The impact of social capital on corporate operations through financial literacy, financial inclusion and financial intermediation and mediation

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Abstract. This research aims to test and analyze the influence of social capital on company performance with financial literacy, financial inclusion and financial intermediation as mediation. This research was carried out in Kendari City with a sample size of 101 MSMEs. This research uses primary data, the data collection method is carried out by distributing questionnaires using a survey method. The statistical method used to test the hypothesis is by using the Structural Equation Model (SEM).
The research results show that social capital has a positive effect on company performance and testing the mediation effect shows that financial literacy, financial inclusion and financial intermediation mediate the relationship between social capital and company performance. This research shows that social capital is an important factor that can improve company performance. This is because social capital can increase trust, cooperation and share information between company stakeholders. Financial literacy, financial inclusion and financial intermediation act as partial mediators in the relationship between social capital and company performance.

Keywords: Corporate performance, social capital, financial literacy, financial inclusion, financial intermediation.

1. Introduction

The economy is one of the most important sectors and is the government's concern in various policies aimed at improving the well-being of society. The great effort of the 1970s was the beginning of economic development for the Indonesian nation. The era has made Indonesian economic growth a rapid one in the major industrial sector. As time went by, big industries went bankrupt and many companies cut their employees, leading to poverty and unemployment. Unemployment problems can arise due to imbalances between the amount of workforce and the available jobs. Efforts to tackle the high unemployment in Indonesia are not only a responsibility of the government, but the public must also join in trying to find a way out of it. One way to reduce the rising unemployment is to start your own business, even if it's just a small business like Small and Medium-sized Enterprises (SMEs) but is expected to be able to open up business opportunities for yourself and others.
UMKM has been globally recognized as an engine of economic growth and provides solutions to the problems of slow economic development in developing countries [1].

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A. Patunru et al. (eds.), *Proceedings of the 8th International Conference on Accounting, Management, and Economics (ICAME 2023)*, Advances in Economics, Business and Management Research 279,
https://doi.org/10.2991/978-94-6463-400-6_70

It is demonstrated by its population as the largest entrepreneur and its contribution to the absorption of labour, the formation of gross domestic product, exports and the creation of fixed capital/investment [2].

In the last ten years the development of UMKM in Indonesia has reached 99.9 percent of the total business units in Indonesia. The total UMKM distributed in Indonesia is 62.9 million units covering trade, agriculture, farming, forestry, fishing, mining, processing, buildings, communications, hotels, restaurants and services [3]. Nevertheless, in the midst of UMKM's not very good development in early 2020, UMKM in Indonesia is again tested with the emergence of the outbreak of covid-19 in the Indonesian community. This condition has caused the phenomenon of the COVID-19 pandemic to cause chaos in the economic sector. So this situation has a huge impact on the economy.

It requires companies, especially UMKM, to develop strategies to survive and grow. One of the key factors for a company to stay competitive and thrive in times like this is by optimizing the company's performance [4]. Without good corporate performance, it is impossible that UMKM can stand long in sustaining its existence. Ahmad and Pi-Sheen (2009) stated that successful business management is not an easy thing. UMKM faces common problems that interfere with their performance and livelihoods. Some statistics show that the rate of failure of small in their first five years is more than 50% [5].

Social capital is a process involving networking, collaboration, and communication in society to a better quality of life [6]. The theory of success states that collaborative relationships can enhance a high spirit of work, mutual respect, and trust [7]. UMKM actors who have high social capital will be able to find interesting ideas to take steps in starting their business compared to those who have lower social capital [8].

