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THE IMPACT OF INNOVATIVE ACTIVITIES ON SOCIAL CAPITAL AND BUSINESS PERFORMANCE: A STUDY OF YOUNG ENTREPRENEURS IN MALANG CITY

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ABSTRACT

This study examines the influence of social capital on business performance and the mediating role of innovative activities, with a specific focus on young entrepreneurs in the Greater Malang area. Using a quantitative positivist approach, data were collected through questionnaires from 65 entrepreneurs aged 18–30 who had operated their businesses for more than two years. Structural Equation Modeling (SEM-PLS) with WarpPLS 8.0 was employed for analysis. The results indicate that social capital significantly affects both business performance ($\beta = 0.255$; $p < 0.001$) and innovative activities ($\beta = 0.381$; $p < 0.001$). Innovative activities, in turn, strongly influence business performance ($\beta = 0.551$; $p < 0.001$) and mediate the relationship between social capital and business performance ($\beta = 0.340$; $p < 0.001$). These findings extend the literature by demonstrating how social networks foster innovation as a pathway to performance enhancement in emerging economies. Practically, this research highlights the importance of integrating social capital and innovation into entrepreneurial development strategies, particularly for youth-led businesses.

ABSTRAK

Penelitian ini mengkaji pengaruh modal sosial terhadap kinerja bisnis serta peran mediasi aktivitas inovatif, dengan fokus pada wirausahawan

KEYWORDS

Business performance, innovative activities, Malang region, social capital, young entrepreneurs.



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muda di wilayah Malang Raya. Dengan menggunakan pendekatan kuantitatif-positivistik, data dikumpulkan melalui kuesioner dari 65 wirausahawan berusia 18–30 tahun yang telah menjalankan usahanya lebih dari dua tahun. Analisis data dilakukan dengan Structural Equation Modeling (SEM-PLS) menggunakan WarpPLS 8.0. Hasil penelitian menunjukkan bahwa modal sosial berpengaruh signifikan terhadap kinerja bisnis ($\beta = 0,255$; $p < 0,001$) maupun terhadap aktivitas inovatif ($\beta = 0,381$; $p < 0,001$). Aktivitas inovatif, pada gilirannya, berpengaruh kuat terhadap kinerja bisnis ($\beta = 0,551$; $p < 0,001$) dan memediasi hubungan antara modal sosial dan kinerja bisnis ($\beta = 0,340$; $p < 0,001$). Temuan ini memperluas literatur dengan menunjukkan bagaimana jejaring sosial mendorong inovasi sebagai jalur peningkatan kinerja dalam konteks ekonomi berkembang. Secara praktis, penelitian ini menekankan pentingnya integrasi modal sosial dan inovasi dalam strategi pengembangan kewirausahaan, khususnya bagi usaha yang dipimpin generasi muda.

KATA KUNCI:

Aktivitas Inovatif, kinerja bisnis, Malang Raya, modal sosial, wirausahawan muda

PENDAHULUAN

Entrepreneurship for the youth is one of the solutions to overcome unemployment (Maebane, 2023). The development of youth entrepreneurship brings many benefits to the economy and society (Boris et al., 2021). However, despite its potential, youth entrepreneurship still faces several obstacles. One of the main barriers is the lack of awareness and difficulty in accessing structures and initiatives to support entrepreneurship in the community (Thullah, 2024). The lack of ability to access networks can also be said to be the lack of social capital among young entrepreneurs. In fact, social networks are important for the growth and development of established and newly established companies, as they are an important channel for individuals, teams, and organizations to access information and resources from outside (Xie et al., 2021). The ability to master social capital can increase the development of young Indonesian entrepreneurs (Maming et al., 2023). Therefore, improving social capital among youth is an essential step toward empowering them to succeed as entrepreneurs. In the context of youth, social capital is one of the most valuable entrances to the world of work (Boat et al., 2021). The same goes for young entrepreneurs.

