

THE RELATIONSHIP BETWEEN MANAGEMENT FUNCTION IMPLEMENTATION, SOCIAL CAPITAL AND BUSINESS PERFORMANCE OF SMALL CRAFT INDUSTRIES: THE MEDIATING EFFECT OF COMPETITIVE ADVANTAGE

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Abstract

The research objective is to describe and model the relationship between the application of management functions, social capital and business performance of small craft industries with the mediating effect of competitive advantage in small craft industries in Jambi City. The research respondents are small craft industry businesses located in regencies/cities in Jambi City. The types of data used are primary and secondary data. Primary data was obtained by distributing questionnaires to small craft entrepreneurs and the results of interviews to key respondents using interview guides, while secondary data was obtained from various interest groups and literature. The classical test was performed with validity test, reliability test and normality test. Two approaches were used to analyze the data, namely qualitative and quantitative approaches using Structural Equation Modeling (SEM). From the results it is concluded that the management function has a significant positive impact on business activity, social capital has a significant positive impact on business activity, competitive advantage has a significant impact on business activity, management function has an impact on business activity through competitive. benefits, and social. Capital has a significant positive impact on business outcomes through competitive advantage.

Keywords: Management Function, Social Capital, Competitive Advantage, Business Performance

Introduction

Small and Medium Industries (SMIs) are crucial in sustaining the economic sector both at the regional and national levels. The ability of SMIs to absorb labor and as a source of community income proves their role in the economy. The ability to survive the economic crisis compared to large businesses is an advantage possessed by SMIs (Ratnawati & Hikmah, 2013).

On the basis of literature review and previous research on the implementation of good management functions, proper management of social capital and the existence of competitive advantages will significantly determine business performance (Putri, V. W., & Yuniawan, A., 2016; GS, A., Kurniasih, N., et al. 2019). The sharp competition between businesses with similar products, as well as competition with large-scale industries, often leaves small industries, including those engaged in handicraft business, at a disadvantage in competing with medium and large enterprises.

Notwithstanding these advantages and benefits, small craft industries still encounter many challenges, including weak business performance, poor management functions, weak social capital, and lack of competitive advantage.

The number of small craft industries in Jambi City is considerable, but it is often not consistent with the attitude of the business operators. Many old businesses collapsed and new ones emerged, causing the number to be difficult to identify. In spite of its recognized resilience, the role of SMIs in the national economy is still relatively low (Syuhada, A. A., & Gambetta, W., 2013; Kim, A. J., & Ko, E., 2012).

According to information from the Ministry of Cooperatives, the Covid-19 pandemic has affected 1,785 cooperatives and 16,313 SMI companies. Operators of cooperatives and SMEs experienced declining sales, lack of capital and barriers to marketing. At least 39.9 percent of SMEs decided to reduce their inventory during the Covid-19 generalized social restrictions (PSBB) and 16.1 percent of SMEs decided to reduce the number of employees due to physical store closures. The SMI sector has been severely affected by the Covid-19 pandemic (Rosita, 2020). Currently, although the pandemic is over, the small craft industry still faces many difficulties to expand.

Research on SMIs has been conducted in many locations and on different themes. However, research related to the relationship between management function, social capital, competitive advantage and business performance of small craft industries in Jambi Province remains very limited (Aditya, J. R. P., 2018; Widianingsih, R., et al. 2019; Muslikah, N. A., et al. 2018; Maharani, M., 2020; Asyhari, A., et al. 2018; Khoirini, L., & Kartika, L., 2014; Pangestu, S. A., 2020; Rapih, S., 2015; Willian, R., et al dan Walenta, A. S., 2019).

This research is crucial to assess the performance of the small craft industry and the relationship between management function, social capital and competitive advantage to business performance in the small craft industry in Jambi City. Finally, the purpose of this study was to create a model that could be used as a guide

for small-scale industries to improve their efficiency and give recommendations to various entities, including government, large corporations and universities. The parties seek to promote and develop the small-scale craft industry in Jambi.

On the basis of the literature review of previous studies, this research is of a high level of originality as it differs from previous studies in terms of the research subject (performance of small craft industries), the research object (small craft industries in Jambi Province), and the approach (quantitative research approach). Therefore, this research fulfills the gap of knowledge that has not been comprehensively done previously, so this is the first research to build the right model in improving the performance of small craft industries in Jambi City.

Methods

Research Design

In this study, a tool in the form of closed questionnaires was used to collect data and it was done through a survey. In survey research, the samples are selected by sampling from one population, and the questionnaire is used as the data collection tool (Arikunto, S., 2016). The method used was quantitative analysis where statistical tests, and research hypothesis testing were carried out.