Theoretically social capital has a role in the development of enterprises or within the scope of UMKM. Identification and enhancement of social capital in each area in economic development has been implemented but still not accurately recorded, then it is necessary to carry out an analysis of how much social capital influence on the performance of the company. Social norms, social networks, and trust that exists in society are essential elements in social capital for the sustainability of society's entrepreneurship. Based on the observations of researchers social capital is still not optimally utilized in the city of Kendari, It is supported by the opinion of the father Alda Lapae as Head of the Department of Cooperation and UMKM in the City of Kenderi informed that only 982 UMKMs have business permits and the remainder of 41.939 UMKM still have no business permission [9]. “Besides, many UMKM perpetrators have not used the Integrated Enterprise Services Centre (PLUT) and joined as partners. The minimum preparation in the construction of an enterprise so that the perpetrators of UMKM do not have a decent financial record of the enterprise, so it is not uncommon that many of the entrepreneurs are closed. Besides, the collaborative relationship between other entrepreneurs is not optimal. This indicates that the interaction between the entrepreneur and his fellow entrepreneurs and the government is still not optimally achieved [10]. explained that UMKM's success is related to the financial literacy of the entrepreneurs. Financial literacy is education and understanding of various areas of finance. This concept focuses on the ability to manage finances in an efficient way and it includes knowledge in making the right decisions about finance such as investment, insurance, real estate, savings, and tax planning [11]. Furthermore, financial literacy also involves mastering financial principles and concepts such as financial planning, aggregate interest, debt management, profitable saving techniques and the time value of money [12]. Therefore, financial literacy is assumed to be a valuable resource for entrepreneurs. Purnomo affirms that financial literacy can keep entrepreneurs from business failures caused by poor financial management [13]. Confirming this Kelley et al. proved that a lack of financial literacy for entrepreneurs can be one of the factors causing business failure especially UMKM [14].

Empirically, Wise conducted an investigation to prove the impact of financial literacy on business survival in Canada [15]. He proves that increased financial literacy leads to lower chances of closing their business. In the same study [16], demonstrated that there is a significant influence of financial literacy on SMM performance based on terms of loan literacy and budget finance literacy. Furthermore, [17] proved that financial literacy represented by the dimensions of knowledge, behavior, and financial attitudes influenced SME performance in 154 SMEs in Nigeria. Confirming this, [18] also found concrete evidence of improved SME performance in Kenya's Njoro region, where after completing a curriculum, financial analysis, credit management and accounting skills, there was a significant improvement in the income performance of small enterprises whose initiators had enrolled in a financial literacy program. Just as with financial literacy, financial inclusion is also important for UMKM perpetrators.

After UMKM offenders have knowledge and understanding of finance with good literacy. To implement it, entrepreneurs must obtain financial inclusion facilities. Financial inclusion is access to products and services of financial services such as transactions, payments, credit savings and insurance that are used sustainably. Based on empirical evidence, Salman demonstrated that financial inclusion described through the dimensions of use of mobile banking access and banking services had a significant positive impact on the growth and development of SMEs in Nigeria [19]. Similarly, Agbim confirmed evidence that the SMEs of Nigeria that have adopted financial inclusive devices such as payment devices and money receipts have improved both their financial and non-financial performance [20].

Inclusion of finance into the financial literacy program is mainly in order to enhance the ability of small to use financial services and gain direct impact from financial institutions. Sanistasya et al. said that the higher the increase in financial inclusion in UMKM then will ultimately improve the financial stability of a country [21]. Financial inclusion is a change in the thinking of economic agents about how to look at profits and money. Financial inclusion can simply be interpreted as facilitating access to financial services in economic activities. Abor and Quartey revealed that only respondents from the banking sector have a higher financial literacy compared to other sectors so that UMKM, which is one of the backbones of the economy, should have a high financial Literacy and good financial inclusion [22]. Research conducted by Nurjanah says that there is a significant influence between financial inclusion and UMKM [23].

Behind tens of millions of UMKM hardship, UMKM's development efforts still encounter obstacles such as traditional business management, inadequate quality of human resources, low scale and production techniques and limited access to financial institutions, especially banking. In this context, various efforts have been made to ensure that UMKM's capabilities continue to develop, both from the marketing perspective, internal business processes, human resources management as well as financial management perspectives, given that the empowerment of UMKM is not independent of the financial resources aspects. In line with the approach to poverty alleviation, the optimum distribution of credit to this sector contributes to increased income and employment opportunities. The condition reflects that the granting of credit to UMKM will encourage the spread of credit risk and while the UMKM credit interest rate is in line with the market interest rate so that the bank will have sufficient margin. Although the rate of non-performing loans (NPLs) is relatively small, attention needs to be paid, as increasing the level of NPLs will affect the health of the bank itself as a financial intermediation to the public.