Social capital is closely linked to entrepreneurship (Doh & Acs, 2010). Social capital describes how social relationships established through interaction can provide useful resources and information for individuals or organizations. Through close interaction, knowledge exchange between individuals can increase, allowing companies to respond quickly to market changes. This dynamic shows that strong social capital not only supports individual entrepreneurs but also enhances organizational responsiveness. Entrepreneurial potential and capacity can contribute to tackling unemployment and improving the innovation ecosystem (Vutsova et al., 2023). Thus, building good social capital can accelerate knowledge exchange and improve the organization's ability to adapt and innovate. Entrepreneurial and innovation skills are needed to achieve sustainable business performance. Difficulties faced by entrepreneurs include lack of knowledge or skills, capital, mastery of information technology, and distribution of services/products produced (Fauziah, 2022).

Furthermore, there is a positive complementary effect between innovation and social capital in influencing the performance of SMEs (Doan et al., 2023). Social capital and human resources have also been shown to influence the ability to innovate (Basri et al., 2021). Social capital has an influence on innovative activities because it creates a network of relationships that allow the exchange of information, trust, and cooperation between individuals or groups. This interplay of trust and collaboration often becomes the breeding ground for creative solutions and breakthrough ideas. In the context of innovation, new ideas often do not emerge in isolation, but rather through social interactions that bring together different perspectives and knowledge. When a person has access to a wide social network and trusts each other, it is easier for them to get relevant information, share knowledge, and get the emotional support and resources needed to realize creative ideas. High trust in social networks also reduces the risk in collaboration, thus encouraging individuals to be more open to experimentation and new approaches.

In addition to innovation, social capital plays a vital role in supporting overall business performance. Social capital has an influence on business performance because it strengthens relationships between individuals inside and outside the organization, creates trust, and facilitates the flow of information and coordination. Social capital (i.e. norms, trusts, and networks) and entrepreneurial orientation (including risk-taking, proactive, and innovation) are important for increasing a company's profitability (Putri et al., 2025). Cognitive social capital improves the relationship between knowledge transformation and business performance (Zirena-Bejarano et al., 2024). This shows that soft infrastructure such as trust and networks is just as important as hard infrastructure in business success. In a business environment, success is not only determined by physical or financial assets, but also by the ability to build a strong and mutually supportive network. An understanding of social capital must be possessed by individuals to develop their potential in the form of entrepreneurial competencies that will affect their business performance (Yani et al., 2020). When businesses have high social capital, they find it easier to establish strategic partnerships, access market opportunities, and receive support from communities or customers.

Alongside social capital, innovation activities have also gained attention due to their significant impact on performance. Understanding the relationship between a company's innovation activities and its performance is of particular interest to researchers (Parast et al., 2025). The ability to innovate directly contributes to product quality and operational performance (Kafetzopoulos & Psomas, 2015). Product innovation is proven to affect business performance (Ambarwati et al., 2025). Innovative activities have an effect on business performance because innovation allows companies to continuously adapt to market changes, improve operational efficiency, and create added value for customers. This adaptability is a key factor in maintaining competitiveness in a rapidly evolving business environment. Companies that have carried out innovation activities (instrumented variables) and are owned by foreign ownership have a higher level of skilled workers (Abazi-Alili, 2014). In a competitive and dynamic business environment, companies that are able to produce new products, services, or processes have a greater chance of capturing consumers' attention, meeting evolving needs, and differentiating themselves from competitors.

Although studies on social capital and performance are abundant, gaps still remain.

Research on social capital and its performance in the business world has been extensively conducted, especially in the context of large organizations or established industrial communities. Several previous studies have shown that social capital has a positive effect on business performance through strengthening networks, trust, and collective norms that support efficiency and collaboration. Nevertheless, little is known about how these dynamics play out among young entrepreneurs with unique characteristics. Most of the research is still focused on large- or medium-sized formal enterprises, and has not specifically highlighted the dynamics of social capital in the context of young entrepreneurs who have different characteristics, such as high flexibility, use of technology, and a strong innovative orientation.

