

The Role of Intellectual Capital in Moderating the Effect of Competitive Advantage on MSME Performance



Ni Nengah Seri Ekayani¹, Ni Ketut Sariyani², Ni Nyoman Suriani³

^{1,2,3} Faculty of Economics and Business, Warmadewa University, Denpasar, Bali, Indonesia

ABSTRACT: This study aims to examine the role of Intellectual Capital in moderating the effect of Competitive Advantage on MSME Performance. Resource-Based View Theory (Barney, 1991) and Porter's Strategic Generic Theory (1980) underlie this research. Primary data was collected using a survey method of 100 MSME managers throughout Bali. The data analysis method used is to use a structural model equation approach with the help of SmartPLS 3.0 software. The results showed that the cost leadership strategy, differentiation strategy and intellectual capital had a significant positive effect on the performance of MSMEs. However, intellectual capital is not able to moderate the effect of cost leadership strategy, differentiation strategy on MSME performance in Bali.

KEYWORDS: Competitive Advantage, Intellectual Capital, MSME performance.

I. INTRODUCTION

Micro, Small and Medium Enterprises (MSMEs) are considered as "engines" of economic growth in industrialized, developing, and underdeveloped countries (Anwar, et al., 2018). SMEs play an important role in creating job opportunities and subsequently able to encourage Indonesia's economic development, as stated by the Indonesian MSME Association (Akumindo) that in 2020 the contribution of MSMEs to Indonesia's Gross Domestic Product (GDP) will reach 65% or around Rp. 2394.5 Trillion (Ingratubon, 2020; Yuliantari & Pramuki, 2021; (Satya & Pramuka, 2021).

Scouts & Kusumawati, (2020) confirmed that with the COVID-19 pandemic, it is certain that almost all MSMEs nationally and especially in Bali experienced a decline in performance. The COVID-19 pandemic has caused operating profits to decrease significantly as production costs remain fixed or even increase while sales decline. Business costs that have increased during the pandemic are raw materials, transportation, labor, and other costs. The existence of MSMEs which are the pillars of Bali's economy has now collapsed due to the impact of the COVID-19 pandemic. One of the impacts is the sustainability of Micro, Small and Medium Enterprises (MSMEs) (Widnyani et al., 2021).

SMEs are expected to always improve their performance in order to survive amid the uncertain conditions of the Covid-19 pandemic, one of the strategies is to implement a competitive strategy. It is very important for the company to adopt its activities continuously to ensure survival (Porter 1980), the company is exposing itself to the external environment, which is very unstable and leads to new opportunities and challenges. In order to remain competitive, companies need to regularly review their strategies, while maintaining their effectiveness and sustainable competitiveness to take advantage of opportunities and threats in the market. Therefore, strategic success requires a proactive business approach (Pearce and Robinson, 2007).

Porter's competitive strategy can be used to address the core issues that concern most organizations, namely efficiency (cost) and product/service quality. Competition is very important to ensure an up to date and competitive business approach. Several studies have been conducted that have successfully confirmed that competitive strategy has a positive and significant effect on organizational performance (Bull, 2017; Isaboke, 2018; Gure, 2018; Afiyati, 2019 and Oktavian, 2019).

A company can gain a competitive advantage through cost leadership strategies, namely lowering business costs, and differentiation strategies, by creating differences (uniqueness and variety) in products and services (Porter, 1980). However, the implementation of a competitive strategy to gain a competitive advantage is not always able to improve the company's performance. As the findings of Sariyani et al. (2021) who found that competitive advantage, especially in the cost leadership strategy, had no effect on the performance of MSMEs. This is due to the still weak accounting system and procedures for MSMEs

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so that MSME actors have not been able to determine the cost of goods manufactured, the cost of goods sold correctly, which in turn has an impact on setting the selling price which is less precise.

