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Analysis of Service Quality, Entrepreneurial Marketing, and Intellectual Capital to increasing SME's Performance

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ABSTRAK

Penelitian ini bertujuan untuk menganalisis dan membuktikan secara empiris bagaimana meningkatkan kinerja UKM dan keunggulan bersaing berkelanjutan di Sumatera Utara melalui Pemasaran Wirausaha, Modal Intelektual, dan Kualitas Layanan, serta Kemampuan Inovasi sebagai variabel intervening. Populasi penelitian ini adalah seluruh UKM yang berjumlah 84.758 unit. Penentuan sampel dalam penelitian ini menggunakan purposive sampling: suatu teknik pengambilan sampel sumber data dengan pertimbangan tertentu . Seluruh ukuran sampel adalah 218 sampel UKM unggulan, dari delapan kategori produk UKM unggulan: Makanan dan Minuman, Kerajinan Tangan, Mode, Agribisnis, Toko Roti, Restoran, Jasa, dan Kedai Kopi. Analisis data menggunakan Smart PLS. Penelitian ini menunjukkan bahwa modal intelektual berpengaruh positif dan signifikan terhadap kemampuan inovasi, kualitas layanan berpengaruh positif dan signifikan terhadap kemampuan inovasi, dan kualitas layanan berpengaruh positif dan signifikan terhadap kinerja UKM. Pemasaran Kewirausahaan mempunyai pengaruh positif dan signifikan terhadap Kemampuan Inovasi dan Kinerja UKM; Kemampuan Inovasi memediasi hubungan antara Modal Intelektual dan Kinerja UKM secara positif dan signifikan; Kualitas Layanan dengan Kinerja UKM; Pemasaran Kewirausahaan dengan Kinerja UKM.

ABSTRACT

This study aims to analyze and prove empirically how to improve the SME's performance and sustainable competitive advantage in North Sumatera through Entrepreneurial Marketing, Intellectual Capital, Service Quality, and Innovation Capability as intervening variables. The research population consists of all 84,758 SMEs. Determining the samples in this research uses purposive sampling: a data source sampling technique with certain considerations. The sample size was 218 leading SME samples, from eight leading SME product categories: foods and beverages, handicrafts, fashion, agribusiness, bakeries, restaurants, services, and coffee shops. Data analysis uses Smart PLS. The results of this research show Intellectual Capital has a positive and significant effect on Innovation Capability; Service Quality has a positive and significant impact on Innovation Capability; Intellectual Capital has a positive and significant effect on SME Performance; Service Quality has a positive and significant impact on SME Performance; Entrepreneurial Marketing has a positive and significant effect on Innovation Capability and SME Performance; Innovation Capability positively and significantly mediates the relationship between Intellectual Capital and SME Performance; Service Quality with SME Performance; Entrepreneurial Marketing with SME Performance.

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INTRODUCTION

In 2021, SMEs contributed IDR 3,667.4 trillion, or 23.16 percent, to Indonesia's GDP. Additionally, because they employ a lot of people, SMEs are able to lower unemployment in Indonesia. If the government wishes to improve the performance of SMEs, it is not surprising to look at their vitality (Masduki & Rully, 2020). The vital existence of SMEs is due to, first the large number of industries found in every economic sector, the number of SMEs was recorded

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at 843,834 units or 1,31 percent of the total business units; second, its large potential of absorbing labor. The SME sector absorbs 9.6 million workers or 7.97 percent of the total workforce. Third, the contribution of SMEs to the Gross Domestic Product (GDP) is quite significant IDR 3,667.4 trillion (Masduki & Rully, 2020). SMEs in Indonesia have several problems such as 1) a lack of good business management among SME entrepreneurs; 2) a shortage of creativity and innovativeness among SME entrepreneurs and their employees ; 3) SMEs in Indonesia face difficulties in distributing products; 4) Not making use of digital marketing's role; 5) SMEs are still not aware of the importance of branding (Masduki & Rully, 2020).

