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Financial Inclusion as Mediator in the Relationship of Social Capital and Financial Literacy Towards Business Performance

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Abstract: This study examines the performance problems of SMEs in the trade sector in Pekanbaru by using several internal company factors to build a competitive strategy. The study involved 300 SMEs consisting of 26 wholesalers and 274 retailers in Pekanbaru, Riau. This research adopted a structural equation model (SEM) approach with AMOS for hypothesis testing. The results indicate that social capital and financial literacy have a significant direct effect on the performance of the SMEs businesses in the trade sector in Pekanbaru. It implicates that social capital and financial literacy are two determining factors for the success of SMEs businesses. However, social capital does not affect business performance indirectly through the role of financial inclusion. Meanwhile, financial literacy in this study, directly or indirectly, through financial inclusion can improve the performance of SMEs businesses. This study shows that SMEs in the trade sector in Pekanbaru must continue to foster partnerships with existing associations, and they also need to be directed so as not to deviate from the common goal of advancing the SMEs businesses.

Keywords: Financial Literacy, Financial Inclusion, SMEs' Business Performance, Social Capital

INTRODUCTION

At the end of 2019, the world was shocked by the emergence of an infectious disease originally discovered in Wuhan, China. This global pandemic has also spread in almost all regions of Indonesia, as Indonesia confirmed the first case of coronavirus infection in early March 2020. The health sector and almost all sectors are also affected by this global pandemic, including the economic sector, which has also suffered serious impacts due to the coronavirus pandemic. Restrictions on community activities affect business activities which then have an impact on the economy, and there are no exceptions for SMEs in Pekanbaru. In the second quarter of 2020, the economy in Riau Province was minus 3.22 percent. This is due to restrictions on community activities due to the Covid-19 pandemic.

The economic growth in Riau of Indonesia was minus 3.22 percent and contributed by the decline in the growth of the trade sector, which was recorded -22.07 percent. It was followed by construction -4.91 percent, company services -47.28 percent, other services -43.06 percent, and the provision of food and drink accommodation (BPS, 2020). Restrictions on community activities have resulted in a general reduction in the trade sector. Likewise, in-vehicle repair impacts fewer activities, and fewer parts replacements, as well as less maintenance of the vehicle, are common during this outbreak. The company services during this pandemic are much reduced in activity, employees are laid off, and activities are limited; thus, the formation/production of their output also fell. Some of Riau's residents, who

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incorporated with online trading services outside Riau, cannot even make their records into Riau's GRDP.

Preliminary studies remarked that a large number of SMEs cannot survive more than three years; this is because SMEs cannot manage simple management to develop more and result in less competition with large companies (Sitharam & Hoque, 2020; Guo et al., 2020). Furthermore, SMEs are less likely to obtain bank loans than large companies, they depend more on internal funds to start their business. Furthermore, SMEs are less likely to acquire bank loans than large companies thus, they depend on internal funds to start their business. This problem is related to the number of SMEs that present themselves as not bankable and have difficulty gaining access to banking (Sajuyigbe & Ademola, 2017). During the Pandemic, the local government tried to support the rise of regional SMEs. In this case, the role of Bank Riau Kepri is important in serving SMEs loans, where the majority of the credit goes to the agricultural, trade, and service sectors.

There are obstacles in accessing unbankable financial institutions in improving people's welfare due to the poverty gap, low SMEs financing, high microcredit interest rates, the lack of SMEs management capacity, and limited distribution channels for financial services (Doi et al., 2020). Access to finance is related to the term financial inclusion. Financial inclusion is a movement that seeks to open the widest possible access to banking services for people who have not used banking services, especially in developing countries (Shankar, 2013). At the international level, financial inclusion has been discussed in various international economic forums where Indonesia is actively participating. Organization for Economic Cooperation and Development (2013) has stated that financial inclusion has been recognized as sustainable in the pursuit of financial stability.

Concerning Indonesia, the Financial Services Authority (OJK) has conducted a national survey known as the National Survey of Financial Literacy and Inclusion (SNLIK), which was carried out in 2013, 2016, and most recently in 2019. OJK recognizes this activity as an effort to improve strategy development of national financial literacy and inclusion that is more effective and right on target. Based on SNLIK data (2016), from year to year, the Financial Literacy Index (ILK) has increased, but it is not significant when compared to the achievement of the Financial Inclusion Index (IIK). In 2016, ILK reached 29.45% to 43.19% in 2019. This has created a condition of unbalancing between the two indices, affecting the range of impacts of the financial services sector.

