Research Paper

The Effect of Networking Capacity on Social Capital and Its Implications for Ease of Access to Financial Capital

Hendro Widjanarko*, Humam Santosa Utomo, Rosalia Dwi Fadma Tjahjanti, Suratna, Fadli Hasan Muqaddas
Universitas Pembangunan Nasional Veteran Yogyakarta, Indonesia

Received : Sept 8, 2025	Revised : Sept 15, 2025	Accepted : Sept 25, 2025	Online : October 14, 2025

Abstract

This study examines how the networking capabilities of processed food micro-enterprise owners influence the formation of social capital and how this social capital, in turn, influences ease of access to financial capital. The focus of the study was processed food micro-enterprises in Bantul Regency, Yogyakarta. Using a questionnaire distributed to 100 micro-enterprise owners selected through purposive sampling, this study examined the direct relationship between networking and social capital and the mediating relationship between social capital and access to financial capital. Data analysis used SEM-PLS. The results showed that networking significantly influenced business owners' social capital and access to financial capital. This study also found that social capital significantly influenced access to financial capital. These findings reinforce the literature demonstrating the central role of social networks in expanding financing opportunities for small and medium enterprises.

Keywords: *Networking, Social Capital, Access To Financial Capital, Micro-Enterprises, Yogyakarta*

INTRODUCTION

Micro-enterprises play a crucial role in local economies, absorbing labor, securing livelihoods, and preserving local culinary traditions. However, financing remains a major constraint limiting the expansion, modernization, and resilience of these businesses. In addition to formal factors such as stringent bank requirements, research shows that informal factors, including personal networks and social capital, often determine successful access to financial capital, particularly in the micro-enterprise sector. Empirical findings in Indonesia and the surrounding region confirm that participation in social networks and community activities can significantly influence the likelihood of obtaining credit or loans (Syaiful & Kharisma, 2022).

Networking, in the context of micro-enterprises, refers to the activity of building and maintaining professional, social, and institutional relationships, such as relationships between entrepreneurs, relationships with community leaders, merchant associations, and connections with microfinance institutions. Social capital encompasses bonding (family/community ties), bridging (horizontal relationships between different groups), and linking (vertical relationships with powerful actors/institutions). Theoretically, social capital enables information exchange, lowers transaction costs, and builds a reputation, ultimately lowering risk for lenders, thus facilitating access to capital. Various international studies also show that social networks and social capital are positively correlated with access to financing and the choice of more profitable financing instruments (Dudley, 2021; Tahmasebi & Askaribezayeh, 2021).

The local context of Bantul is interesting because there is evidence that community social capital plays an active role in local economic resilience, including during periods of crisis, and that informal community-based financing practices exist. The Bantul case study demonstrates that

Corresponding author's email: hendro.widjanarko@upnyk.ac.id

social capital contributes to community economic adaptation during times of crisis, reflecting the role of social capital in supporting access to local resources.

This research stems from several gaps in studies on the influence of networking and social capital on access to financing for micro-enterprises. Most previous studies were conducted in the context of urban micro-enterprises or countries with more established financial systems (Tahmasebi & Askaribezayeh, 2021), thus underrepresenting the socio-economic realities of rural areas like Bantul, which are characterized by communal and community-based practices (Syaiful & Kharisma, 2022). Furthermore, previous research tends to only highlight the direct influence of social capital on access to financing without considering the role of networking as a factor in shaping social capital. Empirical studies in the processed food sector are also limited, despite this sector's significant contribution to local economic resilience and the preservation of culinary culture. Methodologically, quantitative approaches based on structural models, such as SEM-PLS, are rarely used to comprehensively examine relationships between variables (Hair et al., 2021). On the other hand, social dimensions such as trust, norms of reciprocity, and community support have not been widely integrated into studies of access to finance (Nguyen et al., 2023; Purnomo & Rahman, 2022). Therefore, this study seeks to fill this gap by developing an empirical model that examines the influence of networking on social capital and access to finance for processed food microenterprises in Bantul.

Based on this conceptual framework and preliminary evidence, this study aims to (1) examine the effect of networking on the social capital of processed food micro-enterprise owners in Bantul; (2) examine the effect of social capital on ease of access to financial capital; and (3) examine the effect of networking on ease of access to financial capital.

LITERATURE REVIEW

This study integrates socioeconomic literature on networking, social capital theory, and microfinance literature on access to finance. Networking is viewed as a source of information, recommendations, and access to important actors (banks, cooperatives, microfinance institutions, and large suppliers), thereby strengthening the borrower's creditworthiness signal. Signaling theory and the resource-based view position networks as assets that can increase financing opportunities because they reduce information asymmetries and provide social referrals (Hussain, 2024).

