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The resilience of youth entrepreneur: the role of social capital, financial literacy, and emotional intelligence on SMEs' performance in Indonesia

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Abstract
This paper aims to investigate factors that contribute to strengthening the business performance of youth entrepreneurs. Based on the Resource-Based Theory (RBV), this study examines the social capital, financial literacy, and emotional intelligence of small and medium-sized business (SME) youth owners' effect on business performance. The link between the variables is evaluated using the Partial Least Square – Structural Equation Modelling (PLS-SEM). The findings demonstrated that youth entrepreneurs' social capital and financial literacy positively and significantly affect emotional intelligence. At the same time, SME performance was directly influenced by the youth owner's emotional intelligence. Based on the research, SME youth owners are urged to strengthen their emotional intelligence to make prudent business choices that would significantly enhance their firm's success. Also, maintaining the relationship and upgrading their financial literacy could indirectly enhance business performance. Managers in SMEs must understand the link between social capital, financial literacy, and emotional intelligence to improve performance. Cultivating strong business networks and relationships, ensuring sound financial practices, and fostering emotionally intelligent leadership can drive stronger business performance and maintain a competitive advantage.

Keywords:
emotional intelligent; financial literacy; SME performance; social capital; youth entrepreneur.

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Introduction

Philosophically, any business is founded to sustain and depend on its performance. It relies on how they struggle with their characteristics as resources, tangible as well as intangible, to adopt the best strategies (Guesalaga et al., 2018; Gibson et al., 2021). This is even more challenging, especially for small and medium-sized enterprises (SMEs), representing 90% of businesses and contributing more than 50% of employment worldwide. On the other hand, this group has limited capability with characteristics independently owned, operated with a small number of workers, having minimal sales, and limited and mostly owner-financed (Milevoj et al., 2021; Bongomin et al., 2018). This uniqueness makes SMEs different from other business entities. Consequently, those attributes bring out several constraints: limited access to external funding due to imperfections in the credit market (Beltrame et al., 2023) and other factors of production (Yonis et al., 2018).

Interestingly, despite all the limited resources, SMEs are more creative and attractive and have extraordinary innovative systems due to higher flexibility and adaptability (Lita et al., 2020). As mentioned before, since SMEs are singly owned, success or failure in coping with all disruptions results from the business decision-making compounded by the owner's competencies. Refers to Resources Based Theory (RBV) that the key to the success of a business is to make a competitive advantage (Eisenhardt & Martin, 2000; Shane & Venkataraman, 2000). It sounds crucial to give more attention to all measures of entrepreneur.

There have been several studies on SMEs, but not all of the findings have a precise and direct impact on how well the businesses perform. Most researcher focuses on the organisational perspective as well as the external environment for the small business (Bongomin et al., 2018; Chen et al., 2007; Milevoj et al., 2021; Lita et al., 2020). However, only a limited number are focused on improving SMEs' performance from an individual viewpoint. Generally speaking, handling the personal resources of the business owner is important. Afterward, success in maintaining the internal environment will affect the easiness of managing the overall organisation's aspect (Agyei, 2018; Damoah, 2020; Eniola & Entebang, 2015; Orobia et al., 2020). This study aims to examine factors contributing to strengthening SMEs facing disruption, a dynamic and volatile business environment that affects the main operation and performance from the personality perspective.

In case entrepreneur activity is put in a row with demographic issues, it will be interesting to emphasise youth aged 16 to 35 years old. This generation should be given more attention since they get appropriate support and promotion. They will contribute a significant impact on the country's economic resilience by creating job creation (Adams & Quagrainie, 2018), decreasing unemployment (Damoah, 2020), income generation, and poverty reduction

(Orobia et al., 2020). Furthermore, Elizabeth et al. (2020) clarified what happens in Africa and that the country's inability to provide the young population with suitable and extensive job opportunities was the initial major problem for national economies. In many regions, unsurprisingly, the interest in exploiting the young generation as a mechanism for economic development has increased over time.

Youth entrepreneur is claimed to be young people whose livelihoods depend on business activity by creating value and wealth in the process, engaging in challenging and innovative areas, could initiate new business or enhance an existing business to generate income (Elizabeth et al., 2020; Malaj & Dollani, 2018). Youth entrepreneurs' challenges are of the utmost importance and similarities (Liu et al., 2019). The barrier arises for those who operate the business in emerging market countries deal with an unpromoted educational system, limited capital, knowledge, and skill, leading to difficulty in meeting investors as well as insufficient access to external financial resources (Adams & Quagrainie, 2018; Damoah, 2020; Amanamah et al., 2018; Wang et al., 2018).

