

The Effect of Social Capital on Financial Literacy of Small Businesses in Malang, East Java

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Abstract—This study aims to see the effect of social capital on financial literacy in small businesses in Malang, East Java. This research was conducted because it saw the very important role of Small Businesses in Indonesia's economic development. Through social capital, it is expected to be able to provide an answer whether it can affect financial literacy in small business. This research is an explanatory study with a quantitative approach. The population in this research were small business players registered at the Department of Industry and Commerce, Malang. The sample was collected using a probability sampling technique with a Proportionate Certified Sampling approach, in order to obtain a sample of one hundred ninety-one small business respondents. The data collection instrument used a questionnaire with closed questions and analyzed using simple linear regression with SPSS (Statistical Product and Service Solutions). The results showed that social capital has a significant effect on financial literacy in small businesses in Malang.

Keywords—social capital, financial literacy, small business

I. INTRODUCTION

Currently, MSMEs are an important sector for the economic development of a country. In Indonesia, Small and Medium Enterprises (SMEs) are very important for the pace of the economy as a way to accelerate regional development. In accordance with Law no. 20 of 2008 concerning MSMEs. MSMEs is one of the sectors that has an important role in absorbing labor. In addition, MSMEs are also known to have high resilience against economic turmoil after the economic crisis that existed in Indonesia in 1998, the number of MSMEs did not decrease, it has actually increased until now.

MSMEs as the main pillar of GDP formation, employment, investment, as well as a social safety net in the face of various crises and economic turmoil. The existence of reliable and strong MSMEs is the main capital for economic development as well as a shield against global economic turmoil. Therefore, so that the Indonesian economy continues to develop. It takes several alternatives to develop MSMEs, one of which is through increasing the knowledge of business players. The role of literacy is very important for life because it also affects the economy of a country in terms of utilizing and increasing existing resources.

Currently literacy is often asked to be the key that can open the door to modernization, participation, empathy, democracy, decentralization of knowledge, improvement of living standards, especially economics. Financial literacy is very important for MSME entrepreneurs because financial literacy can empower MSMEs about funding sources and skills that will equip MSMEs to weigh their options in finding financing to optimize their financial structure. Financial literacy will also help MSMEs to avoid offering financing that indicates fraud [1]. POJK states that financial literacy is knowledge, skills and beliefs, which influence attitudes and behavior to improve the quality of decision making and financial management in order to achieve prosperity [2].

The financial literacy index of the Indonesian people is still low, namely 29.7%, which means that out of a total of 100 residents, only about 30 people are in the good literacy category and it is suspected that they have not been able to determine sufficient understanding how to optimally apply financial knowledge [3]. Indonesia's financial literacy rate is still lower than other developing countries, such as Malaysia 36%, Sri Lanka 35%, and South Africa 42% [4]. Therefore, the Indonesian government's efforts to promote financial literacy are a form of effort to make financial literacy the main key in realizing economic improvement. There are synergies and ways needed to increase literacy, one of which is through social capital by utilizing networks and involving Triple Helix, namely academics, the business world, and the government are involved in the process and implementation. The concept of a financial literacy education model that utilizes social capital is a non-formal education model by creating a financial literacy community that is organized in a directed manner and has a clear program to improve financial literacy [5].

Social capital is described as an intangible substance that is taken into account in everyday life in society. as well as; goodwill, cooperation, sympathy, and association between individuals and families which are indeed one social unit. Social capital also allows people to place great value on their family, friends and co-workers who facilitate collective action. Social capital can reduce uncertainty and reduce transaction costs thereby stimulating economic activity at the micro level [6]. Wilantara and Susilawati [7] on a micro-economic basis, social capital will generate collective energy that enables the

development of entrepreneurship, and ideas for working formulas with better economies of scale. There are three things that result from the strengthening of social capital in people's economic activities, namely the emergence of the urge to give each other (reprocity), mutual trust (trust) and togetherness (cohesiveness) which then builds networks and cooperation (social networking). Social capital is applied to explore various issues of growth and development in the economic sector and financing among the poor. Therefore, through social capital, people can build influence based on trust to understand and exchange basic financial knowledge. So that it is expected to change people's behavior and overcome problems with knowledge of financial products and services in order to increase financial inclusiveness.

Research by Seghers et al. [8], Pangeran [9] stated that there is a significant positive influence between social capital and financial literacy, where the poor learn through social interaction and they begin to understand and shape values, knowledge and attitudes about financial products and services through social capital. Increasing financial literacy through social capital is able to encourage access to finance necessary for the growth of small businesses. Business actors who have a good level of financial literacy will help them make decisions and make wise financial choices.