Social capital, popularly developed in various variants by Bourdieu, Coleman, and Putnam, is measured as the stock of resources accessible through social networks: trust, norms of mutual assistance, and institutional connections. Social capital is associated with economic outcomes such as access to credit, business continuity, and financial resilience. Cross-national empirical evidence shows a positive correlation between social capital and access to finance, both at the household and small firm levels (Dudley, 2021; Tahmasebi, 2021).

In the Indonesian context, research based on the Indonesian Family Life Survey (IFLS) and local studies found that community participation and internet access influence social capital and economic outcomes. This indicates that social capital in Indonesia extends beyond traditional forms to include digital relationships and market participation. Research by Syaiful and Kharisma (2022) found that dimensions of social participation influence an individual's likelihood of accessing credit. Studies on shifting financing mechanisms (e.g., the role of fintech, digital cooperatives, and LPDs) also demonstrate the interaction between social capital and modern financing channels. Social capital can accelerate the adoption of new financing mechanisms or serve as a substitute when formal access is limited (Jun, 2024).

From this literature synthesis, hypotheses emerged that were tested on a population of processed food microenterprises in Bantul.

Hypotheses

H1 : Networking capacity has a positive and significant effect on the social capital of processed food microenterprise owners.
H2 : Social capital has a positive and significant effect on ease of access to financial capital.
H3 : Networking capacity has a positive and significant effect on ease of access to financial capital.

RESEARCH METHOD

The type of research is quantitative causal-comparative with a survey approach. The research population is the owners of processed food micro-businesses in Bantul Regency who are members of the Agro Mirasa Boga Cooperative. A sample of 100 respondents was selected using purposive sampling from a total population of 120 entrepreneurs considering that it met the minimum sample size according to Slovin. The sample selection criteria are businesses engaged in food processing, (2) have been operating for at least 5 years, and (3) are willing to fill out the questionnaire. Networking capacity indicators include the frequency of interaction with other entrepreneurs, association/community membership, relationships with suppliers and large buyers, relationships with community leaders/financial institutions. Social capital dimensions include bonding, bridging, and linking. Social capital indicators include the level of trust, mutual assistance, recommendations, and access to information through networks. Meanwhile, access to financial capital includes the ease of obtaining formal/informal loans, availability of working capital, requirements that must be met, and obtaining credit recommendations.

Data were collected using a closed-ended questionnaire with a 5-point Likert scale (1 = strongly disagree to 5 = strongly agree). The instrument was tested on 30 respondents before being distributed to all respondents. Validity was tested using item-total correlation, while reliability was tested using Cronbach's alpha. Data processing used SEM-PLS with $\alpha = 0.05$. Validity test results showed that all indicators had a significant item-total correlation ($p < 0.05$). Meanwhile, a Cronbach's alpha value above 0.70 indicates adequate reliability.

FINDINGS AND DISCUSSION

Finding

Based on Table 1, it can be seen that the majority of respondents in this study were women (92%), while only 8% were men. This indicates that micro-processed food businesses in the study area are dominated by women, which also emphasizes the important role of women in the small business sector, particularly in food processing. In terms of age, the respondents were quite diverse. The largest age group was in the category >45 years (39%), followed by 26–35 years (31%), then 17–25 years (19%), and finally 36–45 years (11%). This distribution indicates that micro-processed food businesses are mostly managed by relatively mature entrepreneurs, although the involvement of the younger generation is also visible. Based on marital status, the majority of respondents were married (70%), while 20% were single, and the remaining 10% were in other categories (widows/widowers). These data show that most entrepreneurs are individuals who are married, making micro-businesses also one of the pillars of the household economy.

Tabel 1. Characteristics of the sample (% of respondents, n = 100)

Socio-demographic characteristics		%
Gender	Male	8
	Female	92
Age (year)	17-25	19
	26-35	31

Socio-demographic characteristics		%
	36-45	11
	>45	39
Marital Status	Marriage	70
	Single	20
	Others	10
Level of Education	Secondary school	89
	Diploma	6
	Bachelor’s degree	5
Firm Age	5-7 years	25
	8-10 years	21
	>10 years	54

Based on educational attainment, the majority of respondents (89%) completed secondary school, while 6% held a diploma, and only 5% held a bachelor's degree. This indicates that micro-processed food entrepreneurs are still dominated by individuals with secondary education, yet they still possess the motivation and capacity to manage their businesses. Overall, the characteristics of this sample reflect that micro-processed food entrepreneurs in the research area are predominantly women of adult to older age, married, and have secondary education. This finding is important because it provides a snapshot of the profile of the entrepreneurs focused on in the study and serves as a basis for understanding their social and economic context in accessing social and financial capital.