There are still research gaps related to the occurrence of inconsistent relationships between competitive advantages as a predictor of company performance, motivating this research. Differences in results from previous studies can be solved using a contingency approach (Suparsa et al., 2017). This can be done by adding the intellectual capital variable as another variable that can strengthen the relationship *competitive advantage* on the performance of SMEs. Previous research has not been found that has developed a moderating effect of intellectual capital on the competitive advantage relationship as a predictor of competitive performance. The development of intellectual capital as a moderator is a novelty in this research in order to produce a more comprehensive determinant of company performance, especially MSMEs.

Competitive Advantage resulting in a stable market status and position in a dynamic market and higher performance. To achieve Competitive Advantage and superior performance, companies use different strategies and plans and invest a lot of money in tangible resources. One of the sources to get Competitive Advantage and superior performance is the company's Intellectual Capital. The theory of resource-based view (Resources Based View) emphasizes practice and company resources as a fundamental determinant of performance (Rodriguez & Navarro, 2004). Knowledge-based theory considers knowledge as the most strategic company resource because it is difficult to imitate and becomes a source of competitive advantage and sustainable company performance (Ludwig & Pemberton, 2011). Contingency theory argues that the competitive strategies used by firms are contextual over time and not one-size-fits-all, thus, there is no one best way or approach to managing organizations (Isaboke, 2018).

II. LITERATUR REVIEW

This model was described by Michael Porter in 1980. Porter's general strategy describes how a company pursues a competitive advantage across its chosen market scope. There are two general strategies: low cost (cost leadership) and differentiation.

Cost Leadership Strategy and Organizational Performance

Cost leadership is a concept developed by Michael Porter, used in business strategy. It describes ways to build a competitive advantage. Cost leadership, in basic words, means the lowest operating costs in the industry (Apiyati, 2019). It is a strategy used by businesses to create low operating costs in their niche. The use of this strategy is primarily to gain an advantage over competitors by reducing operating costs below other operating costs in the same industry. Cost leadership is a business strategy that allows a company to be the lowest cost producer in an industry. The use of this strategy is primarily to gain an advantage over competitors by reducing operating costs below other operating costs in the same industry. Sources of cost advantage vary and depend on industry structure. Such factors may include the pursuit of economies of scale, proprietary technology, preferential access to raw materials and other factors.

The need for efficiency means that the cost leader's profit margins are often smaller than the margins enjoyed by other companies. However, the ability of the cost leader to make a small profit from each of a large number of customers means that the total profit of the cost leader can be substantial (Anderson, 2014). The results show that the cost leadership strategy has a positive and significant effect on organizational performance (Bull, 2017; Isaboke, 2018; Gure, 2018; Apiyati, 2019 and Oktavian, 2019). Based on this description, the proposed hypothesis is as follows:

H1: The cost leadership strategy has a positive and significant effect on the performance of MSMEs in Bali Province

Differentiation Strategy and Organizational Performance

A differentiation strategy is more appropriate when the target customer segment is not price sensitive, the market is competitive or saturated, the customer has very specific needs that may be underserved, and the company has unique resources and capabilities that enable it to meet these needs, in a way that is difficult to imitate. . Differentiation drives profitability when the product's price exceeds the additional cost of acquiring the product or service, but is ineffective when its uniqueness is easily imitated by its competitors. Successful brand management also results in perceived uniqueness even when the physical product is the same as competitors (Hambuck, 1983). Several research results show that the differentiation strategy has a positive and significant effect on organizational performance (Bull, 2017; Isaboke, 2018; Gure, 2018; Apiyati, 2019 and Oktavian, 2019). Based on this description, the proposed hypothesis is as follows:

H2: The differentiation strategy has a positive and significant impact on the performance of MSMEs in Bali Province

Resource-Based View (RBV) Theory

The development or evolution of the RBV theory was initiated by the opinion of Penrose (1959) who viewed the company as an organization that manages various productive resources. Some of the resources managed are material and some are immaterial,

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some are tangible, some are intangible. (Penrose, 1959) also suggests that the same material and human resources can be combined in different ways from one company to another, depending on the ideas underlying their use.

