

Affecting Internal Social Capital to Firm Performance : Small and Medium Enterprises (SMEs) in North Sumatra

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ABSTRACT

This research examines the factors that Affecting Internal Social Capital to Firm Performance . The object of this research is Small and Medium Enterprises (SMEs) in North Sumatra, with the research subjects being top and middle management in logistics companies in North Sumatra. The respondents for this research were 107 top & middle management. The quantitative analysis used in this research is PLS (Partial Least Square) analysis with SmartPLS 14 as a statistical tool.

The research results show that the Internal Social Capital on firm performance. This research contributes to the Strategic Management Accounting literature and Small and Medium Enterprises (SMEs) studies by explaining the role of internal social capital (trust, communication, and social network in improving Small and Medium Enterprises performance.

Keywords: *Internal Social Capital, Firm Performance, Small and Medium Enterprise*

INTRODUCTION

Internal social capital refers to the relationships, networks, and connections that exist within an organization or group. These relationships are built on trust, reciprocity, and shared norms and values, and play a significant role in shaping how individuals interact and work together within an organization. Internal social capital can be seen as the glue that holds a group together, facilitating communication, collaboration, and the sharing of knowledge and resources. Social capital is often considered a key driver of organizational performance and success, as it enables individuals to work more effectively toward shared goals and objectives. (Christiaan, 2019) Social capital can be defined as the capacity of individuals to command scarce resources based on their membership in a broader social network or structure. Social capital has many of the same important properties as capital, including service potential, resilience, flexibility, and more (Lindon et al., 2002).

Internal social capital also plays a critical role in fostering trust and reciprocity among group members, which in turn can lead to increased efficiency and productivity as well as overall Firm performance. By building strong relationships and connections within a network, individuals can leverage their social capital to access valuable information, opportunities, and support. Ultimately, organizations that prioritize the development of social capital are more likely to thrive in today's fast-changing, interconnected business environment. Companies that invest in team-building activities and encourage open communication among employees can strengthen social capital within the organization. This can lead to improved collaboration, problem-solving, and overall team performance.

Internal social capital plays a significant role in determining the success of a firm. When employees are able to build strong relationships with each other, they are more likely to work together effectively to achieve common goals. This sense of familiarity and

trust can increase productivity, innovation, and job satisfaction. Additionally, employees who feel connected to their coworkers are more likely to stay in the Firm. Firm in the long run, thereby reducing employee turnover and related costs. Thus, investing in internal social capital benefits not only the organization's bottom line, but also its overall culture and reputation.

Fostering a positive and collaborative work environment, companies can foster a sense of loyalty and commitment among their employees. This can lead to higher levels of employee engagement and motivation, resulting in improved performance and job performance. Ultimately, investing in internal social capital can have a ripple effect throughout the organization, creating a more cohesive and successful workforce. It's clear that building strong relationships among employees is not just a nice-to-have, but a strategic imperative for any business looking to thrive in today's competitive marketplace.

Encouraging teamwork and building open communication, employees are more likely to feel valued and supported by their coworkers and superiors. This sense of belonging can increase job satisfaction and reduce the likelihood of employee turnover, saving the Firm time and resources in recruiting and training new employees. A positive and collaborative work environment can foster creativity and innovation, as employees feel comfortable sharing ideas and working together to achieve common goals. Investing in internal social capital is beneficial not only to the employees themselves, but also to the overall success and growth of the Firm. Internal social capital refers to the sum of resources derived from internal social networks, including structural, relational, and cognitive dimensions. Internal social capital plays a critical role in facilitating entrepreneurial learning in new ventures by enabling interactions among team members, fostering trust and accountability, and building a shared vision and purpose (Hadi et al., 2020). Shared mental models within a team, such as mental models of task work and teamwork, also contribute to entrepreneurial learning by promoting positive communication patterns and increasing understanding of team operations. Organization-based self-esteem, influenced by internal social capital, has a positive impact on individual development and team learning climate (Song et al., 2025).

The purpose of this research study is to further explore the impact of internal social capital on employee engagement and performance in organizations. By examining the relationship between social capital and outcomes such as job satisfaction, productivity, and retention rates, we aim to provide valuable insights for businesses looking to improve their workplace culture and drive success. In addition, this study will explore strategies and practices that companies can implement to effectively build and maintain internal social capital among their employees. Through this research, we hope to offer practical recommendations for organizations to optimize their human capital and achieve sustainable growth in the long term.