Based on data on the firm age variable, the majority of respondents operate businesses that have been established for a relatively long time. Fifty-four percent of businesses have been operating for more than 10 years, indicating that most processed food microenterprises have a high level of sustainability and are capable of long-term survival. This indicates a strong business experience and resilience in facing market dynamics. Meanwhile, 21% of businesses have been operating for 7–10 years, which can also be categorized as fairly established businesses with the potential for continued growth. Furthermore, 25% of businesses are between 5–7 years old, which typically reflects a growth phase, where entrepreneurs begin to expand their networks and increase production capacity.

Table 2. Hypothesis Testing

Path		coefficient	p-value	Conclusion
H1:	Networking Capacity → Social Capital	0.882	0.000	Accepted
H2:	Social Capital → Ease of Access to Financial Capital	0.815	0.000	Accepted
H3:	Networking Capacity → Ease of Access to Financial Capital	0.771	0.000	Accepted

Based on the results of the structural model test (Table 2), three significant inter-variable relationship paths were identified.

First, Hypothesis 1 found that networking capacity had a positive and significant effect on social capital, with a coefficient of 0.882 and a p-value of 0.000. This result indicates that the higher a micro-entrepreneur's networking capacity, the stronger their social capital. This means that a business owner's ability to build networks, whether with fellow entrepreneurs, supporting institutions, or consumers, is a crucial foundation for expanding trust, collaboration, and access to relevant information for business sustainability.

Second, Hypothesis 2 demonstrated that social capital had a positive and significant effect on ease of access to financial capital, with a coefficient of 0.815 and a p-value of 0.000. This finding indicates that the stronger a micro-entrepreneur's social capital, the greater their chances of obtaining easy access to financing. This is understandable because a solid social network builds trust with financial institutions, cooperatives, and investors, thereby streamlining the process of applying for business capital.

Third, Hypothesis 3 found that networking capacity also had a positive and significant effect on ease of access to financial capital, with a coefficient of 0.771 and a p-value of 0.000. These results confirm that the ability of micro-entrepreneurs to establish broad networks not only strengthens social capital but also directly impacts their opportunities to access financing. A strong network enables entrepreneurs to obtain information about alternative financing sources, understand more effective application procedures, and increase trust from lenders.

Overall, the findings of this study demonstrate that networking capacity plays a strategic role in strengthening social capital while simultaneously opening broader access to financial capital sources.

Discussion

The results of this study are consistent with social capital theory, which states that social networks are intangible capital that can be converted into economic benefits. The positive influence of networking on social capital emphasizes that micro-enterprises that actively network, for example, through trader associations, business arisan groups, and digital platforms, are better able to develop trust, obtain recommendations, and share important information such as financing schemes and credit terms. This finding also aligns with a study by Syaiful and Kharisma (2022), which shows that social participation increases the likelihood of accessing credit in Indonesia, as well as with international studies that position networks as a driver of financing access.

The role of social capital suggests that networking does not solely operate through meeting with lenders, but also through the formation of reputations and norms of reciprocity. When the community serves as a referral source, informal and formal lenders tend to provide easier access due to social monitoring and recommendation mechanisms. This finding is relevant in the Bantul context, where informal practices (e.g., rotating capital, recommendations from community leaders) play a crucial role in meeting the liquidity needs of micro-enterprises. Entrepreneurs with strong social capital are quicker to adopt new financial solutions because they gain information and support from their networks, which reduces risk and increases trust in new platforms (a phenomenon also discussed in the fintech literature for MSMEs).

Theoretical Implications

Theoretically, this study strengthens the integrative perspective between social capital theory and financial theory (signaling/resource-based view) by positioning networking as a mechanism for building social capital, which in turn influences access to financial resources. These findings add empirical evidence from the context of processed food microenterprises in developing countries, enriching the generalizability of a theory that has been widely tested in more formal small and medium enterprises.

Managerial Implications

First, for micro-enterprise owners, involvement in social networks plays a strategic role in business development. Activities such as joining trader associations, attending training, and utilizing digital marketing platforms not only provide opportunities to expand their market but also strengthen their social capital. This social capital encompasses trust, norms, and networks, which in turn facilitates access to external resources, including financing. With network support, micro-enterprises more easily obtain information regarding credit opportunities, recommendations from the community, and even technical guidance in applying for financing. This demonstrates that networks are not merely a means of building relationships but also a strategic instrument that can increase the chances of business sustainability through more inclusive financial access.

Second, for microfinance institutions and cooperatives, the results of this study underscore the importance of considering the social dimension in financing mechanisms. Social capital indicators, such as recommendations from the community or the prospective borrower's active participation in business groups, can be used as a measure of financing eligibility. This approach will help financial institutions reduce screening costs, which are currently quite high when relying solely on administrative data or formal financial reports, which microbusinesses often lack. Furthermore, integrating social aspects into risk assessments can improve the accuracy of predicting repayment capacity, as individuals with strong social ties tend to be more committed to maintaining their reputation within their community. Thus, financial institutions can expand the reach of financial services without compromising the principle of prudence.

