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The Influence of MSME Perfomance Seen from Innovation as Mediation

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ABSTRACT

This study examines the effect of intellectual capital and entrepreneurial orientation on company value, especially msmes with innovation as a mediating variable. This study used a quantitative approach with questionnaires distributed to 237 respondents varied, as many as 182 respondents had micro-businesses, while 55 respondents had small businesses. Data were processed using SEM analysis, with AMOS 24 software. The results showed that intellectual capital and entrepreneurial orientation affected innovation. However, intellectual capital and innovation do not affect company value. besides that, entrepreneurial orientation influences the company's value. Another hypothesis shows that innovation does not mediate intellectual capital on company value but mediates entrepreneurial orientation on firm value. The novelty of this research lies in the model created. As for future development, it can be more detailed to distinguish Innovation, both from products and innovation from the process.

Keywords: *intellectual capital, entrepreneurial orientation, innovation, company value*

ABSTRAK

penelitian ini bertujuan untuk menguji pengaruh intellectual capital, orientasi kewirausahaan terhadap nilai perusahaan khususnya UMKM dengan inovasi sebagai variabel mediasi. Penelitian ini menggunakan pendekatan kuantitatif dengan kuesioner yang disebarkan kepada 237 responden yang bervariasi, sebanyak 182 responden memiliki usaha mikro, sedangkan 55 responden memiliki usaha kecil. Data diolah dengan menggunakan analisis SEM, dengan software AMOS 24. Hasil penelitian menunjukkan bahwa modal intelektual dan orientasi kewirausahaan berpengaruh terhadap inovasi. Namun, modal intelektual dan inovasi tidak berpengaruh terhadap nilai perusahaan. Selain itu, orientasi kewirausahaan berpengaruh terhadap nilai perusahaan. Hipotesis lain menunjukkan bahwa inovasi tidak memediasi modal intelektual terhadap nilai perusahaan, tetapi inovasi memediasi orientasi kewirausahaan terhadap nilai perusahaan. Kebaruan dari penelitian ini terletak pada model yang dibuat. Sedangkan untuk

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pengembangan kedepannya, dapat lebih mendetail untuk membedakan Inovasi, baik dari produk maupun inovasi dari proses.

Kata kunci: modal intelektual, orientasi kewirausahaan, inovasi, nilai perusahaan

1. INTRODUCTION

During the COVID-19 pandemic, governments worldwide implemented lockdown policies that impacted the continuity of business operations, including the reduction of business activities among SMEs (Papadopoulos et al., 2020). SMEs are vulnerable because they have lower capital reserves, fewer assets, and lower productivity levels compared to large companies (OECD, 2020). For example, in the UK, SMEs account for 99.3% of all private sector businesses (Federation of Small Business, 2014). There have been several studies on the crises experienced by SMEs and their interactions during such crises ((Cucculelli & Peruzzi, 2020); (Mayr et al., 2017)). During a crisis, leaders need to take appropriate and effective strategic actions based on the company's capabilities (Bundy et al., 2017), especially in the context of SMEs (Randall, 2018). The pandemic disrupted the flow of goods and services, severely affecting the business and supply chain performance of SMEs (Papadopoulos et al., 2017). These effects were more pronounced in manufacturing businesses related to services and trade (L. Hughes et al., 2019). Most SMEs in developing countries tend to operate in the informal sector with limited funding and a lack of human and social capital ((Warnecke, 2016); (Ogunsade & Obembe, 2016). Currently, SMEs need to create and develop new business models gradually ((Shaltoni, 2017); (Amiri & Woodside, 2017); (Omotosho, 2023)). SMEs also need to consider managerial and operational risks and opportunities ((Jansson et al., 2017); (López-Pérez et al., 2017)).

Sustainability has become an important consideration in all aspects of human and organizational life (Ferreira et al., 2021). Sustainability is a crucial source of competitive advantage for surviving in the business world ((Ferasso et al., 2020); (Pieroni et al., 2019). As key players in the economy, the sustainability of SMEs can be seen from their business performance (Malesios et al., 2021). Sustainability is related to the financial performance of SMEs based on research on 119 companies in the UK, France, and India (Malesios et al., 2018).

Company performance can be measured in various aspects, including Intellectual Capital. Intellectual Capital is one of the important intangible asset components that companies need to manage effectively and efficiently (Emilia & Ovami, 2021). In addition to intellectual capital, company performance can be measured through entrepreneurial orientation (witjaksono, 2014) and innovation (Nasir, 2017). This study focuses on SMEs in the Gresik and Sidoarjo districts.

