



The Effects of Intellectual Capital, Strategic Flexibility, and Corporate Culture on Company Performance: A Study on Small and Micro-Scaled Enterprises (SMEs) in Gerbangkertosusila Region, East Java

Hardi Supeno^{[a],*}; Made Sudharma^[a]; Siti Aisjah^[a]; Arsono Laksmana^[b]

^[a]Brawijaya University, Indonesia.

^[b]Airlangga University, Indonesia.

*Corresponding author.

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Abstract

The purpose of this study was to examine and analyze the correlation among intellectual capital, strategic flexibility, corporate culture, and company performance. Intellectual capital was assessed through human capital, structural capital, and relational capital while strategic flexibility was determined by several variables, including attention, assessment, and action. Meanwhile, corporate culture was determined by several variables, namely adhocracy culture, clan culture, hierarchy culture, and market culture. This study was conducted based on positivism paradigm applying quantitative research approach. This study applied explanatory survey method. The unit of analysis used in this study was Small and Micro-scaled Enterprises (SMEs) running food industry in Gerbangkertosusila region, East Java Province consisting of 250 SME owners and managers as respondents in this study. The primary data were collected through questionnaire. The data were analyzed using Structural Equation Model with Partial Least Square (SEM-PLS).

The result of descriptive analysis on human capital aspect of SME managers indicated that the managers accommodated new ideas proposed by their employees while the result of analysis on structural capital implied the importance of mass media in delivering information regarding their products towards their customers and relational capital was maintained by building a harmonic relationship with the society. The result of analysis on strategic flexibility variables indicated that attention aspect was focused on routine and mutually

positive decisions; assessment aspect was focused on concerning the employees; and action aspect was focused on responses against ever-changing situation as the challenge for the SMEs. Meanwhile the analysis on corporate culture resulted in maintaining healthy working environment as the focus of clan culture aspect while the result of adhocracy aspect of corporate culture indicated encouragement to develop creative thinking as its focus and hierarchy culture was intended to evaluate the standards of operational procedures while market culture was oriented on evaluating the profits gained by the SME. The result of examinations on the hypotheses of this study proved that intellectual capital, strategic flexibility, and corporate culture significantly affected company performance. These three variables would improve the competitiveness and performance of the company as long as these variables were optimally managed.

As the practical significance of this study, this study was expected to provide information for SME owners (and managers) regarding the importance of intellectual capital, flexible strategy, and corporate culture to improve company performance and competitiveness. The information could be used in preparing the internal factors of SME (i.e. intellectual capital, flexibility of strategy, and corporate culture) to improve performance and competitiveness of the company.

Key words: Intellectual capital; Flexibility of strategy; Corporate culture; Performance

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INTRODUCTION

Background of the Study

Small and micro-scaled Enterprises (SMEs) have become the motor of economic growth in developing countries. SMEs also play its role in improving employment, as source of national income, and as the place where technological innovations applied (Kotey & Meredith, 1997). Similarly, Indonesian economic growth cannot be separated from the contributions of real sector and SMEs. According to the data released by Statistics Indonesia (*Biro Pusat Statistik/BPS*) in 2014, the real sector and SMEs had contributed 57.90% of Indonesian Gross Domestic Product (GDP) and 7.72% of employment in Indonesia (BPS, 2014). However, there are several issues need to be overcome in developing SMEs in Indonesia, namely: intellectual capital, strategic flexibility, and corporate culture. The limitation of SMEs managers in collecting business information and data has caused *asymmetric information*. To overcome this condition, SMEs managers should be able to utilize intellectual capital, implementing flexible strategy within the company, and developing a positive corporate culture. Another issue faced by SMEs in Indonesia is dynamic development of global business (Loucks, Martens & Cho, 2010) including ASEAN Economic Community (AEC) which is going to be launched in 2015. SMEs require strategic resources in order to improve its performance and competitiveness. Knowledge is one of vital strategic resources for both individuals and companies (Lev, 2001; Mageza, 2004) which becomes the motor of business development (Marr, Schiuma & Neely, 2001). One of the approaches used in measuring knowledge asset is intellectual capital (IC) (Petty and Guthrie, 2000). Yet, the most precise method in measuring IC is still under development (Chen, Cheng & Hwang, 2005). Pulic (1998) proposed indirect method in measuring IC by measuring the efficiency of company's added value as the result of intellectual capital.

In anticipating dynamic business competition, SMEs should be able to improve its flexibility in order to quickly respond the ever-changing situation. SMEs flexibility refers to an ability to adapt with ever-changing and unexpected situations. This ability is implemented through business optimization by improving operational efficiency (Eisenhardt et al., 2000). SMEs should also be able to respond the needs and expectations of the customers, overcome the existing challenges in business competition, and to develop and implement strategies which support quick response and decision making (Mardiyah & Gudono, 2000). SMEs are also expected to own mass customization ability, be innovative, to control management, and to perform effective and efficient response (Volberda, 1997). Considering the nature of SMEs as simple structured company, SMEs are expected to be able to implement its strategies quickly because flexibility is closely associated with small-

scaled companies (Miller & Friesen, 1983). Based on this explanation, the writers assume that strategic flexibility could directly affect the performance of SMEs.

