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Does Risk Management and Intellectual Capital Improving SME's Performance during Covid-19 Outbreak?

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ABSTRACT

Covid-19 has triggered the collapse of SME businesses. Nevertheless, most SMEs in developing countries have not implemented risk management practices, including Indonesian SMEs. Also, SMEs need to optimize their intellectual capital capacity in facing emerging issues like COVID-19. This study aims to prove the role of risk management practice and intellectual capital in improving competitive advantage and SME performance. This study was conducted on 438 SMEs in the Bali Province, Indonesia. The survey is conducted by sending a questionnaire directly to SME owners or managers. This study evidences that risk management supports SMEs to create a competitive advantage. Nevertheless, risk management is not directly improving the SME's performance. Although risk management cannot directly increase SME profits, risk management helps SME owners to focus on managing the negative risks posed by the Covid-19 pandemic. SMEs maintain employees' productivity by innovating or creating new products. The creativity ultimately creates a competitive advantage that will increase the SME's performance. Therefore, competitive advantage completely mediates the relationship between risk management and performance. Other findings state that three elements of intellectual capital support the research hypothesis. Human capital contributes to developing new ideas with competitive differentiation. Structural capital encourages employee knowledge collaboration to innovate continuously. Meanwhile, relational capital allows organizations to create innovation with stakeholders. Human and structural capital also strengthens the influence of risk management on competitive advantage. Specifically, the moderation test result represents that relational capital has a lower contribution than human and structural capital. The last, competitive advantage positively affects SME performance. The finding indicates that competitive advantage enables SMEs to adapt to the Covid-19 impact, which leads to increased performance.

INTRODUCTION

Covid-19 has triggered the collapse of SME businesses, especially in developing countries. As many as 80% of SMEs experienced a decline in income, delays in loan payments, a reduced number of employees, and failure to maintain business continuity (Nordhagen et al., 2021). The performance decline is uncontrollable because most SMEs have not applied risk management in business processes (Lima et al., 2020). SMEs also have limited resources, so they cannot optimize their intellectual capital capacity. This condition causes SMEs to be unable to adapt quickly to pandemic conditions. Therefore, there is a substantial need to conduct studies on SME performance in developing countries.

This research is based on three research motivations. First, most SMEs in developing countries have not implemented risk management even though economic conditions are vulnerable to risks, challenges, and uncertainty (Silva et al., 2019). This condition increases risk exposure for SMEs. Limited human resources reliable in managing business risk also increase business failure risk (Yang et al., 2018). These limitations encourage researchers to identify risk management practices in developing countries, particularly Indonesia. SMEs as the pillar of the Indonesian economy, more than 57% of Indonesia's total GDP. However, the Covid-19 pandemic overthrew 80% of SMEs (Lutfi et al., 2020). Therefore, SMEs must proactively adopt risk management to ensure sustainability.

Second, academic studies that discuss risk management practices in SMEs are still limited (Lima et al., 2020; Rehman & Anwar, 2019), particularly in Indonesia. Most of the literature only discusses risk management in the financial sector (Adam et al., 2021; Nguyen & Vo, 2020; Rustiarini & Suryandari, 2021). Several findings in large companies also have inconsistent results. Several studies reveal that risk management practices improve company performance (Malik et al., 2020; Soltanizadeh et al., 2016). Nevertheless, other studies do not find a significant performance (Alawattegama, 2018; Quon et al., 2012).

Third, organizations must create competitive advantages in facing emerging issues like COVID-19. SMEs not only need to implement effective risk management but also need to maximize intellectual capital to respond to the impact of unexpected environmental changes (Girangwa et al., 2019). This study conducts a comprehensive study examining the interaction of risk management and intellectual capital in improving SME performance.

This study aims to prove the role of risk management practices and intellectual capital on competitive advantage. This study also identifies the role of the three elements of intellectual capital (human, structural, and relational capital) in strengthening the influence of risk management on competitive advantage.