Third, for local policymakers, such as the Bantul Regional Government and the Cooperatives and MSMEs Office, these findings demonstrate that strengthening social capital through structural interventions is highly relevant for promoting financial inclusion. Establishing culinary centers, facilitating business groups, and providing institutional support for local associations are effective means of strengthening trust and solidarity among business actors. Furthermore, financial literacy programs implemented with the involvement of local associations will be more targeted, as information disseminated through social networks has a higher reach and acceptance rate than top-down, instructional approaches. Therefore, public policies that are responsive to the importance of social capital will contribute to the creation of a more inclusive, independent, and competitive micro-enterprise ecosystem.

Fourth, for fintech developers, this research confirms that social capital can be leveraged to accelerate the penetration of digital financial services. Collaborating with local associations not only expands the user base but also reduces the trust barrier that often arises from information asymmetry between service providers and potential users. Trust-based community recommendations will encourage faster adoption because businesses tend to trust information from their own networks. With this strategy, fintech goes beyond simply offering technology but also builds social legitimacy that can strengthen the sustainability of the digital financial ecosystem among micro-businesses.

Research Limitations

This study has several limitations. First, the use of purposive sampling of 100 respondents limits generalizability to the entire population of micro-enterprises in Bantul or other regions. Second, the cross-sectional research design captures relationships at a single point in time, making the direction of causality impossible to definitively establish. A longitudinal study would be more robust in examining the dynamics of social capital formation and access to finance over time. Third, self-report questionnaire-based measures are at risk of social response bias; future research could incorporate administrative data (e.g., loan records) or qualitative methods to deepen our understanding of the process. Fourth, control variables such as physical assets, owner education, and business age need to be examined more thoroughly to rule out confounding factors.

CONCLUSIONS

This study found that networking has a positive and significant effect on the formation of social capital among processed food micro-enterprise owners in Bantul. Furthermore, social capital significantly influences ease of access to financial capital. Networking has a positive and significant effect on ease of access to financial capital. These findings confirm that interventions that strengthen networks and social capital can be an effective strategy for increasing financial inclusion and the financing capacity of micro-enterprises.

LIMITATIONS & FURTHER RESEARCH

Future research could explore the role of digital networking in shaping the social capital of micro-enterprises, given the increasingly dominant shift in business interactions to the online realm. Furthermore, future research should examine moderating factors such as gender, education, and types of social capital (bonding, bridging, linking) to determine their varying effects on access to financial capital. Further studies could also highlight the involvement of financial institutions and government policies in strengthening financial inclusion, as well as assess the tangible impact of capital access on micro-enterprise performance. Comparative studies across regions or business sectors and longitudinal research also have the potential to provide a deeper understanding of the dynamics of networking relationships, social capital, and access to finance over time.

REFERENCES

Dudley, E. (2021). *Social capital and entrepreneurial financing choice* [Conference paper]. ENTFIN Conference / SSRN. https://doi.org/10.2139/ssrn.3659464

Hair, J. F., Hult, G. T. M., Ringle, C. M., & Sarstedt, M. (2021). *A primer on partial least squares structural equation modeling (PLS-SEM)* (3rd ed.). Thousand Oaks, CA: Sage Publications.

Hussain, A. (2024). Perspective of resource-based view and signalling theory: Networking, access to finance, and SME performance. *Cogent Business & Management.*

Jun, W., & [colleagues]. (2024). Dynamics in digital finance and its impact on SME financing. *Digital Finance & Economics.*

Nguyen, T. M., Pham, T. T., & Tran, Q. T. (2023). Social capital and access to finance among rural microenterprises: Evidence from Vietnam. *Journal of Asian Business and Economic Studies, 30*(2), 156–172. https://doi.org/10.1108/JABES-09-2022-0109

Purnomo, R. A., & Rahman, A. (2022). The role of social capital in improving financial inclusion of micro and small enterprises in Indonesia. *Journal of Entrepreneurship Education, 25*(4), 1–12.

Syaiful, M., & Kharisma, B. (2022). Access to credit and social capital: The case of Indonesia. *Journal of Sociology and Social Welfare, 49*, 57–78. https://doi.org/10.15453/0191-5096.4587

Tahmasebi, A. (2021). Microfinance and social capital formation—Application of SNA. *Resource and Policy Discussions.*

Tahmasebi, A., & Askaribezayeh, F. (2021). Microfinance and social capital formation: A social network analysis approach. *Socio-Economic Planning Sciences, 76*, 100978. https://doi.org/10.1016/j.seps.2020.100978