Influence of Intellectual Capital (IC) on company performance

IC as a research subject is a fairly new trend. This began with Stewart's (1997) article in Fortune magazine in which he discussed IC as the knowledge, abilities, and strengths of employees, which can strengthen the competitiveness of an organization. He also mentioned that the difference between market value and book value of an organization is IC. Various researchers (eg Barathi Kamath, 2007; Bontis and Fitz-Enz, 2002; Bontis and Nikitopoulos, 2001; Kang and Snell, 2009) from different backgrounds explain the concept of IC differently; but three IC components can be found in almost every definition: HC, SC and CC. Intellectual Capital is no less important than capital investment for companies in developing countries to create sustainable value and profits. Therefore, developing country governments must balance resources in investment in intellectual capital and physical investment (Hashim et al., 2015). Intellectual Capital has a significant influence on the performance of SMEs (Hashim et al., 2015; Khalique, et al., 2018; Khattak and Shah 2020). Based on these theoretical studies and empirical studies, the following hypotheses are proposed:

H3: Intellectual Capital has a positive and significant effect on the performance of MSMEs in Bali Province.

Influence of Intellectual Capital in moderating the relationship between Cost Leadership and MSME Performance

The use of a cost leadership strategy is primarily to gain an advantage over competitors by reducing operating costs below other operating costs in the same industry. The need for efficiency means that the cost leader's profit margins are often smaller than the margins enjoyed by other companies. However, the ability of the cost leader to make a small profit from the majority of customers means that the total cost leadership advantage can be substantial (Anderson, 2014). To overcome the occurrence of errors in determining production costs, it is necessary to support adequate structural capital such as: the existence of systems and procedures, databases, a clear organizational structure, and a strong organizational culture. However, strong structural capital cannot be separated from the role of Human Capital who has knowledge, tacitly acquired intellectual abilities and abilities so as to create value, superior performance. The results show that the cost leadership strategy has a positive and significant effect on organizational performance (Bull, 2017; Isaboke, 2018; Gure, 2018; Apiyati, 2019 and Oktavian, 2019). On the other hand, Sariani et al. (2021) stated that cost leadership had no significant effect on the performance of MSMEs. Intellectual Capital has a positive effect on performance (Hamdam, 2017; Setiawan and Prawira, 2018 and Xu and Li, 2019). Based on theoretical studies and empirical studies, the proposed hypothesis is as follows: The results show that the cost leadership strategy has a positive and significant effect on organizational performance (Bull, 2017; Isaboke, 2018; Gure, 2018; Apiyati, 2019 and Oktavian, 2019). On the other hand, Sariani et al. (2021) stated that cost leadership had no significant effect on the performance of MSMEs. Intellectual Capital has a positive effect on performance (Hamdam, 2017; Setiawan and Prawira, 2018 and Xu and Li, 2019). Based on theoretical studies and empirical studies, the proposed hypothesis is as follows: The results show that the cost leadership strategy has a positive and significant effect on organizational performance (Bull, 2017; Isaboke, 2018; Gure, 2018; Apiyati, 2019 and Oktavian, 2019). On the other hand, Sariani et al. (2021) stated that cost leadership had no significant effect on the performance of MSMEs. Intellectual Capital has a positive effect on performance (Hamdam, 2017; Setiawan and Prawira, 2018 and Xu and Li, 2019). Based on theoretical studies and empirical studies, the proposed hypothesis is as follows: 2017; Setiawan and Prawira, 2018 and Xu and Li, 2019). Based on theoretical studies and empirical studies, the proposed hypothesis is as follows: 2017; Setiawan and Prawira, 2018 and Xu and Li, 2019). Based on theoretical studies and empirical studies, the proposed hypothesis is as follows:

H4: Intellectual Capital is able to moderate the Effect of Cost Leadership on MSME Performance

The Influence of Intellectual Capital in Moderating the Relationship between Differentiation Strategy and MSME Performance