SMEs often experience delays in their development which causes various conventional problems that are not completely resolved, such as problems of human resource capability, ownership, financing, marketing, and various other problems related to business management. Therefore, there is a need for strategic efforts to improve SMEs' business performance (Aribawa, 2016). Human resource capabilities are related to knowledge of finance that is essential for individuals so that they do not misunderstand in making financial decisions. One way that can be done to enrich knowledge in managing finances is by using financial literacy (Tsalitsa & Rachmansyah, 2016). Financial literacy is a measure of the extent to which a person understands financial concepts and has the ability and confidence to manage personal finances through making appropriate short-term decisions (Remund, 2010).

Since the matter of SMEs, the study is on the rise. Sugiyanto and Marka (2017); Oliveira (2013); Khoirrin and Kartika (2014); Cendani and Tjahjaningsih (2015) examined the effect of social capital measured from three dimensions, namely cognitive, relational, and structural and its effects on business performance measured through financial and non-financial performance. The results of these studies indicate the similarities where each cognitive, relational, and structural aspect of social capital positively influences business performance both in financial and non-financial terms. Different research results are shown by Li and Sheu (2014), which revealed that from the three aspects of cognitive, relational, and structural social capitals, structural social capital does not affect business performance. In contrast, Warmana and Widnyana (2018) noted that cognitive, social capital does not affect business performance. Further study by Prasetyo and Harjanti (2013); Hartono and Soegianto (2013) show that the overall social capital measured through cognitive, relational, and structural aspects does not significantly affect business performance, both in financial and non-financial terms.

A study by Simeyo et al. (2011) revealed that financial literacy training in small-scale businesses has a significant positive impact on their performance. Nunoo and Andoh (2012) reveal that financial literacy positively affects the performance of businesses that tend to prefer to save and have better risk management by securing themselves through insurance or the right investment. This study was developed by Bongomin (2017); Atkinson and Messy (2012). There are four indicators that can measure financial literacy according to Lusardi and Mitchell (2014), namely behavior, skills, attitude, and knowledge. Financial literacy is needed and has become part of small business actors who can facilitate the use of financial products and services effectively as needed.

This study focuses on social capital, financial literacy, and financial inclusion as important factors that will affect the performance of SMEs' business in the trade sector in Pekanbaru, moving from the development of SMEs according to National data, then the fact that Riau Province is the second highest contributor to GRDP in Sumatra Region as well as the rampant development of SMEs in the trade sector in Pekanbaru that make them be one of the leading regional sectors apart from the service sector and other industries. Although research on SMEs' Business Performance has been carried out by several researchers (Gavrea et al., 2011; Gunday et al., 2011; Wang & Wang, 2012; Yilmaz et al., 2005), the role of social capital and financial inclusion is often overlooked among scholars. Furthermore, the exposure to empirical studies that found various obstacles in the growth of SMEs is the reason for the choice of variables involved in this study.

METHODS

Population

The population of this study was 1,128 SMEs in the trade sector in Pekanbaru (Department of Industry and Commerce of Pekanbaru, 2018). The reason for the selection of SMEs in the trade sector in Pekanbaru as the population in this study was due to the fact that Pekanbaru is the second highest contributor to GRDP in

Sumatra Region and the rampant development of SMEs in the trade sector in Pekanbaru that make them be one of the Regional Leading Sectors.

Samples and Sampling Techniques

The samples in this study were some of the SMEs taken from the total population, where the sample size was calculated using the Slovin formula; thus, the population taken as samples were 300 SMEs. The sampling technique used for selecting respondents in each sub-district was the probability sampling approach with a simple random sampling method, namely a sampling method where all elements in the population have the same chance of being selected as samples (Sugiyono, 2017: 139). Samples were randomly selected using a random number table for the trade sector SMEs in Pekanbaru. Considering that the unit of analysis is SMEs, then the respondent in this study was the owner/manager, and each SMEs was represented by one person who was responsible for the management of the SMEs in the last year.