Since access to external financial resources is the primary issue for new and young entrepreneurs, social capital is an appropriate solution for extra funding, markets, and information (Boohene et al., 2020). By building network shaping in the social capital, entrepreneurs can take advantage of tacit resources (i.e., information) embedded in the relationship between individuals as well as groups, Chen et al., (2007) offered by extended family, community-based, and organisational (Berkes & Davidson-Hunt, 2007). Members from the network can, directly and indirectly, affect the business profitability from circumstances and opportunities in new sales, supplier contracts, promotion access, financial capital among the members, and joint projects and partnerships (Batjargal, 2007; Zhu et al., 2019). By this mechanism, social capital sets a remedy for the obstacle to resources in order to boost business performance.

Most SMEs exhibit limited financial skills and constricted accessibility to external and formal financial resources, negatively affecting business performance (Hussain et al., 2018). Furthermore, the financially illiterate contribute to diminished demand for financial services due to the need to become more familiar with the product (Cole et al., 2011). While adequate financial knowledge, having an entrepreneur potentially increases wholesome financial behaviour, including budgeting, saving, and investing (Henager & Cude, 2016). Previous studies reported that the higher the financial literacy levels of SMEs, the higher access to credit for enterprise (Cole et al., 2011), and more likely to utilise financial services (Nunoo, 2012; Gupta & Kaur, 2014). Entrepreneurs with greater financial literacy make better financial decisions, are less dismissive of investment decisions, and experience less financial distress (Huston, 2010; White et al., 2019; Rai et al., 2019).

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Entrepreneurs must continue innovating and making the right decisions to maintain a company's sustainability (Teece, 2010). Business owners must use their emotions appropriately to achieve better performance because emotions can influence business decision-making. Emotions like fear, happiness, and surprise are essential in our decision-making process. The effects of these emotions can be positive (emotional intelligence) or negative (behavioural bias) (Ezzi et al., 2016). Positive emotion with accurate expression of emotion brings out effective communication, and it is easy for others to recognise the explicit. That is why entrepreneurs with high-quality emotional intelligence display improved productivity (Varshney & Varshney, 2020) and positively impact business sustainability (Carmeli & Tishler, 2004). At the group level, emotional intelligence manages social skills with teamwork in effective relationships and networks (Black et al., 2019).

The research objective is to examine factors that contribute to strengthening the business performance operated by young entrepreneurs. This study concentrates on how the business owner can leverage the company's critical success by integrating social capital, financial literacy, and emotional intelligence. This research was conducted in Indonesia since it has a demographic bonus as the working-age group is more than 70% of its population. One-third of Indonesia's unemployed are young (BPS, 2021). Meanwhile, World Bank (2019) reported that Indonesia has one of the world's highest rates of youth unemployment. Entrepreneurship development is the answer to the problem of how the young generation gets ready for the need for new jobs to transform into an economic and health bonus.

The following parts of this paper include a conceptual framework of SME performance, social capital, financial literacy, and emotional intelligence. The research methodology will be presented, followed by the result and discussion. The last section offers the conclusion of the research.

Literature review

SMEs' performance

Performance measurement for SMEs is essential and unique because of its characteristics. It is important that every single recording provides information to the concerned parties, especially the owner, to respond to whether the organisation's activities have been on track with the goal. Furthermore, this information can guide other strategic decisions when considering that SMEs must be developed in all their limitations. There are several criteria for selecting a measure of SME performance: objectivity, relevance, reliability, and simplicity (Watson et al., 2004).

Traditionally, financial performance gives information on the general company's profile. Analysing financial statements is a process to help managers make decisions based on past financial information and predictions for the future. At least by calculating the profit, the process in all businesses has already reflected how efficiently the process attained the goal set by owner-management. However, many owner-managers of SMEs opined that profit measures were found to be less important than conventional views suggest. It is substituted by cash and cash flow indicators that are more crucial in assessing how well the business is doing and is particularly critical to ensuring the survival of the small firm. However, measuring business performance solely by financial indicators is inadequate to capture the owner firm's objective range. They implied financial and non-financial (e.g., quality of material raw and quality of process in production as the output) indicators to measure their performance, even though it was stated implicitly. This can be understandable because adopting a standard report can be time- and resource-consuming (Hussain et al., 2018).

To sum up, the performance of SMEs can be used for both financial and non-financial (Kim et al., 2006; Campbell & Park, 2017; Boohene et al., 2020; Sels et al., 2006). It will be a big challenge to know the performance of SMEs, especially for financial performance as a formal report. It is reasonable since SMEs have launched no financial publications because of time and resource barriers. It is solved by flexibly interviewing the respondents with questionnaires measuring financial performance indicators (output, total assets, and employment generation). Moreover, subjective questionnaires and scale-type questionnaires are commonly used when the problem arises (Kim et al., 2006; Powell & Eddleston, 2013).