With strong positive culture, it is easy for SMEs to implement effective and efficient process. In general, culture is defined as a set of value, beliefs, philosophical views and symbols which determine the way of a company operates its business (Barney, 1986). Corporate culture correlates with and affects the performance of a company (Schein, 1992). Regarding resource based view of a company, Barney (1992) stated that strategy as one of attributes of culture correlated with and affected the focus of strategy and develop effective strategies to improve company performance. The characteristics of corporate culture which is successfully improve company performance require SME managers to be innovative and eager to take any risks, analyze the situation accurately and attention towards the detail, result-oriented, making the decisions carefully, group-oriented, proactive, maintaining stability of profit improvement, and developing creative ideas.

This research was conducted in center of SMEs producing foods and snacks in *Gerbangkertosusila* region, East Java Province. Based on data released by Statistics Indonesia (*Biro Pusat Statistik/BPS*), there were 782 SMEs producing foods and snacks in the region (BPS, 2012). This great number of SMEs requires a great concern. The main issues faced by the SMEs are their inability to optimize their intellectual capital resulting in inability to optimally implement flexible strategy and their inability to optimally develop creative, innovative, and adaptive culture resulting in their poor performance. This poor performance is mainly caused by SMEs' limited financial capital, lacking of skilled human resources, and access on technology.

Research Questions

Based on background of the study above, the research questions proposed in this study are:

1. Does Intellectual Capital (IC) correlate and affect performance of the SMEs?
2. Does Intellectual Capital (IC) correlate and affect strategic flexibility practiced by the SMEs?
3. Does Intellectual Capital (IC) correlate and affect corporate culture of the SMEs?
4. Does strategic flexibility practiced by the SMEs correlate and affect its performance?
5. Does strategic flexibility practiced by the SMEs correlate and affect its corporate culture?
6. Does corporate culture of the SMEs correlate and affect its performance?

1. LITERARY REVIEW

1.1 Resource-based View (RBV)

The resource owned by a company is heterogeneous

rather than homogeneous. Available productive services come from company's resources and become specific characteristics of the company (Barney, 1986). In order to achieve continuous competitive advantage and best performance for the SMEs, the resources are expected to meet two criteria: first, the resources should be unique and difficult to imitate and second, the resources should be impossible to be substituted by its alternatives. Barney (1991) classified resources into three groups. They are physical resources (including technology, factory, machines, and equipment owned by the company), human resources (including skills, experience, and knowledge), and organizational resources (i.e. formal structure of the company). Every single SME is equipped with a set of unique resources serves as the basis of developing strategies and as the means to gain profits.

RBV model is a method intended to analyze and identify strategic advantages owned by a company based on its capitals, capability, performance, and culture of a company. RBV sees the company's capitals, capability, and performance as the basis in developing and determining the best strategies based on its essential competency. The strategies are used in business competition namely used to find new business opportunities. However, not all resources own equal potentiality to sustain continuous competition. Some experts argued that some resources were more potential in creating advantages in continuous competition (Hitt et al., 1997).

1.2 Intellectual Capital (IC)

Based on the review of Resource Based Theory above, it seems that Intellectual Capital (IC) had met the pre-requirements of unique resources which became competitive advantages composing the values of the company (Barney, 1991). Recent changes do not only rely on physical assets but also non-physical assets (i.e. information and knowledge). Recent changes are also affected by investment on both physical assets and non-physical assets (Lev, 2001). IC includes in non-physical assets owned by SMEs. Therefore, IC becomes the focus in creating the values of a company and making IC one of strategic assets owned by a SME (Brooking, 1997). As a strategic asset used to create continuous competitiveness, IC has met the following criteria: valuable, rare, imperfectly imitable, and non-substitutable. Hence, IC had met the criteria of unique resources used to create the values of a company based on Resource-Based Theory (Barney, 1991).

IC becomes the main asset which determines the success of a company in business competition (Bontis & Serenko, 2009). This asset lies on the skills owned by the employees, machine and equipment potentiality, ability to add value for the customers, ability to build a good relationship with the suppliers, and ability to benefit the society (Chen et al., 2005; Bontis, Keow, & Richardson, 2000). IC is defined as knowledge on production process

within a company (Stewart, 2007), an ability to create and develop new ideas, ability implement technological innovations, and as an ability to improve performance and competitiveness (Bontis & Serenko, 2009).

1.3 Strategic Flexibility

Flexible strategy is very important for SME in implementing creative ideas and innovations to fulfill customers' various needs and expectations (Matthyssers, Pauwels & Vandenbempt, 2005). Strategic flexibility describes one of SME dynamic potentialities which gives SME advantages in dynamic and competitive market. Combe, Rudd, Leeftang and Greenley (2012) finds that a company living in a very complex and dynamic situation required a flexible design system to respond high frequency of changes happening in dynamic market. Porter (1985) explained that flexible strategies implemented in a company could be traced from its products. The products are expected to be distinctive (different from other products) and cost lower than its competitors thus making the products more affordable for the customers.