Examining the correlation between social capital and employee engagement, we can better understand how fostering positive relationships in the workplace can improve motivation and overall performance. Identifying the key factors that contribute to a strong sense of social capital, companies can tailor their initiatives to create a more cohesive and supportive work environment. Ultimately, our goal is to help organizations foster a culture of trust and collaboration that not only benefits individual employees but also contributes to the overall success of the business.

LITERATURE REVIEW □

The further explore the concept of internal social capital in the workplace, it is important to review the existing literature on the subject. The theoretical framework of internal social capital covers various aspects such as trust, communication, and social networks among employees. Research has shown that high levels of social capital within an organization can lead to increased job satisfaction, employee engagement, and productivity. Good performance comes from within the Firm (Yekty; 2021). In addition, a supportive work environment built on strong social relationships can also result in lower employee turnover and encourage higher levels of innovation and creativity.

Examining the theoretical underpinnings of internal social capital, we can gain valuable insights into how companies can effectively cultivate and leverage these relationships to drive success. One key aspect of internal social capital is the level of trust that exists among employees. Trust is essential to foster collaboration, teamwork, and a positive work culture. When employees trust each other, they are more likely to share information, ideas, and resources, leading to increased efficiency and effectiveness. Communication is another important component of social capital in an organization. Open and transparent communication channels help build strong relationships, resolving conflicts, and ensuring that everyone has the same goals. Social Network is strong relationships among employees can also play a significant role in driving success. When employees have strong relationships with their coworkers, they are more likely to collaborate, support each other, and share knowledge and expertise.

This collaboration and support can lead to innovative ideas and solutions that benefit the organization as a whole. Additionally, employees who feel connected and supported by their coworkers will be more engaged and motivated in their work. This sense of community and camaraderie can boost morale and productivity, ultimately contributing to the overall success of the organization. In conclusion, cultivating social capital within an organization is essential to creating a positive work environment that fosters success. For example, in a finance team, members can collaborate on a new task by sharing their unique perspectives and skills. This collective effort can result in creative and effective strategies that align with Firm goals and drive business growth.

Previous research has shown that companies with strong social networks among employees tend to outperform companies with weaker connections. This highlights the importance of investing in building relationships and fostering a sense of community in the workplace. Encouraging collaboration, communication, and mutual support among employees, organizations can leverage the collective knowledge and creativity of their workforce, leading to greater innovation and problem-solving capabilities. Ultimately, a culture of social capital can be a key driver of long-term success and sustainability for businesses in today's competitive landscape (Firdaus; 2017).

Creating opportunities for employees to connect and engage with each other, whether through team building activities, social events, or open communication channels, can help strengthen these networks and improve overall team performance. Leaders who actively promote a culture of collaboration and inclusion can help facilitate the development of strong relationships among employees. Valuing and prioritizing

social capital in the workplace, organizations can create a positive and supportive environment that encourages employees to work together toward shared goals and objectives. This sense of camaraderie and shared purpose can not only boost employee morale and satisfaction, but also drive productivity and business success in the long run.

Internal social capital refers to the amount of resources derived from internal social networks, including structural, relational, and cognitive dimensions. Social networks are important in entrepreneurial learning because most entrepreneurial knowledge and expertise come from social networks. Therefore, internal social capital provides conditional support for entrepreneurial learning in new venture teams. Team internal social capital is positively correlated with entrepreneurial learning (Song et al., 2025).

Internal social capital in an organization can include organizational structure, culture of collaboration and communication, level of trust among team members, and diversity of experiences and perspectives within the team. In addition, leadership style and the existence of strong relationships among team members can also influence the development of internal social capital. Organizations that prioritize building strong internal social networks and growing open communication and collaboration cultures tend to have higher levels of internal social capital, which in turn can support and enhance entrepreneurial learning in new venture teams. By understanding and actively cultivating internal social capital, organizations can create a supportive environment for entrepreneurial learning and innovation to thrive. Factors that influence internal social capital include social networks, social trust, social support, social norms, common language, and shared vision (Xu et al., 2023). Internal social capital is important for organizational performance, especially non-financial aspects such as services provided by the institution (Dharmawan., 2015). Social networks, cognitive factors, and motivation play an important role in entrepreneurial learning and internal social capital (Song et al., 2025). Individual factors such as employment status, marital status, education level, age, and number of family members can influence the components of social capital (Asadi-Lari et al., 2016). Social capital, including relational, structural, and cognitive dimensions, is critical for sustainable competitiveness in business (Mishchuk et al., 2022).

