

Social Capital and Entrepreneurial Orientation on Micro-business Performance: A Study on Business Actors in East Nusa Tenggara

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ABSTRACT

Micro-enterprises play a crucial role in regional economic development, particularly in employment creation and poverty reduction. However, their performance in less-developed regions remains constrained by limited resources and structural challenges. This study examines the effects of social capital and entrepreneurial orientation on micro-enterprise performance in East Nusa Tenggara, Indonesia. Using a quantitative explanatory approach, data were collected through a survey of 50 micro-entrepreneurs in Kupang City and analyzed using Partial Least Squares–Structural Equation Modeling (PLS-SEM). The results indicate that both social capital and entrepreneurial orientation have positive and significant effects on micro-enterprise performance. Entrepreneurial orientation reflected in innovativeness, proactiveness, and risk-taking, exhibits a stronger influence than social capital. Furthermore, the two variables jointly explain 58.7% of the variance in micro-enterprise performance, indicating substantial explanatory power. These findings highlight that non-financial factors play a vital role in enhancing micro-enterprise performance, particularly in regions characterized by strong social ties but limited institutional support. This study contributes to the entrepreneurship literature by integrating social capital and entrepreneurial orientation within a single empirical model and offers practical implications for micro-enterprise development policies that emphasize not only financial assistance but also the strengthening of social networks and entrepreneurial capabilities.

1 | Introduction

Micro enterprises have a strategic role in supporting the regional and national economies, especially in creating jobs, reducing poverty, and encouraging inclusive economic growth (Abisuga-Oyekunle et al., 2020). In developing countries, including Indonesia, micro-businesses dominate business structures and are the main source of livelihood for most people (Tambunan, 2019). This role is becoming increasingly important in areas with relatively lagging levels of economic development such as East Nusa Tenggara (NTT), where the community's economic activities rely heavily on micro-enterprises based on local resources (Cunningham et al., 2017). However, micro-businesses in this region still face various limitations, including access to capital, limited managerial capacity, and low ability to respond to market dynamics (Pangastuti et al., 2023). These challenges highlight the need for strategic interventions to strengthen their capacity and competitiveness.

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In the context of these limitations, the entrepreneurial literature emphasizes the importance of non-financial factors as determinants of micro-business performance. One of the factors that is gaining increasing attention is social capital, which includes social networks, trusts, and norms that facilitate cooperation and resource exchange between individuals (Six et al., 2015). Social capital allows micro entrepreneurs to gain access to information, support, and business opportunities that are often not available through formal market mechanisms (Lindvert et al., 2017; van der Walt & Whittaker, 2020). In areas with strong community ties such as NTT, social capital has the potential to be a strategic asset that can be used to improve the performance and sustainability of micro-businesses (Situmorang et al., 2023).

In addition to social capital, entrepreneurial orientation is also an internal factor that plays an important role in determining business performance. Entrepreneurial orientation reflects the extent to which business actors are innovative, proactive, and dare to take risks in the face of the uncertainty of the business environment (Wales, 2016). Recent empirical research shows that entrepreneurial orientation has a positive relationship with the performance of micro and small businesses, although the power of its influence is highly dependent on the social context and business environment in which the business operates (Wahyuni & Sara, 2020). Therefore, understanding the role of entrepreneurial orientation is important, especially for micro-businesses operating in areas with structural limitations.

Although micro-businesses have great potential, the performance of some business actors in NTT is still relatively low and has not developed optimally (Somiartha et al., 2024). This condition is not only caused by limited financial capital, but also by the lack of optimal use of social capital and the low level of entrepreneurial orientation of some business actors (Khan et al., 2021). Many micro-businesses are still run traditionally, have limited business networks, and show low levels of innovation and proactivity. On the other hand, strong social ties in the people of NTT have not been fully utilized as a strategic resource to improve business performance. The difference in empirical findings in previous research also shows that the influence of social capital and entrepreneurial orientation on business performance is not always consistent. Behera et al. (2025) state that social capital has no direct relationship to business performance in rural women micro-enterprises. In addition, Kajalo & Lindblom (2015) entrepreneurial orientation is not enough to improve business performance, marketing capabilities are needed to do it. Based on this argument, these two factors play significant roles, both individually and simultaneously, in enhancing the performance of micro-enterprises in East Nusa Tenggara.