In formulating strategic flexibility, a SME should be able to identify all aspects of data and relevant information about its competitors. A SME should also analyze whether its competitors possess resources and capability in facing business competition. In this sense, a SME is expected to possess several advantages which could improve the company's values, the capability of the company should exceed its competitors (i.e. continuously capable to produce impossibly imitable products) which becomes advantage and gives added values for its customers. The last question is how far a SME could maintain its advantage from its competitors. In order to achieve continuous advantage, a SME should be able to direct its employees about the goals to reach, improving its performance and innovations, increasing operational efficiency, improving creativity, innovation, and proactivity, developing positive corporate culture and implementing new technologies (Jha, 2008).

1.4 Corporate Culture

Resource Based Theory of a company views culture as basis of strategies which affects the performance of a company to focus the orientation of strategic flexibility and developing and implementing the best flexible strategy to improve performance (Combe et al., 2012). It is found that corporate culture might affect on development and transformation of an organization. There is a strong correlation among cultural transformation, organizational practice, and company performance. Ni Bulan (2010) found that corporate culture might support performance of SME.

In general, culture is defined as a set of values, beliefs, philosophical ideas, and symbols which determine the way a company conducts its business (Barney, 1986).

Corporate culture contributes positive values on business activities conducted by the company and its employees. For the company, corporate culture is used to improve positive values of its income while for the employees corporate culture is used to improve their prosperity. The values believed by every single employee are shared with other members of organization until certain level. The beliefs, philosophy and symbols are the core of vision, mission, goals, and regulation which have to be complied by all members of organization to achieve the goals of organization.

1.5 Company Performance

The next step in managing a SME is evaluating the goals of the organization which have been achieved and to be achieved. Goals are the final results of activities conducted within an organization therefore certain efforts need to be taken to achieve these goals. Some experts stated that the achievement of these goals can be measured from performance (Neely et al., 1999; Kennedy & Neely, 2003). Venkantraman and Ramanujam (1986) viewed performance of a company as a multidimensional construct. Performance can be seen as a means to evaluate the result of activities conducted in certain period based on certain standards. The objectives of performance assessment are: encouraging the employees to achieve the goals targeted by the organization and complying the regulation practiced within the organization and determining effective actions should be taken to achieve determined goals. In general, performance evaluation is assessing target achieved and strategy implementation.

One of the most common parameters in evaluating performance is financial parameter. In the context of SME, Tattichi (2010) mentioned that financial performance evaluations (such as ROE or ROI) commonly used to measure the performance of a SME. On the other hand, Hudson, Smart and Bourne (2001) explained that performance could be evaluated through several dimensions, namely financial performance, operational performance (including time dimension, quality dimension, and flexibility) external perception about the company (usually made by customers), and cultural aspects used in overcoming challenge. However, Hudson et al. (2001) found that not all of these dimensions were relevant to be used in measuring performance thus a more holistic measurement should be proposed. This finding supported statement proposed by Chong (2008) stating that performance measurement could be conducted by using hybrid approach, by combining financial performance and non-financial performance. Based on this reason, the writers apply subjective approach to measure company performance. In this case, company performance was measured through the way SME owners and managers perceive and respond the given questionnaire.

1.6 Correlation Between Intellectual Capital (IC) and Performance

There are four approaches to view the correlation between intellectual capital and company performance. They are: *Resource Based View (RBV)*, *Resource Based Theory (RBT)*, *Intellectual Capital View*, and *Intangible Perspective*. RBV focuses on how the owners direct IC owned by the company related to utilization of strategic resources and process, strategic flexibility, and corporate culture. The implementation of flexible strategy correlates with and affects the form of IC activities (i.e. human capital, structural capital, and relational capital) and commitment made by all members of organization to achieve the goals of organization. RBT approach emphasizes on high performance. In this approach, a new perspective in theory of strategic management is developed. The perspective believes competitive advantage can be achieved through excellent resources. Related to the correlation among IC, financial performance, development, and market value of a company, Barney (1991) explains that a company can achieve its competitive advantages and excellent financial performance by controlling, managing, and utilizing its strategic assets. These strategic assets include both tangible and intangible assets. Meanwhile, *Intellectual Capital View* focuses on the way a manager (or an owner) directs the capability to overcome challenges, to fulfill the needs of its customers, and finding new business opportunity. In this sense, a SME manager improves its employees' skills' knowledge, loyalty and developing information technology. Finally, *Intangible Assets View* focuses on business competition in which the skill of the employees will improve the performance of the SME by improving their creativity, innovation, pro-activity, and communication ability. Employees' skill will improve operational efficiency, good corporate governance, and help building positive corporate culture (Brooking, 1996; Belkaoui, 2003; Bontis & Serenko, 2009).