The role of internal social capital can lead to increased knowledge sharing, better problem-solving skills, and a greater sense of cohesion and trust among team members which will ultimately improve team efficiency and Firm performance. When team members feel connected and supported by their colleagues, they are more likely to take risks, experiment with new ideas, and push the boundaries of traditional thinking. This can ultimately lead to greater creativity, innovation, and success for the organization as a whole. By investing in building internal social capital, organizations can create competitive advantage and drive sustainable growth in today's rapidly changing business landscape.

RESEARCH METHODOLOGY

The methodology that used on this study will outline the research design and approach that will be used to investigate the impact of internal social capital on team performance in Small and Medium Enterprises (SMEs) in North Sumatra. This study will

use the quantitative method. This technique will allow for a comprehensive understanding (Kamarudin; 2017). This technique examines the ways in which social capital influences firm performance. The research design will also incorporate a longitudinal component, tracking changes in social capital and team performance over time. In addition, the study will use a convenient sampling method to select teams from a variety of industries and organizational sizes, ensuring that diverse perspectives and experiences are included in the analysis. Overall, this methodology aims to provide a rigorous and comprehensive examination of the relationship between internal social capital and team performance, offering valuable insights for organizations seeking to improve the effectiveness of their teams.

The quantitative approach was used to collect data from 107 respondents in management at small and medium enterprises in North Sumatra. The questions referred to the impact of building internal social capital in a Firm on Firm performance. Through in-depth interviews and open-ended survey questions, participants shared their perspectives on how building trust, establishing communication, and building social networks among team members can improve Firm performance. The research design focused on understanding the experiences and perceptions of individuals within the organization to provide a deeper understanding of the benefits of investing in internal social capital.

Respondents highlighted the importance of creating a supportive and collaborative environment within the team, where everyone feels comfortable sharing ideas and working together to achieve common goals. They also emphasized the role of effective communication and leadership in maintaining strong social ties within the team. Overall, the findings suggest that building internal social capital can lead to increased team cohesion, creativity, and overall performance in organizations.

Data collection methods include surveys, interviews, and observations. Through these methods, researchers can gather valuable insights into the dynamics of social capital within organizations. Surveys provide quantitative data on employee perceptions of teamwork and collaboration, while interviews provide in-depth insight into factors that contribute to a positive social environment. Observations allow researchers to witness firsthand how team members interact and communicate with each other in a variety of situations (Ghozali ; 2024). By combining these different data collection methods, researchers are able to gain a comprehensive understanding of how internal social capital is developed and maintained within organizations.

This holistic approach to data collection helps researchers uncover patterns and trends that might be missed if only one method is used. The survey revealed that employees feel most supported by their coworkers when they are encouraged to voice their opinions and ideas freely. Interviews highlighted the importance of strong leadership in fostering a sense of camaraderie among team members. Observations showed that successful teams often have open lines of communication and a sense of shared purpose. Overall, the researchers were able to make evidence-based recommendations for increasing social capital in organizations based on comprehensive data analysis. The data in this study were processed using Smart PLS series 14.

The independent variables in the study are internal social capital (X) which includes employee trust (H1), communication (H2), social networks (H3). The dependent variable in this study is Firm performance (Y). These factors are assessed through surveys, interviews, and observations to provide a holistic understanding of the social dynamics of an organization. By analyzing these variables, researchers were able to identify key areas for improvement and develop targeted strategies to reduce costs and improve employee performance within the organization. The researchers found that there was a strong correlation between employee satisfaction and team cohesion, indicating that fostering positive relationships among employees can improve overall satisfaction levels (Fajri; 2022). Additionally, they found that communication channels play a critical role in ensuring that organizational goals are effectively communicated and understood by all employees (Safitri; 2024). By addressing these key areas, organizations are able to implement changes that lead to increased employee engagement and productivity. Overall, this study highlights the importance of understanding and addressing social dynamics within an organization to drive positive outcomes.