Differentiation drives profitability when the product's price exceeds the additional cost of acquiring the product or service, but is ineffective when its uniqueness is easily imitated by its competitors. Successful brand management also results in perceived uniqueness even when the physical product is the same as competitors (Isaboka, 2018). Several research results show that the differentiation strategy has a positive and significant effect on organizational performance (Bull, 2017; Isaboke, 2018; Gure, 2018; Apiyati, 2019 and Oktavian, 2019). The effect of Intellectual Capital on performance is found by Harlow, 2017; Kehelwalatenna and Premaratne, 2019).Khattak and Shah (2020) stated that IC has a significant positive impact on the performance of SMEs, there is also a significant and positive relationship between Competitive Advantage and Firm Performance. Based on theoretical studies and empirical studies, the proposed hypothesis is as follows:

H5: Intellectual Capital is able to moderate the effect of the differentiation strategy on MSME performance.

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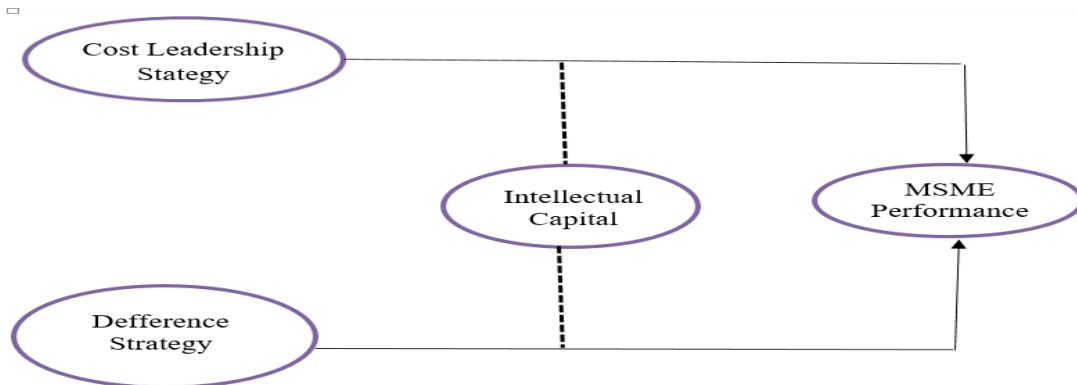


Fig.1 Conceptual Framework

III. METODE

This research is classified as an association research. Primary data was collected on 100 MSME actors in Bali Province as respondents using a survey method, then analyzed with the help of SmartPLS 3.0 software (Ghozali, 2021).

IV. RESULTS AND DISCUSSION

Following are the results of the research using the Smart.PLS 3.0 software. Table 1 and Figure 2 show that the outer loading value is above 0.50 after previously obtained the results that there are still several indicators with a value below 0.50 so that it must be removed from the model and it is necessary to re-estimate it, so it can be said that all the indicators that form the dimensions or constructs are valid. Table 2 shows the AVE coefficient value is above > 0.50, the value of Composite Reliability and Cronbach Alpha is also above 0.70 so it can be said that the indicators used in this study are reliable.

Table 1. Outer Loading Value Estimation Results

Indicator < Construct	Original Sample	T test	P Values
X1.4 <- Cost leadership strategy	1,000		
X2.7 <- Defference Strategy	1,000		
Z1.7 <- Intellectual Capital	0.708	4,856	0.000
Z1.8 <- Intellectual Capital	0.783	5,866	0.000
Z1.9 <- Intellectual Capital	0.721	5,362	0.000
Z1.13 <- Intellectual Capital	0.716	5,434	0.000
Z2.6 <- Intellectual Capital	0.728	6,175	0.000
Z2.7 <- Intellectual Capital	0.807	8,972	0.000
Z2.8 <- Intellectual Capital	0.816	9,050	0.000
Y1.2 <- MSME Performance	0.952	61.467	0.000
Y1.7 <- MSME Performance	0.792	14,117	0.000

