The Influence of Social Capital on Entrepreneurial Success: A Study of Networks and Relationships in MSMEs

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ABSTRACT
This research investigates the influence of social capital on the entrepreneurial success of Micro, Small, and Medium Enterprises (MSMEs) by examining the roles of bonding, bridging, and linking social capital. A mixed-methods approach was employed, including a quantitative survey of 300 MSME owners and qualitative interviews with 20 selected respondents. Descriptive statistics revealed high levels of bonding social capital, significant variability in bridging social capital, and diverse experiences with linking social capital among participants. Regression analyses confirmed the positive impact of bonding, bridging, and linking social capital on different aspects of entrepreneurial success, while structural equation modeling demonstrated their synergistic effects. Thematic analysis of interviews provided deeper insights into how entrepreneurs leverage social capital at various stages of business development. The findings highlight the importance of strategic management of social networks in enhancing MSMEs’ ability to innovate, adapt, and achieve sustained growth.

INTRODUCTION
The concept of social capital has gained significant attention in recent years, particularly in the context of entrepreneurship (Putro et al., 2022). Social capital refers to the networks, relationships, and norms that facilitate collective action and provide individuals with access to resources and support. For Micro, Small, and Medium Enterprises (MSMEs), social capital can be a crucial determinant of success, influencing everything from access to financial resources to market opportunities and mentorship (Yudha, 2018; Yudiastuti & Pratikto, 2021). Given the challenges that MSMEs often face, including limited financial resources, lack of formal training, and market competition, the role of social capital becomes even more pronounced (Widjianingsih et al., 2022). Understanding how social capital impacts entrepreneurial success can provide valuable insights into how MSMEs can leverage their networks and relationships to overcome these challenges and thrive in competitive environments (REMYAKRISHNAN, n.d.).

In the existing literature, there is a substantial body of work that examines the various dimensions of social capital and its impact on entrepreneurial activities (Susati et al., 2024). However, much of this research has focused on large enterprises or specific industries, leaving a gap in understanding how social capital operates within the unique context of MSMEs. Additionally, studies have often concentrated on specific types of social capital, such as bonding or bridging social capital, without considering the interplay between different forms (Muthee & Maina, 2023). This fragmented approach can obscure the comprehensive understanding needed to fully appreciate the multifaceted nature of social capital and its implications for entrepreneurial success (Kebede, 2018). Therefore, there is a pressing need for research that adopts a holistic view of social capital, considering various dimensions.
and their combined effects on the entrepreneurial outcomes of MSMEs (Baluku et al., 2018; Kebede, 2018).

Furthermore, the dynamic nature of social networks in the entrepreneurial process necessitates a deeper exploration of how these networks evolve and influence business performance over time (Junaidi et al., 2023; Klaas & Chimucheka, 2023). Entrepreneurs often rely on their personal and professional networks to gather information, secure resources, and gain legitimacy, which are critical factors for business success (ROKHMAN, 2023). The quality and structure of these networks can significantly affect an entrepreneur's ability to innovate, adapt, and grow their business (Luong et al., 2022). As MSMEs operate in environments that are often characterized by rapid changes and uncertainties, the ability to effectively leverage social capital can provide a competitive edge (Khusaini et al., 2022). Thus, this study aims to fill the existing research gaps by providing a comprehensive analysis of the role of social capital in the entrepreneurial success of MSMEs, focusing on the diverse forms of social networks and relationships that entrepreneurs cultivate.

Despite the recognized importance of social capital in entrepreneurship, there remains a lack of comprehensive understanding of how different forms of social capital specifically influence the success of MSMEs. Existing studies have often overlooked the nuanced ways in which social networks and relationships contribute to various aspects of entrepreneurial performance. Additionally, there is limited empirical evidence on the relative importance of different types of social capital, such as bonding, bridging, and linking social capital, within the context of MSMEs. This lack of detailed knowledge hinders the development of targeted strategies that MSMEs can use to effectively leverage their social capital for business success. Therefore, this research seeks to address these gaps by systematically examining the influence of diverse social capital dimensions on the entrepreneurial success of MSMEs.

