

# Intellectual Capital, Strategic Orientation and Performance: Studies on Small Businesses Tourism in Indonesia

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## Abstract:

The purpose of this study was to analyze the effect of intellectual capital and strategic orientation on the ability of innovation and the performance of small business tourism in Indonesia. The population in this study consisted of the owners of small business tourism in Indonesia. The sampling method employed purposive sampling. Methods of collecting data used questionnaires and data analysis methods used Path Analysis. The dependent variable in this study was the performance of small businesses. The mediating variable was the ability of innovation, and its independent variable was strategic orientation. The results of this study indicate that intellectual capital has a positive and significant effect on the ability of innovation. Strategic orientation has a positive and significant effect on the ability of innovation and the performance of small businesses. The implication of this research is to improve performance in which small businesses must have the ability of innovation and good marketing strategy. The ability of innovation can be developed from the knowledge possessed by small-scale entrepreneurs. Originality, intellectual capital and marketing strategies carried out by small businesses have less concern for researchers, even though these are important variables that support the performance of sustainable small businesses.

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## I. INTRODUCTION

In the era of free trade and globalization in economy area, science and technology; and human resources (HR) become two dominant factors in determining the level of competitiveness of a product or company. Small businesses that can survive both in the domestic and global markets are small businesses that are efficient and produce high-quality products. Science and Technology; and HR are two components that are intertwined by which HR is needed for the development of knowledge or the absorption of technology. It means that small businesses can develop their own technology in

case the workers and owners have skills and abilities to absorb knowledge and technology [1].

Intellectual capital is now recognized as a factor that influences the progress of an organization or company. In small companies, intellectual capital is also considered very pivotal for the development of business or small business performance that results in the improvement in the welfare of the stakeholders. Intellectual capital for small businesses can be formed quickly due to factor of knowledge. Good organizational knowledge can encourage the acceleration of the expected work performance. The performance of small businesses in Indonesia is far lower than those in developed countries due to low development or mastery of science and

technology as the intellectual capital owned by small businesses in Indonesia [1], [2].

The orientation of the strategy to improve performance is very important because companies are required to focus on the market, customers, and the renewal of technology. High performance is influenced both by strategy orientation and by innovation. The company's innovation capability is also very important in improving the performance of the company, and yet the ability of innovation depends on the knowledge of the resources owned by the company. Intellectual capital is very pivotal to facilitate the innovation process and to enhance innovation capabilities. The ability of innovation depends on the knowledge and desire of the owner of the company to develop new technology[1], [3]. Based on the above-mentioned problems, small businesses need good intellectual capital and strategies in order to have good performance; however, research on intellectual capital and strategy orientation is still rarely conducted especially for small businesses in the area of tourism that require the innovation ability to maintain the businesses.

## II. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

### A. Intellectual Capital, Innovation Ability and Company Performance

Intellectual capital is a factor that influences the success of a company. The shift from the traditional industrial economy to a knowledge-based economy that enhances corporate performance is the role of intellectual capital. Research by [2] found a positive and significant relationship between intellectual capital with the ability of innovation and company performance. To meet customers' demands in the era of global competition, companies must continuously develop solutions. An important source for ensuring the success of a company is knowledge and not traditional resources such as fixed assets [2]. Intellectual capital is very important to facilitate the innovation process and enhance innovation capabilities. The company's innovation capability is closely related to intellectual capital

because the company utilizes this capital to achieve sustainable success.

### B. Strategic Orientation, Innovation Ability and Company Performance

The company's strategic orientation is recognized as a significant driver of company performance that has the leading marketing strategy literature. Market-oriented companies focus on innovation at the request of customers. This indicates that market orientation will facilitate or enhance the company's innovative capabilities through continuous customer information produced by the company that leads to recognition of opportunities. [3] study shows that there is a positive effect on market orientation towards innovation although some fundamental variations in the measurement approach are used.

### C. Development of Hypotheses

Intellectual capital is an important factor for companies to increase profits and performance in a knowledge-based economy [8]. Research conducted by [4] shows that intellectual capital has a significant effect on the ability of innovation. Research [5] shows that intellectual capital influences SMEs innovation and performance. Research [6] shows that there is an influence of internal knowledge on the ability of innovation. Moreover, study [9] found the influence of intellectual capital on the performance of SMEs. The results of the study [10] show that intellectual capital has a significant effect on the performance of SMEs. Based on these studies, hypotheses can be formulated as in the following:

H<sub>1</sub> = Intellectual capital influences the innovation capabilities of small businesses of tourism in Indonesia

H<sub>2</sub> = Intellectual capital influences the performance of small businesses of tourism in Indonesia