This study distinguishes itself from prior research by specifically focusing on the role of Intellectual Capital (IC), Entrepreneurial Orientation (EO), and Innovation in determining the performance of MSMEs in the regions of Gresik and Sidoarjo, Indonesia. Unlike earlier studies that examined these variables in broader

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contexts or in developed economies, this research adopts a localized approach, emphasizing MSMEs in a Developing Country, where resource constraints and informal operations are more prominent ((Warnecke, 2016); (Ogunsade & Obembe, 2016)). Additionally, the novelty lies in the inclusion of Innovation as a mediating variable, which is tested comprehensively in the relationship between IC, EO, and Firm Value – an Aspect not thoroughly explored in earlier research. The research underscores the importance of sustainable practices in MSMEs, contributing to broader discussions on the intersection of sustainability and organizational performance. The findings provide actionable insights for MSME Leaders, policymakers, and stakeholders, highlighting the need to strengthen EO and Innovation to achieve sustainable growth.

The purpose of this study is to examine: (1) The effect of Intellectual Capital on Innovation; (2) The effect of Entrepreneurial Orientation on Innovation; (3) The effect of Intellectual Capital on Company Value; (4) The effect of Entrepreneurial Orientation on Company Value; (5) The effect of Innovation on Company Value; (6) The effect of Intellectual Capital on Company Value through Innovation as a mediating variable; and (7) The effect of Entrepreneurial Orientation on Company Value through Innovation as a mediating variable. The urgency of this research is that if SMEs have sustainable businesses, they can create full employment and positively impact community welfare. The specific focus of this research is on the theme of SME sustainability research, viewed from the perspective of company performance.

2. THEORETICAL FRAMEWORK AND HYPOTHESIS

Knowledge Based Theory (KBT) views knowledge as one of the most important assets for a company. KBT of the firm posits that knowledge is the most critical resource for achieving and sustaining competitive advantage in dynamic environments characterized by globalization, technological advancements, and rapidly changing product lifecycles (Teece et al., 2009). In KBT, knowledge production becomes the center of strategic development and the strengthening of organizational behavior (L. Hughes et al., 2019). KBT provides a foundational framework for linking the role of knowledge resources, such as IC, to organizational outcomes, as demonstrated in this study focusing on the performance of MSMEs. KBT emphasizes that knowledge, as an intangible resource, is critical for fostering innovation and sustaining competitive advantage, aligning with this research's exploration of the impact of IC and EO on FP, with innovation as a mediating variable.

Resource-Based View (RBV) is an approach emphasizing that a company's competitive advantage stems from its unique, rare, inimitable, and non-substitutable internal resources (Utama et al., 2024). RBV is often used to analyze the capabilities required to achieve desired performance through strategic planning ((Gupta et al., 2018); (Widjaja & Yuga, 2020)).This perspective is relevant for understanding the complex process of managing company performance, particularly in the context of business growth and sustainability ((Adomako et al.,

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2021); (Zhu et al., 2019)). RBV is applied to evaluate entrepreneurial competency as an intangible resource encompassing the skills and abilities of business actors to drive sustainable business development (Tehseen & Ramayah, 2015). RBV is also used in classical growth models, emphasizing an internal focus on company resources and management systems ((Barney, 1991); (Ramon-Jeronimo et al., 2019). RBV is applied to evaluate the entrepreneurial knowledge including understanding the factors needed to generate business ideas, resilience, and business sustainability (Wu et al., 2008).

Dynamic Capabilities Theory (DCT) focuses on a firm's ability to adapt to rapidly changing environments by integrating, building, and reconfiguring internal and external resources and competencies (Teece et al., 2009). In this study, IC and EO represent critical internal resources and competencies that MSMEs leverage to adapt and thrive, particularly in the aftermath of disruptive events like the COVID-19 pandemic. This directly correlates with DCT's focus on Innovation as a mechanism for resource renewal and reconfiguration, ensuring that firms remain resilient and competitive in dynamic environments (Kaur, 2023).

MSMEs are one of the important pillars of the national economic sector that require attention (Handoko, 2020). As of March 2021, there were 64,200,000 MSMEs recorded in the data of the Ministry of Cooperatives and SMEs, contributing 61.07% to the Gross Domestic Product (GDP) or amounting to Rp. 8.57 trillion. MSMEs contribute to Indonesia's economy by providing 97% of employment and account for 60.4% of the total investments. Compared to before the pandemic in 2018, there were 64.18 million MSME units with a contribution of 61% to the GDP (Deviyana, 2021).

A strategic study in understanding the participation of MSME actors in economic activities is referred to as economic resources. Economic actors rooted in the values of a people's economy are village communities (Radzi et al., 2017), however, the management and empowerment patterns of this sector are still ineffective (Rauch et al., 2017) in promoting adequate economic resources potential, thus not yet contributing optimally (Cantonnet et al., 2019). Therefore, a more in-depth study related to effective MSME sector management is needed.

The process of utilizing and distributing tasks, authority, and economic resources among members of an organization so that each member can obtain adequate resources to achieve the organization's goals is called optimization (Sanchez Badini et al., 2018). Different goals and times, of course, require different resources (Trianni et al., 2019), thus requiring the proper optimization of resources according to needs, so that the goals can be achieved effectively and efficiently (Verdolini et al., 2018). The MSME sector remains in existence to this day because it relies more on its independence in accessing resources (Wang et al., 2021). This is often not understood by stakeholders in viewing the informal sector correctly (Wang et al., 2021).