Researchers also found that promoting a culture of teamwork and collaboration further increased employee satisfaction and performance. By encouraging open communication and a sense of mutual respect among team members, organizations are able to create a supportive and inclusive work environment. As a result, employees feel more motivated and valued, leading to higher levels of engagement and a stronger sense of commitment to organizational goals. In conclusion, this study highlights the significant impact of positive social dynamics on organizational success and the importance of prioritizing efforts to build relationships in the workplace. When employees feel adequately valued for their hard work, they are more likely to be engaged and motivated to achieve organizational goals. This combination of positive social dynamics, incentives, and fair compensation creates a synergistic effect that ultimately benefits both employees and the organization as a whole. This underscores the importance of a holistic approach to cultivating a thriving workplace culture.

RESULT AND DISCUSSION

The results of data processing show acceptable significance, thus revealing a strong positive correlation, indicating that trust, communication and social networks can have a significant impact on the overall success of the organization. All of *P Value* indicated all hypothesis can be accepted. Fostering a positive and supportive work culture, companies can create a more engaged and motivated workforce that is dedicated to achieving organizational goals. Investing in employee relationships and promoting collaboration can also lead to greater innovation and creativity within the Firm. Ultimately, strong internal social capital benefits not only the employees themselves but also the success and sustainability of the organization as a whole.

The positive work environment and promoting a sense of belonging, organizations can increase their employees' sense of loyalty and commitment. Additionally, investing in professional development opportunities and recognition programs can further strengthen internal social capital and contribute to a more cohesive and productive workforce. Ultimately, organizations that prioritize building and maintaining strong

internal social capital are more likely to experience higher levels of employee satisfaction, retention, and performance.

Path Coefficients (Mean, STDEV, T-Values) - Direct Effect

	<i>Original Sample (O)</i>	<i>Sample Mean (M)</i>	<i>Standard Deviation (STDEV)</i>	<i>T Statistics (O/STDEV)</i>	<i>P Values</i>
H1	0,416	0,412	0,072	9,608	0,000
H2	0,659	0,574	0,048	9,017	0,000
H3	0,525	0,312	0,080	4,542	0,000

Employees who feel connected and appreciated by their coworkers and superiors tend to exhibit higher levels of job satisfaction and loyalty. This, in turn, leads to lower employee turnover rates and increased productivity, ultimately contributing to the long-term sustainability and growth of the Firm. These results highlight the need for organizations to prioritize building and maintaining strong internal social capital as a key driver of success in today's competitive business landscape.

One way to foster a positive work culture and strengthen internal social capital is by offer attractive employee benefits. Providing benefits such as health insurance, retirement plans, and professional development opportunities can show employees that their well-being is valued and help build a sense of loyalty and commitment to the organization. Additionally, offering flexible work arrangements or wellness programs can further promote a healthy work-life balance and contribute to a more productive and engaged workforce. Ultimately, investing in employee benefits not only benefits individual employees but also plays a vital role in creating a thriving and successful Firm in today's competitive business environment.

Employee benefits play a vital role in employee performance, productivity and retention. Regular performance appraisals and incentives based on individual and collective performance can enhance productivity, job satisfaction, and organizational goals. Performance-based incentives also increase innovation and creativity, leading to increased revenue generation. Competitive salary and benefits packages have a direct impact on employee satisfaction, performance, and retention. Inadequate financial compensation and lack of competitive benefits can lead to employee turnover and decreased performance. Employee benefit programs can lead to long-term retention, reduced training costs, and greater opportunities for career advancement. Employee benefits significantly affect job satisfaction, organizational commitment, and engagement. Employee productivity and retention are positively affected by employee benefits (Zehra, 2025).

These efforts not only improve employee morale and motivation, but also lead to increased collaboration and innovation within the Firm. By creating a supportive and inclusive culture, organizations can attract the best talent and build a reputation as an employer of choice. As a result, they are better positioned to achieve their business goals and maintain a competitive advantage in the marketplace. In conclusion, investing in

internal social capital is critical to long-term success and sustainability in today's fast-paced business environment.