Coleman (1988) defines social capital based on its function. Furthermore, social capital is not a single entity but multiple entities containing two elements, which include several aspects of the social structure and facilitate certain actions of the behaviour of individuals and organisations in that structure. Putnam (1994) stated that social capital is a theory rooted in sociology and political science, especially those that explain the relationship between individuals and groups. Social capital can be interpreted as an aggregate of actual and potential resources to create a durable network to institutionalise mutually beneficial acquaintances. So, through this interpretation, social networks are not natural but constructed through an investment strategy oriented towards institutionalising group relationships, which can be used as a reliable source of benefits.

Related to the forms of social capital, Coleman (1988) stated that there are at least three forms. First, the structure of obligations, expectations, and trustworthiness. In this context, the form of social capital depends on two key elements: trust from the social environment and the actual expansion of the obligations that have been fulfilled. Second, about information channels. Individuals with a wider network will find it easier to obtain information, so their social capital is high and vice versa. The last is norms and effective sanctions. From this view, norms in a community that support individuals to gain achievement can, of course, be classified as a very important form of social capital.

Adler & Kwon (2002) identified social capital as bridging and bonding social capital. While bridging focuses on individual relationships, bonding capital takes the group as an instrument to analyse and evaluate the network relationships inside the group. Thus, social networks are utilised to achieve individual goals, community objectives, or both. Furthermore, social networks bridge social capital or directly benefit individuals by enabling them to share knowledge and influence others.

Social capital consists of cognitive, relational, and structural dimensions. The cognitive dimension refers to the similarities various parties hold in social capital. These similarities include culture, business philosophy, goals, and visions. A common culture and mutual understanding are important aspects of this dimension. The shared culture between social capital actors can be interpreted as the similarity of norms of behaviour and values between various parties in social capital. Cultural similarity encourages parties in social capital to fight for common interests rather than individual interests. The relational dimension refers to the trust, friendship, respect, and interactions built by social capital actors. Friendship, respect, and reciprocity are developed through successful repeated interactions and repeated transactions. These repeated interactions can reduce dependence on formal contracts and contract regulations. The structural dimension refers to the communication pattern between parties in the interaction of social capital. In contrast to relational relationships, structural dimensions are related to impersonal relationships in social networks (Granovetter, 2017; Gelderman et al., 2016; Zaheer & Venkatraman, 1995; Nahapiet & Ghoshal, 1998).

Existing research reveals that social networks provide entrepreneurs with support, information, ideas, and other things. Since the main problem of a new and young entrepreneur is access to external financial funding, one appropriate approach is to use a social capital network, which exposes access to extra funding, markets, and information (Boohene et al., 2020). By building network shaping in the social capital, entrepreneurs can take advantage of tacit resources (i.e., information) embedded in the relationship between individuals and groups offered by extended family, community-based, and organisational. Chen et al., (2007; Berkes & Davidson-Hunt, 2007). From the network, members can significantly directly and indirectly affect the business profitability from circumstances and opportunities in new sales, supplier contracts, promotion access, financial capital among the members, and joining projects and partnerships (Batjargal, 2007). By this mechanism, social capital sets a remedy for the obstacle to resources to boost business performance. Therefore, this study postulates the following hypothesis.

H1: Social capital positively affects SMEs' performance.

Financial literacy and SMEs' performance

The Resources Based Theory or View (RBV) is frequently explored in entrepreneurship studies, especially for new business ventures, due to building competitive advantage through resources (Eisenhardt & Martin, 2000; Kellermanns et al., 2016; Alvarez & Busenitz, 2001). This theory identifies an organisation's resources as unique, critical, and independent. It assists an entrepreneur's cognitive ability to use his resources differently to create a benefit and gain a competitive advantage in the market over time (Hooi et al., 2016; Shane & Venkataraman, 2000).

Two approaches define the financial literacy (Lusardi & Mitchell, 2014). From the external perspective, financial literacy is more than just understanding how to manage money; it is the managerial capacity to employ basic financial knowledge and other skill sets, networks, communication skills, and cognitive capacities to achieve desired goals (Wise, 2013). Moreover, through an internal approach, financial literacy and financial management processes enable owners and managers to use their limited resources best.