This study examines the factors influencing MSME performance from the perspective of IC. IC indicates current and future performance (Dzenopoljac et al., 2017). Intellectual Capital encompasses management technology, innovation, and is a rapidly evolving field of study (Secundo et al., 2018). The management of intellectual capital is a driver in competitive competition and can support

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sustainability (Matos & Vairinhos, 2017). The implementation of Intellectual Capital is important for small and medium enterprises because it can be used to create products and services that add value to the organization (Khalique et al., 2018).

The subjects of this research are MSME actors in the Sidoarjo and Gresik regencies. The reason for selecting these locations is that Sidoarjo and Gresik rank among the top four contributors to the MSME sector in East Java's economy. Sidoarjo ranks second after Surabaya, contributing 106.82 trillion, while Gresik ranks fourth, contributing 74.81 trillion (Diskopukm, 2022).

The state of the art of this research is based on previous studies. Research on HR competencies and company performance shows a positive relationship between HR practices and company performance (Van Esch et al., 2018). Another study indicates that innovation resulting from collaboration with external partners tends to yield more desirable performance (Canh et al., 2019). Furthermore, in 2020, research on the influence of Good Corporate Governance (GCG), Intellectual Capital, and CSR on the performance of state-owned enterprises (BUMN) shows that GCG, Intellectual Capital, and CSR have an impact on the performance of state-owned enterprises listed on the Indonesia Stock Exchange (Lusy et al., 2020). Additionally, in 2020, research on Innovation and Company Performance, viewed from SMEs, shows that company size and financial capital mediate the impact of innovation on the performance of small and medium enterprises in 29 countries in Eastern Europe and Central Asia (Kijkasiwat & Phuensane, 2020).

Hypothesis Development

IC is an intangible asset that significantly drives organizational innovation by creating and applying knowledge effectively ((Dzenopoljac et al., 2017); (Secundo et al., 2018)). IC enables companies, especially SMEs, to enhance their capabilities to produce innovative products and services, providing a competitive edge (Khalique et al., 2018). Conversely, limited IC could hinder innovation, especially in SMEs operating with constrained resources (Ogunsade & Obembe, 2016). That's why the hypothesis is:

H1: Intellectual Capital affects Innovation

EO reflects an organization's strategic posture, promoting innovation, proactivity, and risk-taking (Witjaksono, 2014). SMEs with higher EO tend to engage in innovative practices to adapt and thrive in dynamic environments (Canh et al., 2019). However, some studies indicate that excessive risk-taking without adequate resources, as seen in developing countries' SMEs, could limit their ability to innovate effectively. That's why the hypothesis is:

H2: Entrepreneurial Orientation affects Innovation

IC contributes to firm value by enhancing efficiency, fostering innovation, and delivering superior customer benefits (Asiaei et al., 2021). For SMEs, effective management of IC is critical for long-term sustainability and competitiveness (Khalique et al., 2018). Nonetheless, in some informal sectors with limited intellectual and social capital, this effect may be diminished (Wang et al., 2021). That's why the hypothesis is:

H3: Intellectual Capital affects Firm Value

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EO positively impacts firm value by driving business growth through innovative solutions and market responsiveness (Nasir, 2017). SMEs that actively pursue entrepreneurial strategies often achieve higher profitability and market presence (Rauch et al., 2017). However, in resource-scarce environments, over-reliance on entrepreneurial initiatives without proper risk management might negatively impact firm value (Jansson et al., 2017). The hypotheses of this:

H4: Entrepreneurial Orientation affects Firm Value

Innovation serves as a critical factor in enhancing firm value by differentiating products, improving operational efficiency, and accessing new markets (Kijkasiwat & Phuensane, 2020). SMEs that successfully innovate often report increased financial performance and sustainability (Canh et al., 2019). However, innovation outcomes can vary depending on external collaboration and resource availability (Ogunsade & Obembe, 2016). The hypotheses of this:

H5: Innovation affects Firm Value

Innovation acts as a bridge between IC and FV, where the effective use of knowledge and skills translates into innovative products and services, ultimately increasing FV (Dzenopoljac et al., 2017). Studies suggest that IC's impact on FV is stronger when mediated by innovation, as seen in collaborative environments (Secundo et al., 2018). Conversely, firms with low IC may struggle to innovate, weakening this mediation effect (Warnecke, 2016). The hypotheses of this:

H6: Innovation mediates the effect of Intellectual Capital on Firm Value

EO fosters a culture of innovation, which enhances FV by meeting market demands and maintaining competitiveness ((Nasir, 2017); (Canh et al., 2019)). Research indicates that EO's influence on FV is significantly mediated by innovation (Kijkasiwat & Phuensane, 2020). The hypotheses of this:

H7: Innovation mediates the effect of Entrepreneurial Orientation on Firm Value

3. RESEARCH METHOD

This research is explanatory research as it aims to obtain explanations regarding the influence between variables through hypothesis testing (Solimun et al., 2017). This is a quantitative study using Structural Equation Modeling (SEM) with the AMOS 24 software. The population in this study consists of MSMEs in Sidoarjo and Gresik Regencies. The data collection technique used is purposive sampling, with a representative sample size up to a certain number (Sugiyono, 2021). The exogenous variables are IC and EO, while the endogenous variables are Innovation and MSME Performance.