Research Instruments

This study involved instruments distributed in two ways: being given personally to respondents and given through email. Meanwhile, the measurement in the questionnaire was carried out using a 5-point Likert scale. SMEs' performance was measured using indicators that consist of quality and quantity, time, finance, customer satisfaction, and human resources (Hudson et al., 2001). Additionally, financial inclusion from SMEs was measured through several indicators, including access, use, quality, and welfare (Bongomin, 2017). Social capital in this study was measured using three measurement indicators developed from Nahapiet and Samanta (1998); Claridge (2004), namely, relational capital, cognitive capital, and structural capital. Financial literacy was measured by four indicators, namely: debt management literacy, budget literacy, banking service literacy, and bookkeeping literacy developed from Fatoki (2014).

Conceptual Framework and Hypothesis

Based on this background, this study uses the following conceptual framework and hypothesis (see Figure 1).

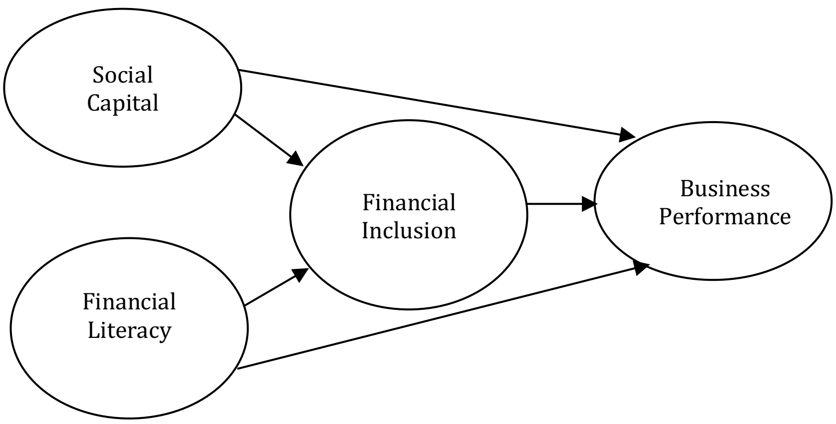

Figure 1. Conceptual Framework

Based on preliminary studies mentioned previously, the research hypothesis is formulated as follows.

H_1. Social capital has a significant effect on SMEs' business performance in the trade sector in Pekanbaru.

H_2. Financial literacy has a significant effect on SMEs' business performance in the trade sector in Pekanbaru.

H_3. Social capital has a significant effect on SMEs' business performance in the trade sector in Pekanbaru in mediation by financial inclusion.

H_4. Financial literacy has a significant effect on the performance of the SMEs trade sector business in Pekanbaru in mediation by financial inclusion.

Research Model Testing with SEM AMOS

Confirmatory Factor Analysis (CFA)

The approach to assess a measurement model is to measure the composite reliability and variance extracted for each construct. Reliability is a measure of the internal consistency of a construct's indicator. High-reliability results provide confidence that the individual indicators are all consistent with their measurements. The generally accepted reliability level is >0.70, while the reliability <0.70 is accepted for exploratory research (Ghozali, 2017). Variance extracted is a measure of validity. Validity measures to what extent all indicators accurately measure what they want to measure. The recommended number for the extracted variance is > 0.50 (Ghozali, 2017).

Test the goodness of Fit

SEM model testing is an overall model testing that involves a structural model and an integrated measurement model which is the overall of the model. A model that can be said to be good (fit) is if the model is conceptually or theoretically supported by empirical data.

Data Processing and Hypothesis Testing

The next step was to process the data using SPSS 21 and AMOS 21. The results obtained can be directly used to test the hypothesis. Hypothesis testing was done by looking at the results of the Critical Ratio (CR) value greater than 1.96 (Ferdinand, 2002) and the p-value in AMOS, if the p-value is ≤ 0.05 (alpha 5%), it can be concluded that H0 is rejected and Ha is accepted, vice versa. Furthermore, the Sobel test is to test the strength of the indirect effect of exogenous variables on endogenous variables through intervening variables. The indirect effect test in this study used the online calculator Sobel http://quantpsy.org/sobel/sobel.htm.

RESULTS & DISCUSSION

Respondents' Profile

The demographic data of respondents in the trade sector SMEs in Pekanbaru in this study is presented in Table 1. From the table, it is known that when viewed from the age of the owner or manager in the SMEs trade sector in Pekanbaru, it is dominated by those aged between 39 years and 55 years as many as 155 people (51.7%), and the lowest is Generation Z (aged <26 years). The profile of the owner/manager of SMEs in terms of gender, the majority are male as many as 166 people (55.3%). However, the comparison level is not too far away, only 12% difference with women as many as 134 (44.7%) people. Meanwhile, to look at the academic ability of the respondents in managing their SMEs, the last education was classified based on the level of education that had been passed. The most people turned out to have the last education of bachelor degree as many as 128 people (42.7%), and the lowest was an elementary school (1%).

