

The Impact of Intellectual Capital on SME Performance: Competitive Advantage Mediation (Case Study in Indonesia)



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ABSTRACT: This study discusses intellectual capital and competitive advantage influencing the performance of SMEs in DKI Jakarta, Indonesia. The research objective is to identify the influence of intellectual capital and competitive advantage on the performance of SMEs. The sampling technique used purposive sampling and distributing questionnaires to 207 respondents as UKM owners. The independent variables in this study are Intellectual Capital (X1) and Competitive Advantage (X2), while the dependent variable is SME Performance (Y). The analytical test tool used by SEM-AMOS.

The calculation results show that the conclusions are accepted according to the theoretical framework. First; Intellectual Capital has a direct and positive effect on SME performance. Second; Competitive Advantage has a direct and positive effect on SME Performance. Third; Intellectual Capital directly and positively influences Competitive Advantage.

KEYWORDS: Intellectual Capital, Competitive Advantage, SMEs Performance

1. INTRODUCTION

The performance of Small and Medium Enterprises is identified as an economic driver. This can be seen from the contribution to Gross Domestic Product and Labor Absorption and has the resilience to survive compared to large companies. Nationally, the contribution of SMEs to GDP accounts for 61.07 percent. Meanwhile, employment is up to 97% of the total workforce in Indonesia and investment is 60.4% (Novitasari, 2022). The performance of Indonesian SMEs compared to other countries has experienced growth in recent years. However, growth in 2015 of 15.8 percent was still smaller than that of Thailand, which was 29.5 percent and the Philippines, which was 20 percent. This is because actors do not yet have access to global markets, limited resources and marketing as a characteristic of SMEs in Indonesia. In addition, performance can be influenced by the characteristics of SMEs, such as the home industry, labor intensive and manufacturing businesses that still use relatively low technology compared to countries that have made significant progress.

The contribution of SMEs in DKI Jakarta to the manufacturing sector in 2021 will reach 12.28%. This contribution has decreased every year since 2017. In addition, GRDP growth from the manufacturing sector has experienced a downward trend until it experienced minus growth in 2020 of -10.34% and then experienced an increase in 2021 to 11.01%. The average contribution given by this sector is around 13% per year. The development of this sector certainly affects the economy of DKI Jakarta and the overall performance of the economy.

This condition causes the performance to not give maximum impact on Indonesia. Several factors can affect the performance of SMEs. Intellectual capital is believed to be a source of strength that can replace physical capital and financial capital in order to improve performance. Intellectual capital is an important asset because it is intangible and unique in the organization. Therefore, intellectual capital is an accumulation of all intangible assets for small and medium enterprises, and is used to create products and services that have added value for the organization (Khalique et al., 2018). In the context of SMEs in Indonesia, around 62% of the intellectual capital of SMEs workers is still low (Industry, 2018). In his research, (Kamukama et al., 2010) stated that today's organizations have turned attention to intellectual capital rather than traditional physical and financial capital as a basis for competition and performance. This shows that Intellectual Capital has an effect on Organizational Performance. (Ibarra Cisneros & Hernandez-Perlins, 2018; Asiaei & Jusoh, 2015; Kamukama et al., 2011; Hsu & Wang, 2010). Furthermore, (Altarawneh, 2017) found that there is a significant influence of intellectual capital (human capital, relational capital and structural capital) on competitive advantage. This indicates that competitive advantage is rooted in intellectual capital rather

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than physical and financial assets. This means that competitive advantage is an important variable and is thought to have a direct and indirect effect on performance.

On the other hand, competitive advantage among SMEs causes various changes in running their business. Change is oriented towards improving quality, customer service, and invasion so that it has an impact on competitive success. The main requirement for company success in a competitive environment is using resources that are unique and specific to the company (Porter, 1999). This requirement must be owned by SMEs in Indonesia. The Global Talent Competitiveness Index/ GTCI (2019) states that Indonesia is ranked 67th in the world and ASIA ranks 9th below the countries of Singapore, Japan, Malaysia, South Korea, Brunei, China and the Philippines and Thailand (INSEAD, 2019). Meanwhile, the World Competitiveness Ranking reveals competitiveness in the last 5 (five) years which can be described in the table below (Schwab, 2019):

Table 1. Competitiveness in the Asian Region in 2015 – 2019

No	Negara	2015	2016	2017	2018	2019
1	China (Hongkong)	2	1	1	2	2
2	Singapura	3	4	3	3	1
3	Malaysia	14	19	24	22	22
4	Korea	25	29	29	27	28
5	Jepang	27	26	26	25	30
6	Thailand	30	28	27	30	25
7	Philipina	41	42	41	50	46
8	Indonesia	42	48	42	43	32
9	China	-	-	-	-	13

Source : Competitiveness Ranking

This condition indicates that business actors do not yet have a competitive advantage to compete with other competitors. This is in accordance with the concept of resource-based theory so that SMEs have unique and difficult to imitate resources so that they can improve performance. In his research, (Ibrahim et al., 2016; Sadia Majeed, 2011; Wiklund & Shepherd, 2003) states that competitive advantage affects performance.