Operational Variables

Intellectual Capital in this study is a valuable resource for competitive advantage that can contribute to the performance of MSMEs in Sidoarjo and Gresik Regencies. The definition of Entrepreneurial Orientation in this research is the processes, practices, and activities that utilize product innovation, take risks, and strive proactively to innovate with the aim of outperforming competitors (Imma

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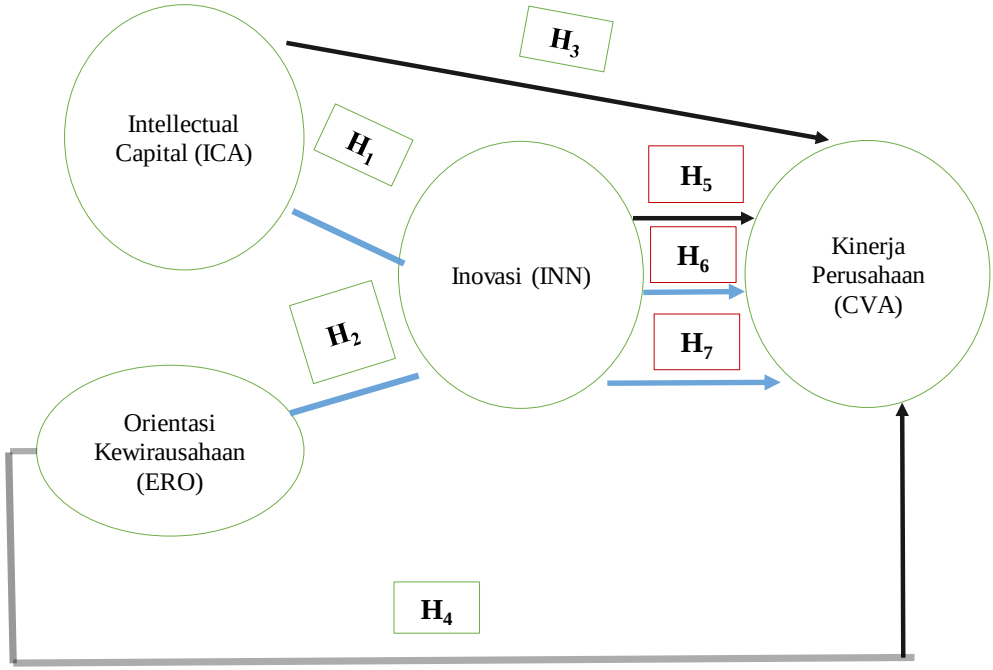
Andiningtyas R.S. & Ratna L. Nughroho, 2014). The innovation referred to in this research is the company's ability to produce new products according to customer desires (Yu et al., 2022).

Research Model



Source : Data processed by the researcher

Figure 1 : Conceptual Model

4. DATA ANALYSIS AND DISCUSSION

Data Analysis and Discussion

Table 1. Respondent Characteristics By Gender

		Gender			
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Man	145	61,2	61,2	61,2
	Woman	92	38,8	38,8	100,0
	Total	237	100,0	100,0	

Source : Data Processed By Researchers

It can be seen from Table 1 that respondents with male gender are 147 MSMEs or 61.2% and women are 92 MSMEs or 38.8%. The characteristics of respondents based on the type of business show that out of 237 respondents, the majority (80 respondents of 33.8%) are engaged in culinary businesses, making it

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the most prevalent category among the surveyed businesses. The remaining business types are diverse, including Internet Cafes (Warnet), convenience stores (Toserba), and Entrepreneurial Ventures (Wirausaha), among others. Specifically: (a) Wirausaha represents the second-largest category, with 82 respondents (34.6%0; (b) Other business types, such as retail shops (Toko), small-scale manufacturing (Home Industry), and services like photocopying, salons, and workshops, are less frequent, each contributing less than 2% of the total sample. The diversity of business types highlights the heterogeneity of SMEs in this study, reflecting a wide range of industries and entrepreneurial activities. This variation emphasizes the importance of tailoring strategies and interventions to the unique needs of each business sector.

Table 2. The Characteristics of Respondents Based on Effort

		Effort			
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Micro	182	76,8	76,8	76,8
	Small	55	23,2	23,2	100,0
	Total	237	100,0	100,0	

Source : Data Processed By Researchers

From table 2, it appears that there are 182 respondents whose businesses are Micro or 76.8% while small businesses are 55 respondents or 23.2%.