Financial literacy, which provides people with the knowledge and information they need to manage their finances, is one of the intangible human resources (Hussain et al., 2018; Li & Qian, 2019). With adequate financial knowledge, entrepreneurs can increase their financial behaviour, including budgeting, saving, and investing (Henager & Cude, 2016). Additionally, it has been discovered that financial literacy is a crucial skill for managing corporate finances and obtaining tangible financial resources. In the enterprise context, financial literacy is essential in creating value for businesses that will lead to sustainable performance (Jappelli & Padula, 2013). Financial literacy enables managers to make strategic financial decisions, deal with complicated financial issues, and respond quickly and professionally to new difficulties (Hussain et al., 2018).

Financial literacy can be defined as knowledge of basic financial concepts and the skills and attitudes to translate this knowledge into behaviours that improve financial results. The skills to translate this knowledge into behaviour may involve making expenditure plans, opening a savings account, calculating interest rates, or obtaining information about products and services offered by certain financial institutions (Basset et al., 2018). Seeing that financial knowledge is a component of financial literacy, it is simple to say that entrepreneurs with greater financial literacy exert influence on good financial decision-making, less dismiss in investment decisions, and decrease financial distress (Huston, 2010; White et al., 2019; Rai et al., 2019). Furthermore, financial illiterate contributes to diminishing demand of financial services due to unfamiliar with the product. The higher the financial literacy levels of SMEs, the higher the access to credit for enterprises(Cole et al., 2011), more likely to utilise financial services (Nunoo, 2012; (Gupta & Kaur, 2014). Thus, this study postulates the following hypothesis.

H2: Financial literacy positively affects SME's performance.

Emotional intelligence and SMEs' performance

According to Mayer et al. (2016), the emotional intelligence concept approach is a series of emotional abilities in four dimensions, all of which perceive emotions, manage themselves and the emotions of others, and use them in action. Emotional intelligence is the ability to understand and manage one's and others' emotions (Elizabeth et al., 2020; Butler & Chinowsky, 2006). This concept approach is the ability to manage one's emotions with others. This provides a capacity to differentiate among those who use information to influence a person's judgment and actions.

Emotional intelligence is an important starting point for having quality work results. However, whether or not the work is done is indirectly influenced by the quality of emotional intelligence owned. The strength of emotional intelligence a person possesses will impact risk-taking behaviour (Schmeichel et al., 2008). Meanwhile, Pinos et al. (2006) see the effect of emotional intelligence on financial behaviour, which will affect financial performance.

Several dimensions or competencies are used mainly by previous studies as a basis for emotional intelligence (Goleman et al., 2001; Kim et al., 2017; Cuéllar-Molina et al., 2018). First is self-management, which is a skill that controls emotions and recovers from psychological stress, such as emotional self-control, adaptability, achievement orientation, initiative, optimism, and transparency. This emotional intelligence dimension covers the competencies of achievement orientation (i.e., striving to raise or meet standards of excellence), initiative (i.e., readiness to act based on opportunities), optimism (i.e., persistence in pursuing goals despite obstacles and setbacks), among others, is concerned with managers' strategic ambitions and entrepreneurial orientation (Coleman, 1988). Second is social awareness, which refers to a condition in which an individual knows the emotions of those around him which consists of competencies such as empathy, organisational awareness, and service orientation. Lastly, relationship management is a skill to direct emotions toward constructive activities and encourage the desired response in others. It consists of competencies such as developing others, building bonds, influence, communication, conflict management, inspirational leadership, catalysts for change, teamwork, and collaboration.

Entrepreneurs must continue innovating and making the right decisions to maintain a company's sustainability (Teece, 2010). Business owners must use their emotions appropriately to achieve better performance because emotions can influence business decision-making. Emotions, such as fear, happiness, and surprise, play an important role in our decision-making process. The effects of these emotions can be positive, "emotional intelligence," or negative, " behavioural bias" (Ezzi et al., 2016). Positive emotion with accurate expression of emotion brings out effective communication, allowing others to recognise the explicit message.

That is why entrepreneurs with high emotional intelligence display improved productivity that positively impacts business sustainability (Al Mamun et al., 2018; Carmeli & Tishler, 2004). At the individual level, the stability of emotions depends on the emotions of others (Boohene et al., 2020). From that, it argues that the development of people's emotional intelligence is affected by the quality of their relationships with others. At the group level, emotional intelligence manages social skills with teamwork in effective relationships and networks (Black et al., 2019). Hence, this study postulates the following hypothesis.

H3: Emotional intelligence positively affects SMEs' performance.

Social capital, financial literacy, and emotional intelligence

Social capital is a network built by solid and mutual relationships between the members. This relationship could be individual within the group, organisation, and national levels. The social capital network delivers potential resources, including information, ideas, business opportunities, financial capital, emotional support, goodwill, trust, and cooperation (Sallah & Caesar, 2020). All the potential resources, including financial resources, could be transformed into a social group after a good relationship has been established in exchanging emotional and psychological needs (Putnam, 1994). The stronger the relationship, the higher the opportunity for others to share the resource.