Based on the problem, in-depth research is needed concerning the impact of intellectual capital on the performance of SMEs with Moderation of Competitive Advantage. This research is interesting to do because it tries to explain the SME performance model that is driven by intellectual capital and competitive advantage. This model has been carried out by several previous researchers in several countries. However, research with this model is something new, especially in DKI Jakarta, Indonesia

2. LITERATURE REVIEW

2.1. SMEs Performance

Currently, performance must be seen from both perspectives, including non-financial, namely the capabilities possessed by human resources that are not physical and long-term assets (intangible assets). Intangible Assets include the development of relationships with customers, the introduction of new products, the ability to produce products and services that have quality according to customer expectations (customized highquality) with minimal costs, the ability to improve skills and motivate employees and the ability to develop information technology . This intangible refers to institutional strengthening. Baker and Sinkula, 2005 stated that SME Organizational performance should be seen as a multidimensional construct that consists of more than just financial performance. While Griffin; 2003 states that organizational performance is described as the extent to which an organization is able to meet the needs of its stakeholders and its own needs for survival (Umesh Gunarathne, 2015). Therefore, as a driver of value from both perspectives is the ability possessed by human resources (intangible assets) so that performance increases every time or experiences growth in each period. On the other hand, SME performance growth cannot be seen from the financial and physical aspects. However, it can be seen from other aspects, namely intangible aspects that are not included in various financial reports. This is supported by the unavailability of organizational data, especially SMEs to submit financial reports. (Wiklund, 1999) suggested that the SME performance measurement scale should have indicators for growth as well as financial performance. This is in consideration of its reliability and general usage in the literature. Thus, the performance of SMEs is the ability of SMEs to meet the needs of their stakeholders and their own needs to survive.

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2.2. Intellectual Capital

In the industrial era 4.0, the business environment is experiencing rapid changes. SMEs are required to have intellectual capital. Intellectual capital contributes to modern organizational performance and is the foundation of business in the 21st century. (Youndt et al., 2004); (Teece, 1998) states that intellectual capital is identified as one of the main drivers of performance at the corporate level. Human capital includes human capital, relational capital and structural capital. Edvinsson and Malone (1997) state that intellectual capital is a dimension of human capital and structural capital. Human capital is based on the knowledge created by and stored by organizations. While structural capital as the embodiment, empowerment, and supporting infrastructure for human resources. This structural capital consists of organizational capital (knowledge created by and stored in an organization's information technology systems and processes that accelerate the flow of knowledge through the organization) and trust capital (the relationship the organization has with its customers).

(Mouritsen et al., 2001) defines Intellectual capital as stored knowledge owned by the organization, namely tacit knowledge, personal knowledge owned by employees and available for network relations through interaction. This is supported (Reed et al., 2006); (Carson et al., 2004); Klein, Crawford and Alchian, 1998 stated that the concept of intellectual capital is knowledge, skills, intangible assets and not physical capital. (Reed et al., 2006) concludes that intellectual capital divides dimensions into human capital, organizational capital and social capital. Researchers generally agree that intellectual capital consists of human capital (HC), relational capital (RC) and structural capital (SC). This is based on the assumption that HC can leave at any time without the company having human capital. (Bontis et al., 2000) states that human capital is the heart of capital capital as a combination of knowledge, skills, innovation and employee abilities. SC is knowledge that is converted into company property depending on the quality of human capital. Meanwhile, RC is an organizational concern for network relationships as a reflection of the relationship that is built and maintained with partners. Thus Intellectual capital is an intangible asset that creates value for the organization separately and together with tangible assets

2.3. Competitive Advantage

Competitiveness and competitive advantage are multidimensional concepts. Competitive advantage is one of the important factors to maintain long-term performance for an organization or a country. (Chikán, 2008) stated that there is no competitive country without having competitive companies and the country's competitiveness depends heavily on the competitiveness of companies. At the corporate level, competitiveness is the company's ability to survive and thrive in a business environment. The Small and Medium Enterprises (SMEs) sector must be able to create and maintain a competitive advantage to always be ahead of the competition.