1.7 Correlation Between Intellectual Capital and Strategic Flexibility

Barney's Resource-Based Value model (1991) views a company as a collection of resource with unique potentiality used in determining strategies and as a main tool to gain profit (Hitt et al., 1997). Review on RBV by viewing the correlation between strategy and performance of SME was proposed by Porter (1985). The essence of this concept states that strategic flexibility will help a company overcoming its competitors and achieving excellent performance. IC is important element to be managed by SME and becomes critical point in improving competitive advantage. Based on these explanations, it can be interpreted that IC is the core element in determining business strategy.

A SME which is able to manage its IC optimally will improve its capability which in turn can effectively implement strategies and making it a flexible organization (Chen et al., 2005). In achieving successful flexibility, a SME is expected to be able to optimize its business processes and achieving operational efficiency by utilizing adaptive resources and reconfiguring the processes (Sanchez, 1995). Conformity of IC and flexible strategy may affect performance of an organization.

1.8 Correlation Between Intellectual Capital (IC) and Corporate Culture

The most prominent concept of the correlation between IC and corporate culture was proposed by Schein (1992). This concept perceives culture as a learning process in overcoming obstacles, adapting external situations, and internal integration. Corporate culture significantly affects almost all aspects of organization and correlates with company performance. IC is used by a company to develop a positive culture among its employees (such as creative culture, proactive culture, and innovative culture). A study conducted by Covin and Slevin (1989) applying innovativeness approach, risk taking approach, and proactiveness approach indicated that IC positively correlates with corporate culture.

It tends to be easier for a company with strong and positive corporate culture to implement more effective and efficient processes and creating more enjoyable and encouraging atmosphere in workplace (Sadri & Lees, 2001). Good leadership also strongly correlates with positive culture among the employees. A study conducted on SMEs in Turkey indicated that work involvement and employees' proactive personality might help moderating participative culture which in turn affected innovative culture (Tastan, 2013). As the motor of IC, corporate culture might positively correlate with company performance (Astuti, 2011).

1.9 Correlation Between Strategic Flexibility and Company Performance

The correlation between strategic flexibility and company performance was mainly proposed by Porter (1985). There are three strategies applied to achieve flexibility, namely *low cost strategy*, *differentiation strategy*, and *focus strategy*. Low-cost correlates cost of the product with customers' expectations. In this case, customers expect the lowest cost with the highest quality (i.e. the lowest cost compared to its competitors). In differentiation strategy, the company produces new products which are different from its competitors or upgrading the existing products by adding unique features in customers' perspective which are impossibly imitable or not easily substituted. In focus strategy, the company only serves specific geographical region or specific demographical segment. Through these strategies, a company could provide superior value to its customers. On the other hands, Covin and

Slevin (1989) proposed a perspective on the correlation between strategic flexibility and company performance paradigm was composed of three perspectives, namely innovativeness, risk taking, and proactive actions while according to RBV perspective, flexible strategy is composed of four paradigms, namely resources, capability, competitive advantage, and superior return. According to these two paradigms, a successful performance is strongly affected by innovativeness, proactive actions, and competitive advantage.

The typology of strategic flexibility consistently conforms to RBV approach perspective because strategic flexibility have met VRIN criteria (*Valuable*, *Rare*, *Imperfectly imitable*, and *Non-substitutable*) as the main aspect in achieving successful business indicated by value provided by the product. Value is perceived as consistent quality, excellent performance, fast delivery time, low-cost, vast distribution, effective advertising, and post-sale service (Javalgi, Martin & Young, 2005). Strategic flexibility may also manifest in effective work structure which helps sustaining organization flexibility. Asikhia (2006) stated that market also drives a company to be flexible and innovative in fulfilling customers' needs and expectations. This concept also empirically signifies positive correlation between proactive flexible production and successful performance of a company. In this sense, flexible strategy is successful as long as SMEs can fulfill the needs and expectations of the customers. The product produced by SMEs and its production design should meet customers' expectations. The findings of previous researches indicated product customization significantly correlated with strategic flexibility. One of these researches was conducted by Kumalaningrum (2012) who proved that strategic flexibility significantly correlated with company performance.

1.10 Correlation Between Strategic Flexibility and Corporate Culture

Flexible strategy was considered as capability required by an organization in achieving success (Shimizu & Hitt, 2004), SMEs with good and flexible strategy are more likely to develop new ideas, finding market opportunities, and experimenting new ideas regardless the outcomes. This strategy makes the SMEs leading among its competitors. Strategic flexibility strongly correlates with corporate culture. Through strong and positive corporate culture, SMEs run its core business activities based on strategies defined before (Sanchez-Canizares, Munoz & Lopez-Guzman, 2007). Strong corporate culture plays its role as filter in business competition and gives a contribution on the adopted business strategies. Corporate culture refers to a set of norms practiced within a company used to help individuals in understanding shared values and as belief in understanding organizational functions. Related to flexible strategy, strategic flexibility is part of corporate culture in form of innovative

strategies. Conversely, a corporate culture supporting strategic flexibility is indicated by employees' knowledge, capability, involvement, creativity, and proactive actions supported by manager's participation in developing strong and positive corporate culture (Mirza & Ali, 2011).