The results provide theoretical, practical, and policy contributions. Theoretically, the findings support the Resources-Based View (RBV) theory to maximize intangible assets to improve SME performance. This study also raises the importance of risk management and intellectual capital as a competitive advantage for SMEs. Practically, this study builds consciousness of the position of risk management in dealing Covid-19 pandemic. This finding also encourages SME owners or management to increase the SME's internal capacity. In the policy context, the findings provide insight to decision-makers and stakeholders to focus on internal processes, such as implementing adequate risk management and maximizing the potential of intellectual capital.

The rest of the article deals with literature review and hypothesis development. The third part describes the research method, while the fourth describes and discusses the research results. The last section concludes and presents the implications of the results and discusses the limitations and suggestions for further research.

1. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

1.1 Resource-based view (RBV) theory

RBV theory provides a framework to integrate risk management as part of an SME's strategy. RBV helps SMEs identify priority risks and focus on those that have the most significant impact on SMEs (Barney, 1991; Girangwa et al., 2019). RBV theory also underlines the position of intellectual capital to improve organizational performance. RBV uses two main capabilities to manage intangible assets: dynamic and adaptive capabilities. Dynamic capabilities leverage the organization's internal capacity to respond to market and environmental changes. Likewise, adaptability encourages organizations to proactively seize opportunities, adapt, and manage internal resources (Anwar, 2018).

1.2 Risk management, competitive advantage, and performance

In the SME context, owners tend to formulate competitive strategies that are less risky but provide a stable position. Based on risk information, SMEs identify and manage business risks to make business decisions. Understanding business risks helps SMEs adapt to a changing dynamic and competitive environment. Effective risk management makes SMEs develop riskier business strategies and facilitates organizations to create competitive advantages (Armeanu et al., 2017; Yang et al., 2018). The empirical evidence finds that effective risk management improves SME performance in many developing countries such as Kenya (Girangwa et al., 2019) and Pakistan (Yang et al., 2018). Thus, risk management improves organizational performance (Rehman & Anwar, 2019; Saeidi et al., 2021; Soltanizadeh et al., 2016). The following hypothesis is:

H1: Risk management practices positively affect competitive advantage.

H2: Risk management practices positively affect performance.

1.3 Intellectual capital and competitive advantage

The human resource-based view reveals that an organization should utilize tangible and intangible assets to create a competitive advantage (Barney, 1991). Intellectual capital has more potential to increase the competitive advantage of SMEs than large companies. The flexibility in SMEs' organizational structures and informal business strategies emphasize the position of intellectual capital. Some literature reveals that intellectual capital contributes to SMEs' competitiveness and value creation (Demartini & Beretta, 2020; Ramírez et al., 2021; Xu & Li, 2019).

Intellectual capital includes three elements: human capital, structural capital, and relational capital (Bontis, 1998). Human capital comprises competencies, innovation, knowledge, and member skills that integrate into organizational resources. Human capital contributes to developing new ideas and products with competitive differentiation (Agostini et al., 2017; Kianto et al., 2017). SMEs with limited physical and financial resources should emphasize the importance of employee experience and skills. Employees must also constantly innovate to form a competitive advantage (Beltramino et al., 2021; Ramírez et al., 2021).

Structural capital includes the structures and mechanisms of organizations that support the human capital to achieve optimal performance. Structural capital consists of processes, systems, and corporate culture (Jain et al., 2017). Structural capital allows organizations to develop stakeholder relationships to increase competitive advantage and organizational performance (Beltramino et al., 2021; Ramírez et al., 2021; Xu & Li, 2019).

Relational capital denotes the organization's capacity to interrelate positively with external stakeholders. SME management and employees tend to have direct and close contact with customers to enhance innovation (Agostini et al., 2017; Beltramino et al., 2021). However, another study revealed that

relational capital could not be a value driver for SME performance (Xu & Li, 2019). The study formulates the following hypotheses:

H3a: Human capital positively affects competitive advantage.

H3b: Structural capital positively affects competitive advantage.

H3c: Relational capital positively affects competitive advantage.