II. METHODS

This research is explanatory with a quantitative approach. Based on this explanation, it will be possible to know the effect of the variables tested in statistical hypothesis testing, so that it can be seen the influence of social capital variables on financial literacy variables. The population in this research were small business players registered at the Department of Industry and Commerce, malang. The sample was collected using a probability sampling technique with a Proportionate Certified Sampling approach, in order to obtain a sample of one hundred ninety-one small business respondents. The data collection instrument used a questionnaire with closed questions and analyzed using simple linear regression with SPSS.

There are two variables in this study, namely social capital and financial literacy. Financial literacy consists of several financial-related knowledge and abilities possessed by individuals in order to be able to manage or use a certain amount of money to improve their standard of living [10]. And Social capital consist of Structural and Relational dimation [11].

The purpose of using simple linear regression analysis is used to test the effect of one independent variable on the dependent variable. Simple linear regression test used validity and reliability tests.

A. Pearson Product Moment Validity Test

The validity test was conducted to determine the validity or suitability of the questionnaire used by researchers in measuring and obtaining research data from respondents, the

basis for taking the Pearson validity test by comparing the calculated r value with the r table [12] (Table 1).

TABLE I. VALIDITY TEST TABLE

Description	Decision
$r_{\text{count}} > r_{\text{table}}$	Valid
$r_{\text{count}} < r_{\text{table}}$	Invalid
N = 191 sig. 5% (r table : 0,138)	

B. Cronbach Alpha Reliability Test

The reliability test aims to see whether the questionnaire has consistency if the measurement is carried out using the questionnaire repeatedly. The basis for taking the Cronbach Alpha reliability test, the questionnaire is declared valid if the Cronbach alpha value is > 0.6 [12].

C. Performed Normal and Linear Tests

This test is conducted to make a decision whether social capital affects financial literacy

III. RESULTS

Geographically, Malang City is located at a position of 112.06 -112.07 ° East Longitude and 7.06° - 8.02° South Latitude, thus forming an area of 11,006 ha or 110.06 km². Although it only has a relatively small area, Malang City is the second largest city in East Java after Surabaya. In the provisions concerning the division of regions, Malang City is administratively divided into 5 (five) districts with a total of 57 (fifty-seven) urban villages. In this study, it is in accordance with the calculation of sampling that the number of small businesses that became respondents was 191 with a proportional calculation adjusting the number of proportions in each district and type of sector.

TABLE II. PRODUCT MOMENT VALIDITY TEST TABLE

		X1.1	X1.2	X1.3	X1.4	X1.5	X1.6	X1.7	X1.8	X1.9	X1.10	TOTAL
TOTAL	Pearson Correlation	,595**	,642**	,692**	,742**	,727**	,769**	,736**	,721**	,692**	,685**	1
	Sig. (2-tailed)	,000	,000	,000	,000	,000	,000	,000	,000	,000	,000	
	N	191	191	191	191	191	191	191	191	191	191	191
** . Correlation is significant at the 0.01 level (2-tailed)												
* . Correlation is significant at the 0.05 level (2-tailed)												
TOTAL	Pearson Correlation	,627**	,682**	,707**	,716**	,773**	,774**	,780**	,755**			1
	Sig. (2-tailed)	,000	,000	,000	,000	,000	,000	,000	,000			
	N	191	191	191	191	191	191	191	191	191	191	191
** . Correlation is significant at the 0.01 level (2-tailed)												

TABLE III. CRONBACH ALPHA RELIABILITY TEST TABLE

Case Processing Summary X			
		N	%
Cases	Valid	191	100,0
	Excluded ^a	0	,0
	Total	191	100,0
a. Listwise deletion based on all variables in the procedure.			
Reliability Statistics			
Cronbach's Alpha		N of Items	
,881		10	
Case Processing Summary Y			
		N	%
Cases	Valid	191	100,0
	Excluded ^a	0	,0
	Total	191	100,0
a. Listwise deletion based on all variables in the procedure.			
Reliability Statistics			
Cronbach's Alpha		N of Items	
,873		8	

Based on Pearson Product Moment Validity Test (Table 2) and Cronbach Alpha Reliability Test all item shown valid and reliabel (Table 3).

A. Normal and Linier Test

TABLE IV. THE DEPENDENT VARIABLE WITH THE METHOD USED

Variables Entered/Removed ^a			
Model	Variables Entered	Variables Removed	Method
1	Social Capital ^b	.	Enter
a. Dependent Variable: Financial Literacy			
b. All requested variables entered.			