The research population is small craft industry businesses in Jambi City. The number of craft industries in Jambi Province is of 1,079 units (<https://disperindag.jambiprov.go.id/>), while in Jambi City there are of 135 business units.

A sample defines the number of characteristics of a subject that is representative of a population for further research (Quinlan, C., et al., 2019). The sample determination was carried out using the Slovin formula (Sevilla, C., 2013), so the total number of samples was 57 people.

Data Processing Method

The research instrument in the form of a questionnaire was tested with the Validity Test, Reliability Test. The data analysis technique used Partial Least Squares (PLS). PLS is an SEM (Structural Equation Modeling) equation model with a variance-based approach or component-based structural equation modeling. Smart PLS utilizes the bootstrapping or random doubling method. PLS-SEM analysis consists of two sub models, namely the measurement model or outer model consisting of Convergent Validity, Discriminant Validity and Reliability, while the structural model, or inner model is tested R-Square, and Estimate For Path Coefficients (Sugiyono, 2018; Hamid, R. S., & Anwar, S. M., 2019; Setiawan, S., 2020).

Result and Discussion

Respondents' Age Characteristics

The age of respondents with the highest number of respondents is between 36-45 years old, namely of 19 people or 33% of the total respondents. Small craft entrepreneurs in Jambi City are mainly women, up to 30 people or 53 percent, while only 27 people or 47 percent are men. In terms of the education level of small craft industry operators in Jambi City, the majority of respondents have a senior high school/islamic senior high school/vocational high school/islamic vocational senior high school education, namely 39 people or 68%, while those with elementary school/islamic elementary school or junior high school/islamic junior high school are as many as 12 people or 21%, while the least is those with other education, namely 1 person or 2%.

Research Model Analysis

Results of Model Testing

The independent variables are management function, which was measured with 4 indicators, social capital was measured with 6 indicators, the intermediate variable Competitive advantage was measured with 5 indicators and the dependent variable Business performance was measured with 4 indicators.

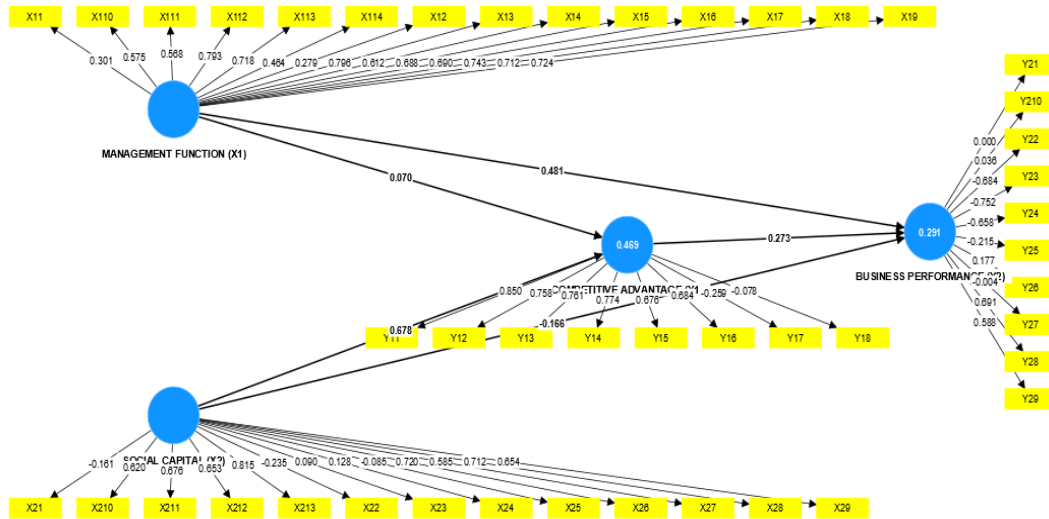
Evaluation of the Measurement Model (Outer Model)

Composite Reliability and Cronbachs Alpha

All reliable variables met the criteria for assessing joint reliability, i.e. more than 0.7. If the value of the variables of managerial function, social capital, competitive advantage and firm performance is greater than 0.7, which means that all these variables were reliable and valid. Therefore, all ratings corresponded to the external rating of the model. Based on the calculation, it can be seen that the Cronbach's alpha test results obtained a value of each construct that was greater than 0.7, so each variable already has a strong reliability value.

Convergent Validity

To meet the criteria of the loading factor, the indicator must have a value > 0.70. The test results obtained the loading factor value as contained in the following figure:



Source: Processed data, 2023

Figure 1. Factor Loading Testing Model

From the calculation, it can be concluded that all indicators on the Management Function (X1), Social Capital (X2), Competitive Advantage (Y1) and Business Performance (Y2) variables have a loading factor value above 0.70. This means that the indicators used in this research have met the criteria of factor loading, so the data to be used as primary data that will be processed for the next step.