The company's strategic orientation is recognized as a significant driver of company performance that excels in the marketing strategy literature. In this study, we examined three strategic orientations that can influence the ability of innovation and company performance, namely

market orientation, technology and learning. Study [3] provides empirical evidence that market orientation facilitates improvement in innovation capabilities of the companies. According to [7], commitment to learning has a positive effect on the ability of innovation. Research conducted by [4] found that technology orientation had a significant effect on innovation ability. Empirical evidence is the relationship between strategy orientation, especially market orientation (MO) and performance based on research [12], [13], [14]. The relationship between learning orientation (LO) and performance is found by [15] and the relationship between technological orientation (TO) and performance is found by [16]. Based on the aforementioned results, research hypotheses can be formulated as follows:

$H_3$  = Strategic orientation affects the innovation capabilities of small businesses of tourism in Indonesia

$H_4$  = Strategic orientation influences the performance of small businesses of tourism in Indonesia

Study [7] argues that the company's innovation capability has a impact on growth performance because growth serves as one of the benchmarks in measuring performance. [17] and [18] concluded that companies focusing on every aspect of innovation capability produce improved performance. Based on the results of these studies the hypothesis can be derived as follows

$H_5$  = The ability of innovation has a significant effect on the performance of small businesses of tourism in Indonesia

Based on the mentioned results of the studies and hypotheses, the conceptual model can be developed as follows:

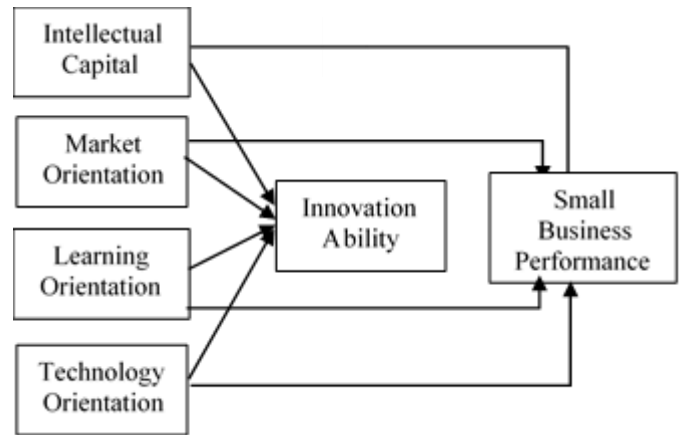


Figure 1. Model Conceptual

### III. RESEARCH METHODS

The population in this study was a small business of tourism in Indonesia. In this study, the sample was small-scale tourism entrepreneurs in the cities of Surakarta and Yogyakarta, such as business tours and travel, transportation, souvenirs, home stay, crafts and culinary. The sampling technique in this study employed purposive sampling which was sampling based on criteria. The criteria are as follows: 1) Small business tourism entrepreneurs in the city of Surakarta and Yogyakarta who have more than 2 years of business. 2) Small business tourism entrepreneurs who have good or positive company performance. The dependent variable of this study is the performance of small businesses, the independent variable is intellectual capital, strategy orientation includes market orientation (MO), learning orientation (LO), technology orientation (TO) and the mediating variable is innovation ability. The indicators of the research variables are as follows:

The company's performance in this case is the ability of small businesses to generate sales or profits. In this study, performance (PF) measurement used the following indicators [4]: Sales growth, labor growth, income growth, net profit margin, product/service innovation, innovation process, adoption of new technologies, quality of products/services, kinds of products/services and consumer satisfaction. Intellectual capital referred in this study is the value creation obtained from the

management of intellectual capital. Indicators of intellectual capital are as follows [4]: Human capital, organizational capital, social capital.

Market orientation (MO) is the company's ability to understand the market. In this study, market orientation was measured by the following indicators [4]: customer orientation, competitor orientation. Learning orientation (LO) is the perception of small businesses in giving their commitment and vision. The dimensions of learning orientation include [4]: Commitment in learning, sharing the vision, and openness. Technology orientation (TO) is the company's view of the use of technology. The technological orientations dimension includes [4]: the importance of research and development activities, the level of technology integration, having new technology development initiatives, the level of company product [4] solutions, comparison of technological knowledge with competitors, and ambition in product development. The ability of innovation (AI) is the ability of small businesses to develop innovation in their company. Dimensions of innovation capabilities include [4]: innovation capabilities focusing on clients, innovation capabilities focusing on marketing, and innovation capabilities focusing on technology.

Measurement of variables used an interval scale with "itemized rating scale" [19] divided into seven alternative answers, namely: Strongly agree (7), Agree (6), Completely Agree (5), Neutral (4), Disagree (3), Disagree (2) and Strongly Disagree (1). Analysis of the data used in this study was Path Analysis. Path analysis was used to test the causal relationship based on knowledge, the formulation of theories and assumptions, and it can be used to test the research hypothesis and interpret the relationship. This path analysis was developed as a method to study the effects of independent variables directly or indirectly on the dependent variable.

## IV. RESULTS AND DISCUSSION

### A. Analysis Results

To test the hypothesis the Path Analysis with Amos 23. Test results were used as displayed in Table 1.