Financial Intermediation can simply be understood as an intermediary or link between a society that stores money in various forms of savings and a community that needs funds in the form of credit. Banks as intermediary institutions need to be run in order for banks to be categorized as healthy banks because there is a balance between funds collected from the public in the form of swaps, savings, deposits and certificates of deposits or so-called third-party funds with funds circulated as credit loans. Harmono has the view that one of the factors affecting UMKM's resilience in returning the dividend can be influenced by the financial perspective which means that UMKM management must understand how to establish relations with creditors and how to comply with the credit accuracy realized in the payment on time [24]. With simple but accurate financial planning it turns out to produce a good cash flow system, so that for UMKM can optimize loans from fund holders.

The difference between this study and the previous study is the variable used, where this study is a modification of the study Bongomin et al. [25] namely the influence of Financial Intermediation on financial inclusion with social capital as a mediation variable and the study Lontchi namely, the impact of financial inclusion on sustainable development with financial literacy as mediation [26].

2. Literature Review and Hypothesis Development

2.1 Social capital theory

The social capital theory was first defined by Bourdieu as a set of actual and potential resources associated with ownership of lasting networks consisting of mutual recognition or recognition [27]. Social capital theory refers to a person's ability to benefit or benefit from social structures, social networks and membership [28]. Social networks are not naturally given but must be built through an investment strategy in an individual or group that can be used as a source of benefit. Social capital is defined as the amount of actual and potential resources embedded, available and derived from networks owned by individuals or groups [29]. Social capital consists of networks and assets that can be mobilized through the networks. Kim and Aldrich described social capital broadly as a resource available to people through social relationships. In the context of entrepreneurship, social capital itself is obtained through social networks built by entrepreneur to gain access to vital resources for the prosperity and success of a business [30].

Oxoby says that social capital is an individual's sacrifice of time, energy and consumption made in an attempt to enhance cooperation with others [31]. According to Putnam, social capital is a part of social life such as networks, norms, and beliefs that encourage participants to act together more effectively to common goals [32]. Coleman defines social capital as the ability of people to work together to common goals within groups and organizations, the form of social capital Delyana et al. is [33] & [34].

1. Trust is the norm of cooperative norms such as honesty and willingness to help between groups If the members of the group expect other members to behave honestly and trustworthy, then they will trust each other.
2. A social network is a special type of network, in which the bonds connect one point to another. Networks provide the basis for social cohesion by encouraging people to work with each other and not just with people they know directly for mutual benefit.
3. Norms are crucial to reducing transaction costs. If we don't have norms, then we might have to negotiate ownership rules on a case-by-case basis, a situation that is not conducive to market exchange, investment, or economic growth.

2.2 Theory of Financial Integrity

Financial behavior was first introduced by Kahneman and Tversky which stated that behaviour in financial decision-making occurs based on various circumstances [35]. The theory of financial behavior is a theory that explains how humans make decisions based on information obtained. In his development of this theory according to Thaler and Barbares explains that there are two underlying frameworks, limited to arbitrage and psychology [36]. Then psychology (cognitive) is the basic framework of behavioral finance theory that explains how a person makes mistakes in the way he thinks because he has faith because of the experience, knowledge and information he possesses.

2.3 *Financial literacy*

Increased financial literacy is crucial in achieving financial well being. According to the Financial Services Authority Regulation No. 76/POJK.07/2016 financial literacy is the knowledge, skills and beliefs that influence attitudes and behaviors to improve the quality of decision-making in financial management. The organization For Economic Co-operation and Development International has developed a financial literacy survey instrument that is used to measure the level of respondents' financial Literacy as follows [37].