Discriminant Validity

In Table 4.5. regarding the crossloading assessment, the results indicate that all values of each indicator correlate higher with the intended variable than with other variables, so it can be stated that the assessment has met the criteria for crossloading.

Average Variance Extracted (AVE)

The average variance extracted (AVE) assessment must have a value above 0.5, and if it fails to meet the criteria, the variable must be eliminated or cannot continue to the next stage. Based on the calculation, all variables have a value above 0.5, namely Management Function (X1), Social Capital (X2), Competitive Advantage (Y1) and Business Performance (Y2) have a value above 0.5. Then all the variables in this research have met the criteria for average variance extracted (AVE).

Measurement Model (Inner Model)

Structural model analysis (inner model) was conducted in Partial Least Square, which resulted in the value of the influence of variables affecting latent variables. The assessment for analyzing the structural model was by looking at the R-square value and the F-Square value.

R-Square Value

Based on the calculation, the R-squared value of the competitive advantage variable (independent) and the business performance variable was obtained, where the R-squared value of the competitive advantage variable is 0.776, which means that the competitive advantage could explain 77.6% . . The commercial result and the remaining 22.4% were affected by other variables. The R-Square value of the Business Performance variable is 0.557, which means that Business Performance can explain 55.7% of the competitive advantage and the remaining 44.3% can be explained by other variables. It can be concluded that the results of the internal model test for the competitive advantage and business performance variables are in the "strong" model category..

Hypothesis Testing

Hypothesis Testing for Direct Effect

A direct effects analysis was performed to test the hypothesis by looking at the T-Statistic value in the results of the direct effects test to determine the direct effect of the influencing variable on the influencing variable as follows:

Table 1. Direct Effect Assessment

Path	Original Sample (O)	Sample Mean (M)	(STDEV)	T Statistics ((O/STDEV))	P Values
Management Function (X1) -> Business Performance (Y2)	0.566	0.567	0.156	3.765	0.000
Social Capital (X2) -> Business Performance (Y2)	0.343	0.316	0.127	2.776	0.002
Competitive Advantage (Y1) -> Business Performance (Y2)	0.523	0.643	0.247	2.662	0.003

Source: Processed data, 2023

Table 1 shows that the assessment of the direct effect of vision on the results of hypothesis testing with t-statistics can be explained as follows:

1. The direct effect of the management function on the business result. The t-statistic value of the business performance management function is 3.765 greater than the t-statistic > 1.96. Also, if the P-value is 0.000, this value is less than 0.05 or 5%. These results show that the management function has a significant positive effect on business performance. This study agrees and shows that.
2. Direct Effect of Social Capital on Business Performance. The t-statistic value of the results of testing the second hypothesis related to the effect of social capital on business activity is 2.776 higher than the t-statistic > 1.96. Observing the p-value, the value of 0.002 is less than 0.05. From these results, it can be concluded that social capital has a significant positive effect on business performance, and this research is accepted and justified.
3. Effect of Competitive Advantage on Business Performance. The third hypothesis states that competitive advantage has a direct effect on firm performance when the value of t-statistic is 2.662 greater than t-statistic > 1.96. Observing the p-value gives a value of 0.005 less than 0.003. From these results, it can be concluded that competitive advantage has a significant impact on the performance of the company, which is accepted and proven in this study.

Hypothesis Testing for Indirect Effect

The results of the indirect effect analysis for hypothetical evaluation using indirect mediating variables between exogenous and endogenous variables were made in the indirect effect assessment according to Table 4.9 as follows:

Table 2. Indirect Effect Assessment

Path	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	t-statistic ((O/STDEV))	P Values
Management Function (X1) -> Competitive Advantage (Y1) -> Business Performance (Y2)	0,143	0,167	0,123	2,576	0,020
Social Capital (X2) -> Competitive Advantage (Y1) -> Business Performance (Y2)	0,254	0,152	0,146	3,681	0,010

Source: Processed data, 2023

Effect of Management Function through Competitive Advantage is significant positive on Business Performance.

The results of the analysis related to the influence of management function on business activity through competitive advantage are presented with a t-statistic test result of 2.576, which is greater than t-Statistic > 1.96. In addition, if the P-value of 0.020 is less than 0.05, these results can explain that the influence of management function on firm performance through competitive advantage is accepted and justified in this study.

Effect of Social Capital through Competitive Advantage on Business Performance.