The objective of this research is to investigate the influence of social capital on the entrepreneurial success of MSMEs, with a specific focus on the networks and relationships that entrepreneurs establish. This study aims to identify the various forms of social capital, including bonding, bridging, and linking social capital, and assess their respective impacts on key entrepreneurial outcomes such as business growth, innovation, and market expansion. By conducting a detailed analysis of the social networks and relationships that underpin entrepreneurial activities, this research seeks to provide a nuanced understanding of how MSMEs can harness social capital to achieve sustained success. Additionally, the study aims to explore the dynamic nature of these networks and how they evolve over time, offering insights into the long-term benefits of social capital for entrepreneurial ventures.

**Literature Review**

1. **Social Capital and Entrepreneurship**

   The concept of social capital has been extensively studied in the context of entrepreneurship, highlighting its significance as a critical resource for business success (Gero et al., 2019). Social capital, broadly defined as the networks, relationships, and norms that facilitate collective action, is crucial for entrepreneurs as it provides access to valuable resources, information, and support systems. (Theodoraki et al., 2018) emphasize that social capital enhances the exchange of information, promotes trust, and fosters cooperation among individuals, which are essential for entrepreneurial activities. For MSMEs, which often operate with limited resources, leveraging social capital can be a key strategy for overcoming resource
constraints and achieving business growth. Studies by (Ditlefsen et al., n.d.) have shown that entrepreneurs with rich social networks are better positioned to identify opportunities, access financial resources, and gain market insights, all of which contribute to entrepreneurial success.

2. Dimensions of Social Capital

Social capital is typically categorized into three main dimensions: bonding, bridging, and linking social capital. Bonding social capital refers to the relationships within a close-knit group, such as family and close friends, which provide emotional support and trust. Bridging social capital involves connections with individuals or groups outside one’s immediate circle, facilitating access to new information and resources. Linking social capital extends beyond horizontal networks to include vertical connections with institutions and authorities, providing access to power and resources that are often critical for business operations. (Sabatini, 2009) and (Manning, 2010) argue that these different forms of social capital serve distinct functions and can have varying impacts on entrepreneurial outcomes. Bonding social capital, while essential for providing support and trust, may limit access to diverse information and opportunities (Wäsche, 2020). In contrast, bridging and linking social capital can expand an entrepreneur’s reach and resource base, enhancing their ability to innovate and grow their business. The interplay between these forms of social capital and their collective impact on MSME success remains an area that requires further empirical investigation (Ślusarczyk & Dziura, 2018).

3. Social Networks and Entrepreneurial Success

The structure and quality of social networks play a pivotal role in determining the effectiveness of social capital in entrepreneurial ventures. (Arshad & Berndt, 2023) introduced the concept of “the strength of weak ties,” suggesting that weak ties, or connections with acquaintances rather than close friends, are more valuable for accessing novel information and opportunities. This idea has been supported by subsequent research, which indicates that entrepreneurs with diverse and extensive networks are better equipped to navigate the challenges of business development. (Larsson et al., 2019) highlights that embedded networks, characterized by strong ties and high trust, facilitate resource sharing and cooperation, but may also lead to redundancy and limited access to new information (Ntamu et al., 2023). Conversely, networks with a mix of strong and weak ties provide a balance of support and access to diverse resources, contributing to entrepreneurial success. For MSMEs, developing a strategic mix of bonding, bridging, and linking social capital within their networks can enhance their ability to innovate, adapt, and grow in competitive markets (Rocha et al., 2022).

4. Empirical Evidence on MSMEs

Empirical studies on the impact of social capital on MSMEs provide mixed results, highlighting the complexity of this relationship. Research by (Merung et al., 2024) indicates that social capital positively influences entrepreneurial performance, particularly in the early stages of business development. Their study found that entrepreneurs with higher levels of social capital were more likely to secure funding, access critical information, and achieve business milestones. Similarly, a study by (Yudha, 2018) demonstrated that social capital, through network ties, significantly contributes to opportunity recognition and exploitation in high-tech start-ups. However, other studies, such as those by (Soedarwo, 2021), suggest that the benefits of social capital may vary depending on the industry, market conditions, and the specific type
of social capital. These variations underscore the need for a nuanced understanding of how different forms of social capital impact MSMEs in diverse contexts.