Based on the concept of competitive advantage, SMEs should be able to place more attention on the source of competitive advantage. (Wen-Cheng et al., 2011) states that the sources of competitive advantage are technology and innovation, human resources and organizational structure. Technology and Innovation. includes product innovations such as new products, service innovations such as service to customers and product distribution and process innovations such as new processes that result in low production costs. Human resources through the business of creating value in a way that is difficult for competitors to imitate. Value creation can be done through human resource development in accordance with the concept of Resources Based View (RBV). In the RBV concept, the main focus of attention is Internal Resources. Researchers share the view that strategically important and useful resources and competencies should be viewed as a source of competitive advantage (Barney, 1991). Some researchers (Wang, 2014; (Ray et al., 2004) distinguish between tangible and intangible resources. Intangible resources are considered the most important and tend to be a source of sustainable competitive advantage over tangible ones.

Competitive advantage occurs when an organization creates value for its users that is greater than the cost and better than its competitors. (Porter, (1985; p.3) defines competitive advantage as productivity growth which is reflected in lower costs or different products by charging a premium price. Competitive advantage is the main determinant in assessing superior performance compared to other companies, especially for products and services. In Porter's view, the basic types of competitive advantage are described as shown in Figure 1 below (Porter, 1985):

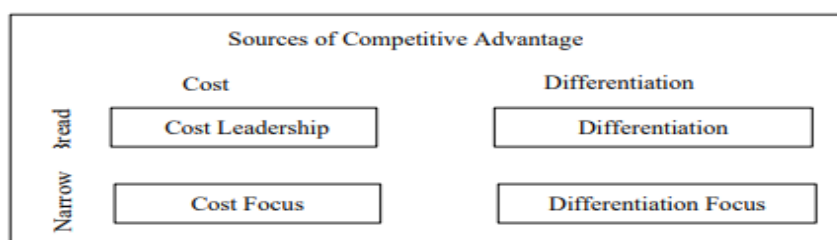


Figure 1. Type Basic Competitive advantage

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Berdasarkan kajian di atas, maka Competitive advantage is the ability of the organization to provide high added value to maintain survival

3. METHODOLOGY

3.1. Research Approach

This type of research uses descriptive explanatory research because it intends to find the influence between variables (Creswell et al., 2013). While the approach is done with quantitative. A quantitative approach was applied in this study because the data used were in the form of numbers and the analysis used statistical analysis.

3.2 Research Variables and Operational Definition

3.2.1. Research variable

Research variables are variables defined as everything that will become the object of research observation (Syahza, 2021; 65)

- Variable Dependent

The dependent variable in the SEM AMOS model is called the endogenous variable or the dependent variable which is influenced by other variables (Abdullah, 2015). The dependent variable in this study is SMEs Performance (Y)

- Variabel Independent

Independent variables in the SEM model are called exogenous variables, namely variables that affect other variables. The independent variables in this study are Intellectual Capital (X1) and Competitive Advantage (X2) (Abdullah, 2015).

3.2.2. Operational Definition of Research Variables

Variable Operational Definitions related to the independent variable and the dependent variable in this study can be described in the table 2:

Table 2. Operational Definition of Research Variable

No	Variabel	Operational Definition	Indikator
1.	Intellectual Capital	Intellectual capital is an intangible asset that creates value for a company organization separately and together with tangible assets (Altarawneh, 2017)	Human Capital Relational Capital Structural Capital
2,	Competitive Advantage	Competitive advantage is the ability of the organization to provide high added value to maintain survival which can be seen from product differentiation and cost leadership (Sirivanh et al., 2014).	Product Differentiation Cos Leadership
3.	SMEs Performance	Organizational performance is an organization's ability to meet the needs of its stakeholders and its own needs for survival which can be seen from sales revenue, market share gains, profitability, innovation and satisfaction (Umesh Gunarathne, 2015).	Sales Revenue Market Share Gains Profitability Innovation Satisfaction

3.3. Population and Sample

3.3.1. Population

The population is the source of data in research obtained through surveys. The target population is an object that is relevant to research, namely having knowledge information that is designed to be collected and observed Hair et.al, (2020). Therefore, the population in this study is the owners of SMEs in the manufacturing sector in DKI Jakarta. the target population is 433 business actors as respondents (BPS DKI Jakarta, 2021).

This study used a purposive sampling technique or judgment sampling Saunders et al., (2019). Purposive sampling is a non-probability sampling technique as a sampling technique according to the characteristics. This technique is carried out by selecting a sample that allows respondents to answer the researcher's questions according to the characteristics according to the criteria determined by the researcher. Therefore, the selected respondents are owners who are qualified to provide information that is relevant to the research questions of Anderson et al., (2020).