Results Validity and Reliability

In the early stages for Intellectual Capital (ICA), there are several indicators that are excluded from the model because they show loading factors less than 0.50, namely ICA 4, 6, 7, and 8. As for Innovation, there are 2 that are excluded from the model, namely INN 4 and 5. The entrepreneurial orientation that is excluded from the model is EOR 3, 4 and 5. The Company values excluded from the model are CVA 4 and CVA 5.

Table 3. Results of the validity and reliability test of the research instrument for Intellectual Capital (ICA) Variables

Indicators	Validity Test		Cronstruct Reliability (ρπ)	AVE
	Loading	Ket.		
ICA1	0,800	Valid	0,798	0,500
ICA2	0,687	Valid		
ICA3	0,702	Valid		
ICA5	0,624	Valid		

Source : Data Processed By Researchers

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The results of the confirmatory factor analysis of the Intellectual Capital Variable (ICA) indicator shows that all indicator loading factors are more than 0.50 so the instrument indicator is said to be valid for convergence as a measure of Intellectual Capital (ICA). Meanwhile, the construct reliability value was obtained at 0.798 and the AVE value was 0.500 so that the reliability of the construct for the Intellectual Capital (ICA) variable construct had been met. The results of the validity and reliability test for Entrepreneurship Orientation are as follows:

Table 4 : Results of the validity and reliability test of the research instrument for Entrepreneurial Orientation (EOR) Variables

Indicators	Validity Test		Cronstruct Reliability (ρπ)	AVE
	Loading	Ket.		
EOR2	0,595	Valid	0,732	0,587
EOR1	0,906	Valid		

Source : Data Processed By Researchers

The results of the confirmatory factor analysis of the Entrepreneurial Orientation (EOR) variable indicator shows that all the loading factors of the indicator are more than 0.50 so the instrument indicator is said to be valid for convergence as a measure of Entrepreneurial Orientation (EOR). Meanwhile, the construct reliability value was obtained at 0.732 and the AVE value was 0.587 so that the reliability of the construct for the Enterprise Orientation Variable (EOR) construct had been met.

Table 5. Results of the validity and reliability test of the research instrument for Innovation Variables (INN)

Indicators	Validity Test		Cronstruct Reliability (ρπ)	AVE
	Loading	Ket.		
INN2	0,638	Valid	0,653	0,500
INN1	0,752	Valid		

Source : Data Processed By Researchers

The results of the confirmatory factor analysis of the Innovation Variable (INN) indicator show that all the loading factor indicators are more than 0.50 so that the instrument indicators are said to be valid for convergence as a measure of Innovation (INN). Meanwhile, the construct reliability value was obtained at 0.653 and the AVE value was 0.500 so the reliability of the construct for the Innovation Variable (INN) construct had been met.

Table 6. Results of the validity and reliability test of the research instrument for Company Value Variable (CVA)

Indicators	Validity Test	AVE

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	Loading	Ket.	Cronstruct Reliability (ρπ)	
CVA1	0,831	Valid	0,737	0,586
CVA2	0,694	Valid		

Source : Data Processed By Researchers

The results of the confirmatory factor analysis of the Company Value Variable (CVA) indicator shows that all the loading factors of the indicator are more than 0.50 so the instrument indicator is said to be valid for convergence as a measure of Company Value (CVA). Meanwhile, the construct reliability value was obtained at 0.737 and the AVE value was 0.586 so that the reliability of the construct for the Company Value Variable (CVA) construct has not been met.

Fulfilment of *Assumptions Structural Equation Modelling* (SEM)

Data Test *Outliers*

The examination of the outliers data was carried out using the Mahamanobis Distance method. If the Mahalanobis distance is significant ($p < 0.05$), then the data are said to be outliers. Testing was carried out in conjunction with SEM analysis using AMOS 24 software. The results of the examination using the Mahalanobis distance showed that the observation data used in this study showed that there were no data samples that indicated outliers.

Data Normality Test

The normality test aims to test whether in the regression model, the bound variable and the free variable both have a normal distribution or not. A good regression model is one that has a normal or near-normal data distribution (Latan & Ghozali, 2017). SEM requires the fulfilment of the assumption of normality. The easiest test is by observing the skewness value from the data used. The statistical value for testing the normality is called the Z-value. If the Z value is greater than the critical value, it can be assumed that the distribution of data is abnormal on the contrary. In addition, it is important to note that the assumption of normality used for justification is multivariate. So we take the value in the bottom row, which is 1.673. This value is below 1.96 so it is stated that the data has met the assumption of normality.

Results of Confirmatory Factor Analysis

The loading factor resulting from the analysis of confirmatory factors can be used to determine which indicator has the strongest influence on the latent variable. The indicator that produces the largest loading factor is determined as the indicator that most strongly affects the latent variable in question. The following are the results of the final confirmatory factor analysis for the Intellectual Capital (ICA) variable.

