

# Intellectual Capital and Strategi Flexibility Effect the Performance Companies in Small and Medium Enterprises (Smes) in Malang-Indonesia

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## ABSTRACT

**Objective:** This study for the development of empirical studies on knowledge-based economy on SMEs using knowledge efficiently, increasing the company's potential to support competitive advantage. The development of intellectual capital for the company to create added value for consumers and product value creation as the success of the company's performance by Resource-Based Theory (RBT) and the improvement of public welfare through the empowerment of SMEs. Intellectual capital and strategic flexibility affect the performance companies in SMEs in Malang-Indonesia.

**Design/Methods:** Research was conducted in small and medium enterprises (SMEs) creative industry located in the district and the city of Malang that supervised by Department of Micro, Small and Medium Enterprises (SMEs) Malang in 2015, the number were identified are 113 business units. The analysis used in this study is the SEM-PLS using WarpPLS.

**Research Results:** These results indicate that the effect from intellectual capital significant to a company performance and influence strategic flexibility. The study explained that strategic flexibility significant to the company performance. Management and empowerment of intellectual capital owned SMEs (human capital, structural capital and relational capital) have an effect on the achievements of the company's performance. The better the intellectual capital demonstrating proficiency in selecting and implementing strategies and determine the shape of the company's ability to respond to the needs of each customer so that will determine the course of business success. The results of this study can not be applied in general.

**Keywords:** Intellectual Capital, Strategic Flexibility, Performance Companies, SMEs in Malang Indonesia

## INTRODUCTION

Ability of Small and Medium Enterprises (SMEs) to survive, grow and develop is measured by the performance of the SMEs (Nelson and Coulthard, 2005; Samir and Larso, 2011). The company's competitive ability is the core success or failure of the company (Rumelt, 1984; Porter, 2008), this is a changing business environment. Competition has a dynamic structure, any time is always changing and difficult to predict, companies need to establish an effective and efficient strategy.

Intellectual capital for companies has a key position in improving the performance (Bontis and Serenko, 2009; Bontis, 2010), support research reveals that the intellectual capital affect the performance of the company (Chen, Cheng and Hwang, 2005; Murthy and Mouritzen 2011). SMEs face obstacles to the development of its business, in the form of internal factors and external factors, including government policies.

Development of the company's intellectual capital to create value products offered and the effect on the performance of the company (Belkaoui, 2003; Murthy and Mouritsen,

The environmental changes that occur must be immediately addressed the company through increased competition analysis and increased innovation, as a consequence of entrepreneurship is the interaction between human capital and social capital, affect the performance (Bontis, Keo, and Richardson. 2000; Loucks, Martens and Cho 2010; Gutierrez, Guzma, Uribe and Barera, 2012). The results of the study explained that intellectual capital is not always a positive impact on performance (Kotey and Meredith, 1997). The results also expressed a positive relationship between intellectual capital and performance is influenced by many factors, such as innovation, design a unique organization, market conditions, changes in technology (Chen, 2005; Chong, 2008; Frank, Kessler and Fink, 2010, Grunstrom, Oberg and Ronnback, 2012).

Implementation of entrepreneurial strategies companies must have the courage to implement measures such as: risk taking (risk taking), innovativeness, proactiveness, autonomy (autonomy) and the aggressiveness of the competition (competitive aggression) and as a factor of business success. Flexibility strategy is the organization's ability to identify the main changes of the external environment, such as the introduction of technology, to speed up the response and adapt to change through the commitment of their resources (Frambach, Prabhu and Verhallen, 2003; Combe and Greenley, 2004; Shimizu and Hitt, 2004; Combe, Rudd, and Greenley Leeflang, 2012).

The company's performance is influenced by environmental factors, business strategies and performance is the flexibility of use of Intellectual capital companies proposed by Barney, 1991; Porter, 2008; Tasthan, 2013. By contrast, SMEs which have the managerial capabilities and the ability to identify market opportunities are low, due to low intellectual capital (Ardiana, Brahmayanti, Subaedi, 2010).