1.4 Enterprise risk management, intellectual capital, and competitive advantage

RBV theory reveals that internal organizational resources create corporate value and improve sustainable performance (Barney, 1991). Risk management and intellectual capitals are fundamental resources and strategic assets. Prior scholarships revealed that intellectual capital moderates risk management and SME performance (Girangwa et al., 2019). The following hypothesis is formulated:

H4a: Human capital strengthens the effect of risk management on competitive advantage.

H4b: Structural capital strengthens the effect of risk management on competitive advantage.

H4c: Relational capital strengthens the effect of risk management on competitive advantage.

1.5 Competitive advantage and performance

Competitive advantage is created by building, integrating, and reconfiguring internal and external organizational resources. Empirical studies prove that competitive advantage significantly affects performance (Anwar, 2018; Bapat & Mazumdar, 2015). The competitive advantage becomes a significant intermediary between internal organizational capacity and organizational performance (López-Cabarcos et al., 2015). Organizations must exploit their capabilities and resources to generate a competitive advantage. Several studies prove that competitive advantage is a mediator of intellectual capital and SME performance (Ibarra-Cisneros et al., 2020; Jain et al., 2017), business model innovation (Anwar, 2018), and organizational capability-performance (López-Cabarcos et al., 2015). Thus, the following hypothesis is:

H5: Competitive advantage positively affects performance.

H6: Competitive advantage mediates the relationship between risk management and performance.

The conceptual framework is shown in Figure 1.

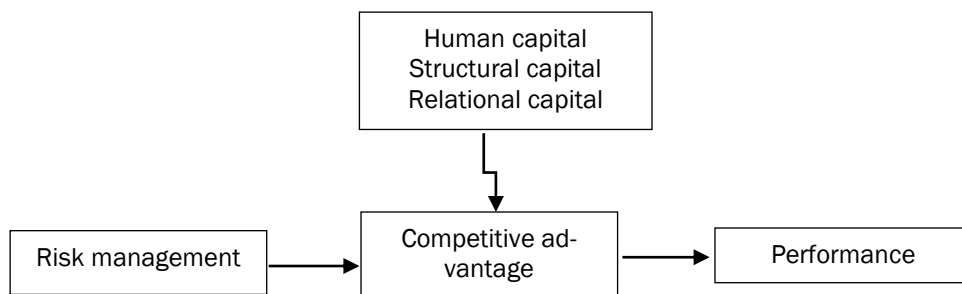


Figure 1. The conceptual framework

Source: own

2. RESEARCH METHODS

This study was conducted on 438 SMEs in Bali, Indonesia. The SMEs were selected based on purposive sampling, which has existed for at least three years and maintains business continuity during the pandemic. The survey is conducted by sending a questionnaire directly to SME owners or managers. Questionnaires are distributed for six months, from June until November 2021.

The risk management practices variable contains six indicators adopted from Sax and Torp's (2015) research. The indicators involve (1) policy for handling significant risks; (2) standard procedures for identifying major risks and opportunities; (3) opportunities and risks; (4) standard procedures for risk-reducing; (5) risk reports regularly; (6) standard procedures for monitoring significant risks. The questionnaire used a five-point Likert Scale.

Human capital mentions to the combination of organizational members' competencies, innovation, knowledge, and skills (Bontis, 1998). Human capital contains nine indicators, i.e., (a) having creativity, proactivity, and risk-taking; (b) measuring the risks of investments; (c) having knowledge for success; (d) applying the knowledge; (e) developing new ideas and knowledge; (f) having the capability to working, interact, and debating in teams; (g) committed and responsible to organizational strategy; (h) adapting to new situations; and (i) cooperating in the identification and resolution of the challenge. The questionnaire was adapted from Beltramino *et al.*'s (2021) research using a five-point Likert scale.

Structural capital includes mechanisms and organizational structures that support the human capital component to achieve optimal performance (Bontis, 1998). The questionnaire was adapted from Beltramino *et al.*'s (2021) research. Structural capital includes five indicators, namely opportunity for (a) collaboration in systems and structures; (b) exploration of innovative knowledge; (c) sharing of new knowledge; (d) support of collective behavior; and (e) creation and development new knowledge.

