede et al. (2006) shows that non-financial performance measures are far better than financial indicators because they are capable of assisting the organisation in implementing and administering new initiatives. This research seconds the argument (Agbim, 2013) maintaining that NFPI is capable of

integrating company's excellence for a long term. Thus, NFPI is definitely required to be applied for measuring business performance. Additionally, non-financial measures becomes better indicators to assess the performance in this present time than financial indicators do because non-financial performance is valuable for evaluating and motivating managerial performance. It is then concluded that NFPI is suitable to be adopted as an indicator to assess business performance, especially for SMEs operating in creative industries in developing countries.

CONCLUSION

This study concludes that social capital has a positive and significant impact on business performance. NFPI becomes a dimension in the construction of SME business performance variables. This may serve as a novelty of this study by focusing on treating SMEs of embroidery and weaving handicrafts in developing countries. NFPI has the largest contribution in constructing business performance variables as proven by the NFPI indicators' significant values as illustrated in figure 4.1). In developing business performance construct, NFPI shows 0.81 value for its contribution, 0.77 for resource, 0.81 for environment, 0.92 for strategy and process, 0.89 for performance result and goal, and 0.97 for establishing the construct of business performance. This study proves that NFPI indicator values were far higher than any other indicators in the business performance measurement.

This study results may also confirm the previous research conducted by Wu and Zhao (2008) in Australia. Wu and Zhao defined five dimensions that were appropriate in measuring the business performance for Australian SMEs. They comprise capacity, resource, environment, strategy, performance result, and goal dimensions whereas for Indonesian SMEs, it is only NFPI dimension that is applicable in constructing the business performance.

As this study only investigates the relationship between social capital and business performance in the context of SMEs of embroidery and weaving industries, future research can aim at other types of SME by eliciting data not only from the business owners but also employees and relevant government officials. The small number of samples in this study also present some limitations so that the next studies can benefit from it by accumulating much larger or sufficient number of samples and to be equipped with qualitative analysis. Last but not least, future research may also investigate the role cultural elements in the social capital of SMEs.

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