This study aims to examine the influence of social capital on the performance of micro-businesses, analyze the influence of entrepreneurial orientation on micro-business performance, and test the influence of these two variables simultaneously. Through a contextual empirical approach, this research is expected to provide a more comprehensive understanding of the non-financial factors that affect the performance of micro-businesses, as well as become the basis for the formulation of a more effective micro-business development strategy in accordance with the characteristics of the NTT region (Situmorang & Sanga, 2024). Although the relationship between social capital, entrepreneurial orientation, and business performance has been extensively studied, most previous research has focused on small and medium-sized enterprises in general or conducted in urban areas and areas with higher levels of economic development. Research that specifically places micro enterprises as the main object is still relatively limited. In addition, empirical studies that integrate social capital and entrepreneurial orientation in a single analytical model to explain the performance of micro-enterprises, especially in the context of eastern Indonesia, are still rare. These limitations point to important research gaps and emphasize the need for contextual and region-specific studies.

This research offers novelty by integrating social capital and entrepreneurial orientation as determinants of micro-business performance in one contextual empirical framework. The focus on micro enterprises in East Nusa Tenggara provides a new perspective in the entrepreneurship literature, especially related to the role of social factors and entrepreneurship in areas with structural limitations but strong social ties. From the theoretical side, this research is expected to enrich the study of entrepreneurship and

social capital at the micro-business level. Meanwhile, from a practical perspective, the findings of this study provide a strong justification for the development of policies and programs for the empowerment of micro enterprises that are not only oriented towards financial support, but also on strengthening social networks and entrepreneurial capacity of micro-business actors.

Based on the background above, hypotheses put forward are: H1: Social capital has a positive effect on the performance of micro-businesses; H2: Entrepreneurial orientation has a positive effect on the performance of micro-businesses; H3: Social capital and entrepreneurial orientation simultaneously affect the performance of micro-businesses.

2 | Method

2.1 | Research Design

This study uses a quantitative approach with an explanatory research design. Explanatory design aims to explain the causal relationship between social capital variables and entrepreneurial orientation to micro-business performance. This study is cross-sectional, where data collection is carried out over a certain period of time to describe the empirical conditions of respondents at the time of the study. The quantitative approach was chosen because it allows for objective and systematic testing of hypotheses through statistical analysis techniques.

2.2 | Population and Sample

The population in this study is all micro-business actors operating in Kupang City, East Nusa Tenggara Province. Kupang City was chosen as the research location because it is the center of economic and trade activities in the NTT region and has a relatively high number of micro-businesses compared to other areas in the province. The research sample was determined using a purposive sampling technique with the criteria of business actors who are included in the micro-business category and have been actively running the business for at least one year. This technique was chosen to ensure that the respondent has adequate experience in running his business. The analysis unit in this study is micro-business actors in Kupang City.

2.3 | Data Collection Techniques

The research data was collected using a survey method with a structured questionnaire instrument. The questionnaire is compiled based on indicators adapted from previous relevant research and has been widely used in entrepreneurship and micro-enterprise studies. Each statement item is measured using a five-point Likert scale, ranging from strongly disagree to strongly agree. Data collection was carried out directly through the distribution of questionnaires to respondents at the research site, taking into account the ease of access and characteristics of micro-business actors in Kupang City.