SMEs have the creative industry covers four areas of business, namely the field of food processing business, business clothing and leather producer, field producer enterprises chemical and building materials as well as the business field of metals, handicrafts and leather. Based on the number of centers and the number of business units suggests that the sector is the dominant sector which is owned by Regency/city of Malang.

The purpose of this study to determine the effect of intellectual capital, strategic flexibility to company performance. The results of this study are expected to provide ideas for the management of SMEs in improving the performance impact on the creation of competitiveness, and the critical success factors of SMEs. The benefits for the government may be to develop empowerment programs for creative industries SMEs that have an impact on improving the welfare of society.

## **THEORETICAL FRAMEWORK AND HYPOTHESES**

### **Intellectual Capital**

The concept of intellectual capital for the company as a factor increasing the sources of income and long-term intangible assets (Ahuja and Lampert, 2001; Liu, Manolova and Edelman, 2009; Cater and Cater 2009; Herremans, Kline and Nazari, 2011). Intellectual capital consists of knowledge, expertise, financial resources, operational strategy and good relationships with stakeholders influential in improving corporate performance. According Choo and Bontis, 2002, Santarelli and Tran, 2013, explaining that the intellectual capital in the form of human capital (HC) and structural capital (SC) and relational capital (RC). Human capital is the knowledge of the capabilities of employees to support the tasks of employees in achieving goals. Structural capital is a non-human knowledge within the company.

Management structural capital comprise organizational capital and technological capital. Interest achieve competitive advantage through the exploitation of organizational structures and processes binis. Relational capital is the company's relationships with external parties, such as research cooperation with other departments or other units of both formal and informal (Yu, 2012; Combe, 2012). Position and function relational capital for companies is to maintain services and keep good relationship with the customer, providing more value to the services (Zahra, 1993; Wiklund and Shepherd, 2005; Ferreira and Azevedo, 2007).

### **Flexibility Strategy**

Strategic flexibility as the ability of the company to the external environment on corporate resources (Young, Sapienza and Baumer, 2003; Shimizu and Hitt, 2004 Weerdt, Verwaal and Volberda, 2006; Asikhia 2010) and internal environment on the company's ability to improve the strategy predefined (Asikhia, 2010; Tan and Wang, 2010).

The model's assumptions based Resource Based View (RBV) that every organization is a set of unique resources and capabilities that are fundamental to the strategy and the main source of corporate profits. Optimization of strategic resources and harmonization strategy is a step the company that should be implemented in order to achieve good performance (Aaker and Mascarenhas, 1984; Barney, 1991) and explore resources efficiently and effectively to maintain a competitive advantage (Lei, Hitt and Goldhar 1996; Shimizu and Hitt, 2004).

### **The Company's Performance**

The company's performance small and medium enterprises using performance measurement in the form of hybrid approach that combines financial and non-financial performance (Chong, 2008). Studies conducted by Bititci et al., 2000, explains

that the company's performance is determined by the level of sales, cost of sales, brand image and fixed assets owned by the company.

The company's performance was also measured from a business unit of the brand and business unit of the contract. According to research by SME performance measured by financial performance and non-financial performance. Financial performance include the Return on Investment (ROI); Return on Equity (ROE) and non-financial performance consists operational performance, the external perception of the company (eg, customer) and cultural aspects.

### **Relationship of Intellectual Capital and Corporate Performance**

Intellectual capital plays a role in improving corporate performance primarily to increased competitiveness (Bontis, 1998; Khaliq and Shaari, 2013), or to have a competitive advantage (Barney, 1991; Bontis et al. 2000; Barney and Haster, 2015), and to improve prosperity for companies and shareholders (Hsu and Fang, 2009).

### **Relationship Intellectual Capital and Flexibility Strategy**

Relations intellectual capital with strategic flexibility is divided into three categories (1). economic perspective the organization (2). perspective resource (resource- based view) (3). evolution or dynamic perspective on strategy (Hamel, et. al., 1998; Grant, 2010).