1. Financial knowledge is measured on the basis of knowledge of the time value of money, loan interest, bank interest calculation principles, aggregate interest, risk and profit, the definition of inflation, and diversification.
2. Financial behaviour based on caution before making a purchase, accuracy in paying bills, setting long-term financial goals, saving activity, decisions in choosing financial products, and borrowing to meet needs.
3. Financial attitude based on attitudes prioritizing short-term desires over long term security or making long- term financial plans.

2.4 *Financial inclusion*

In President's Decree No. 82 of 2016 on the National Strategy for Inclusive Finance, financial inclusion is the condition in which every individual has access to quality, timely, smooth, and secure formal financial services at an affordable cost according to their needs and capabilities. The Ministry of Law and Human Rights (2016) explained that in measuring financial inclusion there are indicators used which are as follows [38].

1. Availability/Accessibility of Financial Institutions measures the ability of users of formal financial services in relation to both physical and price affordability.
2. Use of Financial Products and Services Consumption is an indicator that measures the perceived benefits of using a financial service product from either the security or well-being side.
3. Quality is an indicator that measures whether the financial service attribute has met the customer's needs.

2.5 *Financial intermediation*

Intermediation can simply be understood as an intermediary or a connector. The link between a society that keeps its money in various forms of savings and a community that needs funds in the form of credit. Banks as intermediary institutions need to be run in order for banks to be categorized as healthy banks because there is a balance between funds collected from the public in the form of swaps, savings, deposits and certificates of deposits or so-called third-party funds with funds channeled in form of credit loans. Measuring Financial Intermediation according to Yaron et al. uses the quality of services provided by financial institutions such as banks to measure financial intermediation [39]. In the study Illahi and Arifuddin adopted the service quality dimension using five dimensions, namely as follows [40].

a) Physical evidence (tangibles)
b) Reliability (reliability)
c) Response power (responsiveness)
d) Guarantee (assurance)
e) Empathy (empathy)

2.6 The impact of social capital on corporate performance

The theory of social capital states that in order to maximum goals social capital can provide innovation and an impetus to society to be better [41]. Social capital is a process involving networking, collaboration, and communication in society to a better quality of life [42]. Yadap et al. showed results that social capital variables can influence enterprise success through network bonding and trust indicators. Social capital variables also make a major contribution to the realization of a successful venture. The same thing submitted by Kusumastuti shows the results that there is an influence of the social capital that the entrepreneur has on the success of the enterprise carried out.

H1: Social capital has a positive impact on company performance.

2.7 The impact of social capital on corporate performance through financial literacy

Based on the theory of planned behavior, Bhusan and Medury revealed that financial literacy is the ability of an individual to obtain information and make appropriate decisions about the use and management of his or her personal finances. The entrepreneur at UMKM has the possibility to make the right decisions about the use and management of the company's finances so that it affects the financial performance of the corporation. In a study conducted by Chung and Park it was found that there was influence in social networks that had power over financial education with the Financial Literacy they had. Ardian says that peers influence the financial literacy that someone around them has, whether they are acquaintances, close friends or family.

H2: Social capital has a positive impact on corporate performance through financial literacy.

2.8 The impact of social capital on corporate performance through financial inclusion

The social capital of UMKM can improve the dissemination of information on financial services as needed, thereby improving the financial inclusion of the UMKM. In the Behavioral Finance Theory, it explains how humans make financial decisions based on information or knowledge. Financial inclusion requires UMKM actors to gain ease in every business process. One of the factors that supports a business is financing. Istiyana et al. (2017) mentioned that the problems often encountered by UMKM perpetrators are related to financing and marketing processes. These problems could be addressed by facilitating access to financial services. Yanti (2019) suggests that when financial inclusion is enhanced, then financial inclusion will be able to have a positive and significant influence on the financial performance of a business. In addition, Sanistasya et al. (2019) also mentions that financial inclusions have a significant positive impact on the performance of small enterprises.

H3: Social capital has a positive impact on corporate performance through financial inclusion.