2.4 | Data Analysis Techniques

The data that has been collected is analyzed using the Partial Least Squares–Structural Equation Modeling (PLS-SEM) method with the help of SmartPLS software. This method was chosen because it is able to test the relationship between latent variables simultaneously and is suitable for use in studies with relatively limited sample sizes and data distributions that do not have to be distributed normally. Data analysis is carried out through two main stages, namely the evaluation of the measurement model (outer model) and the evaluation of the structural model (inner model). The evaluation of the outer model includes testing for convergent validity, discriminant validity, and construct reliability. Furthermore, an internal model evaluation was carried out to test the relationship between variables by looking at the path coefficient value, the determination coefficient value (R^2), and the level of significance of the influence through the bootstrapping procedure. The results of this analysis are used as a basis for testing research hypotheses.

2.5 | Data Collection Techniques

Data collection is carried out through the following techniques: 1) Non-participatory observation, where researchers observe the process of planning and evaluating the budget without being directly involved in the activities that take place. 2) Semi-structured interviews, namely interviews using open-ended question guidelines that allow informants to freely explain their experiences and views related to the preparation, implementation, and constraints of budget management. 3) Documentation study, namely the researcher examines budget documents and financial statements to obtain factual data on the planning and realization of the operational budget. These three techniques complement one another, ensuring that the data obtained is not only comprehensive but also validated through multiple sources of evidence.

2.6 | Data Analysis Techniques

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3 | Results and Discussion

3.1 | Descriptive Statistics of Respondents and Business Characteristics

The population in this study is all micro-businesses that are registered and actively operating in Kupang City, East Nusa Tenggara Province, which totals 82 micro-business units. Given the limited time and access of respondents, this study used a sampling technique by taking 50 micro enterprises as research samples. The number of samples was considered to have met the minimum criteria for the Partial Least Squares–Structural Equation Modeling (PLS-SEM) analysis.

Descriptive statistics are used to provide an overview of the characteristics of businesses and respondents, which include the type of business, length of business establishment, gender of business leader, age of business leader, and level of education of business leader. A summary of respondent and business characteristics is presented in **Table 1**.

TABLE 1 | Characteristics of Respondents and Micro Enterprises in Kupang City

Features	Category	N	(%)
Type of Business	Trade (retail, <i>kios</i> , <i>warung</i>)	21	42,0
	Services (<i>kuliner</i> , <i>laundry</i> , <i>bengkel</i>)	14	28,0
	Household industry (Processed Food, Crafts)	10	20,0
	Micro-scale agriculture/fisheries	5	10,0
Years in operation	< 3 Years	12	24,0
	3–5 Years	19	38,0
	6–10 Years	13	26,0
	> 10 Years	6	12,0

Features		Category	N	(%)
Gender of the Leader	Male		28	56,0
	Female		22	44,0
Age of Leader (years)	≤ 30		8	16,0
	31–40		15	30,0
	41–50		18	36,0
	> 50		9	18,0
Education of Leader	SD/SMP		11	22,0
	SMA/SMK		23	46,0
	Diploma		8	16,0
	Sarjana (S1)		8	16,0

Source: Processed primary data (2025)

Based on Table 1, the majority of micro enterprises in Kupang City that were the research sample were engaged in the trade and service sector, which reflects the local economic structure based on people's consumption needs. Most of the businesses have been operating for 3–5 years, indicating that respondents have sufficient business experience in carrying out their business activities. Business leaders are dominated by men, although the proportion of women is also relatively significant. In terms of age, the majority of business leaders are in the productive age range of 31-50 years, with the level of education dominated by high school/vocational school graduates.

TABLE 2 | Descriptive Statistics of Latent Variables

Variables	Mean	STD	Min.	Max.
Social Capital	3.87	0.62	2.40	4.90
Entrepreneurial Orientation	3.94	0.58	2.60	4.80
Micro-business Performance	3.76	0.65	2.20	4.70

Source: Processed primary data (2025)

The average value of the social capital variable of 3.87 shows that in general, micro-business actors in Kupang City have a relatively high level of social capital, especially in terms of business networks and social trust. The standard deviation value of 0.62 indicates a moderate variation in respondent answers. The entrepreneurial orientation variable had the highest average value compared to other variables, which was 3.94, which shows that micro-business actors tend to have an innovative, proactive, and risk-taking attitude at a fairly good level. The standard deviation value of 0.58 shows that respondents' perception of entrepreneurial orientation is relatively homogeneous. Meanwhile, the micro-business performance variable has an average value of 3.76, which shows that business performance is in the category of quite good, although there is still room for improvement. The standard deviation of 0.65 indicates a relatively higher variation in business performance than the other two variables.