### **Flexibility Relations Strategy and Corporate Performance**

According to Resource Based Value Theory, that the strategic flexibility to evaluate the strengths and weaknesses of resources and capabilities, and establish the strategy. There is a relationship between organizational structure, strategy and corporate performance (Hoskisson et al., 1993; Hill and Jones, 2010;108;). This concept is a decision-making process based on consideration of factors external and internal environment. The results show the relationship between the environment with the company's strategy (Rumelt, 1984, Porter, 1987; Barney and Haster, 2015;). He also explained that the flexibility of the strategy is an effective way in which businesses can protect the values of the company against environmental uncertainty and change that is rapidly changing. Their new concerns in the small and medium businesses that can not compete in the long term (Chan et al., 2002; Ferreira et al., 2007; Gark and Weele, 2012).

## **HYPOTHESIS**

### **Effect of Intellectual Capital and Company Performance**

Intellectual capital plays an important role in today's business where knowledge and information is a key element for the development and success of the company's business relationship between the company's intellectual capital and firm performance has been studied by Bontis et al. 2000, Bontis, 2010, concluded that the uncertainty for businesses and business competition is the problem of small and medium enterprises (Burr and Girardi, 2002; Cheng, et al., 2010). Knowledge-based economy requires SMEs to use their knowledge and boost innovation potential (Sveiby, 1997; Tajudin, Moses, and Moses, 2012). Dimensions of innovation, risk-taking and proactive measures, significantly influence the company's performance. Based on the explanation, the research hypothesis is stated as follows:

Hypothesis 1: Increased intellectual capital will affect the increased performance of the company.

### **Effect of Intellectual Capital and Flexibility Strategy**

Intellectual capital as a strategic resource company and supporting the successful establishment of the strategy and implementation of the strategy (Choo and Bontis, 2002). Empowerment strategic resource companies will determine the future better and able to adapt to changes in business environment (Barney, 1991; Bontis et al, 1999; Williams, S. M. 2001; Hill and Jones, 2010). Sa knowledge resource control as the basic ability of the company and a strategic element in managing business performance and continuous innovation (Simon, et al., 2011).

Management involvement in planning strategies for understanding to ensure that the strategic planning process implemented kompehensif. Companies that implement the strategic planning process has a better performance compared to companies that do not implement the strategic planning process. Based on the explanation, the research hypothesis is stated as follows:

Hypothesis 2: The increasing intellectual capital significantly influence strategic flexibility.

### Effect on Strategic Flexibility and Company Performance

Flexibility strategies and performance of the company has done previous research, the results of empirical studies show significant effect on the market orientation of the company's performance (Wiklund and Shepherd, 2005; Naldi et al, 2007; Hui Li et al, 2008). SMEs have to choose the right innovation and synergy between business components with the ability of companies (Hamel et al, 1998; Lubatkin et al, 2008; Combe, 2012). Some forms of strategic flexibility with regard to the concept of strategic management, strategic orientation, and market orientation. SMEs must have a strategy that is flexible and diverse. The results of the Laukkanen, 2013, explained that the strategic flexibility as a strategy of information into data and strategic information for decision making and look for opportunities in the future. Based on the explanation, the research hypothesis is stated as follows:

Hypothesis 3: Flexibility strategies significantly influence company performance.

Description Figure 1:

No. 1 = Sveiby, 1997; Bontis et al. 2000, Burr and Girardi, 2002; Cheng, et al., 2010; Bontis, 2010; Tajudin, Moses, and Moses, 2012

No. 2 = Barney, 1991; Sveiby, 1997; Bontis et al, 1999; Williams, S. M. 2001; Hill and Jones, 2010; Simon, et al., 2011;

No. 3 = Hamel et al, 1998; Wiklund and Shepherd, 2005; Naldi et al, 2007; Hui Li et al, 2008; Lubatkin et al, 2008; Lee, Shin and Park, 2011; Combe, 2012.