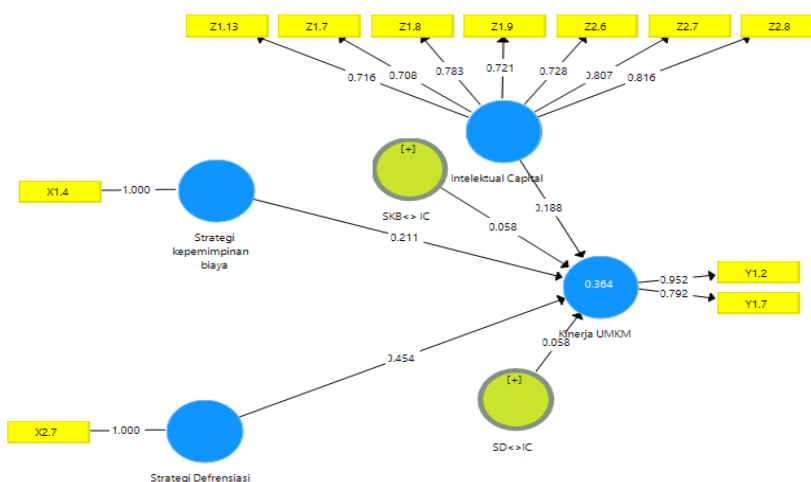


Fig. 2 Structural Equation Model

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Table 2. AVE, Composite Reliability, R-Square and Cronbach Alpha

Variable	AVE	Cronbach's Alpha	R.2	Composite Reliability
Cost Leadership Strategy	1,000	1,000		1,000
Deference Strategy	1,000	1,000		1,000
Intellectual capital	0.571	0.885		0.903
MSME Performance	0.766	0.723	0.364	0.867

Source; Processed Data (2022)

Furthermore, the results of hypothesis testing can be explained in Figure 3 and table 3.

Table 3 Path Analysis and Statistical Testing

Relationship Between Variables	Coefficient	t test	P Values	Information
Cost leadership strategy -> MSME Performance	0.211	2.036	0.042	Significant
Deference Strategy -> MSME Performance	0.454	4,201	0.000	Significant
Intellectual Capital -> MSME Performance	0.188	2,192	0.029	significant
SKB*IC -> MSME Performance	0.058	0.536	0.592	Not significant
SD*IC -> MSME Performance	0.058	0.536	0.592	Not significant