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3.3.2. Sample

The researcher selects the population elements so that they can reflect all the existing characteristics. Element is the subject where the measurement is carried out according to the characteristics chosen by the researcher which is usually called the sample. The sampling technique was determined using the Slovin formula with a 95% confidence level with the Abdullah formula, (2015; 237):

$$n = \frac{N}{((N \times e^2) + 1)}$$

Imporation :

n = number of samples

N = total population

e² = precision (5% precision with 95% confidence level)

So that the sample for this study was obtained, namely

$$n = \frac{433}{((433 \times 0,05^2) + 1)}$$
$$n = \frac{433}{2,0825} = 207$$

Based on the calculation above, the number of samples is 207

2.4. Method of collecting data

2.4.1. Type of Data

In research using two types of data, namely;

2.4.1.1. Qualitative data

Qualitative data, namely literature study data to obtain theories, concepts of each variable. This is done by means of a literature study, namely collecting books, scientific writings and so on that have relevance to the problem being studied.

2.4.1.2. Quantitative data

Quantitative data, namely data obtained through direct research to the location according to the problem. This is done by distributing instruments in the form of questionnaires. The questionnaire is in the form of a number of structured statement lists that have been provided qualitatively as numbers. This study uses two types of data, namely :

2.4.1.2.1. Primary data

Primary data is data obtained directly from respondents through questionnaires about the influence of intellectual capital, competitive advantage on the performance of SMEs.

2.4.1.2.2. Secondary Data

Secondary data is data obtained indirectly through the DKI Jakarta Central Statistics Agency and the DKI Jakarta Ministry of Cooperatives and SMEs according to the needs of researchers.

2.4.2. Data collection technique

The data collection technique used an instrument in the form of a questionnaire in the form of a written list of questions about intellectual capital, competitive advantage and SME performance. The instrument is a tool used in structured and continuous data collection, where all statements/questions have been pre-selected and given in a certain order to respondents Jason & Glenwiick, (2016). The data collected comes from SMEs in DKI Jakarta. Each statement in the questionnaire provides answers according to the characteristics of the variables using a scale of 1 (one) "Very Low" to 5 (five) "Very High" according to the variable to obtain interval data so that a score can be given.

2.4.3. Validity and Reliability Test

Analysis of the Measurement Model in terms of the validity of the measurement model and the reliability of the measurement model. According to Wijanto, 2008) research validity criteria with Standardized Loading Factor ≥ 0.50 and Reliability with AVE values ≥ 0.50 and CR ≥ 0.70 . Confirmatory Factor Analysis (CFA) test results for each variable can be seen below:

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Confirmatory Factor Analysis test

No	Variable	Indicator	Standardized Loading Factor	Validity	AVE	CR
1.	Intelektual Capital	HC1	≥ ,500	0,970	,882	≥ 0,70.
		HC2		0,970		
		HC3		0,970		
		SC4		0,970		
		SC5		0,980		
		SC6		0,970		
		RC7		0,980		
		RC8		0,970		
		RC9		0,980		
2	Competitive Advantage	CA10	≥ ,500	0,950	,900	≥ 0,70.
		CA11		0,960		
		CA12		0,940		
		CA13		0,950		
		CA14		0,950		
		CA15		0,950		
		CA16		0,950		
		CA17		0,940		
4	Performance Organization	KPP18	≥ ,500	0,960	,809	≥ 0,70.
		KKP19		0,950		
		KKP20		0,970		
		KK21		0,970		
		KK22		0,990		
		KK23		0,910		

Based on the table, it can be said that the statement is considered valid where the Loading Factor is above 0.50. While the AVE value is above the CR value of 0.70, so the three variables are considered reliable.

2.4.4. Hypothesis Test Results

The researcher conducted a model fit test as a condition for interpreting the estimation results. Based on the data processing, the results obtained from measuring the fit of the model through the AMOS program are as follows:

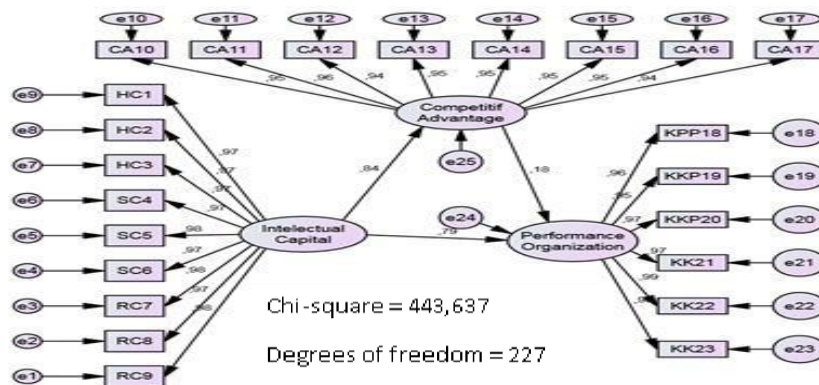
Model Fit Measurement Results

Size (GOF)	Compatibility Standards	Measurement results	Match Level
Statistic Chi Square (X ₂) Probability (P)	Small Value P ≥ 0,05	443,637 0,000	Good Fit
GFI	GFI ≥ 0,90 0,80 ≤ GFI ≤ 0,90 GFI ≤ 0,80	0,827	Good Fit
RMSEA	RMSEA ≤ 0,08 0,08 ≤ RMSEA ≤ 0,10 GFI ≤ 0,10	0,072	Good Fit
TLI	TLI ≥ 0,90 0,80 ≤ TLI ≤ 0,90 TLI ≤ 0,80	0,976	Good Fit
IFI	IFI ≥ 0,90 0,80 ≤ IFI ≤ 0,90 IFI ≤ 0,80	0,978	Good Fit

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CFI	CFI $\geq 0,90$ $0,80 \leq \text{CFI} \leq 0,90$ CFI $\leq 0,80$	0,978	Good Fit
Norm Chi Square	CMIN/DF ≤ 2	1,954	Good Fit
PGFI	PGFI $\geq 0,50$	0,682	Good Fit

Based on the data, it can be concluded that the value of the model feasibility test on all constructs has shown a fit model because it is in accordance with the standard values. Next, a diagram of the model estimation results is obtained in figure below



Gambar 2
Hasil Estimasi Model Output

While the regression weight from the results of the structural model can be seen in the table below:

Regression Weights: (Group number 1 - Default model)

	Estimate	S.E.	C.R.	P	Label
Competitif_Advantage <--- Intellectual_Capital	,554	,031	17,769	***	par_21
Performance_Organization <--- Intellectual_Capital	,692	,043	16,190	***	par_22
Performance_Organization <--- Competitif_Advantage	,245	,060	4,080	***	par_23

Based on the structural model results table, the analysis results are obtained, namely:

- Hypothesis 1 which states that there is an influence of intellectual capital on the performance of SMEs is accepted. This can be seen from the probability value of $0.000 < 0.05$ and the critical ratio (CR) of $16.190 > 1.96$. This shows that intellectual capital has a positive effect on the performance of SMEs
- Hypothesis 2 which states that there is an influence of competitive advantage on the performance of SMEs is accepted. This can be seen from the probability value of $0.000 < 0.05$ and the critical ratio (CR) of $4.080 > 1.96$. This shows that competitive advantage has a positive effect on the performance of SMEs
- Hypothesis 3 which states that there is an influence of intellectual capital on competitive advantage is accepted. This can be seen from the probability value of $0.000 < 0.05$ and the critical ratio (CR) of $17.769 > 1.96$. This shows that intellectual capital has a positive effect on competitive advantage.

4. CONCLUSION AND RECOMMENDATION

This study explains more about the factors that affect the performance of SMEs. The main objectives of this research are; does intellectual capital affect the performance of SMEs; does competitive advantage affect the performance of SMEs, and does intellectual capital affect competitive advantage. The research results show that human capital and competitive advantage are vital factors in improving the performance of SMEs. In addition, intellectual capital affects competitive advantage.

In business, SMEs are required to have performance so they have to make various improvements, especially in industry 4.0. Therefore, to achieve performance, it is necessary to focus more on increasing intellectual capital, both human capital, relational capital, and structural capital. This capital becomes the basis for increasing competitive advantage and SME performance. One of

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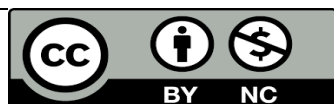
the efforts to increase intellectual capital is that UKM owners have a desire to increase competence. Meanwhile, the government and related parties provide training by presenting competent practitioners both on a national and international scale. On the other hand, SMEs are faced with new challenges, especially in presenting innovations in both products and services to customers in improving performance. In a simple world, every organization is faced with new challenges related to sustainable productivity and creating a committed workforce. Therefore, it is important to understand the concept of intellectual capital and competitive advantage. For this reason, SME owners need to learn from competitors to find and have unique, rare and difficult to imitate resources in the future.

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