Emotional intelligence (EI) is a cognitive skill that coordinates the success in people's daily relationship development. One of the dimensions of EI is relationship management (Tung Hsuan, 2012; Kim & Liu, 2017). From this view, EI relates to how people control interpersonal relationships (Bayighomog & Arasli, 2022). More information should be shared with others the more frequently a person interacts with them. The relationship will be strengthened and made better by the caliber of the information received. Positive feelings are created by this situation, which also makes it simpler for individuals to comprehend the emotions of others. The higher the network, the easier it is for people to manage themselves and comprehend others. Social capital is a necessary tool that facilitates the development of emotional intelligence.

Additionally, a sufficient level of knowledge can boost self-confidence, which promotes EI maturity. It is said that an increase in financial literacy supports greater independence, control, and self-confidence because financial literacy measures not only people's understanding of financial information but also their ability to apply it skillfully and confidently (Huston, 2010; Potrich et al., 2016). Considering emotional intelligence maturity and financial literacy are closely related, this study postulates the following hypotheses.

H4: Emotional intelligence mediates the relationship between social capital on SMEs' performance.

H5: Emotional intelligence mediates the relationship between financial literacy on SMEs' performance.

Research method

The study was conducted in East Java province, the second-highest economic growth rate in Indonesia, and approximately 57.81% of the GDP was contributed by SMEs (BPS, 2021). Further, several cities in East Java are also referred to as centers of industrial, educational, and tourism, which are expected to provide opportunities for entrepreneurs who started their businesses, particularly for those who are young. The survey was conducted over a month by sending online questionnaires to business owners via the Indonesian Young Entrepreneurs Association (HIPMI), an organisation of young entrepreneurs in Indonesia.

To ensure face validity, the questionnaire was adjusted based on expert advice and built upon prior research and further literature. Since the original measurement was in English, the back-translation method was employed. A pre-test of the questionnaire was conducted before the main study to verify the reliability and validity of the questions (Fornell et al., 1981). The reliability is tested using Cronbach's alpha coefficient to assess the instruments' internal consistency and ensure the accuracy of any measurement made at any given time (Bongomin et al., 2018). The validity is also checked to ensure all measurements measured what they claimed. The pre-test findings indicated the validity and reliability of all the items utilised in the instrument.

All the variables were measured by 29 items with a five-point Likert scale. Social capital is based on structural, relational, and cognitive capital dimensions adopted from previous research. Social capital is based on previous studies with five items: structural dimension, information exchange, trust, respect, and responsibility each other (Liao & Welsch, 2005; Villena et al., 2011; Chiu et al., 2006). Financial literacy with eight questions based on dimensions of behaviour, skill, attitude, and financial knowledge developed from prior studies (Hussain et al., 2018; Adomako & Danso, 2014; Lusardi & Mitchell, 2014). Eight questions were designed from three dimensions: self-awareness, self-management, and relationship management for assessing emotional intelligence (Cuéllar-Molina et al., 2018; Law et al., 2004; Bayighomog & Arasli, 2022). SME's performance as a dependent variable was constructed with eight items, which formed three dimensions of economic impact, society, and environment (Sivathanu & Pillai, 2020; Hooi et al., 2016; Ahmad & Seet, 2009). The detail is available in Appendix 1.

This study employed data screening to check for errors caused by inaccurate data entry, out-of-range values, missing values, outliers, and normality (Field, 2009). After data cleaning was finished, 200 respondents who had completed the questionnaire were processed for the subsequent analysis. To confirm the association between variables, a Partial Least Square – Structural Equation Model (PLS-SEM) was used (Byrne, 2016).

Results

All the respondents in this study represent the youth entrepreneur born between 1980-2000, consisting of 113 people (56%) men and 87 people (43%) women. Most graduated from high school (46.5%) and have a bachelor's degree (43%). They mostly run businesses in the food and beverage and fashion sectors. Only some of them (19%) were bankable, which means that they had access to and got funding from financial institutions. The characteristics of respondents can be seen in Table 1.

Table 1.
Characteristics of youth entrepreneurs and their business

Characteristics		Frequency	Percent (%)
Gender	Male	113	56.5
	Female	87	43.5
Birth year	1980-1989	71	35.5
	1990-2000	129	64.5
Education	High school	93	46.5
	Undergraduates	99	49.5
	Postgraduates	8	4.0
Type of business	Food and beverage	83	42.0
	Fashion	41	20.5
	Animation	19	9.5
	Crafting	13	6.5
Other	External funding		
	Financial institutions	38	19.0
	Non-financial institutions	162	81.0
Total		200	100.0

Source: Authors' work (2023)

Two steps in this multivariate analysis method assess the study model. By analysing the correlation between the latent variables and the corresponding indicators, the measurement model will first be permitted to assess the precision of the suggested measures.