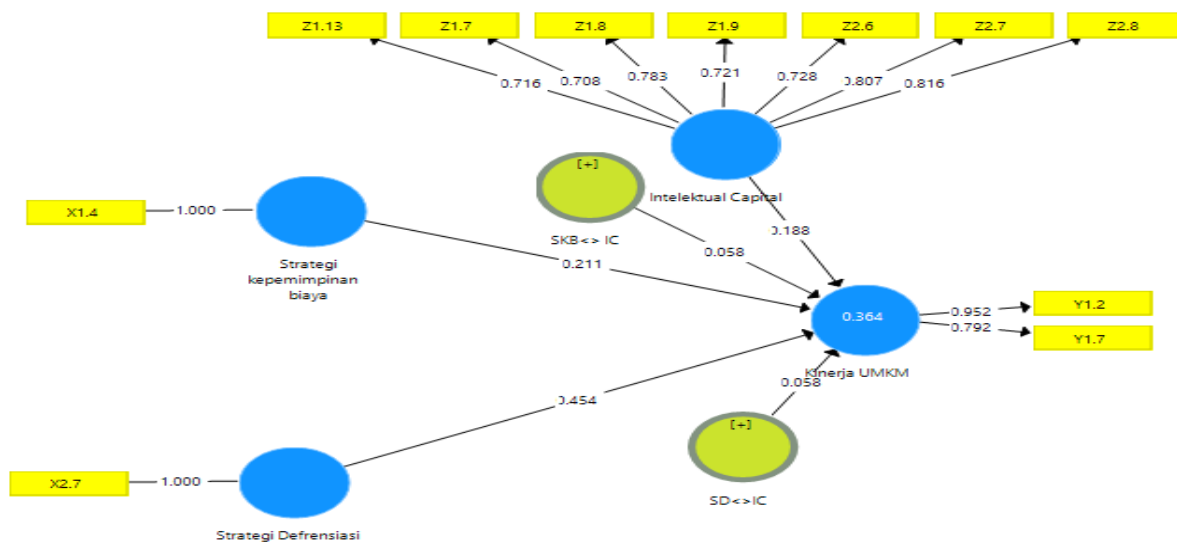


Fig. 3 Path Analysis

The Influence of Cost Leadership Strategy on MSME Performance

The statistical test results in table 3 show that the cost leadership strategy has a positive effect of 0.211 on the performance of MSMEs and the relationship is significant at the 0.05 level with the t-statistical value of 2.036 which is greater than the t-table value of 1.96. Hypothesis 1 which states that the cost leadership strategy has a positive and significant effect on performance is acceptable. This shows that a controlled cost leadership strategy will be able to improve the performance of MSMEs in Bali. Determining the right cost of goods has an impact on determining the right selling price so that the profits obtained by MSMEs are as expected. The cost leadership strategy can control the costs incurred by MSMEs so that cost efficiency can be achieved that can improve MSME performance. The results of this study are in line with research results from (Bull, 2017; Isaboke, 2018; Gure, 2018; Apiyati, 2019 and Oktavian, 2019) which state that cost leadership strategies have a positive and significant effect on organizational performance. Different results were obtained by Sariyani et al. 2021 which found that the cost leadership strategy had a negative and insignificant effect on organizational performance.

The Effect of Deference Strategy on MSME Performance

The statistical test results in table 3 show that the differentiation strategy has a positive effect of 0.454 on the performance of MSMEs and the relationship is significant at the 0.05 level with the t-statistical value of 4.201, which is greater than the t-table value of 1.96. Hypothesis 2 which states that the Differentiation Strategy has a significant positive effect on MSME performance

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is accepted. A differentiation strategy characterized by the uniqueness of products produced by MSMEs that are not owned by other MSMEs can improve MSME performance, because unique products can increase consumer interest in buying them, and encourage customers to order these unique products from MSMEs. The more the number of orders, the more sales will increase which in turn can improve the performance of MSMEs. This shows that MSME actors in Bali are able to access, empower and explore resources that are valuable, unique, difficult to imitate and cannot be replaced so that they can improve their performance. In the end, MSMEs were able to survive in the era of the Covid-19 pandemic that was hitting people all over the world. The results of the study support the Resource Based-View Theory (RBT), which states that companies gain competitive advantage and achieve superior performance by owning, acquiring, and using strategic assets effectively. The strategic assets in question include tangible assets in the form of physical assets, and intangible assets that have been owned, developed, and used by the company in maintaining a competitive and profitable strategy (Wernerfelt, 1984). Khan et al., (2019 empower and explore valuable, unique, difficult to imitate and non-substitutable resources so as to improve their performance. In the end, MSMEs were able to survive in the era of the Covid-19 pandemic that was hitting people all over the world. The results of the study support the Resource Based-View Theory (RBT), which states that companies gain competitive advantage and achieve superior performance by owning, acquiring, and using strategic assets effectively. The strategic assets in question include tangible assets in the form of physical assets, and intangible assets that have been owned, developed, and used by the company in maintaining a competitive and profitable strategy (Wernerfelt, 1984). 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Khan et al., (2019 also argues that investment in intangible resources enables emerging MSMEs to gain sustainable competitive advantage and superior performance in dynamic markets. Of course, intangible resources are cheaper but provide more benefits (Anwar et al., 2018) and (Khan, 2018). Therefore, MSMEs emphasize intangible resources, especially IC to improve their position in the market (Jain et al., 2017).

The Influence of Intellectual Capital on MSME Performance in Bali.