3.2 | Evaluation of Measurement Models (Outer Model)

The evaluation of the measurement model was carried out to test the validity and reliability of social capital constructs, entrepreneurial orientation, and micro-business performance. **Figure 1** shows the outer model of this research. The results of the analysis showed that all indicators had a *loading factor* value above the minimum limit of 0.70, with a value range between 0.721 to 0.892. This shows that each indicator is able to adequately represent the measured construct. The *Average Variance Extracted* (AVE) value for each construct also met the criteria for convergent validity, which is greater than 0.50. Social capital construct has an AVE value of 0.612, entrepreneurial orientation of 0.648, and micro-business performance of 0.667. These findings suggest that more than 50 percent of the indicator's variance can be explained by their respective latent constructs. These results indicate that the measurement model demonstrates strong internal consistency in capturing the relationship between latent variables and their indicators.

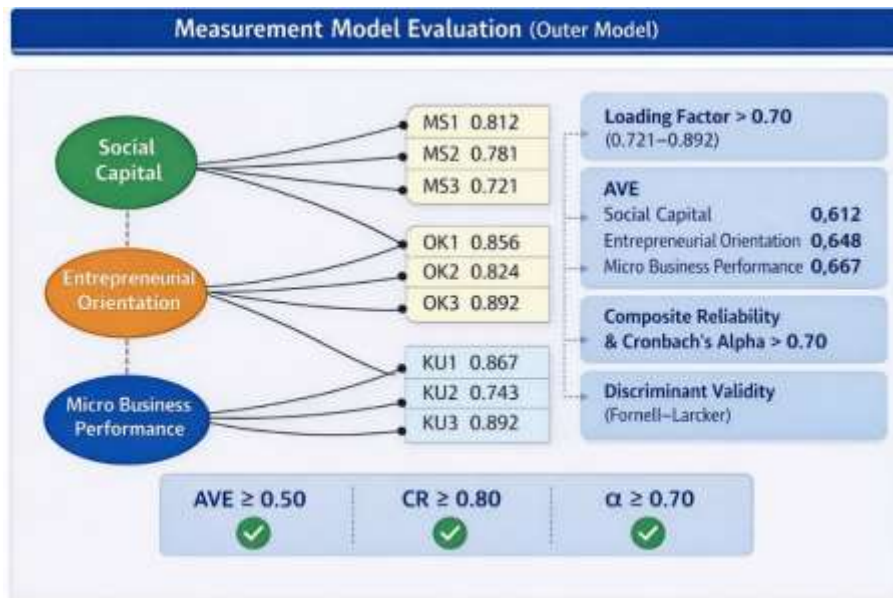


FIGURE 1 | Outer Model
 Source: Smart-PLS 3.0 output processed by the author, 2025

The reliability test showed that the entire construct had a *Composite Reliability* value and *Cronbach's Alpha* which was above 0.70. The *Composite Reliability* value for social capital is 0.863, entrepreneurial orientation is 0.882, and micro-business performance is 0.899. Meanwhile, *Cronbach's Alpha* values of constructs are 0.821, 0.847, and 0.864, respectively. Thus, the research instrument was declared reliable and consistent internally. The validity of the discriminator was tested using the Fornell–Larcker criteria. The square root of AVE for each construct is greater than the correlation value between constructs, which indicates that each construct is unique and does not overlap conceptually. Based on these results, the measurement model was declared to meet the criteria of validity and reliability.