Previous research found inconsistencies in research findings on market orientation research variables on business performance. Several studies state There are numerous other studies that show that market orientation has little effect on business performance. Business performance is significantly impacted by state market orientation (MO). Research conducted (Kajalo & Lindblom, 2015) shows that the market orientation variable does not have a significant effect on business performance. Based on the results of this research, the relationship between MO and performance can be mediated by marketing capabilities. It could be argued that MO requires complementary marketing capabilities if improvements in business performance are to be realized (Vorhies & Morgan, 2005); (Kamboj, Goyal, & Rahman, 2015). The market orientation variable has a significant effect on SMEs' performance (Kabiru Sa'ad Sa'id, 2019). Previous research has also identified the influence of market orientation on business performance (Friesen, 2015) explaining that businesses with a strong focus on the market can make more money than those with a weaker focus.

Literature Review

Entrepreneurial Marketing

According to (Deku, Wang, & Narain, 2022) (Hacioglu, Eren, Eren, & Celikkan, 2012), entrepreneurial marketing is the proactive identification and investigation of chances to acquire and hold lucrative clients through creative approaches to risk management, resource utilization, and value generation. The connection between marketing and entrepreneurship is the subject of entrepreneurial marketing. This is the result of both market orientation and entrepreneurial orientation working together. Effective or adaptable marketing is another definition of entrepreneurial marketing. Effective or tailored to the unique requirements of small enterprises is another definition of entrepreneurial marketing (Putri & Putri, 2023). Regardless of the company's size or age, some authors claim that it is a marketing initiative carried out with an entrepreneurial spirit (Putri & Putri, 2023).

Intellectual Capital

According to (Gross-Gołacka, Kusterka-Jefmańska, Spałek, & Kusterka-Jefmańska, 2021), intellectual capital is the corpus of knowledge that businesses create and employ to their advantage over rivals. Organizational capital such as; codified information, social capital, such as business networks, and human capital, such as personnel, are the sources of knowledge resources that organizations must use to build their innovative capabilities. Conversely, human resources are described as an amalgam of expertise, know-how, and information possessed by staff members of an organization (Barkat & Beh, 2018) and (Farzaneh, Wilden, Afshari, & Mehralian, 2022) suggest that while employees can generate original ideas, companies can also benefit from interactions

with clients, other employees, and the organizational knowledge base, which can provide a variety of viewpoints for improving their current offerings.

Service Quality

Service quality is described as the extent to which the expectation or the needs of consumers are provided. In the situation measurement, service quality often has been theorized because the difference between the perceived and anticipated service. Zeithaml et al., (2010) built up the SERVQUAL commendable five measurements that are assurance, reliability, tangible and responsiveness and empathy to degree service quality. The dimensions have specific service characteristics that link to the expectation of consumers. Service quality is part of service marketing strategy focuses on delivering processes, experiences, and intangibles to customers rather than physical goods and transactions. It involves integrating a focus on the customer throughout the firm and across all functions. All company functions – marketing, selling, human resources, operations, and R&D – must work together to create effective services marketing strategy. Rather than the traditional goods marketing focus on transactions and exchange, services marketing strategy is centered on the customer, usage, and relationships (Zeithaml et al., 2010).

SME's Performance

A company's SME performance can be described in a number of ways. The company's financial and non-financial measures are employed to assess its success. Sales, profitability, ROI, and ROA are examples of financial performance metrics, whereas customer satisfaction, customer retention, and product/service quality are examples of non-financial performance metrics. (Hempenius, 2012). According to (Rapih, 2015) SME performance indicators include the following: 1) growth in sales; 2) expansion in customers; and 3) growth in profits. The book Marketing Metrics: 50+ Metrics Every Executive Should Master (Bendle et al., 2010) list and explanation of the key metrics used in practice and academia. The following nine major categories comprise these metrics: 1) market, consumer, and heart share; 2) margins and profits; 3) product and portfolio management; 4) customer profitability; 5) pricing strategy; 6) promotion; 8) ads and web metrics; 9) marketing and finance. In this study, the firm's performance is measured using both financial and non-financial characteristics. Market share, profitability, the firm's financial growth, and sales development are examples of financial performance metrics. Start-up objectives, job security, and employee satisfaction are examples of non-monetary metrics.