Relational capital is the organizational capability to interact positively with external stakeholders, such as customers, suppliers, and communities (Bontis, 1998). This construct contains five indicators. The questionnaire was adapted from Beltramino *et al.*'s (2021) research. These consist of organizational capability (a) to create innovation; (b) to advance new solutions; (c) to measure the environment image; (d) the creation of potential collaboration; and (e) to collaborate with third partners.

Competitive advantage is the SME's advantage in competition. The four indicators adopted from Jain *et al.* (2017) study which organizations have (a) access to resources at competitive rates; (b) ability to increase market share; (c) a good reputation of customers; (d) ability to attract the best talent from market place".

The SME's performance reflects non-financial and financial performance, such as productivity, cost reduction, profitability, sales growth, return on assets, customer growth, customer satisfaction, employee satisfaction, organizational reputation, and quality of products and services (Prieto & Revilla, 2006). SMEs self-reported their performance because it is not easy to obtain financial data. Also, SMEs do not publish their financial performance publicly (Rehman & Anwar, 2019). Although self-assessment is subjective, this method provides adequate, fruitful, and advantageous results. Researchers asked managers or owners to measure their SME performance over the past three years. The measurement uses a five-point Likert scale.

This study controls three variables such as type of industry, age, and assets. This study also compares the performance of three SME sectors, namely manufacturing, trade, and services (see robustness tests). Data were analyzed using Partial Least Square (PLS), including (a) outer model test, (b) inner model test, and (c) hypothesis testing.

3. RESULT AND DISCUSSION

3.1 SME characteristic

The characteristic of SMEs is shown in Table 1.

Table 1. SME's characteristics

<i>Characteristics</i>	<i>Percentage</i>
Type of SMEs:	
1. Manufacturing	59.36%
2. Trading	29.22%
3. Service	11.42%
Age of SMEs (years):	
1. 3-10	29.45%
2. 11-20	47.95%
3. 21-30	16.44%
4. >30	6.16%
The asset of SMEs:	
1. 50 million -500 million	77.63%
2. 500 million-10 billion	22.37%

Source: own

3.2 Common method bias

This study collected data using a self-reported questionnaire from the same time and source point. This condition leads to Common Method Bias (CMB) that affects validity results. Similar to previous studies (Anwar, 2018; Rehman & Anwar, 2019), this study conducted Harman's One Factor test, namely the Principle Component Analysis, to detect this threat. The test results revealed that eight factors had Eigenvalues above 1, and the first factor explained 39.234% of the variance (less than 50%). This figure confirms that there is no potential for CMB and further analysis.

3.3 Outer and inner model test

Based on Partial Least Square (PLS) analysis, the first step is testing the outer model. The convergent validity test shows a reliable indicator with a loading factor value ranging from 0.691-0.965. The value of composite reliability and Cronbach's alpha for all constructs is reliable, is above 0.7. The validity of each construct was measured with AVE and had a value of more than 0.5. The next step is to test the inner model to see the relationship between the constructs. The results reveal that intellectual capital positively affects competitive advantage once moderating risk management and competitive advantage ($r = 0.808$; 0.758 ; and 0.698). The risk management variable positively affect competitive advantage ($r = 0.315$) and SME performance ($r = 0.380$). Competitive advantage also positively affect SMEs performance ($r = 0.581$). Thus, all constructs show a positive relationship.

3.4 Hypothesis testing result

This study examines intellectual capital as a moderator between risk management and SME competitive advantage, as presented in Table 2.