The reliability score of all latent variables (refer to Appendix 2) is above the threshold level of 0.70. The convergent validity of the latent variables refers to the "average variance extracted (AVE)" value. All results indicated had a good convergent validity since the value was greater than 0.5 (refer to Appendix 2) (Hair et al., 2010). The discriminant validity was confirmed by assessing the AVE that exceeds the inter-correlation of the latent variables relative to other latent variables (Fornell et al., 1981). The constructs were all highly discriminant valid (refer to Table 2). As a result, the measurement model recognised the value with sufficient evidence of construct validity and reliability.

From the result of the measurement model, it was found that all data was strongly supported to continue the structural model test. This research used a 95% confidence interval to determine whether the hypotheses were supported or rejected. This study used a four-step procedure by Baron & Kenny (1986) to investigate the mediation effect. Following are the steps: testing the relationship between the independent variable and dependent variable; testing the relationship between the independent variable and mediating variable; testing the relationship between the mediating variable and dependent variable; and the influence of the independent variable on the dependent variable must decrease after accounting for the effects of the mediator. This study also examined the value of the t-test and p-value to support the hypotheses test. All the results are displayed in Table 2.

Unexpectedly, Table 2 shows that the direct effect of two independent variables, social capital and financial literacy, on SMEs' performance was indicated to be statistically insignificant. These results failed to support the two hypotheses (H1 and H2). However, evidence from the path coefficient indicated that social capital and financial literacy positively affected emotional intelligence. Furthermore, emotional intelligence was positively related to SMEs' performance and was statistically significant. The structural model's test supported the following hypotheses: H3, H4, and H5.

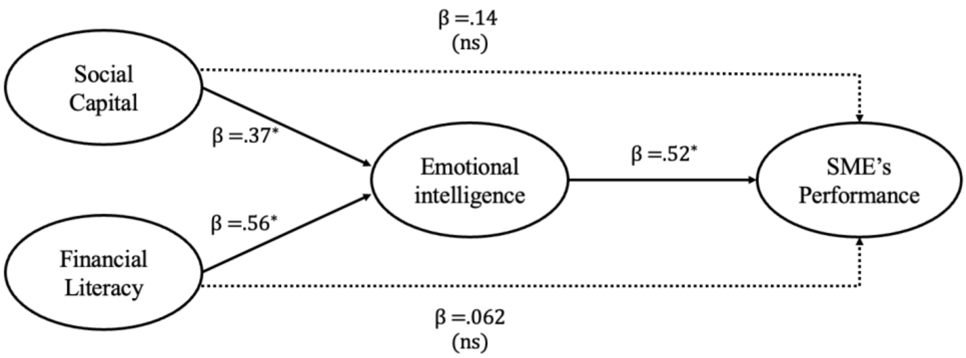
Table 2.
Path coefficient for structural model

Influence between Variables	Hypotheses	Original Sample	T-Statistics	P-Values
Social Capital (SC) to SME's Performance (P)	H1	.135	1.076	.282
Financial Literacy (FL) to SMEs' Performance (P)	H2	.062	.561	.575
Emotional intelligence (EI) to SMEs' Performance (P)	H3	.518	3.894	.000*
Social Capital (SC) to Emotional intelligence (EI)	H4	.368	5.298	.000*
Financial Literacy (FL) to Emotional intelligence (EI)	H5	.557	9.388	.000*

Note: *Significant at 5% level.
Source: Authors' work (2023)

The mediation effect was assessed simultaneously (Iacobucci & Duhachek, 2003; Baron & Kenny, 1986). First, all independent variables, social capital and financial literacy, were insignificantly associated with the dependent variable, SME's performance (see Figure 1). Second, these independent variables were positively related to the mediator of emotional intelligence, suggesting entrepreneurs have more social capital, are more literate, and have a higher level of emotional intelligence (see Table 3). Third, the mediators of emotional intelligence significantly related to SME's performance, which indicated all paths were significant.