3.3 | Internal Factors Affecting Budget Fluctuations

Structural model evaluation was carried out to test the relationships between latent variables and test the research hypothesis. **Figure 2** shows the inner model of the research. The results of the analysis showed that the value of the determination coefficient (R^2) for the micro business performance variable was 0.587. This value shows that social capital and entrepreneurial orientation together are able to explain 58.7 percent of the variation in micro business performance, while the rest is explained by other variables outside the research model.

The results of the bootstrapping test showed that social capital had a positive and significant effect on the performance of micro businesses, with a path coefficient value ($\beta = 0.352, t = 4.126$). These findings show that increasing social capital contributes significantly to improving the performance of micro enterprises. Thus, the first hypothesis (H1) is accepted. Entrepreneurial orientation has also been shown to have a positive and significant effect on the performance of micro businesses ($\beta = 0.421; t = 5.038$). These findings indicate that entrepreneurial orientation has a stronger influence than social capital in improving the performance of micro businesses. These results support the research Khan et al. (2021) that social capital is important in determining the success of micro-businesses. Therefore, the second hypothesis (H2) is accepted. This result support Soesetio et al. (2024) that entrepreneurial orientation can improve the financial performance of micro-businesses. Simultaneous influence testing showed that social capital and entrepreneurial orientation together had a significant influence on micro business performance, as reflected in the R^2 value 58.7% of entrepreneurial orientation and social capital explained the performance of micro businesses. Thus, the third hypothesis (H3) is accepted.

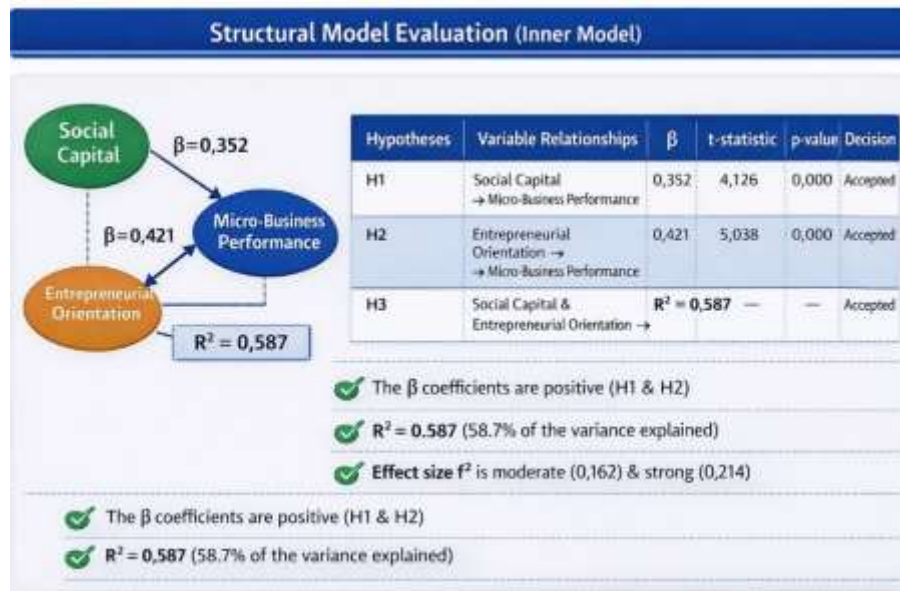


FIGURE 2 | Inner Model
 Source: Smart-PLS 3.0 output processed by the author, 2025

In addition, the results of the effect size (f^2) test showed that social capital had a moderate influence on the performance of micro businesses with an f^2 value of 0.162, while entrepreneurial orientation had a moderate to strong influence with an f^2 value of 0.214. A predictive relevance value (Q^2) of 0.391 (> 0) indicates that the research model has good predictive capabilities.

3.4 | Discussion

The results of descriptive statistics show that micro business actors in Kupang City have a relatively high level of social capital and entrepreneurial orientation, with an average score of 3.87 and 3.94, respectively. These findings indicate that micro business activities in the region are not only supported by economic factors, but also by strong social relationships and a fairly developed entrepreneurial attitude. This condition is in line with the characteristics of people in the East Nusa Tenggara region who still rely on social networks, trust, and community cooperation as the basis for economic activities (Sambodo et al., 2023).