Table 2. The result of moderating effects

<i>Relationships</i>	<i>Original Sample</i>	<i>Sample Mean</i>	<i>Standard Deviation</i>	<i>T Statistics</i>	<i>p-Values</i>	<i>Conclusion</i>
RM -> CA	0.128	0.134	0.101	2.274	0.024**	H1 Accepted
RM -> PF	0.076	0.070	0.066	1.160	0.247	H2 Rejected
HC -> CA	0.155	0.159	0.123	4.263	0.000***	H3a Accepted
SC -> CA	0.351	0.355	0.121	3.955	0.003***	H3b Accepted
RC -> CA	0.174	0.177	0.085	2.056	0.040**	H3c Accepted
HC*RM -> CA	0.248	0.253	0.098	5.486	0.000***	H4a Accepted
SC*RM -> CA	0.285	0.289	0.091	2.528	0.012**	H4b Accepted
RC*RM -> CA	0.233	0.236	0.128	1.802	0.072*	H4c Accepted
CA -> PF	0.168	0.163	0.071	2.355	0.019**	H5 Accepted

Note: *, **, *** significance at 10%, 5%, and 1%

RM = risk management, CA = competitive advantage, HC = human capital, SC = structural capital,

RC = relational capital

Source: own

Table 2 shows that risk management positively affects SME's competitive advantage (p-value = 0.024), thus supporting hypothesis 1. Likewise, three-element of intellectual capital significantly affect competitive advantage (p-values = 0.000; 0.003; and 0.040), its mean support hypotheses 3a, 3b, and 3c. The statistical result of moderating test, the interaction between intellectual capital and risk management has a significant effect on competitive advantage (p-value = 0.000, 0.012, and 0.072). These results support hypotheses 4a, 4b, and 4c. These results also indicate that intellectual capital is a moderating and explanatory variable. Thus, the intellectual capital is quasi moderation. This study also examines the mediator variable's role, as shown in Table 3.

Table 3. The result of mediating effects

<i>Relationships</i>	<i>Original Sample</i>	<i>Sample Mean</i>	<i>Standard Deviation</i>	<i>T Statistics</i>	<i>p-Values</i>	<i>Conclusion</i>
RM -> CA	0.128	0.134	0.101	2.274	0.024**	H6 Accepted Complete mediation
RM -> PF	0.076	0.070	0.066	1.160	0.247	
CA -> PF	0.168	0.163	0.071	2.355	0.019**	

Note: *, **, *** significance at 10%, 5%, and 1%

RM = risk management, CA = competitive advantage, PF = performance

Table 3 shows the steps in the mediation test. In the first, the influence of risk management on competitive advantage has a p-value of 0.024. In the second, the influence of risk management on SME performance has a p-value of 0.247. This figure indicates that the statistical test results do not support hypothesis 2. The third stage shows that competitive advantage significantly affects SME's performance (p-value = 0.019); it supports hypothesis 5. The last results indicate a mediation effect in the model. Competitive advantage completely mediates risk management and SME performance relationship. Thus, the results support hypothesis 6.

4. DISCUSSION

The results of the first hypothesis test reveal that risk management has a positive effect on competitive advantage. An effective risk management system provides four benefits for organizations to create a

competitive advantage. The four benefits are maintaining organizational performance, especially when competitors cannot do this, seeking riskier business opportunities, creating advantages, and building a solid reputation that leads to competitive advantage. Risk management is a strategic asset to create SME's competitive advantage. Risk management also directs SMEs to develop unique strategies that make SMEs superior to their competitors. The findings support the previous result that risk management forms a competitive advantage (Armeanu et al., 2017; Yang et al., 2018).

Several empirical findings show that risk management improves organizational performance (Rehman & Anwar, 2019; Saeidi et al., 2021; Soltanizadeh et al., 2016). Nevertheless, statistical results are inconsistent with previous studies, that risk management practices cannot improve SMEs' performance. These results indicate that risk management cannot directly increase SME profits. Nonetheless, risk management helps SME owners to focus on managing the negative risks posed by the Covid-19 pandemic. Proper risk management will help SMEs overcome the threat or minimize the negative impact of the Covid-19 outbreak. Therefore, SMEs maintain employees' creativity and productivity by innovating, creating new products, or expanding market segments. The creativity and productivity of employees ultimately create a competitive advantage that will increase the SME's sales and profits. The findings support previous research (Alawattegama, 2018; Li et al., 2014; Quon et al., 2012) that there is no significant increase in performance over these risk management practices.