### METHODOLOGY

Methodology will be discussed in the terms of measurement instrument, sampling and data analysis. This study uses a quantitative approach to developing the proposed hypothesis testing, measurement and observation, as well as to test a theory (Creswell, 2003). Research was conducted on small and medium businesses are located in the district and the city of Malang in 2015. The number of Small and Medium Enterprises has been identified as many as 113 business units. This amount consists of small and medium enterprises engaged in the convection unit, food/chips, bags/shoes, sanitair/ceramics, crafts.

### Population and Sample

Criteria for the population of small and medium enterprises which are: 1). Registered and have a business license in the Ministry of Industry and Trade in Malang; 2). Processing fields, namely small and medium enterprises that produce products. 3). Having two or more permanent employees, 4). Location and means that can be observed by researchers, 5). Stay afloat and in production for the last 3 years. Based on the criteria of population, SMEs and craft centers of convection in Malang who meet these criteria were 68 SMEs spread across districts in Malang. Determination of samples commonly called saturated sample or census.

### Data Collection Methods

This study uses primary data and secondary data. Primary data was collected by distributing questionnaires to the respondents, namely the company smash through the owners or managers of SMEs, based on the research instrument. While the secondary

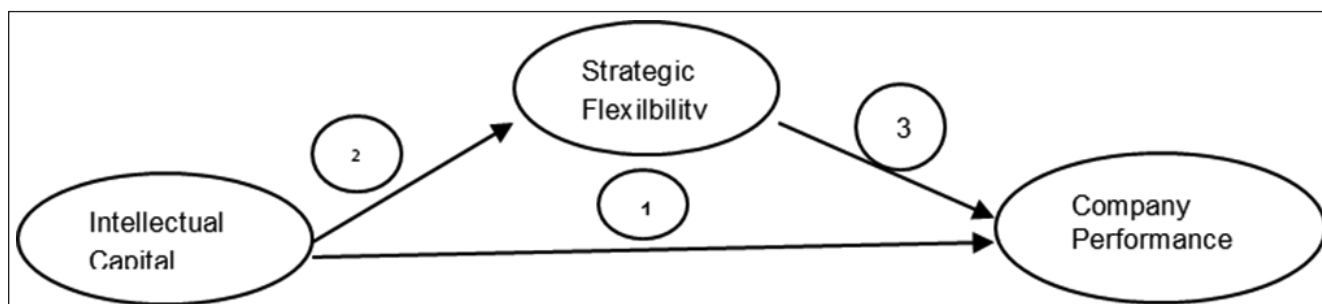


Figure 3: Research Conceptual Framework

data obtained through the Department of Industry, Trade and Cooperatives in Malang 2015, in charge of small and medium enterprises, the Central Bureau of Statistics, as well as other related institutions.

### **Operational Definition of Variables**

#### ***Intellectual capital (X1);***

Intellectual Capital (IC) is an intangible asset that provides value to the company as a new resource for competitive advantage (Bontis and Richardson, 2000; Choo and Bontis, 2002). In general, the researchers identified three main constructs of the IC, namely: human capital (HC), structural capital (SC), and customer capital (CC) or relational capital (RC).

##### **a. Human Capital (HC) (X1.1)**

Human capital associated with the knowledge of human resources and benefits provided to the company. Results of research by Bontis and Serenko, 2009; Santarelli and Tran, 2013; management and human resource empowerment to maintain a competitive advantage that is: toughest of recruits, selection, formal and informal training and extensive involvement.

##### **b. Structural Capital (SC) (X1.2)**

Structural capital as knowledge perusahaan, routine activities of the company, processes, new technologies, licensing (Amit and Schoemaker, 1993). SC supports the efficiency and effectiveness of activities and improve the welfare of the company and to meet consumer needs. Khalique and Shaari, 2013, dividing the SC, namely organizational capital and technological capital. Organisational capital in the form with all aspects relating to the organization and policies of the organization, while the technological capital is defined as intangibles assets are integrated to produce and develop products and services.