The results of the hypothesis test show that social capital has a positive and significant effect on the performance of micro businesses. These findings confirm that social networks, beliefs, and norms that develop in the business environment play an important role in improving the performance of micro businesses (Khan et al., 2021). Social capital allows business actors to gain access to market information, non-financial support, and business resources that are not always available through formal mechanisms (Akintimehin et al., 2019). These results are consistent with the findings of Hernández-Carrión et al. (2017) which show that social capital contributes significantly to improving the performance of small and medium enterprises, especially in environments with limited institutional access. Furthermore, the existence of strong social capital also helps micro business actors in reducing uncertainty and business risks through mutually beneficial relationships with customers, suppliers, and fellow business actors (Hernández-Carrión et al., 2017). Intense social interaction based on trust allows for more effective exchange of information and business experiences, so that business actors can make more informed decisions (Huang & Wilkinson, 2013). Thus, social capital not only functions as an operational support resource, but also as a strategic mechanism that strengthens the resilience and sustainability of micro business performance in the long term (Reniati et al., 2025).

Entrepreneurial orientation has been proven to have a positive and significant influence on the performance of micro businesses, with a greater coefficient of influence than social capital. These

findings show that innovative, proactive, and courageous risk-taking are crucial internal factors in driving the performance of micro businesses (Zannah & Mahat, 2021). Business actors with a high entrepreneurial orientation tend to be more adaptive to changes in the business environment and more responsive to market opportunities. These findings support the results of research by Putniņš & Sauka (2020) who affirm that entrepreneurial orientation is the main determinant of business performance, and is in line with the study of Soesetio et al. (2024) in the context of MSMEs in Indonesia. In addition to strengthening business performance, entrepreneurial orientation also plays a role in increasing the competitiveness and sustainability of micro businesses in the long term (Aidara et al., 2021). The ability of business actors to continue to innovate (Iskandar et al., 2025), read market dynamics, and make strategic decisions in the midst of uncertainty allows micro businesses to survive and develop despite facing limited resources (Etemad, 2020). Thus, entrepreneurial orientation not only serves as a driver of current performance, but also as an important foundation in building business resilience and sustainable competitive advantage.

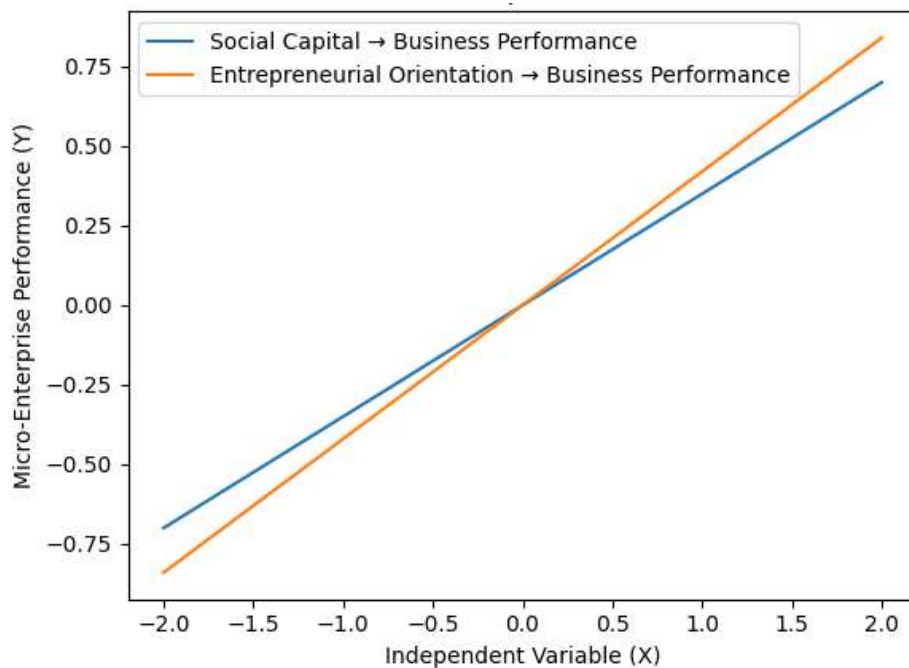


FIGURE 3 | Relationship between social capital, entrepreneurial orientation and micro-enterprise performance
Source: Processed by the author, 2025