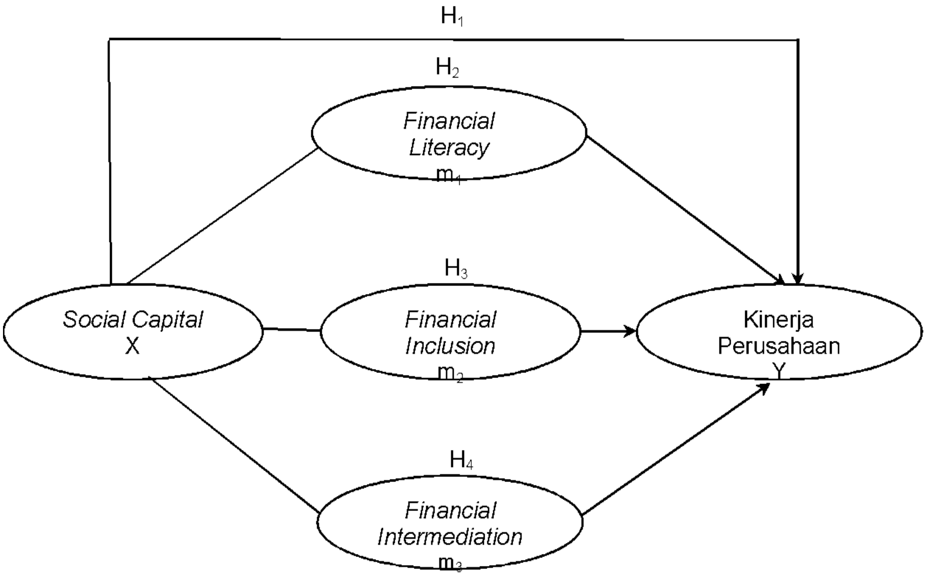
2.9 The impact of social capital on corporate performance through financial intermediation

Social capital is a set of values, trusts and norms that arise between groups of society that enable cooperative relationships to develop. In Behavioral Finance Theory describes the way humans make financial decisions based on information or knowledge they possess. Relationships between UMKM can form a belief in something that is believed so that it can influence a person in taking action, Social Capital can explain how the funding decisions are taken by the company. Because with the social capital it owns, the company will have a positive relationship with other economic actors, which with the existence of this relationship will strengthen access to sources of funding from outside. Financial Intermediation can also be interpreted as a decision concerning the financial structure of a company. (financial structure). The financial structure of a company is a composition of financing decisions that include short-term debt, long-term Debt and own capital. Each company will expect an optimal capital structure, that is, a capital structure that can maximize the value of the firm and minimize the cost of capital. The financing decision taken by the company will increase the asset structure, for investors it is a positive information about the company's performance in the future. For the internal company itself, an increase in the amount of capital or debt will make the company get its liquidity back, further affecting the reduction in the financial pressure faced by the company.

H4:Social capital has a positive impact on company performance through Financial Intermediation.

3. Research Methods

Fig. 1. Conceptual Framework



The hypothesis testing in this study is carried out using the bootstrapping method on the Smart PLS application. Bootstrapping is a computer-based method used to measure the accuracy of statistical estimates (statistical size assumptions and confidence gaps) and minimize the problem of anomalies of research data. The hypothesis is tested by looking to see if the path coefficient corresponds to the positive hypotheses shown by the original sample output (SmartPls), then comparing the p-value with the alpha value. The test results with the bootstrapping method on the Smart PLS application yield the following output.

3.1 Outer Model

Before testing the hypothesis that has been formulated, validity and reliability tests are first carried out.

Table 1 Validity and Reability Test Results

Variables	AVE	Cronbach's Aplha	Composite Reliability
X1	0.546	0.834	0.878
Y	0.531	0.902	0.919
Z1	0.535	0.827	0.874
Z2	0.553	0.839	0.881
Z3	0.530	0.902	0.918

Source: Data Processed, 2023

According to the data shown in the table that is located above, it is clear that the AVE value for all of the variables is more than 0.5, as is necessary. As a result, one might reach the conclusion that the convergent validity of all variables has been met. The results of the Cronbach's Alpha test and the composite reliability test demonstrate that all of the variables have a value that is more than 0.7. This demonstrates that there is consistency across all variables.