##### **c. Relational Capital (RC) (X1.3)**

Relational capital (RC) or consumer capital (CC) is the organization's relationship with external parties and relations with the public (Moon and Kim, 2006). RC management are divided into four groups: customers capital, capital suppliers, shareholders capital and community capital and the four so-called stakeholders capital (Mageza, 2004; Marr; schiuma and Neely, 2004).

### **Flexibility strategy (Y1)**

Thinking about the capabilities, resources and opportunities that are still open in the economic environment (Barney and Haster, 2015), where management through the structure of the organization will analyze the strategies that will be linked to performance, (Rumelt, 1984; Chan et al., 2002; Ferreira et al., 2007; Gark and Weele, 2012). In this study, the dimensions of the strategy based on the concept by Shimizu and Hitt, 2004, comprising the level of attention, assessment and organization's ability to demonstrate a flexible action.

### **Company Performance (Y2)**

The model proposed by Lumpkin and Dess, 1996; Chong, 2008, identifies performance measurements including profitability, sales growth, market share, the overall performance and satisfaction of stakeholders.

### **Test Instruments Research**

Data were obtained from questionnaires and open interviews were prepared in accordance with research instruments. questionnaires were compiled using a Likert scale of 5, ie (5) Strongly Agree; (4) Agree; (3) Self Agree; (2) Strongly Disagree; (1) Disagree (have now and Bougie, 2010). Further test the validity and reliability testing, where test validity; done by correlating the score of each of the questions with a total score as the sum of all scores of the questions by using product moment correlation technique. Test Reliability; to measure the size of the internal consistency indicator variable. The research instrument said to be reliable if the Cronbach Alpha > 0.60. Data analysis method; using descriptive analysis and inferential analysis method. Data analysis method is Structural Equation Model- SEM-PLS using WarpPLS program 5.0.

## **RESEARCH RESULT**

Micro, Small and Medium Enterprises (SMEs) and cooperatives are of superior quality and are ready to compete in local and international are all in Malang, consisting of creative industries such as crafts, services, processed food, clothing, and others. Total sample of 68 companies.



## Characteristics of Respondents Research

Characteristics of respondents in this research instrument ie age, sex, length of lead SMEs.

### Description of Research Variables

Description of the study variables aims to determine the frequency distribution of respondents' answers to a questionnaire distributed and describe in depth variable intellectual capital, competitive strategy and business performance. The frequency distribution obtained from the tabulation of scores of respondents.

### *Human capital*

Human capital is the organization's resources and assets related to the company to support and encourage the dynamics of value creation over time. Human capital is measured by four indicators, namely professional competence, social competence, motivation and leadership. Description votes more respondents are presented in Table 5.2. following:

**Table 1: Characteristics of respondents**

No.	Respondents characteristics	Amount (people)	Percentage (%)
1	Gender		
	Man	2	2,94
	Women	64	94,12
	Total	68	100
2	Age		
	20–30 years old	4	5,88
	31–40 years old	34	50,00
	41–50 years old	25	36,76
	> 50 years ols	5	7,35
Total	68	100	
3	Education		
	Elementary school	8	11,76
	Middle school	13	19,12
	High school	28	41,18
	Bachelor degree	11	16,18
Total	68	100	
4	Existence		
	1-5 years	15	22,06
	6-10 years	35	51,47
	11–15 years	11	16,18
	16–20 years	6	8,82
	> 20 years	3	4,41
Total	68	100	
5	Labor		
	2-5 employees	51	75,00
	6-10 employees	10	14,71
	11-15 employees	4	5,88
	> 15 employees	3	4,41
Total	68	100	
6	Initial capital		
	Owner's equity	39	57,35
	Family	11	16,18
	Bank/another institution	18	26,47
Total	68	100	

Sources: Primary data is processed, 2015

### **Structural capital**

Structural capital shows the composition of the organizational structure that leads to the creation of knowledge and the development and diffusion of knowledge (Pablos, 2005; Wang and Chan, 2008; Hsu and Fang, 2009; Halim, 2010).