Based on the graph, it can be seen that both social capital and entrepreneurial orientation have a positive relationship with micro business performance, which is indicated by the increasing slope of the line. The entrepreneurial orientation line has a steeper slope compared to social capital, reflecting a greater coefficient of influence. These findings indicate that entrepreneurial orientation is a more dominant internal factor in improving the performance of micro enterprises, although the role of social capital as an external resource remains significant. These visual patterns align with the structural model results, showing that both factors interactively shape the performance trajectory of micro enterprises.

The simultaneous influence of social capital and entrepreneurial orientation on micro business performance shows that the two variables are complementary. Social capital functions as an external resource that provides access to social networks and support, while entrepreneurial orientation determines the ability of business actors to manage and utilize these resources effectively (García-Villaverde et al., 2018). In the context of Kupang City, the existence of strong social capital does not necessarily produce optimal business performance without being supported by an adequate entrepreneurial orientation. Thus, the graphical evidence supports the argument that the combined effect of these factors is essential for achieving stronger and more sustainable business outcomes. These findings reinforce the view that the integration between social factors and entrepreneurial behavior is key in improving the sustainability and competitiveness of micro-businesses (Munandar et al., 2025).

These findings are highly relevant for micro-businesses in Kupang, NTT, where economic activities are strongly influenced by social relationships, community trust, and local market dynamics. In this context, strong social capital can help business owners build better partnerships, access information, and strengthen customer loyalty, which are crucial in regions with close-knit communities (Birendra et al., 2018). Likewise, a robust entrepreneurial orientation such as innovativeness, proactiveness, and risk-taking, enables micro entrepreneurs to adapt to market changes, seize emerging opportunities, and differentiate their products in a competitive environment. Therefore, strengthening both social capital and entrepreneurial orientation can serve as a strategic foundation for improving the sustainability and competitiveness of micro-enterprises in Kupang, contributing to broader regional economic development.

4 | Conclusion

This study aims to analyze the influence of social capital and entrepreneurial orientation on the performance of micro businesses in Kupang City, East Nusa Tenggara Province. The results of the analysis using the Partial Least Squares–Structural Equation Modeling (PLS-SEM) approach show that social capital and entrepreneurial orientation have a positive and significant effect on the performance of micro businesses. These findings indicate that social networks, trusts, and norms owned by business actors, as well as innovative, proactive, and courageous risk-taking, are important factors in improving the performance of micro businesses. In addition, entrepreneurial orientation has been proven to have a stronger influence than social capital, which emphasizes the importance of internal factors of business actors in dealing with the dynamics of the business environment.

Theoretically, the findings of this study strengthen the entrepreneurial literature that emphasizes the role of social capital and entrepreneurial orientation as determinants of micro enterprise performance, especially in the context of developing regions. The results of this study support the theory of social capital which views social relations as a strategic resource for business actors, as well as strengthening the concept of entrepreneurial orientation as the main driver of business performance. Practically, this research provides implications for local governments and related stakeholders to design micro business empowerment programs that not only focus on financial support, but also on strengthening social networks and building the entrepreneurial capacity of micro business actors.

Although it provides relevant empirical contributions, this study has limitations, including the use of cross-section designs and the limited number of samples in micro enterprises in Kupang City, so the generalization of research results needs to be done carefully. In addition, the measurement of business performance is based on respondents' perceptions, which has the potential to cause subjectivity bias. Therefore, further research is recommended to use longitudinal design, expand the research area, and include other variables such as financial literacy, digital technology adoption, or government policy support to gain a more comprehensive understanding of the factors that affect the performance of micro businesses.

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