Table 1. Path Analysis Test Results

		Est.	S.E.	C.R.	P
AI	<--- MO	0,790	0,237	3,335	0,000
AI	<--- TO	0,131	0,161	0,814	0,416
AI	<--- LO	0,190	0,318	0,598	0,550
AI	<--- IC	0,116	0,054	2,125	0,034
PF	<--- AI	0,226	0,051	4,458	0,000
PF	<--- MO	0,517	0,129	4,018	0,000
PF	<--- LO	0,456	0,164	2,770	0,006
PF	<--- TO	0,270	0,083	3,238	0,001
PF	<--- IC	0,028	0,029	0,977	0,329

### B. Discussion

Intellectual capital is now essential due to the economic shift from the traditional industrial economy to the knowledge-based economy. [2] research reveals that intellectual capital is very important to facilitate the innovation process and enhance innovation capabilities. The company's innovation capability is closely related to intellectual capital because the company utilizes this capital to achieve sustainable success. The results in this study indicate that intellectual capital influences the ability of small businesses to innovate, and yet does not directly affect the performance of small businesses. This shows that the knowledge possessed by small business actors will further improve their performance if these small business actors increasingly enhance innovation in their business. The results of this study support the research conducted by [4], [5], [6] that intellectual capital and marketing orientation have significant effect on innovation ability.

Market-oriented companies focus on customers' demands that help companies offer innovations valued by customers. This indicates that market orientation can improve the company's innovation capabilities through customer information that is continuously produced by the company which in turn leads to recognition of opportunities. [3] found that market orientation increases a company's innovation capability and anticipates changing customer preferences. Market orientation allows the provision of high-quality products and services which satisfies customers and produces high-level



performance. The results of this study indicate that market orientation has a positive and significant effect on the ability of innovation and the performance of small businesses which means that small business actors having good understanding to the market needs will increasingly innovate and improve their performance. It means the results of this study support the research conducted by [12], [13], and [14].

There are three factors that lead a company to learn the advanced innovation capabilities. First, the company applies the latest technology in the innovation process and the company has the capacity to develop and market technological breakthroughs. Second, companies have the knowledge and ability to understand and anticipate customer requests by learning; hence, companies cannot miss the market opportunities. Third, these companies have knowledge of the strengths and weaknesses of their competitors, so that they can learn from the successes and failures of competitors [20]. According to [7], commitment to learning has a positive effect on the ability of innovation. Basically, accumulated learning can cause a decrease in production costs. Learning outcomes can produce better performance, through innovation the cost of producing goods will be efficient and services will develop. The results of this study indicate that learning orientation has a positive and significant effect on the performance of small businesses and yet it has no significant effect on the ability of innovation. Positive influence shows that better learning orientation carried out by small business actors will further improve the performance of the small business. The results of this study support the research conducted by [15] who found a positive relationship between learning orientation and the performance of small businesses.

Technology orientation is the most important strategic orientation that affects long-term business success. Companies can obtain product differentiation and cost advantages when developing or adapting to new technologies. Research conducted by [4] which examined the effect of technological orientation on the ability

of innovation and the performance of SMEs in Malaysia revealed that the technological orientation has a significant effect on the ability of innovation. The results of this study indicate that technological orientation has a significant effect on the performance of small businesses, but does not have a significant effect on the ability of innovation. The results of these studies indicate that small business people have used technology to improve business performance, but have not developed the knowledge of technology in innovation. The results of this study support the research conducted by [16] which shows that the technological orientation has important performance implications and can be seen generally as an effective strategic choice for the company.

Study [7] argues that the company's innovation capability has impact on growth performance. Study [17] which examined the ability of innovation and its relationship with the performance of companies in the Iranian pharmaceutical industry concluded that increasing innovation capability is a prerequisite to improve company performance. Under the similar theme, [18] who investigated companies in Taiwan's largest science parks in terms of technological and management innovation capabilities and their impact on company performance concluded that companies focus on every aspect of innovation capability to produce improved performance. The results of this study support the above-mentioned research by which the ability of innovation has a positive and significant effect on the performance of small businesses. Positive influence shows that the more innovating small business actors, the further the performance improvement that is made.

## V. CONCLUSION AND RECOMMENDATION

The results of the analysis and discussion concluded that intellectual capital had a positive and significant effect on the ability of innovation and did not significantly influence the performance of small businesses. Market orientation has a positive and significant effect on the ability of innovation and the performance of

small businesses. Learning orientation has a positive and significant effect on the performance of small businesses, but does not have a significant effect on the ability of innovation. Technology orientation has a positive and significant effect on the performance of small businesses, but does not have a significant effect on the ability of innovation. The ability of innovation has a positive and significant effect on the performance of small businesses.

This study has several limitations which are purposive sampling that weaken the power of generalization, and generalization that must be done carefully. This study relies on a limited scope of settings that have an impact on the generalization of models that are in condition. Therefore, careful application is needed to apply studies to different settings to look at the background profile of the variable underlying the test. This is needed to avoid problems occurred to the test results that have an impact on the formulation of the suggested company policies.

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