Result: The output above (table 4) explains that the social capital variable is the independent variable and financial literacy is the dependent variable with the method used is the enter method.

TABLE V. THE VALUE OF THE CORRELATION / RELATIONSHIP (R)

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,198 ^a	,039	,034	7,43901
a. Predictors: (Constant), Social Capital				

Result: The table 5 above explains the value of the correlation / relationship (R) which is equal to 0.198, from the output, the coefficient of determination (R Square) is 0.039 which implies that the influence of the independent variable (social capital) on the dependent variable (financial literacy) is 3.9%.

TABLE VI. THE VALUE OF F

ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	425,909	1	425,909	7,696	,006 ^b
	Residual	10459,044	189	55,339		
	Total	10884,953	190			
a. Dependent Variable: Financial Literacy						
b. Predictors: (Constant), Social Capital						

Result : The output (table 6) above shows that the value of F count = 7, 696 with a significance level of 0.006 <0.05. Then the regression model can be used to predict the participation variable or in other words, there is the influence of the social capital (X) on the financial literacy (Y).

TABLE VII. THE CONSTANT VALUE

Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	9,869	4,400		2,243	,026
	Social Capital	,292	,105	,198	2,774	,006
a. Dependent Variable: Financial Literacy						

Result: it is known that the constant value (a) is 9.869, while the social capital value (w / regression coefficient) is 0.438 so that the regression equation can be written;

$$Y = a + bX$$

$$Y = 9,869 + 0,292$$

This equation can be translated as constant at 9.869, meaning that the consistent value of financial literacy is 9.869. The X regression coefficient of 0.292 states that every 1% increase in the value of social capital, the value of financial literacy increases by 0.292, so it can be said that the direction of the influence of variable X on Y is positive.

B. Decision Making in a Simple Regression Test

Based on the significance value: from the coefficient table, it is obtained a significant value of $0.006 < 0.05$, so it can be concluded that the social capital variable (X) affects financial literacy (Y). Based on the t value: it is known that the t value is $2.774 > t \text{ table } 1.960$, so it can be concluded that social capital (X) affects financial literacy (Y).

The results also show that the Social Capital variable has a direct effect on the Financial Literacy variable. This means that when the Social Capital variable is increased, the financial literacy variable will also increase. Based on 2 indicators, namely, structure and relations, small business actors in Malang will respond to feel the urge for the Social Capital variable. This positive effect is because small business actors receive a good flow of information regarding financial knowledge within the group. This also occurs in the cycle of communication activities where business actors embrace one another so as to create mutual trust, share ideas, thoughts, and information among fellow members. Togetherness that comes from the group makes small business actors use group forums as a place to find information and learn about financial literacy. also actively involves the group in financial literacy education activities and provides opportunities and space for small business actors to learn to improve financial knowledge.

IV. DISCUSSION

Social capital has a very important role for every individual or organization, this is because social capital is a tool to determine the level of awareness of both the individual and the organization. In addition to literature review and several previous studies, there are several characteristics of respondent descriptions that support the research findings. Based on the results of descriptive statistical analysis obtained, it shows that the environment of a group or community or organization has an important role in individual development. Small business actors who grow in this community environment will have relatively broader opportunities to obtain financial knowledge information so that if individuals have close relationships and know each other well, this social environment will have a profound influence on individual development. in learning and running the business process.

The results of the study regarding the significant positive relationship between the Social Capital variable and the Financial Literacy variable in this study support the results of the research that has been conducted by Seghers et al. [8] and Pangeran [9]. In addition to confirming the results and providing diversity of research results in empirical research, this study also provides a different contribution from previous research, namely research was conducted on small businesses with various business sectors in the city of Malang.

V. CONCLUSION

The results of this study found that there was a positive and significant influence of social capital on financial literacy in small business actors in Malang, East Java. This research still has many limitations, so there is still plenty of room to develop further research in more depth. This research focuses on small businesses in Malang city, East Java, so that the research object under study does not involve other MSME scales, namely the micro or medium scale and the area coverage in this study is not too broad, which also cannot represent small businesses as a whole.

The use of research models only tests the effect of constructs or variables linearly, so that the results are still possible to conduct research by examining the relationship between variables and describing the effect as a whole. Therefore, future studies can adopt the use of longitudinal research to investigate the behavior of SMEs in developing the economy, which can improve business actors' knowledge and access to finance. Further research can develop existing models by adding other variables and expanding the object of study.

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