Figure 1.
Structural model result



Note: *Significant at 5% level.
Source: Authors' work (2023)

Table 3.
Indirect effect between variables

Influence between Variables	Original Sample	Standard Deviation	T-Statistics	P-Values
Social Capital (SC) to SME's Performance (P) through Emotional Intelligent (EI)	0,229	0,105	2.176	0,030*
Financial Literacy (FL) to SME's Performance (P) through Emotional intelligence (EI)	0, 158	0.077	2,061	0,052*

Note: *Significant at 5% level
Source: Authors' work (2023)

Discussion

The relationship between social capital and SMEs' performance

Both structural and relational capital, built-in social capital, should give positive responses and support for achieving business performance. Through the structural capital in a network, information needed by members will be transferred and obtained more quickly. In addition, good relational capital in obligation and expectation will respect variety, openness to criticism, and faith in the skills and abilities of group members and business partners.

Statistically, this study found a positive but insignificant relationship between social capital and SMEs' performance. Although the relationship between social capital and SMEs' performance was positive, it did not find a significant effect. The Resource-based View (RBV) stated that competitive advantage and business enterprise depend on tangible and intangible resources (Das & Teng, 2000), young entrepreneurs must use the network by exploiting the information and other potential resources to leverage their performance. The non-physical resources embedded in the network may not fit with the entrepreneur's needs. Furthermore, young entrepreneurs who are identical to new ventures put much effort into building and maintaining trust. As trust is vital to a successful relationship, the relationship's length affects how strong and weak the connection is. Entrepreneurs need to develop trust with stakeholders, such as customers and partners, for long-term business associations and to reduce the risk of entrepreneurial activities (Walter, 2012).

The results of this study support Wu & Leung (2005) and Luo et al. (2020) who show an insignificant influence between social capital and enterprise performance. On the other hand, this finding seems inconsistent with Lux et al., (2020), Sallah & Caesar (2020), and Boohene et al. (2020).

The relationship between financial literacy and SMEs' performance

Refers to RBV, financial literacy is an intangible resource offering knowledge, information, and the skills needed to manage business finance. It significantly creates value for enterprises by considering sound, smarter financial decision-making and minimising financial risk (Jappelli & Padula, 2013). From the result of this study, although financial literacy and SMEs' performance tend to have a positive relationship, this effect was found insignificant.

Young entrepreneurs are mostly new businessmen with a lack of financial management skills and competence in finance. They need to improve these skills from formal and informal resources. A combination of internal and external literacy has been reported to have a high correlation with the business performance of young entrepreneurs (Bruhn & Zia, 2013; Sucuahi, 2013). Financial decisions without adequate knowledge severely affect business operations and structure, leading to financial distress (Hussain et al., 2018). The results of this study support Eniola & Entebang (2015) and Esiebugie et al. (2018) who show an insignificant influence between financial literacy and SME performance.

The relationship between emotional intelligence and SMEs' performance

The result from this study supported the posited hypothesis that there is a positive and significant relationship between emotional intelligence and SMEs' performance. It shows that the better the emotional intelligence of the owners, the more business performance they will achieve. Seeing the ability to recognise, understand, evaluate, and control his/her emotions and those of people in groups could indicate better competence in self-management and useful working relationships. Positive feeling mixed with a precise display of emotion results in effective communication that makes it simple for others to understand the explicit message. This mechanism leads the manager of a business venture to make an accurate decision, thus implying better business performance. This finding supported the previous research by Ezzi et al. (2016) and Munir & Azam (2017).

The mediating role of emotional intelligence on SMEs’ performance

The results confirmed that the direct effect of social capital and financial literacy on SMEs’ performance is found insignificant but positively and significantly affects emotional intelligence. It suggests that emotional intelligence significantly mediated the relationship between social capital and financial literacy on SMEs' performance.

From the network intensity, people in the group will interact with each other, and information and resources will be transferred. These social processes result in a greater understanding of one another, which boosts self-acceptance and makes it easier to express emotions, indicating that they increase intrinsic emotional intelligence. Social capital is a necessary tool that facilitates the development of emotional intelligence. It supports Brooks and Nafukho (2006) who show a significant influence between social capital and emotional intelligence.

Since this study found no significant direct relationship between social capital and SMEs’ performance, the critical role of emotional intelligence as a mediating variable between social capital and SMEs’ performance can be a consideration. Being concerned with young entrepreneurs and keeping up the network from extended family, community-based, and organisational is crucial. Additionally, young people must develop their emotional intelligence to influence their ability to make decisions in the workplace positively. The results are consistent with Naudé et al. (2014) statement that EI and SC working together can promote SMEs’ performance. As a result, SME managers and owners should focus more on managing both SC and EI to improve SMEs’ performance.

Since one obstacle for young entrepreneurs is access to external funding, having a higher level of financial literacy potentially increases financial behaviour, including budgeting, saving, and investing, which will help to a better understand diversified financial tools, such as stocks, funds, and derivatives, and thus have better access to external financing (Henager & Cude, 2016). Additionally, a strong understanding of finances allows people to take greater advantage of investment possibilities, manage risks, and gain market knowledge—all of which are crucial for making revenue during the initial stages of entrepreneurship.