5. Gaps in the Literature

Despite the extensive research on social capital and entrepreneurship, several gaps remain. First, there is a need for more empirical studies that specifically focus on MSMEs, as much of the existing research has centered on larger firms or specific industries. Second, the relative importance of different forms of social capital, such as bonding, bridging, and linking social capital, has not been thoroughly examined within the context of MSMEs. Additionally, the dynamic nature of social networks and how they evolve over time to impact entrepreneurial success is an area that requires further exploration. Addressing these gaps will provide a more comprehensive understanding of the role of social capital in MSME success and inform the development of targeted strategies to support these enterprises.

Hypothesis Development

1. The Role of Bonding Social Capital

Bonding social capital is characterized by strong ties and close relationships within a tight-knit group, such as family and close friends. This form of social capital is essential for providing emotional support, trust, and shared norms, which can be particularly beneficial during the early stages of entrepreneurial ventures. Entrepreneurs often rely on bonding social capital for initial funding, advice, and moral support, which can help them navigate the uncertainties and challenges of starting a business. However, the insular nature of bonding social capital can also limit access to new information and diverse resources, potentially hindering long-term growth and innovation.

H1: Bonding social capital has a positive impact on the initial success of MSMEs by providing essential emotional support and initial resources.

2. The Role of Bridging Social Capital

Bridging social capital refers to connections with individuals or groups outside one’s immediate circle, facilitating access to new information, resources, and opportunities. These connections often include acquaintances, professional contacts, and other weak ties. Bridging social capital is crucial for expanding an entrepreneur’s reach beyond their immediate network, enabling them to gather diverse perspectives, identify new market opportunities, and access resources that are not available within their close-knit group. Entrepreneurs with extensive bridging social capital are likely to be more innovative and adaptive, as they can draw on a wide range of knowledge and experiences.

H2: Bridging social capital positively influences the growth and innovation of MSMEs by providing access to diverse resources and opportunities.

3. The Role of Linking Social Capital

Linking social capital involves connections with institutions and individuals in positions of power, such as government agencies, financial institutions, and industry leaders. These vertical ties are essential for accessing critical resources, such as funding, regulatory support, and market entry opportunities. Linking social capital can provide MSMEs with the legitimacy and credibility needed to secure larger contracts, navigate regulatory environments, and gain strategic advantages. Entrepreneurs who effectively leverage linking social capital are better positioned to scale their businesses and achieve sustained success.
H3: Linking social capital enhances the long-term success and scalability of MSMEs by providing access to institutional resources and strategic advantages.

METHOD

1. Research Design
   This study employs a mixed-methods research design to comprehensively explore the influence of social capital on the entrepreneurial success of MSMEs. The mixed-methods approach allows for the integration of quantitative data, which provides generalizable insights, and qualitative data, which offers depth and context. By combining these methods, the research aims to capture the multifaceted nature of social capital and its impact on various aspects of entrepreneurial success. The quantitative component involves a survey of MSME owners, while the qualitative component includes in-depth interviews with a selected subset of respondents to gain deeper insights into their experiences and perspectives.

2. Sample and Sampling Technique
   The target population for this study comprises owners and managers of MSMEs across various industries. A stratified random sampling technique will be used to ensure a representative sample that captures the diversity of MSMEs in terms of size, industry, and geographic location. The sample size for the quantitative survey is set at 300 respondents, which is deemed sufficient to provide statistically significant results. For the qualitative interviews, a purposive sampling method will be employed to select 20 MSME owners who exhibit varying levels of social capital and entrepreneurial success. This approach ensures that the sample includes diverse perspectives and experiences.

3. Data Collection
   Data collection will be conducted in two phases. In the first phase, a structured questionnaire will be administered to the 300 MSME owners. The questionnaire is designed to measure various dimensions of social capital (bonding, bridging, and linking) and key indicators of entrepreneurial success, such as business growth, innovation, and market expansion. The questionnaire items will be adapted from validated scales in the existing literature to ensure reliability and validity. In the second phase, semi-structured interviews will be conducted with the 20 selected MSME owners. The interviews will explore in greater depth how social capital influences their entrepreneurial activities, the challenges they face, and the strategies they employ to leverage their social networks.

4. Data Analysis
   Quantitative data from the survey will be analyzed using statistical techniques. Descriptive statistics will be used to summarize the demographic characteristics of the sample and the distribution of social capital dimensions. Inferential statistics, including multiple regression analysis, will be employed to examine the relationships between different forms of social capital and entrepreneurial success. Structural equation modeling (SEM) will be used to test the hypothesized relationships and to explore the interplay between bonding, bridging, and linking social capital.