1.11 Correlation Between Corporate Culture and Performance

Correlation between corporate culture and company performance is viewed from company success. In this case, corporate culture is expected to sustain competitive advantages and competency of the company. Company's competency can be identified from three dimensions, namely potentialities, processes, and performance. Culture is viewed as a learning process in overcoming challenges, external adaptation, and internal integration (Schein, 1992). Internal integration refers to attitudinal norms within a company used to help individuals understanding shared values and as a belief used by the employees in understanding organizational functions determined by the manager to assure the production process runs well (Sanchez-Canizares et al., 2007). Tasthan (2013) identified culture as actions taken within an organization which is classified into: 1) *clan organic and internal focus*; 2) *adhocratic (organic and external focus)*; 3) *market (mechanic and external focus)*; and 4) *hierarchical (mechanic and internal focus)*. *Clan culture* is oriented towards actions based on clan/group norms, indicated by loyalty, moral values, commitment, traditions, collaboration, cooperation, participation, consensus, and individual development. *Adhocracy culture* used by a manager/owner to develop entrepreneurship, creativity, and innovativeness of the employees through new products and services development, adaptation, improvement, adaptation, transformation, productivity efficiency, and experimentations. *Market culture* concept emphasizes on external situations which focuses on effectiveness, efficiency, competitiveness, and performance improvement. *Market culture* is considered as workshop oriented towards success in competition, company value improvement, leading the market, and building rapport relationship with its customers focused on performance appreciation. *Hierarchy culture* is defined as formalized workplace and indicated by structured procedures and business runs well. Long-term focus of the manager lies on stability, predictability, and efficiency. Long-term oriented culture is indicated by excellent values, such as determination, traditions, adaptation towards ever-changing situation, and believing that important things will happen towards organization is happening in the future. In her study, Kumalaningrum (2012) found that corporate culture may take form as social capital (i.e. in form of embedded assets within entrepreneurs' personal networks) which significantly affected performance. Corporate culture correlates with knowledge, managerial skills, and innovations which are converted into performance.

2. RESEARCH METHOD

2.1 Research Approach

This study applied positivism paradigm approach. Positivism paradigm approach attempted to find out facts which caused a social phenomenon while not concerning much on subjective/individual behaviors which might be categorized into certain categories. Based on this point of view, positivism was considered as background of quantitative approach (Rdliyah, 2009).

2.2 Population and Sample

Population of this study was SMEs managers in *Gerbangkertosusila* region, consisting of 782 SMEs. The sample of this study was 250 SMEs managers were chosen based on assumption that these respondents understood the problems discussed in this study.

2.3 Data

The data analyzed in this study were collected through questionnaire distributed directly towards respondents consisting of SMEs managers in center for food and snacks industry. From 250 respondents, only 240 respondents (about 98.40%) filled and submitted the questionnaire.

2.4 Research Model

Based on literary review above, the research model proposed in this study was described in Figure 1:

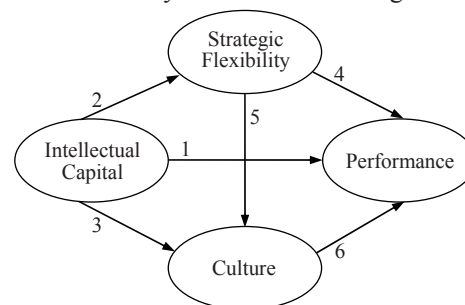


Figure 1
Research Model

2.5 Research Hypotheses

Based on research model, research hypotheses proposed in this study were:

H1: The better Intellectual Capital (IC) management the better SME performance.

H2: The better Intellectual Capital (IC) management the better implementation of strategic flexibility by the SMEs.

H3: The better Intellectual Capital (IC) management the stronger positive culture implementation.

H4: The better strategic flexibility implementation the better SME performance.

H5: The stronger positive culture implementation the better flexibility strategy implementation.

H6: The stronger positive culture implementation the better UKM performance.

2.6 Research Variables

2.6.1 Exogenous (Independent) Variables

Exogenous (independent) variables refer to variables which function as predictor or trigger to other variables. In this study, Intellectual Capital (X1) which represents company attention on utilizing strategic assets owned by the company. Intellectual capital are strategic assets sustaining continuous competitiveness (Barney, 1991) reflected in human capital, structural capital, and relational capital.

2.6.2 Endogenous (Dependant) Variables

Theoretically, dependant variables are affected by other variables. Dependant variables in this study consisted of strategic flexibility (X2), corporate culture (X3), and company performance (Y). Strategic flexibility (X2) represents a company dynamic capability which becomes advantage in market competition (Matthyssens et al., 2005; Combe et al., 2012). Corporate culture (X3) has been proven significant in development and transformation within an organization (Tastan, 2013). It is defined as actions taken within organization which is classified into *clan culture* (organic and internal focus), *adhocracy culture* (organic and external focus), *market culture* (mechanic and external focus), and *hierarchal*

culture (mechanic and internal focus). Performance (Y) can be measured using hybrid approach (Chong, 2008), namely by measuring both financial performance and non-financial performance. In this study, company performance was measured through subjective approach, namely by assessing owners perception indicated by response on distributed questionnaire.