Intellectual capital has a positive effect of 0.188 on the performance of MSMEs and the relationship is significant at the 0.05 level with the t-statistical value of 2.192, which is greater than the t-table value of 1.96. H3 which states that Intellectual Capital has a positive and significant effect on MSME performance in Bali is accepted. This shows that Intellectual Capital can improve the performance of MSMEs in Bali. Knowledge-based theory considers knowledge as the most strategic company resource because it is difficult to imitate and becomes a source of competitive advantage and sustainable company performance (Ludwig &

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Pemberton, 2011). This means that MSMEs have utilized and explored their strategic resources in creating competitive advantages so that performance can be improved. The results of this study are supported by the results of research Hashim et al, (2015); Hamdam, (2017); Khaliq, et al., (2018); Setiawan and Prawira, (2018); Xu and Li, (2019); and Khattak and Shah (2020).

Intellectual Capital Mediating the Effect of Cost Leadership Strategy on MSME Performance.

The interaction of cost leadership strategy with intellectual capital has a positive effect of 0.058 on the performance of MSMEs and the relationship is not significant at the 0.05 level with the t-statistical value of 0.536 smaller than the t-table value of 1.96. This means that intellectual capital has not been able to moderate the effect of cost leadership strategy on MSME performance, so hypothesis 4 is rejected. This shows that MSMEs do not understand well the importance of intellectual capital such as an appropriate cost-of-production system so that the determination of production costs is not in accordance with reality. In the end, the inaccuracy in determining the cost of goods will affect the determination of the selling price of products and the operating profit of MSMEs. This is supported by the research results of Sariyani et al. (2021) stated that cost leadership had no significant effect on the performance of MSMEs. In contrast Bull, (2017); Isaboke, (2018); Gure, (2018); Apiyati, (2019) and Oktavian, (2019) which show that the cost leadership strategy has a positive and significant effect on organizational performance and Hamdam, (2017); Setiawan and Prawira, (2018) and Xu and Li, (2019) Intellectual Capital has a positive effect on performance.

Intellectual Capital mediates the effect of the differentiation strategy on the performance of SMEs.

The interaction of differentiation strategy with intellectual capital has a positive effect of 0.058 on the performance of MSMEs and the relationship is not significant at the 0.05 level with the t-statistical value of 0.536 smaller than the t-table value of 1.96. This means that intellectual capital has not been able to moderate the effect of differentiation strategy on MSME performance. The uniqueness possessed by MSMEs has not been able to be explored optimally so that its competitive advantage is not able to improve the performance of that engage in any general strategy but fail to achieve it are trapped in it. This failure MSMEs. Companies indicates that the company has not been able to explore competitive advantage. Companies that are stuck in the middle will compete at a disadvantage because of the cost leader, the differentiator will be in a better position to compete in any segment (Porter, 1980). The results of this study are not in line with research (Bull, 2017; Isaboke, 2018; Gure, 2018; Apiyati, 2019 and Oktavian, 2019) which show that the differentiation strategy has a positive and significant effect on organizational performance. The influence of Intellectual Capital on performance was found by Harlow, 2017; Kehelwalatenna and Premaratne, 2019). It's different from research Khattak and Shah (2020) stated that IC has a significant positive impact on the performance of SMEs, there is also a significant and positive relationship between Competitive Advantage and Firm Performance. So it can be concluded that Intellectual Capital is not a moderating variable, but can be an independent variable, antecedents, and mediation.

CONCLUSIONS

The results of this study found that the cost leadership strategy, differentiation strategy and intellectual capital had a positive and significant effect on MSME performance, on the other hand intellectual capital was not able to moderate the effect of cost leadership strategy and differentiation strategy on MSME performance. It can be suggested for MSME actors that positive results are obtained on the effect of competitive advantage on MSME performance, so MSMEs are expected to further explore their potential in order to determine the cost of production and create a differentiation strategy so that they can survive and increase profits. It is recommended that MSMEs provide more frequent training for their employees so that their competence (intellectual capital) can be improved. MSMEs more often conduct surveys about customers and competitors in order to increase product innovation and marketing innovation. Future research opportunities can be suggested that the intellectual capital variable be treated as an independent variable, antecedent or mediation, or use funding innovation as a moderating variable and expand the population in the national scope area.

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