Table 7. Results of Confirmatory Factor Analysis Intellectual Capital (ICA) Variable

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Indicators	Loading Factor
ICA1	**0,800**
ICA2	0,687
ICA3	0,702
ICA5	0,624

Source : Data Processed By Researchers

From Table 7, it can be seen that ICA1 is the most powerful indicator that affects the Intellectual Capital (ICA) Variable while the weakest indicators affect Intellectual Capital (ICA) Variable is an indicator of ICA5.

Table 8. Results of Confirmatory Factor Analysis Variable Entrepreneurial Orientation (EO)

Indicators	Loading Factor
EOR2	0,595
EOR1	**0,906**

Source : Data Processed By Researchers

From Table 8, it can be seen that EOR1 is the most powerful indicator affecting Variable Entrepreneurial Orientation (EO) while the weakest indicator affecting the Entrepreneurial Orientation (EO) variable is the EOR2 indicator.

Table 9. Results of Confirmatory Factor Analysis Innovation Variable (INN)

Indicators	Loading Factor
INN2	0,638
INN1	**0,752**

Source : Data Processed By Researchers

From Table 9, it can be seen that INN2 is the indicator that most strongly affects the Innovation Variable (INN) while the weakest indicator that affects the Innovation Variable (INN) is the INN2 indicator.

Table 10. Results of Confirmatory Factor Analysis Company Value Variable (CVA)

Indicators	Loading Factor
CVA1	**0,831**
CVA2	0,694

Source : Data Processed By Researchers

From Table 10, it can be seen that CVA1 is the indicator that most strongly affects the Company Value Variable (CVA) while the weakest indicator that affects the Company Value Variable (CVA) is the CVA2 indicator.

Table 11. Testing *the Goodness of Fit Overall Model*

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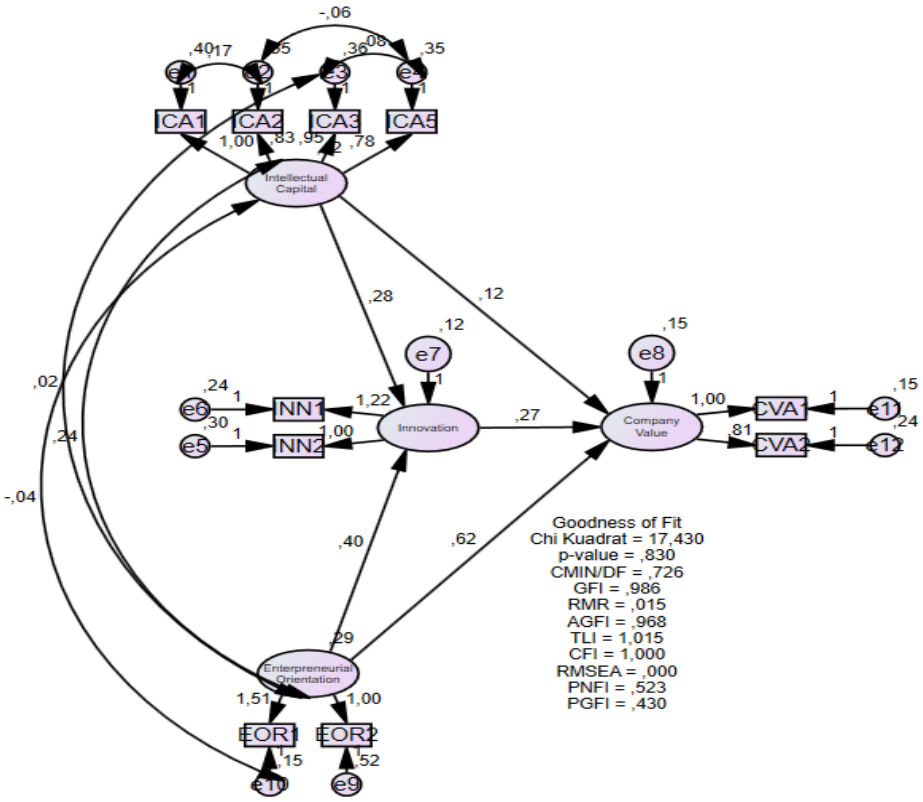
Goodness of Fit index	*Cut off Value*	Results of Analysis	Model Evaluation
χ^2- Genus Quare	< df with α = 0.05	17.430	Good Model
Sig.	≥ 0.05	0.830	Good Model
RMSEA	≤ 0.08	0.000	Good Model;
RMR	≤ 0.10	0.015	Good Model
GFI	≥ 0.90	0.986	Good Model
AGFI	≥ 0.90	0.968	Good Model
CMIN/ DF	≤ 2.00	0.726	Good Model
TLI	≥ 0.90	1.015	Good Model
CFI	≥ 0.90	1.000	Good Model
PNFI	> 0.60	0.523	Model Marginal
PGFI	> 0.60	0.430	Model Marginal

Source : Data Processed By Researchers

Table 11 explains that SEM used to test causality relationships between variables shows that the model is acceptable and satisfied because the value of Goodness of Fit Index that is close to or greater than cut off value .