This leads to the question of how innovation might serve as a bridge between social capital and business performance in the youth context. Innovative activities are often identified as one of the important factors in bridging the influence of social capital on business performance. However, the mediating role of these innovative activities has not been studied comprehensively, especially in the context of young business actors. In the midst of increasingly fierce business competition and an ever-changing business environment, understanding the factors that can strengthen their competitiveness is crucial. Social capital, which includes a network of relationships, trusts, and social norms, is believed to provide strategic support in accessing information, resources, and market opportunities. However, the influence of social capital on business performance is not always direct, but can be mediated by innovative activities that reflect the ability of entrepreneurs to create and implement new ideas.

In this regard, Malang City provides a relevant and promising context for study. It is recognized as one of the centers of entrepreneurial growth in Indonesia, particularly among the younger generation. Supported by numerous universities, a creative culture, and a supportive business climate, Malang has become a favorable environment for the emergence of start-ups, MSMEs, and innovation-based enterprises. Entrepreneurs in this city are mostly engaged in the culinary, fashion, technology, and local tourism sectors. Strong community support, access to information, and a collaborative spirit further strengthen Malang City as a potential ecosystem for sustainable entrepreneurial development. Given these conditions, studying the relationship between social capital, innovative activities, and business performance in Malang can provide valuable insights. Based on the above explanation, the research problems can be formulated as follows:

- 1) Is there an influence of social capital on business performance?
- 2) Is there an influence of social capital on innovative activities?
- 3) Is there an influence of innovative activities on business performance?
- 4) Do innovative activities mediate the relationship between social capital and business performance?

METHOD

This study uses a positivism approach with a quantitative method. In addition, the method used in this study is the survey method. According to (Creswell, J. W., & Creswell, 2018), the survey design provides a quantitative description of the number of tendencies,

attitudes, or opinions of a population by studying the sample of the population

The data analysis used in this study is SEM-PLS with WarpPLS 8.0 software. Structural Equational Modeling (SEM) is a type of multivariate analysis in the social sciences that is used to analyze several variables simultaneously which shows that each item in an instrument is considered valid to measure each variable. The decision-making criterion is that if Cronbach's Alpha and Composite Reliable values are greater than 0.70, then those variables are reliable (Solihin, M., & Ratmono, 2021)

In this study, social capital measurement refers to the approach developed by (Nahapiet & Ghoshal, 2009). Innovative activity measurements were developed based on research (Djellal & Gallouj, 2005), and business performance measurement is adapted from *subjective business performance measurement* (Vij & Bedi, 2016). Each question item in the questionnaire is detailed in table 1.

Table 1. Variables Measurement

| Variables | Indicator | Statement Items |
|------------------------------|--|--|
| Business Performance | Market Performance (Y1) | My business has seen an increase in market share compared to competitors in the same industry. |
| | Supplier Performance (Y2) | The raw materials I receive from suppliers are of consistent quality and meet the standards I expect. |
| | Process Performance (Y3) | Customer orders can be fulfilled on time according to the agreed schedule. |
| | Human Resource Performance (Y4) | The company has a structured employee performance appraisal system that contributes to increasing work productivity. |
| | Customer Relationship Performance (Y5) | Customers show high loyalty to the products or services I offer. |
| Social Capital | Structural (X1) | My network includes individuals from diverse but complementary backgrounds. |
| | Cognitive (X2) | I feel like I have the same understanding as members of my community or business network about how to achieve a common goal. |
| | Relational (X3) | I believe that members of my community or network will help me if I face difficulties in my business. |
| Innovative Activities | Product (Z1) | I regularly develop or modify products/services to stay relevant to customer needs. |
| | Organization (Z2) | I make changes in the structure or work process to improve business efficiency. |
| | Culture (Z3) | I encourage the formation of a work culture that is open to new ideas. |
| | Market (Z4) | I reach new market segments through innovative marketing approaches. |
| | Resources (Z5) | I am looking for new ways to manage resources (human, financial, or material) to be more effective. |