Conclusion, limitation, and future research

This research proves the relationship of emotional intelligence to SMEs' performance, and the relationship of social capital and financial literacy to emotional intelligence. However, the influence of social capital dan financial literacy toward SMEs' performance is not significant. This study makes two significant theoretical and practical contributions. First, by proving the interrelation of an entrepreneur's personal perspective on business performance, this study makes the most significant contribution to the literature. The results of this study support the individual perspectives-focused paradigm of SME management. Second, entrepreneurs, particularly those young, might benefit from understanding the importance of social capital, financial literacy, and emotional intelligence in operating their businesses to boost their productivity. Enhancing these aspects' capacities will eliminate the primary issues faced by SMEs owned by young entrepreneurs.

With the rise of digital platforms and online networks, future research could examine how digital social capital (online communities, social media networks, and virtual collaborations) influences SMEs' performance compared to traditional, face-to-face social capital. Furthermore, with the increasing adoption of digital financial tools (e.g., fintech solutions, AI-driven financial management), future studies could explore how financial literacy impacts the effective use of these tools in SMEs.

Author contribution

Saparila Worokinasih: Conceptualisation and Research Questions. **Nila Firdausi Nuzula:** Collecting Data. **Tongvanh Sirivanh:** Analysis and Results Interpretations. **Cacik Rut Dmayanti:** Report Writing.

Declaration of interest

We certify that there are no conflicts of interest that could have appeared to influence the work reported in this paper. All authors reviewed the results and approved the final revision of the manuscript.

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Appendix 1.
Survey items

Variable	Indicators	Source
Social Capital (SC)	Network ties Information exchange Trust Norms Obligation	(Liao & Welsch, 2005; Villena et al., 2011; Chiu et al., 2006)
Financial Literacy (FL)	Saving Budgeting Profitability Costing Financial information Financial institution Budget planning Price planning	(Hussain et al., 2018; Adomako & Danso, 2014; Lusardi & Mitchell, 2014)
Emotional Intelligent (EI)	Self-assessment Self-control Adaptability Empathy Teamwork Conflict management Influence Communication	(Cuéllar-Molina et al., 2018; Law et al., 2004; Bayighomog & Arasli, 2022)
SME Performance (P)	Growth Profit Market Social need Employee needs Environmental management Environmental impact	(Sivathanu & Pillai, 2020; Hooi et al., 2016; Ahmad & Seet, 2009)

Appendix 2.

Construct reliability and validity

Variables	Indicators	Convergent Validity Loading Factor	Discriminant Validity SC	FL	EI	SEP	Composite Reliability
Social Capital (SC)	SC.1	.745	**.745**	.524	.499	.312	.842
	SC.2	.816	**.816**	.597	.656	.380	
	SC.3	.823	**.823**	.574	.648	.339	
	SC.4	.836	**.836**	.621	.700	.412	
	SC.5	.691	**.691**	.600	.560	.330	
Financial Literacy (FL)	FL.1	.752	.603	**.752**	.633	.378	.838
	FL.2	.768	.547	**.768**	.613	.320	
	FL.3	.731	.508	**.731**	.622	.383	
	FL.4	.617	.378	**.617**	.468	.369	
	FL.5	.475	.305	**.475**	.350	.449	
	FL.6	.630	.384	**.630**	.432	.351	
	FL.7	.726	.645	**.726**	.618	.320	
	FL.8	.760	.641	**.760**	.733	.395	
Emotional Intelligent (EI)	EI.1	.747	.522	.647	**.747**	.483	.891
	EI.2	.706	.578	.574	**.706**	.251	
	EI.3	.820	.625	.590	**.820**	.386	
	EI.4	.829	.705	.645	**.829**	.358	
	EI.5	.807	.662	.643	**.807**	.443	
	EI.6	.797	.638	.689	**.797**	.460	
	EI.7	.732	.511	.645	**.732**	.396	
	EI.8	.589	.448	.572	**.589**	.509	
SMEs' Performance (P)	P.1	.705	.414	.452	.513	**.705**	.879
	P.2	.720	.423	.478	.489	**.720**	
	P.3	.705	.407	.422	.472	**.705**	
	P.4	.678	.344	.377	.342	**.678**	
	P.5	.816	.296	.376	.367	**.816**	
	P.6	.852	.292	.373	.364	**.852**	
	P.7	.852	.292	.373	.364	**.852**	

Source: Authors' work (2023)