### **Relational capital**

Relational capital includes all the relationships the company has established with stakeholder groups such as customers, suppliers, partners, government.

### **Flexibility strategy**

Flexibility strategies of companies will adjust strategic policies that have been designed with the environment that is dynamic and will change when the strategy is not considered relevant to the environment encountered. Flexible strategy is also described and studied by several researchers such as Sanchez (1995); Volberda (1996); Hitt, et al (1998); Combe and Greenley (2004); Matthyssens (2005); Zhou and Wu (2010).

### **Performance company**

The company's performance is an overview of the implementation of an activity level of achievement in realizing the goals, objectives, mission and vision of the company as stipulated in the formulation of strategic schemes (strategic planning) of a company.

**Table 2: Perception of respondents against human capital indicators**

Variable indicator	Item	Answer frequency (f) and percentage (%)										Average (mean)
		STS (1)		TS (2)		N (3)		S (4)		SS (5)		
		F	%	F	%	F	%	F	%	F	%	
Recruitment (X1.1)	X1.1.1	0	0	4	5.9	15	22.1	29	42.6	20	29.4	3,96
	X1.1.2	0	0	5	7.4	22	32.4	33	48.5	8	11.8	3,65
	Recruitment indicator average X1.1											3,80
Training and development (X1.2)	X1.2.1	0	0	5	7.4	18	26.5	29	42.6	16	23.5	3,82
	X1.2.2	0	0	7	10.3	23	33.8	20	29.4	18	26.5	3,72
	Training and development indicator average X1.2											3,77
Broad engagement (X1.3)	X1.3.1	0	0	9	13.2	33	48.5	16	23.5	10	14.7	3,40
	X1.3.2	0	0	15	22.1	21	30.9	28	41.2	4	5.9	3,31
	X1.3.3	0	0	9	13.2	17	25.0	31	45.6	11	16.2	3,65
	X1.3.4	1	1.5	8	11.8	19	27.9	25	36.8	15	22.1	3,66
	X1.3.5	0	0	14	20.6	19	27.9	18	26.5	17	25.0	3,56
Broad engagement indicator average X1.3											3,51	
Variable average X1											3,69	

Source: Data processed in 2015

**Table 3: Perception of respondents against capital structural indicators**

Variable indicator	Item	Answer frequency (f) and percentage (%)										Average (mean)
		STS (1)		TS (2)		N (3)		S (4)		SS (5)		
		F	%	F	%	F	%	F	%	F	%	
Organization's capital (X2.1)	X2.1.1	0	0	7	10.3	16	23.5	28	41.2	17	25.0	3,81
	X2.1.2	0	0	11	16.2	23	33.8	23	33.8	11	16.2	3,50
	Organization capital indicator average X2.1											3,66
Technology's capital (X2.3)	X2.2.1	0	0	21	30.9	24	35.3	19	27.9	4	5.9	3,09
	X2.2.2	0	0	7	10.3	15	22.1	35	51.5	11	16.2	3,74
	X2.2.3	0	0	6	8.8	23	33.8	28	41.2	11	16.2	3,65
Technology capital indicator average X2.3											3,49	
Variable average X2											3,57	

Source: Data processed in 2015

Creative industries market performance of SMEs based on the perception of respondents included both categories with an average value of 3.95. The items are predominantly sales volume growth in 3 years increased while customer served while growth in 3 years increased as well, although not as big as the development of sales.