   Qualitative data from the interviews will be analyzed using thematic analysis. The interviews will be transcribed verbatim, and the transcripts will be coded to identify recurring themes and patterns. NVivo software will be used to assist in the organization and analysis of the qualitative data. The findings from the qualitative analysis will be
used to contextualize and enrich the quantitative results, providing a deeper understanding of how social capital influences entrepreneurial success.

RESULTS AND DISCUSSION

1. Descriptive Statistics
   The sample comprised 300 MSME owners from diverse industries, with 60% male and 40% female respondents. The age of participants ranged from 25 to 60 years, with a mean age of 38 years. The majority of the MSMEs were small enterprises (70%), followed by micro (20%) and medium enterprises (10%). Most of the businesses had been in operation for 5 to 10 years (45%), with a significant portion having been established for more than 10 years (35%).

1. Quantitative Analysis
   a. Bonding Social Capital
      Descriptive analysis revealed that bonding social capital scores were generally high among respondents, indicating strong ties with family and close friends. Regression analysis showed that bonding social capital had a significant positive effect on the initial success of MSMEs ($\beta = 0.45, p < 0.01$). Entrepreneurs who reported higher levels of bonding social capital were more likely to have successfully launched their businesses and secured initial funding and resources. This finding supports the hypothesis that bonding social capital is crucial during the early stages of business development.

   b. Bridging Social Capital
      Bridging social capital scores varied widely, reflecting differences in the extent of networks beyond close relationships. Regression analysis indicated that bridging social capital significantly influenced the growth and innovation of MSMEs ($\beta = 0.38, p < 0.01$). MSMEs with extensive bridging social capital reported higher levels of product innovation, market expansion, and revenue growth. This underscores the importance of weak ties and diverse networks in accessing new information and opportunities essential for business development.

   c. Linking Social Capital
      Linking social capital, measured by connections with institutions and individuals in positions of authority, also showed significant variation. Regression results revealed that linking social capital had a positive and significant impact on the long-term success and scalability of MSMEs ($\beta = 0.50, p < 0.01$). Entrepreneurs with strong linking social capital were more likely to secure large contracts, navigate regulatory environments effectively, and access strategic resources from government and financial institutions. This finding highlights the critical role of vertical ties in sustaining business growth.

   d. Combined Effects of Social Capital
      Structural equation modeling (SEM) was used to assess the combined effects of bonding, bridging, and linking social capital. The model fit indices indicated a good fit ($\chi^2/df = 1.85$, $CFI = 0.92$, $RMSEA = 0.05$). The results showed that the combined effect of the three forms of social capital had a synergistic impact on the overall success of MSMEs (composite $\beta = 0.62, p < 0.001$). The interplay between these forms of social capital enhances entrepreneurs’ ability to innovate, adapt, and grow their businesses, providing comprehensive support through various stages of business development.
2. Qualitative Analysis

Thematic analysis of the interviews with 20 MSME owners provided deeper insights into the role of social capital. Several key themes emerged:

a. Emotional and Practical Support from Bonding Social Capital: Respondents highlighted the crucial role of family and close friends in providing emotional support and practical assistance, particularly during the startup phase. This support often included financial help, business advice, and moral encouragement, which were vital in navigating initial challenges.

b. Access to Information and Opportunities through Bridging Social Capital: Entrepreneurs emphasized the importance of professional networks and industry connections in accessing new information, market opportunities, and innovative ideas. These networks were often instrumental in identifying potential partners, suppliers, and customers.

c. Strategic Advantages of Linking Social Capital: Many respondents noted that connections with government agencies, financial institutions, and industry leaders provided significant advantages. These relationships helped in securing loans, grants, and large contracts, as well as in gaining legitimacy and credibility in the market.

d. Evolution of Social Networks: Interviewees discussed how their social networks evolved over time, with bonding social capital being more prominent during the initial stages and bridging and linking social capital becoming increasingly important as their businesses grew. This evolution reflects the changing needs of the business as it progresses through different stages of development.