2.7 Technique of Data Analysis

The data obtained in this study were analyzed based on descriptive statistics method and inferential statistics method. The data were processed using SPSS (Statistical Package for the Social Science) program applying Structural Equation Modeling (SEM) with Partial Least Square (PLS). This model was chosen because it was multivariate model combining multi-regression aspect and factor analysis to estimate interdependent correlations simultaneously (Hair, Sarstedt, Ringle & Mena, 2012).

3. FINDINGS AND DISCUSSION

3.1 Research Variables

The variables measured in this study were listed in Table 1:

Table 1
Research Variables

Variables	Indicators	Items/Parameters	Source
Intellectual Capital (IC) (X1)	Human Capital (HC) (X1.1)	1. Recruitment 2. Training and Development 3. Participation	Dar et al. (2001), Bontis and Serenko (2009)
	Structural Capital (SC) (X1.2)	1. Organizational Capital 2. Technological Capital	Amit and Schoemaker (1993), CIMA (2005:2), IFAC (1995), Alvares et al. (2011)
	Relational Capital (RC) (X1.3)	1. Customer Capital 2. Suppliers Capital 3. Shareholder Capital 4. Community Capital	IFAC (1998), Marr, Schiuma, and Neely (2004), CIMA (2005)
Strategic Flexibility (X2)	Attention (X2.1)	1. Decision-making 2. Implementation of decisions as routine	Shimizu and Hitt (2004)
	Assessment (X2.2)	1. Managerial Skills 2. Work Culture	Teece et al. (1997); Shimizu and Hitt (2004)
	Action (X2.3)	1. Dynamic external situations 2. Access on financial assets	Shimizu and Hitt (2004)
Corporate Culture (X3)	Clan Culture (X3.1)	1. Human Resource Development 2. Loyalty	Acar and Acar (2012), Yesit and Kaya (2013)
	Adhocracy Culture (X3.2)	1. Dynamicity 2. Entrepreneurship 3. Innovation and Creativity	Acar and Acar (2012), Yesit and Kaya (2013)
	Hierarchy Culture (X3.3)	1. Standards of Operational Procedures	Acar and Acar (2012), Yesit and Kaya (2013)
	Market Culture (X3.4)	1. Effectiveness 2. Efficiency 3. Competitiveness	Acar and Acar (2012), Yesit and Kaya (2013)

3.2 Description of Findings and Discussion

3.2.1 Intellectual Capital (IC)

The result of data analysis indicated average value of Intellectual Capital (IC) was as much as 5.09%. This value described the success of SMEs in managing the intellectual capitals excellently. The average values of the three indicators of intellectual capital were 5.01% for Human Capital (HC); 5.03% for Structural Capital (SC); and 5.31% for Relational Capital (RC), the highest average value of all three indicators. Based on these values, it was assumed that SMEs in *Gerbangkertosusila* region had good commitment in building good relationships with banks and financial suppliers, with customers, and with community around the SME. This finding suggested that the respondents considered IC played strategic and significant role for SME. HC emphasized on creative ideas (i.e. innovative ideas) proposed by the employees based on the capability of SME. The highest value of HC was 5.54%. SC emphasized on information given by the SMEs to its customers through the utilization of mass media. The highest value of SC was 5.42%. RC emphasized on building and developing good relationships with its customers and community. The highest value of RC was 5.65%.

3.2.2 Strategic Flexibility

The result of data analysis indicated the average value of strategic flexibility variable was as much as 5.12%. This result indicated that the SMEs has chosen and implemented flexible strategy excellently. The average values of the three indicators defining flexible strategy were: 5.51% for attention; 4.67% for assessment; and 5.19% for action. The highest value was found on attention indicator (as much as 5.51%). This finding indicated that decision-making and decision made by the manager had become the main attention of SME managers. Attention indicator emphasized on decision made by the SME as positive and mutual routine. The highest value of this indicator was 5.52%. Assessment indicator emphasized on evaluating and improving company failure in the past. The highest value of this indicator was as much as 4.69%. Finally, action indicator emphasized on actions taken by SME in responding dynamic business situations as a challenge for the SME. The highest value of this indicator was 5.21%. Based on these findings, it could be concluded that SME managers/owners had implemented the phases of strategic flexibility in responding dynamic business situations and fulfilling customers' needs and expectations. SME owners/managers should always consider decisions to be made in determining the best strategy.

3.2.3 Corporate Culture

The result of data analysis indicated the average value of corporate culture was as much as 5.24%. This result indicated SME commitment in developing positive corporate culture. However, overall analysis on the questions referring to four corporate culture indicators

(i.e. clan culture, adhocracy culture, market culture, and hierarchal culture) did not show optimal results. The average values of corporate culture four indicators were 4.90% for clan culture; 5.53% for adhocracy culture; 5.17% for market culture; and 5.36% for hierarchal culture. The highest average value was found on adhocracy culture (as much as 5.53%). This result suggested that SME owners/managers had directed their employees towards entrepreneurship, innovation and creativity by developing new products and services, improving adaptability, development, productivity, efficiency, and conducting experimentations. Clan culture emphasized on conducive work atmosphere (with the highest value as much as 5.27%). Adhocracy culture was emphasized on openness in responding customer expectations about products. The highest value on this indicator was as much as 5.74%. Market value emphasized on profit evaluation (with the highest value as much as 5.17%). Hierarchal culture emphasized on evaluating standards of operational procedures applied within the company (with the highest value as much as 5.36%). These results indicated that positive corporate culture could improve company performance either in short-term period or long-term period.