3.2 Inner Model

An internal model or structural model test is performed to predict the degree of significance of relationships built between structures (exogenic and endogenic) present in the research model by looking at R-square values. The R-quare value is used to identify how great the influence of independent variables on the rate of variation of variable variations is dependent. The above indicates that the corporate performance variable can be explained at 55.7% by the social capital variable while the remaining 44.3% is explained by other variables outside the research model.

Table 2 Hypothesis Test

	Coefficient	T statistics	P values
X1 -> Y	0.294	3.086	0.002
X1 -> Z1	0.309	2.715	0.007
X1 -> Z2	0.337	3.294	0.001
X1 -> Z3	0.255	2.277	0.023
Z1 -> Y	0.353	3.670	0.000
Z2 -> Y	0.173	2.153	0.031
Z3 -> Y	0.249	3.240	0.001
X1 -> Z1 -> Y	0.109	2.023	0.043
X1 -> Z2 -> Y	0.058	1.715	0.026
X1 -> Z3 -> Y	0.063	2.043	0.041

Source: Data Processed, 2023

- ***Social capital has a positive impact on company performance***

Hypothesis 1 (H1) states that the social capital variable has a positive impact on the company's performance. The ratio of the social capital variable to the performance of the company has a parameter coefficient value of 0.294 and a p-value of 0.002. The result shows that there is a direct influence between the social capital variable and the performance of the company. Based on these results it can be concluded that Social capital has a positive and significant influence on K so stated H1 accepted.

- ***Social capital has a positive impact on corporate performance through financial literacy.***

Hypothesis 2 (H2) states that social capital variables have a positive influence on company performance through financial literacy. The ratio of the variable Social capital to the performance of the company through financial literacy has a parameter coefficient value of 0.109 and a p-value value of 0.043. The results show that the parameter's coefficent value is positive at a significance level of 0.05 (0.043 < 0.05). The results showed that there was a direct influence between the social capital variable and the company's performance through financial literacy. Based on these results it can be concluded that Social capital has a positive and significant influence on the performance of the company through financial literacy so stated H2 accepted."

- ***Social capital has a positive impact on company performance through financial inclusion.***

The hypothesis 3 (H3) states that the variable of the social capital variable has a positive effect on the performance of the company through financial inclusion. The ratio of the variables of social capital to the company's performance through financial inclusion has a parameter coefficient value of 0,058 and a p-value value of 0.026. The results show that the parameter's coefficent value is positive at a significance level of 0.05 (0.026 < 0.05). The results show that there is a direct influence between the social capital variable and the performance of the company through financial inclusion. Based on these results it can be concluded that Social capital has a positive and significant influence on the performance of the company through financial inclusion so stated H3 accepted.

- **Social capital has a positive impact on corporate performance through financial intermediation.**

Hypothesis 4 (H4) states that the variable social capital has a positive influence on the performance of the company through financial intermediation. The ratio of the social capital variable to the performance of the company through financial intermediation has a parameter coefficient value of 0.063 and a p-value of 0.041. These results indicate that the parameter factor value is positive at a significance level of 0.05 (0.041 < 0.05). The results show a directed influence between the social capital variable and the company's performance through financial intermediation. The higher the corporate social capital, the higher the company's performance through financial intermediation. Based on these results it can be concluded that Social capital has a positive and significant influence on the performance of the company through financial intermediation so stated H4 accepted.

4. Conclusion

This research was conducted with the aim of finding out the impact of Social capital on UMKM performance with financial literacy financial inclusion and financial intermediation as mediation. Based on previous data analysis, the conclusions that can be drawn from this study are as follows.

1. Social capital has a positive impact on the company's performance. Test results show that social capital can influence the performance of the company.
2. Social capital has a positive impact on corporate performance through financial literacy.
3. Social capital has a positive impact on company performance through financial inclusion.
4. Social capital has a positive impact on corporate performance through financial intermediation.

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