Source : Data processed by the researcher

Figure 2. SEM Analysis Result Path Diagram

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The summary of the results of the hypothesis test is shown in the table:

Table 12. Hypothesis Test Results

	Variable Independent	Variable Dependent	Path Coefficient *Direct Effect*			Path Coefficient *Indirect Effect*		
			Std'ize	*P-value*	Ket.	Variable Intervening	Unstd'ize	Ket.
H1	Intellectual Capital	Innovation	0.366	0.012	Sig*	-	-	-
H2	Entrepreneurial Orientation	Innovation	0.426	0.002	Sig**	-	-	-
H3	Intellectual Capital	Company Value	0.122	0.400	Non sig	-	-	-
H4	Entrepreneurial Orientation	Company Value	0.525	0.000	Sig***	-	-	-
H5	Innovation	Company Value	0.216	0.095	Non sig	-	-	-
H6	Intellectual Capital	Company Value	-	-	-	Innovation	0.076	Non sig
H7	Entrepreneurial Orientation	Company Value	-	-	-	Innovation	0.108	Sig*

Source : Data Processed By Researchers

Table 13. Sobel Test Results

Indirect influence					Estimation	P - value
Company Value	<---	Innovation 0,273	<---	Intellectual Capital 0,280	0,076	0,059
		Innovation 0,273		Entrepreneurial Orientation 0,397	0,108	0,034

Source : Data Processed By Researchers

Discussion

From Table 12, we know that H1 significant results support KBT, as IC facilitates the creation and utilization of knowledge necessary to generate innovation ((M. Hughes et al., 2021); (Secundo et al., 2018)). The Standardise Path Coefficient = 0.366 with *p-value* = 0.012 turned out to be significant. This shows the significant positive influence of Intellectual Capital (ICA) on Innovation (INN). This illustrates that the more highly perceived or good Intellectual Capital (ICA), the more Innovation (INN) will increase.

The significant result of H2 supports DCT, as entrepreneurial orientation reflects dynamic capabilities to develop relevant innovations in dynamic environmental conditions. The Standardise Path coefficient = 0.426 with *p-value* = 0.002 turned out to be significant. This shows the positive significant influence

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of Entrepreneurial Orientation (EkhaliqueRO) on Innovation (INN). This illustrates that the higher or better the perception of Entrepreneurial Orientation (ERO), the more Innovation (INN) will increase.

The insignificant result H3, contradicts KBT, which should suggest that IC directly contributes to enhancing company value. The Standardise Path coefficient = 0.122 with *p-value* = 0.400 turned out to be insignificant. This shows there is no significant influence of Intellectual Capital (ICA) on Company Value (CVA). This illustrates that the increase or decrease in the perception of Intellectual Capital (ICA) has no effect on the increase or decrease in Company Value. IC, such as human, structural, and relational capital, is often difficult to translate directly into financial gains or company value. Many SMEs lack systems or strategies to effectively leverage IC to create economic value. SMEs tend to focus more on short-term operational activities rather than investing in IC management, that's why KBT does not support H3. RBV is linked to H3 because IC is a strategic resource with unique characteristics, such as employee knowledge and skills, organizational systems, and external relationships. Although IC has the potential to be a strategic resource, SMEs often lack the ability to manage IC strategically. For instance, highly skilled employees (human capital) or advanced technology (structural capital) may not be fully utilized to generate revenue or enhance the company's reputation. Many SMEs lack mechanisms to demonstrate how IC contributes to profit or market value, making its impact on company value less apparent. In SMEs, IC may lack the scale or relevance needed to compete with larger companies. For example, external relationships (relational capital) in SMEs are often limited to local networks, resulting in a relatively smaller impact on company value.

The significant result H4 supports RBV, as entrepreneurial orientation reflects a strategic capability that enables companies to exploit market opportunities and create value. The results also support DCT, as entrepreneurial orientation helps companies develop dynamic strategies that directly enhance company value. Standardise Path Coefficient = 0.525 with *p-value* = 0.000 and the results are significant. This shows the positive significant influence of Entrepreneurial Orientation (EOR) on Company Value (CVA). This illustrates that the higher or better the perception of Enterprise Orientation (EOR), the more Company Value (CVA) will increase.

The insignificant result H5 shows that innovation does not significantly influence company value. The Standardise Path Coefficient = 0.216 with *p-value* = 0.095 turned out to be insignificant. This shows there is no significant influence of Innovation (INN) on Company Value (CVA). This illustrates that the increase or decrease in respondents' perception of Innovation (INN) has no effect on the increase or decrease in Company Value (CVA). In many cases, innovations produced by SMEs may not align with market needs or lack sufficient commercialization potential. KBT does not support H5, these innovations fail to increase company revenue or profit. SME often face resource constraints that prevent them from implementing and scaling innovation to a larger scale, limiting their impact on company value. Many SMEs struggle with adopting new technologies to support innovation due to cost or technical skill limitations. This reduces the effectiveness of innovation in creating value. While SMEs may create

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innovations, they often lack clear strategies to turn innovations into financial gains or competitive advantages. According to RBV theory, innovation should lead to new products or services that enhance company value. The innovation produced may not fully align with market demands or consumer trends. Although innovations are created, many SMEs lack strategies to convert these innovations into financial gains. This can occur due to limitations in marketing, distribution networks, or investment for commercialization. In the context of SMEs, innovations are often not scalable due to resource constraints, such as funding, workforce, or supporting technology. As a result, the innovation does not significantly impact company value.