3.2.4 Company Performance

The result of data processing indicated the average value of company performance was as much as 5.21%. This result suggested that SME managers had achieved pretty good performance. Capital still became the most important component in the development of SME. From the three dimension of performance being assessed, the average value of profitability was as much as 5.27%; selling rate was 5.10%; and capital as much as 5.26%. This result indicated that profitability aspect gave the highest contribution to company performance. Measurements on the dimensions of performance indicated that profitability (the improvement on annual revenue) was the most dominant (average value 5.28%), followed by improvement of annual selling rate and capital growth as the result of investment by the owners. Referring to the responses on the questionnaire asked, it could be concluded that the performance of the SMEs were pretty good indicated by their achievements on profitability (5.27%), selling rate (5.10%), and capital growth (5.26%).

3.3 Results of Hypotheses Examination

3.3.1 Result of Structural Examination

Examination on the proposed hypotheses was conducted by measuring t-statistic value. Significance of estimated parameters provide important information about the correlation among research variables. The margin used to determine whether a hypothesis was accepted or rejected was 1.96. In this case, if t-statistic value is higher than 1.96 (>1.96), the hypothesis is accepted. See Table 2 for details.

Table 2
Inner Weight Examination Result

Hypotheses	Variables	Original sample (O)	Standard deviation (SD)	T-statistic values (O/STERR)	Result
H1	X1 → Y	0.778828	0.049935	15.596816	Accepted
H2	X1 → X2	0.820495	0.048800	16.813568	Accepted
H3	X1 → X3	0.850880	0.033137	25.677309	Accepted
H4	X2 → Y	0.582715	0.175226	3.325613	Accepted
H5	X2 → X3	0.409590	0.088036	4.652509	Accepted
H6	X3 → Y	0.643897	0.081746	7.876811	Accepted

3.3.2 Correlation Between Intellectual Capital and Performance

The result of the first hypothesis examination regarding the correlation between intellectual capital and company performance showed significant correlation between two variables indicated by t-statistic value 15.596816 much higher than t-standard 1.96. Therefore, the first hypothesis is accepted, or in other words IC (intellectual Capital) did affect company performance. Well-managed intellectual capitals (i.e. human capital, structural capital, and relational capital) could improve SMEs business performance. This finding confirmed previous researches conducted by Barney (1991), Raju et al. (2011), Lev (2001), and Edvinson and Sullivan (1996).

3.3.3 Correlation Between Intellectual Capital and Strategic Flexibility

The result of the second hypothesis examination regarding the correlation between intellectual capital and strategic flexibility showed that there was a correlation between the two variables indicated by t-statistic value 15.813568 which was much higher than t-standard value 1.96. Therefore, the second hypothesis is accepted or in other words IC did affect strategic flexibility. In this case, IC showed positive value meaning that IC supported strategic flexibility. In the context of partial correlation, it was proven that IC had significant and positive correlation with company performance. Thus IC positively and significantly correlated with both company performance and strategic flexibility. Based on this finding, it could be assumed that strategic flexibility might also positively correlate with company performance. This result strengthened statements proposed by Johnson et al. (2003) and Raju et al. (2011).

3.3.4 Correlation Between Intellectual Capital and Corporate Culture

The result of examination on the third hypothesis showed that IC significantly correlated with corporate culture variable indicated by t-statistic value 25.677309 which was much higher than t-standard value 1.96. Based on this result, the third hypothesis assuming IC correlates with corporate culture (H3) was accepted. In general it was indicated that IC might drive the development of positive corporate culture. The finding had empirically proven

that IC significantly and positively affected corporate culture developed within a company. In this sense, the better IC management supported by positive corporate culture might improve the performance of the SMEs. This finding consistently conformed with previous researches conducted by Ni Bulan (2010) and Vij and Farooq (2014).

3.3.5 Correlation Between Strategic Flexibility and Performance

The examination result indicated that strategic flexibility (X2) positively and significantly correlated with company performance. The results showed that loading factor value on the third hypothesis regarding correlation between strategic flexibility (X2) and company performance was positive (i.e. 0.582715) while significance margin (α) was 0.05 and t-statistic value 3.325613 which was higher than t-standard 1.96. Based on these results, the fourth hypothesis was accepted. Considering the responses given by the respondents, it could be assumed that the respondents agreed that strategic flexibility affected and correlated with successful performance of the SME the result of hypothesis examination proved that strategic flexibility positively and significantly affected company performance. This result indicated that the more flexible strategies implemented by SME managers the better competitiveness of the SME. Strategic flexibility described SME managers capability in developing, exploring, and directing the company in defining the needed resources effectively and transforming realistic actions. Strategic flexibility could be viewed as potentialities required by an organization in achieving successful performance. This finding consistently supported the result of previous researches conducted by Shimizu and Hitt (2004) and Suliyanto (2009) regarding anticipation towards ever-changing situation by developing information technology (IT).