Source: Data processed, 2025

In this study, accidental sampling was used to collect data from young entrepreneurs in Malang City and conducted between September and November 2024. The target population consisted of individuals aged 18 to 30 who had been running a business (such as MSMEs or start-ups) for at least two years. Researchers visited accessible locations where

young entrepreneurs are commonly found, such as entrepreneurship events, co-working spaces, university entrepreneurship programs, cafés owned by young business owners, and online platforms like Instagram, LinkedIn, or WhatsApp groups. At these locations, researchers approached individuals who appeared to meet the criteria and asked if they were willing to participate in the survey. Those who qualified were then asked to complete the questionnaire directly or via an online link

A total of 65 valid responses were obtained. Respondent characteristics were categorized by gender and age group. In terms of gender, 52 respondents were male and 13 were female. Based on age distribution, 10 respondents were between 17 and 21 years old, 28 respondents were aged 22 to 26, and 27 respondents were in the 27 to 30 age group.

RESULTS AND DISCUSSION

Subsections The validity test is carried out to ensure that the construct in question has actually been measured by the measurement instrument in the questionnaire, both at the item level and the construct as a whole. Table 2 shows that the outer loading of all variables is above 0.40 and the P-Value value of all variables is below 0.05, which means that all variables are declared valid.

Table 2. Validity Test Results

| Validity Test | | | | |
|--------------------------|-------|----------------|---------|-------|
| Variables | Items | Outer Landings | P-Value | Notes |
| Social Capital(X) | X1 | 0.071 | <0.001 | VALID |
| | X2 | 0.073 | <0.001 | VALID |
| | X3 | 0.074 | <0.001 | VALID |
| Innovative Activities(Z) | Z1 | 0.081 | <0.001 | VALID |
| | Z2 | 0.073 | <0.001 | VALID |
| | Z3 | 0.072 | <0.001 | VALID |
| | Z4 | 0.074 | <0.001 | VALID |
| | Z5 | 0.072 | <0.001 | VALID |
| Business Performance(Y) | Y1 | 0.074 | <0.001 | VALID |
| | Y2 | 0.073 | <0.001 | VALID |
| | Y3 | 0.072 | <0.001 | VALID |
| | Y4 | 0.080 | <0.001 | VALID |
| | Y5 | 0.072 | <0.001 | VALID |

Source: Data processed, 2025

Table 3. Reliability Test Results

| Variables | Reliability Test | | Notes |
|-----------|------------------|-----------------------|----------|
| | Cronbach's Alpha | Composite Reliability | |
| X | 0.785 | 0.784 | Reliable |
| Y | 0.812 | 0.899 | Reliable |
| Z | 0.871 | 0.819 | Reliable |

Source: Data processed, 2025

The reliability test in PLS has the main function of ensuring that the indicators used

to measure a latent construct are internally consistent. Table 3 shows that Cronbach's alpha value indicates a value above 0.7 and the composite reliability value of all variables is above 0.7 which means that all variables are declared reliable.

Table 4. Direct Effect Test Results

| Variable Relationships | Path Coefficient | Path Value | Notes |
|---|------------------|------------|-------------|
| Social capital => Business Performance | 0.255 | <0.001 | significant |
| Innovative activities => Business Performance | 0.551 | <0.001 | significant |
| Social capital => Innovative activities | 0.381 | <0.001 | significant |

Source: Data processed, 2025

From table 4, it is known that if the relationship between social capital and business performance has a path coefficient of 0.255 and a path value, 0.001 of these values indicates a significant relationship. These results are in line with (Olamide & Ogbechie, 2021), Internal and external social capital plays an important role in supporting the business performance of women-owned SMEs in the informal sector in Nigeria. (Vu et al., 2023) also states that social capital, embedded in network relationships, is essential to the company's performance. The influence of social capital on the business performance of young entrepreneurs lies in how social relationships, trust, and networks are able to open access to relevant resources. In the context of young entrepreneurs, who are often still building reputation and experience, social capital is an important tool to accelerate the learning process and business decision-making.