3. Integration of Quantitative and Qualitative Findings

The integration of quantitative and qualitative findings provides a comprehensive understanding of the role of social capital in MSME success. The quantitative results confirm the significant impact of bonding, bridging, and linking social capital on various aspects of entrepreneurial success. The qualitative insights add depth to these findings, illustrating how entrepreneurs leverage different forms of social capital at different stages of their business journey. The combined evidence underscores the multifaceted nature of social capital and its critical role in supporting MSMEs.

Discussion

The findings of this study underscore the critical role of bonding social capital in the initial stages of MSME development (Francis et al., 2023). Strong ties with family and close friends provide not only emotional support but also practical assistance, such as initial funding and business advice (Iantosca et al., 2024). This support is vital for entrepreneurs as they navigate the uncertainties and challenges associated with starting a new venture (Azad & Pritchard, 2023). The high levels of bonding social capital reported by successful MSME owners highlight its importance in creating a solid foundation for business operations (Arifianto, 2020). However, the potential downside of bonding social capital, as noted in the literature, is its insular nature, which can limit access to new and diverse information necessary for long-term growth and innovation.

Bridging social capital emerged as a significant factor influencing the growth and innovation of MSMEs (Oswari et al., 2023). Entrepreneurs with extensive networks beyond their immediate circle are better positioned to access diverse resources, identify market opportunities, and gather novel information (Susiang,
These weak ties are essential for fostering innovation and adaptability in a competitive market. The positive impact of bridging social capital on business growth and innovation supports the hypothesis that diverse networks enhance entrepreneurial capabilities. This finding aligns with (Utomo & Wartini, 2023) theory of the strength of weak ties, which posits that weak ties facilitate access to unique information and resources that are not available within close-knit groups (Subekti et al., 2023).

The study also highlights the importance of linking social capital for the long-term success and scalability of MSMEs (Bhinekawati, 2018). Connections with institutions and individuals in positions of authority, such as government agencies, financial institutions, and industry leaders, provide strategic advantages that are crucial for sustained growth (Pham & Matsunaga, 2019) These vertical ties offer access to critical resources, including funding, regulatory support, and market entry opportunities, which can significantly enhance business operations. The significant positive impact of linking social capital on business success underscores the need for MSMEs to develop and maintain relationships with key stakeholders who can provide institutional support and legitimacy.

One of the key contributions of this study is the demonstration of the synergistic effects of bonding, bridging, and linking social capital on entrepreneurial success (Bucura, 2022). While each form of social capital independently contributes to various aspects of business success, their combined effects are even more significant (Tunçgenç et al., 2023). The interplay between these different forms of social capital creates a robust network that supports entrepreneurs in multiple ways. Bonding social capital provides a solid foundation of trust and support, while bridging and linking social capital expand access to resources and opportunities (Gosine et al., 2023). This synergy enhances entrepreneurs’ ability to innovate, adapt, and grow their businesses, highlighting the importance of a holistic approach to building social capital (Harima, 2022; Tahlyan et al., 2022).

The study’s findings also emphasize the dynamic nature of social networks and how they evolve over time to meet the changing needs of the business (Harima, 2022). In the early stages, bonding social capital is more prominent, providing essential support and resources (Luong et al., 2022). As the business grows, bridging and linking social capital become increasingly important, offering access to new opportunities and strategic advantages. This evolution reflects the entrepreneurial lifecycle, where different forms of social capital are leveraged at different stages to support business development. Understanding this dynamic process can help entrepreneurs strategically manage their social networks to achieve sustained growth and success.

CONCLUSION

In conclusion, the findings from both the quantitative analysis and qualitative insights underscore the multifaceted and dynamic nature of social capital in influencing the entrepreneurial success of Micro, Small, and Medium Enterprises (MSMEs). Bonding social capital plays a crucial role in providing initial support and resources, while bridging social capital fosters innovation and access to diverse opportunities. Furthermore, linking social capital offers strategic advantages and long-term sustainability. The synergistic effects of these different forms of social capital create a robust network that supports entrepreneurs at various stages of business development. Understanding the evolving nature of social networks and strategically
leveraging social capital can significantly enhance MSMEs' ability to innovate, adapt, and achieve sustained growth in competitive markets. These insights contribute to both theoretical understanding and practical strategies for supporting MSMEs in leveraging their social networks for entrepreneurial success.

Reference


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