The insignificant mediation H6 also challenges KBT, although IC supports innovation (H1), resulting in an insignificant relationship with the unstandardize Path Coefficient = 0.076 with *p-value* = 0.059. The process of transforming innovation into company value appears to be hindered, suggesting potential shortcomings in managing knowledge-based resources. This may occur because innovation is not integrated with business strategy or does not sufficiently support competitive advantage. Many SMEs lack the financial capacity or resources to develop IC-based innovation to a stage where it generates tangible benefits. IC-based Innovation often requires an ecosystem of support, such as partnerships, supplier networks, or market access. Without this ecosystem, innovation cannot create a significant impact on company value.

Although companies may use their knowledge to innovate, these innovations may not be converted into economically valuable products or services, resulting in a significant relationship with the unstandardize Path Coefficient = 0.108 with *p-value* = 0.034. This shows that Innovation (INN) is able to mediate the influence of Entrepreneurial Orientation (EOR) on Company Value (CVA). The significant mediation (H7) supports DCT, as entrepreneurial orientation enables resource reconfiguration to support innovation that increases company value.

5. CONCLUSION & SUGGESTION

Conclusion

Based on the results and discussion above, it can be concluded that: (1) Intellectual Capital (ICA) has a significant effect on Innovation (INN); (2) Entrepreneurial Orientation (ERO) has a significant effect on Innovation (INN; (3) Intellectual Capital (ICA) has no a significant effect on Company Value (CVA); (4) Entrepreneurial Orientation (EOR) has a significant effect on Company Value (CVA); (5) Innovation (INN) has no a significant effect on Company Value (CVA); (6) The indirect influence of Intellectual Capital (ICA) on Company Value (CVA) through the intervening Innovation (INN) variable is rejected; (7) The indirect influence of Entrepreneurial Orientation (EOR) on Company Value (CVA) through the intervening Innovation (INN) variable is accepted.

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Suggestion

Several suggestions for future research are recommended to enhance understanding of the relationships between IC, EO, Innovation and Firm Value: (1) As a strategic resource, IC can provide sustainable competitive advantage if supported by a strong organizational culture or adaptive leadership styles. Future research can identify internal factors, such as an innovation-oriented culture, that enhance the value of IC to FV; (2) In a dynamic market environment, firms need dynamic capabilities to effectively utilize IC, especially in responding to external changes like market competition or industry type. Future research can enrich RBV by incorporating external elements from DCT, such as how IC adapts in rapidly changing environments; (3) Different types of innovation, such as product, process, or business model innovation, are valuable resource if effectively utilized to create value. Future research can explore which types of innovation are more effective in enhancing Firm Value; (4) The stage of innovation diffusion can be further examined in the context of SMEs to understand barriers to adoption and commercialization. Dynamic capabilities are essential to support the transition of innovation from idea to successful implementation; (5) DCT can complement RBV by emphasizing the importance of capabilities to manage various stages of innovation diffusion, helping to understand the role of innovation in mediating the relationship between EO and FV; (6) Future research can expand DCT by exploring how EO dimensions contribute to the long-term sustainability and resilience of firms; (7) Future research can significantly contribute to theory development through an interdisciplinary approach that connects these three theories (KBT, RBV, DCT).

Theoretical Implications.

RBV highlights the critical role of ICA and EOR as strategic resources, but the findings suggest these resources must be coupled with dynamic capabilities to achieve firm value. DCT complements RBV by emphasizing the need for adaptability and innovation to transform resources into firm value, particularly in dynamic environments. KBT provides a lens for understanding how knowledge-based resources like ICA drive innovation. However, the findings indicate that effective knowledge application and commercialization are necessary for generating tangible outcomes. External factors, such as market conditions, industry type, and organizational culture, may influence the effectiveness of ICA, EOR, and INN. Future research should explore these contingencies to refine RBV and DCT framework.

Practical Implications.

Firms should focus on enhancing the quality and integration of their Intellectual assets with innovation strategies. Investments in knowledge-sharing systems and employee training can amplify ICA's impact. Managers must focus on overcoming barriers to innovation adoption and diffusion. Aligning innovation strategies with customer needs and market trends is essential for translating innovation into firm value. Firms operating in dynamic industries must develop capabilities to sense and seize opportunities while reconfiguring resources to stay

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compatitive. This aligns with DCT's practical emphasis on agility and adaptability. Future research should delve deeper into contextual factors and explore mechanisms for enhancing resource transformation into firm performance.

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