When a young entrepreneur has a strong network and is trusted by his community, he or she is more likely to get market information, moral support, and even cooperation opportunities. The trust built in social relationships also creates a more stable and supportive business climate. This allows entrepreneurs to focus more on business development without having to face significant social barriers. Small and medium-sized enterprises (SMEs) often face challenges in networking and establishing business partnerships. One of the main causes is the limitations in building social interactions, which actually play an important role in encouraging entrepreneurial activities and improving their business performance (Games et al., 2024). The impact of social capital on business performance is not always immediately apparent. Often, social capital serves as a catalyst that strengthens other aspects such as innovation, creativity, and resilience in the face of challenges. In other words, social capital provides a foundation that allows young entrepreneurs to grow and develop sustainably in a competitive business world.

Government support and dynamic capabilities play a crucial role in optimizing the use of social capital to improve business performance (Van Tran et al., 2024). There needs to be more efforts by local governments to increase the social capital of business owners so that they can achieve common goals and optimal performance (Triono et al., 2021). More research

is still needed to understand in depth how open innovation directly impacts business performance.

Meanwhile, the relationship between innovative activities and business performance has a path coefficient of 0.551 and a path value of <0.001 of these values shows a significant relationship. In line with research from (Ridwan ARIF & Hasan, 2021) which reveals a positive relationship between innovation activities and business process performance, which involves two types of innovation activities. On the other hand (Sugiyanto & Wijayanti, 2022), indicates if Innovation has a significant positive influence on competitive advantage, but it has no effect on business performance. The relationship between innovative activities and business performance in young entrepreneurs is an important aspect in explaining how creativity and innovation contribute to business success. Innovative activities reflect the extent to which an entrepreneur is able to create, develop, and implement new ideas in various aspects of the business, such as products, processes, organizational models, work culture, marketing strategies, and resource utilization.

By innovating on business models, companies can create more value for customers while also benefiting themselves (Salfore et al., 2023). For young entrepreneurs, innovation is often a major advantage because they tend to be more adaptive to market changes, open to new technologies, and dare to take risks. When innovative activities are carried out consistently, this can result in product differentiation, operational efficiency, higher customer satisfaction, and stronger competitiveness in the market. All of these factors ultimately contribute to improved business performance, both in financial aspects such as increased sales and profitability, as well as in non-financial aspects such as customer growth, business reputation, and long-term sustainability.

The relationship between social capital and innovative activities has a path coefficient of 0.381 and a path value of <0.001 of these values shows a significant relationship. This is in line with (Meyer, 2023), which shows that not all types of intellectual capital exert the same influence, but social capital formed from cooperation between inventors has proven to have a greater and positive impact in maintaining the technical value of an innovation. Social capital and innovative activities have an important role in encouraging the success of young entrepreneurs. Social capital, which includes a network of relationships, mutual trust, and the norms and values built in the community, provides many benefits for entrepreneurs. Through a strong social network, they can more easily obtain information, access to resources, and support from fellow entrepreneurs, mentors, or even investors. This support is not only technical and financial, but can also be in the form of motivation and confidence in facing business challenges.

Innovative activities reflect the ability of young entrepreneurs to create, develop, or implement new ideas, whether in the form of products, services, work processes, or business strategies. Very fierce competition conditions, coupled with a very dynamic change in the business climate, require entrepreneurs to always be ready to face various obstacles and changes that are a consequence of competition and the dynamics of the business climate (Mahadewi & Septyanto, 2021). Innovation is key to surviving in the midst of dynamic market competition, as it allows entrepreneurs to adapt to changing consumer needs and technological developments. When young entrepreneurs actively innovate, they tend to have

greater opportunities to expand their businesses and create a competitive advantage.

The link between social capital and innovative activities is very close. Strong social capital can be a trigger for innovation because it encourages collaboration, exchange of ideas, and learning from the experiences of others. Conversely, successful innovation can also strengthen the social position of young entrepreneurs within their networks, thus creating a mutually reinforcing cycle. Thus, these two aspects together contribute significantly to improving the performance and sustainability of young entrepreneurs' businesses.