The third hypothesis examines the influence of intellectual capital on competitive advantage. The statistical tests confirm that the three elements support the research hypothesis. Intellectual capital includes employee skills, technology, supplier and customer information, and trade secrets as intangible assets. Human capital contributes to developing new ideas with competitive differentiation (Agostini et al., 2017; Kianto et al., 2017). Structural capital encourages employee knowledge collaboration to innovate continuously. Meanwhile, relational capital allows organizations to create innovation with stakeholders (Beltramino et al., 2021). Considering SMEs have limited assets and resources, they must maximize intellectual capital to create competitive advantages.

Regarding the resource-based view, risk management and intellectual capital are fundamental organizational resources. SMEs take advantage of these two strategic assets to create a competitive advantage and improve their performance simultaneously. Consistently, the fourth hypothesis result also reveals that human and structural capital strengthens the influence of risk management on competitive advantage. Nevertheless, relational capital has a less significant role. These results propose that high levels of intellectual capital help an organization manage the risks (or impacts) of unexpected environmental changes competently. A prior study revealed that intellectual capital moderates risk management and SME performance (Girangwa et al., 2019). Saeidi et al.'s (2021) research also proves that risk management improves financial performance and increases intellectual capital.

Specifically, the moderation test result represents that relational capital has a lower contribution than human and structural capital. This condition indicates that SMEs must create value through business collaboration, building customer satisfaction and loyalty, and fostering cooperation with suppliers (Ibarra-Cisneros et al., 2020). This capital contributes to SMEs' sustainable performance. This finding supports Xu and Li's (2019) research that human capital and structural capital efficiency influence SMEs' performance, contrary to the efficiency of relational capital.

The fifth hypothesis result state that competitive advantage positively affects SME performance. SMEs create competitive advantage through product differentiation, innovation, superior product value, and market position. Competitive advantage enables organizations to adapt and compete, leading to increased performance. The results support previous evidence that competitive advantage positively affects performance (Anwar, 2018; Bapat & Mazumdar, 2015).

The last result also indicates that competitive advantage is complete mediation between risk management and SME performance. Although risk management cannot affect the company's performance directly, risk management creates competitive advantages that lead to improved performance (Rehman & Anwar, 2019; Soltanizadeh et al., 2016). Therefore, risk management impacts SMEs' performance through competitive advantage.

4.1 Robustness test

This study conducted a robustness test to reduce spurious results. We examine the impact of three control variables: industry type, age, and some assets in the structural model. The results indicate that three variables do not play a significant role. This study categorizes the SME sector. The results found that there was no significant difference between the three sectors. Therefore, this study has a robust result.

CONCLUSION

The Covid-19 pandemic is one business risk that threatens the SME's survival. SMEs must take advantage of the strategic assets of SMEs to accomplish business risks effectively, such as risk management and intellectual capital. This study supports the RBV theory that recognizes the mission of risk management in improving competitive advantage. However, risk management cannot improve the SME's performance directly. This finding indicates the importance of competitive advantage in improving SME performance.

The results have theoretical, practical, and policy implications. Theoretically, these results provide academic support for the development of RBV. This finding confirms the importance of SME competitiveness creation to facilitate risk management towards improving the performance of SMEs. Based on a practical view, the result implies that SME management should strengthen internal capacity through intellectual capital and risk management practices. Management must manage the organization's intangible assets into competitive products. We recommend that SMEs have a formal risk management framework to adapt to a dynamic environment. Based on a policy perspective, the finding reinforces the Indonesian government's initiative to propose SMEs invest in intellectual capital in the digital era. Moreover, the Covid-19 pandemic has accelerated the transformation of the conventional economic system toward knowledge-based. The government should seriously consider formulating SMEs' risk management guidelines and frameworks.

This study has some limitations. First, this research is an initial survey of risk management practices in SMEs during the Covid-19 pandemic. Therefore, the study does not identify the eight components of risk management recommended by COSO. Future studies must evaluate risk management practices referring to COSO recommendations to obtain a comprehensive picture of risk management practices in the SME sector. Second, this study finds that risk management does not directly improve SME performance. Future research can compare other studies in developing countries.

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