**Table 4: Perception of respondents against relational capital indicators**

Variable indicator	Item	Answer frequency (f) and percentage (%)										Average (mean)
		STS (1)		TS (2)		N (3)		S (4)		SS (5)		
		F	%	F	%	F	%	F	%	F	%	
Relationship with customers (X3.1)	X3.1.1	0	0	7	10.3	24	35.3	29	42.6	8	11.8	3,56
	X3.1.2	1	1.5	6	8.8	18	26.5	37	54.4	6	8.8	3,60
	Relationship with customers indicator average X3.1											3,58
Relationship with producer (X3.2)	X3.2.1	0	0	4	5.9	12	17.6	29	42.6	23	33.8	4,04
	Relationship with producer indicator average X3.2											4,04
Relationship with partner (X3.3)	X3.3.1	0	0	5	7.4	11	16.2	24	35.3	28	41.2	4,10
	Relationship with partner indicator average, X3.3											4,10
Relationship with communities (X3.4)	X3.4.1	0	0	6	8.8	10	14.7	24	35.3	28	41.2	4,09
	Relationship with communities indicator average X3.4											4,09
Variable average X3											3,95	

Source: Data processed in 2015

**Table 5: Perception of respondents against flexibility indicators strategy**

Variable indicator	Item	Answer frequency (f) and percentage (%)										Average (mean)
		STS (1)		TS (2)		N (3)		S (4)		SS (5)		
		F	%	F	%	F	%	F	%	F	%	
Concern (Y1.1)	Y1.1.1	0	0	6	8.8	11	16.2	16	23.5	35	51.5	4,18
	Y1.1.2	0	0	6	8.8	15	22.1	15	22.1	32	47.1	4,07
	Concern indicator average Y1.1											4,12
Appraisal (Y1.2)	Y1.2.1	0	0	11	16.2	13	19.1	12	17.6	32	47.1	3,96
	Y1.2.2	0	0	7	10.3	11	16.2	18	26.5	32	47.1	4,10
	Appraisal indicator average Y1.2											4,03
Action (Y1.3)	Y1.3.1	0	0	8	11.8	19	27.9	29	42.6	12	17.6	3,66
	Y1.3.2	0	0	6	8.8	13	19.1	36	52.9	13	19.1	3,82
	Action indicator average Y1.3											3,74
Variable average Y1											3,96	

Source: Data processed in 2015

**Table 6: Perception of respondents against performance indicators SMEs**

Variable indicator	Item	Answer frequency (f) and percentage (%)										Average (mean)
		STS (1)		TS (2)		N (3)		S (4)		SS (5)		
		F	%	F	%	F	%	F	%	F	%	
Profitability (Y2.1)	Y2.1.1	0	0	3	4.4	15	22.1	31	45.6	19	27.9	3,97
	Y2.1.2	0	0	4	5.9	12	17.6	33	48.5	19	27.9	3,98
	Profitability indicator average Y2.1											3,97
Selling level (Y2.2)	Y2.2.1	0	0	5	7.4	14	20.6	26	38.2	23	33.8	3,98
	Y2.2.2	0	0	4	5.9	17	25.0	25	36.8	22	32.4	3,95
	Selling level indicator average Y2.2											3,96
Growth (Y2.3)	Y2.3.1	0	0	5	7.4	11	16.2	28	41.2	24	35.3	4,04
	Y2.3.2	0	0	5	7.4	21	30.9	22	32.4	20	29.4	3,83
	Growth indicator average Y2.3											3,94
Variable average Y2											3,95	

Source: Data processed in 2015



**Table 4: Test analysis mediation with variable flexibility strategy**

Variable correlation	Direct effect		Indirect effect	Total effect	Explanation
	(β)	P-values			
Human capital → SMES <sup>(a)</sup> performance	0.192	0,04**	0.213	0.259	Significant
Capital structure → SMES <sup>(a)</sup> performance	0.202	0,04**	0.318	0.242	Significant
Relational capital → SMES <sup>(a)</sup> performance	0.120	0.15	0,274	0.170	Not significant
Strategy flex → SMES <sup>(a)</sup> performance	0.216	0,03**	-	0,216	Significant
Human capital → strategy flex <sup>(c)</sup>	0.310	0,01***	-	0.310	Significant
Capital structure → strategy flex <sup>(c)</sup>	0.186	0,05**	-	0.186	Significant
Relational capital → strategy flex <sup>(c)</sup>	0.235	0,02**	-	0.235	Significant

\*\*Significant in level 5%, \*\*\*Significant in level 1%, Source: processed WarpPLS, 2015