3.3.6 Correlation Between Strategic Flexibility and Corporate Culture

The result of hypothesis examination proved that strategic flexibility (X2) positively and significantly correlated with corporate culture (X3). The result of loading factor showed positive effect X2 to X3 (0.409590) which was higher than significance margin ($\alpha=0.05$) with t-statistic value (4.652509) higher than t-standard

value (1.96). These results proved empirically that both strategic flexibility and corporate culture positively and significantly affected company performance. This finding supported Canizares et al (2007) stating that strategic flexibility strongly correlated with corporate culture. By implementing corporate culture, SMEs conducted its activities according to its core business and determined strategies. Corporate culture supported both company performance and employee performance. The significance of good corporate culture was as filter in perceiving dynamic business environment and gave contribution on the adopted business strategies. Eventually, corporate culture was the main competitive advantage instrument in overcoming business challenges effectively and efficiently.

3.3.7 Correlation Between Corporate Culture and Company Performance

The results of hypothesis examination proved that corporate culture (X3) positively and significantly correlated with company performance (Y). Loading factor result indicated positive effect of X3 on Y (0.643897) on significance margin (α) 0.05 with t-statistic value 7.876811 higher than t-standard 1.96. Based on these results, the sixth hypothesis (H6) was accepted. Based on data obtained on respondents perception, about 60.15% respondents strongly agreed about the correlation between corporate culture and performance. In this sense, the respondents believed in the effect of corporate culture on performance. In other words, the better corporate culture implemented the better business achievement of the SMEs. Strong commitment made by SMEs in center for food and snack industry SME could help responding ever-changing situations and developing the business to achieve competitive awareness. This finding conformed previous research conducted by Ni Bulan (2010) and Kotter and Heskett (1992).

CONCLUSION

In general, the characteristics of SME managers in center of SME food and snack industry in *Gerbangkertosusila* region, East Java Province were relatively low education, short-term mindset, inherited (inter-generations business activities, having been conducted the activities for more than 5 years, and the capital came from personal assets (self-investment). Yet, they showed great capability in producing foods and snacks. Educational level significantly supported their business activities either in terms of scale and revenue (in IDR). Capital ownership became one of factors affecting the existence and sustainability of SMEs in center for food and snacks industry, *Gerbangkertosusila* region.

The findings of this study conducted based on SEM analysis applying PLS approach indicated that both exogenous and exogenous variables including intellectual

capital, strategic flexibility, and corporate culture significantly correlated with company performance. This finding was supported by results of statistical analyses indicating higher t-statistic (path coefficient values compared to t-standard value. They are 25.68:1.96 for correlation between Intellectual Capital (IC) and performance; 25.68:1.96 for IC and strategic flexibility correlation; 15.60:1.96 for IC and corporate culture correlation; 4.65:1.96 for strategic flexibility and performance; 3.33: 1.96 for strategic flexibility and corporate culture correlation; and 7.88:1.96 for corporate culture and performance correlation.

These results suggested that the better IC management the better SME performance. As strategic asset, IC improved company performance and eased strategic flexibility implementation for the SMEs. Knowledge and capability were the key in successful strategic flexibility implementation. Good IC management developed strong and positive corporate culture. Strategic flexibility was associated with SME capability in which the better strategic flexibility implementation the better target achieved by the SME. Flexible SMEs were competitive and able to fulfill customer needs and expectations. Successful strategic implementation by the SME could not be separated from positive corporate culture practiced by the SMEs. The stronger positive culture practiced within SMEs the better its flexibility. Corporate culture also positively and significantly affected company performance. Strong commitment made by all members of organization could help the SMEs in responding dynamic situations and developing capability to achieve competitive advantage. In other words, the stronger and more positive corporate culture practiced by the SMEs the better its performance.

RECOMMENDATIONS

Based on the findings of this study, several recommendations for SME owners and managers are proposed. They are: first, SME owners and managers should pay more attention on improving their knowledge and developing human capital. SME owners and managers are also expected to be able to optimize the utilization of mass media in delivering information about their business, upgrading their machineries and equipment, and building rapport relationship with customers and suppliers. Second, SME managers and owners are expected to produce products which fulfill customer needs and expectations. Third, the SME owner and managers are expected to be able to implement strategies used in business competition, namely cost-management strategy, differentiation strategy, and focus strategy intended to improve competitiveness and performance of the SME. Fourth, they are expected to optimize administration recording all business activities by improving the quality of administration of financial

records and records on tangible assets to meet the requirements of administration stated by banks, financial institutions, and government. Fifth, SME managers and owners should conduct a regular meeting intended to develop coordination and cooperation among SME owners and managers. Finally, SME should recruit employees with high potentiality intended to develop SME, building positive corporate culture, improving SME competitiveness and performance in the future.

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