Strong social relationships allow young entrepreneurs to gain access to information, market opportunities, moral support, and resources that may not be available through formal channels. For example, through a network of friends, communities, mentors, or business associations, entrepreneurs can more easily obtain input, references, and collaborations that accelerate business growth. The trust built between business partners, customers, or colleagues also contributes to smooth operations, transaction efficiency, and loyalty in business relationships. In addition, the role of the government also needs to be carried out to create access in the formal environment as revealed by the (Lee & Law, 2017), which discusses how the role of formal institutions and social capital affects innovation activities in a country. Therefore, in addition to strengthening official rules and institutions, countries that are still low in innovation also need to build strong social relationships in society, as this can help encourage innovation.

In practice, social capital can affect business performance directly or indirectly. Directly, strong relationships with customers and communities can increase sales and expand the market. Indirectly, social support and access to new ideas obtained from social networks can drive innovation, which in turn increases the competitiveness of businesses. Therefore, for young entrepreneurs, building and maintaining social capital is an important strategy to increase business effectiveness and achieve sustainable success.

Table 5. Mediation Effect Test Results

| Variable Relationships | Path Coefficient | Path Value | Note |
|---|------------------|------------|-------------|
| Social capital => Innovative activities => Business performance | 0.340 | <0.001 | significant |

Source: Data processed, 2025

From table 5, it can be seen that innovative activities can mediate the relationship between social capital and business performance with a path coefficient value of 0.340 and a path value of <0.001. The mediation of innovative activities in the relationship between social capital and business performance illustrates that innovative activities become an important intermediary for young entrepreneurs. In other words, when an entrepreneur has strong social capital—for example, an extensive network, trust from the community, and social support—it does not immediately improve his or her business performance. On the contrary, this social capital actually strengthens the ability of entrepreneurs to innovate. This result is in contrast to (Ozgun et al., 2022), which does not find a direct link between social capital and performance or between innovation and performance activities and determines that intellectual capital is an important link between social capital and organizational performance.

On the other hand, (Prakasa, 2018), proves that entrepreneurial orientation, which includes innovation as an indicator, is able to mediate the influence of social capital on the performance of SME businesses. Other research, (Ayu Purwati, 2021), also shows that innovation capabilities may mediate the relationship between social capital and business performance. Innovative activities that arise from the influence of this social capital can be the creation of new products, fresher marketing strategies, or more efficient operational methods. This innovation then becomes a determining factor in improving business performance. So, without innovation, the social capital you have does not necessarily have a direct impact on business success. In practice, many studies show that the direct relationship between social capital and business performance is not significant, but becomes significant when mediated by innovative activities. This makes innovation a key catalyst for young entrepreneurs in translating their social potential into higher business performance.

CONCLUSION

The Influence of Social Capital on Business Performance, Social capital has been proven to have a significant influence on business performance (path coefficient 0.245, p-value < 0.001). This shows that social networks, trusting relationships, and collaboration within an organization can support improved business performance. The Influence of Innovative Activities on Business Performance, Innovative activities have a significant effect on business performance (path coefficient 0.651, p-value < 0.001). This emphasizes the importance of innovation in products, processes, and organizational culture to support business competitiveness and sustainability. The Influence of Social Capital on Innovative Activities, Social capital also contributes significantly to the increase in innovative activities (path coefficient 0.291, p-value < 0.001). This shows that networking and social trust within an organization can encourage the creation of new ideas and innovative collaborations. Role of Mediation Innovative Activities, Innovative activities can mediate the relationship between social capital and business performance significantly (path coefficient 0.240, p-value < 0.001). This indicates that social capital utilized through innovation can result in better business performance. Companies and entrepreneurs are advised to strengthen social capital through increased interaction, trust, and collaboration in their networks. Increase innovative activities strategically to utilize the potential of social capital in supporting business performance. Utilizing technology and digitalization to expand social networks and increase access to resources and information.

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