Table 1. Demographic Information of the Respondents

Profile	Category	Total (Person)	Percentage
Age (y.o.)	< 26	6	2.0
	26 - 39	110	36.7
	>39 - 55	155	51.7
	> 55	29	9.7
Sex	Male	166	55.3
	Female	134	44.7
Education	Elementary School	3	1.0
	Junior High School	4	1.3
	Senior High School	103	34.3
	Diploma	20	6.7
	Bachelor	128	42.7
	Graduate	37	12.3
	Postgraduate	5	1.7
Business Age	< 3 years	82	27.3
	3 - 5 years	58	19.3
	>5 - 10 years	94	31.3
	> 10 years	66	22.0
Business Sub-sector	Wholesalers	26	8.7
	Retailers	274	91.3
Annual Revenue (Rp)	300 Million – 50 Billion	26	8.7
	>2.5 Million – 50 Billion	274	91.3
	Total	**300**	**100**

From Table 1, it is known that most trade sector SMEs in Pekanbaru operate for > 5 – 10 years. Retail traders flood the profile based on the business sector as many as 274 UK (91.3%). According to Law No. 20 of 2008 concerning Small and Medium Enterprises have a net worth of more than Rp. 50,000,000 up to a maximum of IDR 500,000,000 excluding land and buildings. Place of business; or have annual sales of more than Rp. 300,000,000.00 up to a maximum of Rp. 2,500,000,000.00. This was found to be as many as 274 UK Retailers (91.3%). Meanwhile, Medium Enterprises that have the criteria, net assets of more than Rp. 500,000,000 up to a maximum of Rp. 10,000,000,000 excluding land and buildings for business premises; or have annual sales of more than Rp. 2,500,000,000.00 up to a maximum of Rp. 50,000,000,000.00.

Confirmatory Factor Analysis (CFA)

Confirmatory Factor Analysis (CFA) was performed to test the validity and reliability of the latent constructs. The Loading Factor value of all statement items in this study was greater than 0.5, which meant that the research constructs were valid. Furthermore, for construct reliability, the required extracted variance value must be equal to or greater than 0.5. Meanwhile, the required construct reliability value must be equal to or greater than 0.70. From the statistical evaluation, it is known that all research variables have a variance extracted value greater than 0.5 and a construct reliability value higher than 0.7. Thus, it can be concluded that the construct reliability has met the requirements.

Goodness of Fit (GoF)

The SEM (Structure Equation Model) model demands the feasibility of the model before it can be processed further, which is known as the goodness of fit. The goodness of fit test results for the overall model in this study are provided in Table 2. Based on the table, it can be seen that the overall test results of Goodness of Fit Indices have a value that fits the model, so it can be concluded that the research model used is feasible and acceptable.

Table 2 . The Result of the Goodness Fit Test

Goodness of Fit Index	Cut off Value	Result	Conclusion
Chi-Square		205.869	Good Fit
Sig. Probability	≥ 0.05	0.063	Good Fit
CMIND/DF	≤ 2.00	2.167	Good fit
G F I	≥ 0.90	0.921	Good fit
A G F I	≥ 0.90	0.987	Good fit
T L I	≥ 0.90	0.928	Good Fit
C F I	≥ 0.90	0.943	Good Fit
N F I	≥ 0.90	0.901	Good Fit
I F I	≥ 0.90	0.944	Good Fit
RMSEA	0.05 - 0.08	0.062	Good Fit

Hypothesis Testing

Hypothesis testing was performed using the t-value with a significance level of 0.05. The t-value in the AMOS 21 program is the value of the critical ratio (CR) on regression weights. If the value of the critical ratio (CR) is greater than 1.96, or the value of probability (P) <0.05, then Ho is rejected, meaning that the hypothesis proposed is accepted. The results of hypothesis testing in this study can be presented in Table 3. However, the statistical calculation shows that FI cannot mediate social capital and business performance.