The results of the data analysis related to the hypothesis that social capital through competitive advantage significantly affects the performance of the company can be seen from the t-statistics test results of 3.681, which is less than the t-statistic > 1.96. In addition, from the P value of 0.010, the value is greater than 0.05, these results explain that social capital through competitive advantage has a significant effect on firm performance, which means that this hypothesis is justified based on this that study.

Discussion

Direct Effect of Management Function on Business Performance

Based on the results of testing the effect of the Management Function variable on Business Performance is accepted and justified to be significant positive, indicating that the variable is an important consideration for a small craft industry operator in Jambi City. By properly implementing management function in the business, it will increase the performance of the craft business being run. The results of the analysis demonstrate a significant positive p-value, confirming that the increase in Management Function directly or indirectly on Competitive Advantage is able to improve the Business Performance of small craft industry businesses in Jambi City.

This study confirms the results of the study conducted by Djawa, P. (2011), according to which management activities do not have a significant impact on business performance, management activities have a positive and significant impact on competitiveness. Similarly, Aditya, J.R.P. (2018) concluded that there is a positive and significant relationship between managerial function and SME performance. The performance of SMEs is influenced by managerial functions, which include organizing, directing and controlling.

Effect of Social Capital on Business Performance

Based on the results of the hypothesis testing, the variable of social capital has a significant positive effect on the entrepreneurship of the small-scale craft industry in Jambi. This provides direct evidence that the growth of social capital can improve the business performance of small-scale industries.

The discussion of this research confirms the findings of study conducted by Widodo, H. T. (2016), which concluded that the social capital formed in the Tanggulangin bag and luggage industry center started from their families, relatives, neighbors and friends, and grew together with the local habits of the Tanggulangin community. Another study conducted by Warmana, G. O., & Widnyana, I. W. (2018) concluded that individual-level social capital embedded in entrepreneurs' personal networks can affect MSME performance. Craft businesses must maintain sufficient profitability to support survival and resettlement. Social capital is measured in three dimensions, which are structural, relational and cognitive. Performance is measured by sales volume, profit and asset growth. The results suggest that social capital has a positive effect on the financial performance of UD. Udiana in Celuk Village, Gianyar. Similarly, the research results of Fanan, Y. K. and Fitriyati, D. (2021) concluded that human capital and social capital have at the same time a positive and significant effect on the performance of SMEs. In part, human capital has a positive and significant effect on the results of SMEs, and social capital has a positive and significant effect on the results of SMEs.

Effect of Competitive Advantage on Business Performance

Based on the results of the hypothesis testing, the significant positive effect of the competitive advantage on the business result is accepted and justified, because its t-statistic value is greater than the t-statistic >1.96 . Also, the P-value is less than 0.05. These results showed that increasing the competitive advantage can improve the business of small scale industries in Jambi City.

The results of this research are consistent with the results of previous research conducted by Suprianto, E. S. (2021) which concluded that Competitive Advantage has a significant positive effect on corporate performance at PT Lekom Maras, which suggests that Competitive Advantage is instrumental in automatically supporting the improvement of corporate performance at PT Lekom Maras because with the creation of competitive advantage, the company will automatically generate additional revenue and increase company profits as well as be able to achieve the goals or targets of the company. Similarly, the results of research conducted by Noviyana, D., & Sitorus, R. R. (2023) concluded that based on the results of the above analysis, it can be concluded that Competitive Advantage has a significant positive effect on financial performance.

Indirect Effect

The impact of the management function through competitive advantage is significantly positive for the company. The results of the analysis related to the influence of the management function on business performance through competitive advantage are reflected in the results of the t-statistics test, which are greater than the t-statistics. In addition, based on the P value, it was less than 0.05, so from these results, it can be explained that the influence of the management function on the performance of the company through competitive advantage has been accepted and proven in this a study.

The effect of social capital through competitive advantage on firm performance. The results of the data analysis related to the hypothesis that the competitive advantage of social capital has a significant positive effect on business performance are reflected in the results of the t-statistics test, which are smaller than the t-statistics. In addition, the P-value received a value greater than 0.05, from these results, it can be explained that there is a significant positive effect on the company's performance through the competitive advantage of social capital, which means that the given hypothesis is . justified in this study.

Small craft industry operators in Jambi City are required to consider all variables related to Management Function, Social Capital, and Competitive Advantage, as these three variables greatly affect business performance. The implementation and enhancement of these three variables will greatly affect the success of the business.

Conclusion

1. The management function has a significant positive impact on business performance.
2. Social capital significantly affects business results.
3. Competitive advantage has a significant positive impact on business results.
4. The management function affects business performance through competitive advantage.
5. Social capital through competitive advantage has a significant positive impact on business results.

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