**Table 5: Test results analysis mediation without variable flexibility strategy**

Variable correlation	(β)	P-values	Explanation
Human capital → SMES <sup>(b)</sup> performance	0.244	0,02**	Significant
Capital structure → SMES <sup>(b)</sup> performance	0.237	0,02**	Significant
Relational capital → SMES <sup>(b)</sup> performance	0.205	0.04**	Significant

\*\*Significant in level 5%, \*\*\*Significant in level 1%, Source: Processed WarpPLS, 2015

### Analysis and Evaluation Model with WarpPLS

This study uses analysis tools Structural Equation Modeling SEM-PLS with WarpPLS Program 5.0. Variance or component is based Structural Equation Modeling (WarpPLS) was used to test the hypothesis.

The following are the results of the evaluation of the measurement model (outer model) and the structural model (inner model).

### Evaluation of Structural Model (Inner Model)

#### a. The coefficient of determination (R2) and Q-squared

Evaluation of structural models next to see Q-squared value (Q2). Based on the value of the Q-squared variable business strategy at 0.602. Contribution of exogenous variables include human capital, structural capital, capital relational, the business strategy of endogenous variables in the research model by 60.8% so that the model has predictive value relevance or level of accurate predictions for Q-Squared > 0. Furthermore, Q-squared value of the variable performance of SMEs amounted to 0.573. The figure can be interpreted that the model feasibility study has a value of 57.3%.

#### b. effect sizes.

## DISCUSSION

The results of this study indicate that intellectual capital significant effect on company performance. The results of this study explained that the better management and empowerment of SMEs owned intellectual capital (human capital, structural capital and relational capital) effect on increasing the performance of the company that will determine the course of business success. This reinforces the findings of the study Ngah, and Ibrahim, 2009, where human capital, structural capital and relational capital affect the performance of the company. Intellectual capital is an area that will move society in enhancing creativity, ideas and skills, and intellectual capital as a driver of innovation and technology for SMEs (Hitt, et al., 2009; Grunstrom et al., 2012)

Intellectual capital significantly influence strategic flexibility. These results explain that the better management and intellectual capital owned empowerment of SMEs, the easier the company implemented strategic flexibility. The better the intellectual capital owned SMEs, the ability to select and implement a form of strategy and determine the company's ability to respond to the needs of each customer. These findings also reinforce the results of Johnson, et al., 2003; stated that in order to gain competitive advantage, SMEs must implement strategies flexibly. SMEs in Malang has made a good effort in implementing the management and development of indicators of intellectual capital is human capital, structural capital and relational capital used as a basis for formulating business strategies and the implementation of strategies flexibly. Intellectual Capital has the ability

to strengthen the basis of the implementation of strategic flexibility, the concept of innovation and has the capacity to identify business opportunities (Combe, 2012).

The results of this study could prove that the relationship of intellectual capital, strategic flexibility, and company performance. Although the total effect of these relationships have a smaller value than the direct influence of intellectual capital, strategic flexibility, and company performance.

## Conclusion and Recommendation

Improved performance of SMEs affected by the role of businessmen understand the company's intellectual capital, structural capital is an important indicator on the performance of SMEs. While HR is the lowest indicator in showing support for the performance of SMEs. Attention owners of SMEs in managing and empowering intellectual capital on a more flexible operational activities. Intellectual capital affect the strategic flexibility, particularly on competitiveness. Flexibility strategies affect the performance of the company, providing answers that the rate of profit, income level, and the effort is always increase.

Owners SMEs need to understand the intellectual capital in maintaining competitiveness, increase profitability, enhance the growth and welfare of employees. Management SMEs need to build community relations, especially to the government, partnerships with suppliers and industry. Improved knowledge for innovation, proactive behavior and courage in business risk supported increased capacity and skills of employees. Flesibilitas creation strategies can be more easily adjust the dynamics of the business environment, government policy support to improve corporate performance, especially in the competitiveness and marketing of products.

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