Table 3. The Result of Hypothesis Testing

Hypothesis	Path	C.R.	P-Value	Results
H1	SC > BP	2.506	0.012	Accepted
H2	FL > BP	2.401	0.016	Accepted
H3	SC > FI > BP	-0.582	0.570	Rejected (Not mediation)
H4	FL > FI > BP	8.225	0.020	Accepted (Partial Mediation)

Note(s): (*) Sig. Value p <0.05; SC= Social Capital; FL= Financial Literacy; BP=Business Performance; FI=Financial Inclusion

The Effect of Social Capital on Business Performance

Social capital variables have a significant effect on business performance. From the results obtained, it can be concluded that the proposed third hypothesis is accepted. Organizational level social capital embedded in the personal network of entrepreneurs as a whole can affect the performance of SMEs businesses in the trade sector in Pekanbaru. The SMEs business performance here is a general construct (factor) used to measure the effect of a company policy or decision. A business organization can measure its performance using financial measures or what is called financial performance by using profit and sales volume (Hudson et al., 2001). This means that the relational, cognitive and structural values owned by SMEs can have an impact on improving business performance related to quality, time, finance, customer satisfaction and existing human resources.

Associations formed by SMEs can be a forum for them to share information related to capital, regulations, marketing, developments and market segments, merchandise. The results of this study are in line with Oliveira (2013); Muniady et al. (2015) studies which examine the effect of social capital measured from three dimensions/aspects, namely cognitive, relational, and structural and its effects on business performance measured through financial and non-financial performance. However, it is not in line with Li and Sheu (2014), which shows that the three aspects of cognitive, relational, and structural social capital do not affect business performance. Furthermore, studies by Prasetyo and Harjanti (2013); Hartono and Soegianto (2013) also found that overall capital social as measured through cognitive, relational, and structural aspects does not have a significant effect on business performance, both in financial and non-financial terms.

The Effect of Financial Literacy on Business Performance

Financial literacy variables have a significant effect on business performance. From the results obtained, it can be concluded that the fourth hypothesis proposed is supported or accepted, which means that financial literacy has a significant effect on improving business performance. In other words, the more financial literacy is improved, it will also improve the business performance of SMEs in the trade sector in Pekanbaru. The dual-process theory proposed by Lusardi and Mitchel (2011) also supports the results of this analysis, that is, when someone wants to make a decision, business management decisions are based on two ways of thinking, one of which is cognitive thinking, such as analyzing, thinking the first process, digesting information, and trying to obtain new information that has relevance, to make it more optimal in deciding what business steps to take.

The finding indicates that the financial literacy of SMEs has an impact on improving business performance. Financial literacy in the form of knowledge of basic finance, with good debt management, having a budget and planning, understanding the services offered by banks and understanding the basics of doing simple bookkeeping for their business is indicated to be able to influence the business performance of these SMEs in running their business in order to achieve company goals. The results of this study are also in accordance with the study conducted by Dahmen and Rodríguez (2014), where they found that financial literacy affects business continuity. However, the results of this study seem contradictory to the results of the study of Eke and Raath (2013), which found evidence that owners' financial literacy in SMEs in one region of South Africa is not related to the performance and growth SMEs.

Social Capital to Business Performance is not mediated by Financial Inclusion

The statistical calculation shows a direct effect between social capital variables on business performance. However, testing by including financial inclusion as a mediator shows that there is no indirect effect between social capital on business performance if it is mediated by financial inclusion. This means that good social capital has a significant impact on improving the performance of the SMEs business in the trade sector in Pekanbaru without the need for financial inclusion. In other words, corporate financial inclusion has not been able to act as a mediator between the effects of social capital on business performance. The relational, cognitive, or structural abilities of SMEs actors represented by owners/managers can have a significant effect on the performance of the SMEs business in the trade sector in Pekanbaru.

With the growth of social capital, it is expected that SMEs will gain trust and expand networks so that they can change their behavior and understanding in solving problems in everyday life and enable them to have access to financial institutions. However, the results of research on SMEs in Pekanbaru show that social capital owned by SMEs does not have a significant effect on financial inclusion. These results are in line with the research results by Tristiyani (2019), in which they reveal that social capital was unable to increase financial inclusion in 100 SMEs in Semarang City. However, it is not in line with the research of Bongomin et al. (2016), which states that social capital has a strong impact in generating positive values and beneficial results for financial inclusion. Kumar (2013) also reveals the importance of a region's socioeconomic and environmental regulation in shaping banking habits. It is also not supported by (Cole et al., 2011; Doi et al., 2014; Klapper et al., 2015; Mwangi & Ouma, 2012) that social capital facilitates financial education in the form of knowledge and skills through interactions in networks that play an important role in increasing financial inclusion.