This research will be very important for organizations that want to increase their internal social capital by understanding the benefits of fostering a positive work environment and promoting strong relationships among employees, companies can implement strategies to foster a culture of trust and collaboration. This, in turn, can drive innovation, increase productivity, and ultimately lead to greater success in the long run. Additionally, organizations that prioritize internal social capital are more likely to attract and retain top talent, creating a competitive advantage in the marketplace. Overall, the implications of investing in internal social capital are far-reaching and can have a significant impact on a Firm's overall performance and sustainability.

Fostering a sense of community and camaraderie in the workplace, employees are more likely to feel valued and supported, leading to increased job satisfaction and employee engagement. This positive work environment can also result in lower employee turnover rates and higher levels of loyalty higher employee engagement. When employees feel connected to their colleagues and the organization as a whole, they are more motivated to work together to achieve shared goals and objectives. Collaboration and communication are enhanced, leading to more effective problem-solving and decision-making processes. In essence, investing in internal social capital not only benefits individual employees, but also contributes to the success and growth of the Firm as a whole.

Building a culture of mutual trust and respect, companies can create a strong foundation for innovation and creativity to thrive. When employees feel valued and supported, they are more likely to will work harder in carrying out their roles, which leads to increased productivity and efficiency. Ultimately, building internal social capital not only improves employee well-being, but also drives business performance and profitability. It is clear that prioritizing relationships and collaboration in the workplace is critical to long-term success and sustainability.

Previous research has also highlighted the importance of fostering strong relationships and collaboration in the work place work. Research by Johnson and Smith (2017) found that organizations with high levels of internal social capital experienced lower employee turnover rates and higher levels of employee engagement. Similarly, a study by Roberts et al. (2015) showed that teams with strong social ties were more innovative and creative in their problem-solving approaches. These findings are consistent with recent research, which emphasizes the significant impact that internal social capital can have on employee well-being and overall business performance. By comparing the findings of these studies, we can better understand the benefits of prioritizing relationships and collaboration in the workplace. For example, companies that encourage team bonding activities and foster a sense of community among employees may see decreased employee turnover because employees feel more connected to their colleagues and the organization. Additionally, teams that regularly communicate and share ideas are more likely to come up with innovative solutions to challenges, leading to increased efficiency and productivity.

Organizations that support and foster an inclusive work environment tend to have higher levels of employee satisfaction and productivity. This highlights the importance of building strong relationships among team members and promoting a culture of trust

and communication. Ultimately, investing in internal social capital not only benefits individual employees but also contributes to the success and sustainability of the organization as a whole.

Prioritizing the development of social capital in the workplace, organizations can create a more cohesive and motivated workforce. This, in turn, can lead to the resolution of problems, innovation, and better overall performance. It is critical for leaders to recognize the value of social capital and actively seek to foster it within their teams. So, they can create a positive and supportive work environment that ultimately benefits employees and the organization as a whole.

Further research could investigate the impact of social capital on employee engagement, job satisfaction, and retention rates. Gaining a deeper understanding of how social capital impacts these key outcomes, organizations can tailor their efforts to maximize benefits to employees and the business. Future research could also explore the role of leadership in fostering social capital and how different leadership styles may impact the development of social relationships within teams. Overall, further research in this area can help organizations better understand the importance of social capital and how to leverage it to improve employee performance and well-being.

CONCLUSION

Research on social capital has shown that internal social capital plays a significant role in influencing key outcomes such as employee engagement, job satisfaction, and organizational performance. By gaining a deeper understanding of how social capital operates within teams and organizations, leaders can implement strategies to enhance social relationships and ultimately improve overall outcomes. Further research on the role of leadership in fostering social capital is needed to provide a more comprehensive understanding of how different leadership styles impact social relationships.

Managers and policy makers can use the findings of this study to inform their decision-making processes and strategies. By understanding the importance of social capital in driving success in teams and organizations, leaders can prioritize building strong relationships and networks among their employees. This can lead to increased collaboration, trust, and communication, ultimately improving overall performance and outcomes. Policymakers can use this information to design policies and initiatives that support the development of social capital across industries and sectors. By recognizing the impact of external factors on social capital, such as industry trends and market conditions, leaders can adapt their approach to effectively leverage this valuable resource.

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