Financial Literacy on Business Performance can be mediated by Financial Inclusion

The results of the indirect effect test between financial literacy on business performance through financial inclusion mediation reveal that there is an indirect effect between financial literacy on business performance that is mediated by financial inclusion. This means that good financial literacy can increase financial inclusion so that, in the end, it has an impact on improving SMEs' business performance—and financial inclusion acts as a partial mediation between the effects of financial literacy on business performance. In other words, with the ability to manage finances in their business, owners/managers of SMEs in the trade sector in Pekanbaru can properly decide on how to use financial products and services—by having good knowledge of functions, on how to choose the right financial products and services as needed, and the risks of the products and services used—to improve the performance of the SMEs business in the trade sector in Pekanbaru.

The theory put forward by Lusardi and Mitchell (2011) supports the above analysis, which states that when a person wants to make financial decisions, it is based on two ways of thinking. The results of this analysis the way of thinking used is an intuitive way where emotional factors are preferred in making a decision without going through various analyses, managing the related information, even without seeking further information at all. The results of this study support the results of the study conducted by Bongomin (2017), which proves that the financial inclusion variable can increase the growth of SMEs. However, the results of this study are not in line with those of Dermawan (2019), which shows that financial inclusion has no effect on the performance and sustainability of micro, small and medium enterprises in micro-business actors.

The results of this analysis are related to the dual-process theory put forward by Lusardi and Mitchell (2011), where this theory explains that when a business actor wants to make a policy, in this case, financial decisions, it is based on two ways of thinking, one of which is a cognitive attitude, namely analyzing or thinking first or managing information and looking for further information which later is used to make financial decisions. Thus, the results of the analysis that show financial literacy variables have a positive and significant effect on financial inclusion variables are quite relevant. Because, of course, when a business actor has a good level of financial literacy, it will also have an impact on good financial management and vice versa.

The results of this study are in line with the study of Lusardi and Mitchell (2007), which states that an adequate level of financial literacy will encourage someone to plan, including planning for the anticipation of retirement with investment from productive age. This result is later supported by Atkinson and Messy (2012) that the way a person behaves in a financial manner has a significant impact on financial performance and the choice of personal financial services. It is also supported by the study of Putri and Rahyuda (2017), which states that financial literacy has a significant positive effect on the behavior of individual investment decisions. However, this research is not supported by Bongomin et al. (2016), who state that directly financial literacy is not able to increase financial inclusion without mediation from social capital.

CONCLUSIONS

Based on the results of the research and discussion, it can be drawn. Social capital has no significant effect on the financial inclusion of SMEs, while the financial literacy variable has a significant effect on the financial inclusion and business performance of SMEs. The social capital variable has a significant effect on business performance in SMEs. The financial literacy variable has a significant effect on business performance. Lastly, financial inclusion variables have a significant effect on business performance in SMEs in Pekanbaru. The implication of this research is Insight for Stakeholders who have a role in increasing the level of Financial Literacy in Indonesia. In this case, the Government (BI, OJK, and related Ministries) should act as an aggregator or facilitator for sharing knowledge on financial literacy among SMEs (sharing the success of successful entrepreneurs with good financial literacy), SMEs with academics, SMEs with related communities and SMEs with private parties of national (financial or non-financial services sector).

With the formation of an SMEs community that has good social capital and financial literacy, it is hoped that various forms of programs and incentives from the government can be optimally and responsibly absorbed (used) by entrepreneurs. This study has limitations due to its shortcomings and weaknesses, even though the researchers have made every effort to make the research results better. The limitation of this study is that when the data collection process for this research was carried out, the world was being hit by the Covid-19 pandemic, including Riau Province. The proposed suggestions are as follows: (1) SMEs actors should maintain relationships between people and social interactions that exist in their business units by maintaining trust between members within the business unit and with related external parties. SMEs actors should maintain social capital, which is a strategic asset for the company. On the other hand, the existing social capital needs to be directed so as not to deviate from organizational goals and harm the company.

For financial literacy, SMEs actors should be more aware of the importance of this aspect because it is known that this can help improve financial access to banking services and SMEs business performance. It is hoped that in the future, there will be more business actors who are aware of the financial decisions taken and consider their impact on SMEs business performance and company survival. (2) The Financial Services Authority, Bank Indonesia, along with companies providing financial products and services, must carry out activities to increase financial literacy, such as education on financial terms and on the benefits of each financial product and service, as well as more aggressively providing training in better financial management according to the needs.

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