RESEARCH METHODS

The populations in this study were all SMEs in North Sumatra, totaling 84.758 SMEs. Determining Purposive sampling was employed to choose the study's sample: A sampling approach for data sources with specific considerations (Sugiyono, 2010). The following are the sample selection criteria: 1) Leading SMEs in North Sumatra; 2) SMEs that have the potential to digitalization and scale up ; 3) SMEs that have the potential to develop domestic and global markets; 4) SMEs that can be directed to provide excellent service to customers. From the criteria, the number of samples is 218 Leading SMEs in North Sumatra, Indonesia from eight leading SME product categories such as Culinary, Handy craft, Fashion, Bakery, Restaurant, Coffee Shop, Agribusiness, and Services. When employing structural equation modeling, the sample size should be at least five times the number of variable indicators, or between 100 and 200 (Hamdollah & Baghaei, 2016; Hair et al., 2012). This research uses 38 variable

indicators so the minimum sample requirement is 180 SMEs. Data analysis using Smart PLS. Respondents in this research are SME owners or SME managers.

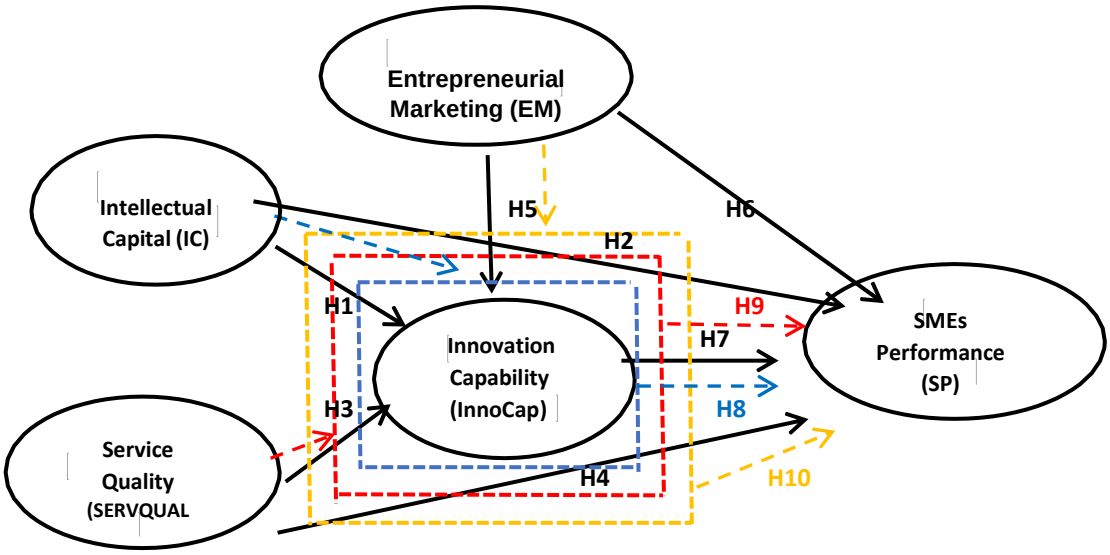
Table 1.
Research Variables, Dimensions, and Indicators

No	Variable	Dimensions	Indicators
1	**Intellectual Capital (Barkat & Beh, 2018)**	Human Capital	Employee values
			Employee attitude
			Employee talent
		Organizational Capital	Core Value UKM
			Organizational Structure
			Organizational Process
			Organizational Culture
		Relational Capital	Building relationship with customers
			Building relationships with supplier
			Building relationship with the government
			Building relationships with creditor
2	**Service Quality) (Zeithaml et al., 2010)**		Assurance
			Empathy
			Reliability
			Responsiveness
			Tangibles
3	**Entrepreneurial Marketing (Deku et al, 2023)**	Proactiveness	Proactiveness
		Opportunity Focus	Opportunity Focus
		Calculated Risk Taking	Calculated Risk Taking
		Innovativeness	Innovativeness
		Customer Intensity	Customer Intensity
		Resource Leveraging	Resource Leveraging
		Value Creation	Value Creation
4	**Innovation Capability (Fitz-koch & Nordqvist, 2019)**	Sensing Capability	Find areas where product innovation can be implemented
			Acknowledge the ever-changing environment .
		Seizing Capability	Capacity to select a business model and seize possibilities
			Product development focused on the market
		Transforming Capability	Ability to change, integrate, reconstruct, renovate
			Transforming resources into sources of competitiveness
		Breakthrough Concept Capability	Product diversity, replacing old products, improving product quality
			A new product that never existed before
	SMEs Performance (Hempenius,	Financial Performance	Purchases
			Growth in Sales

No	Variable	Dimensions	Indicators
5	**2012);**		Earnings
			Repayment Time
		Non-Financial Performance	Client Contentment
			Retention of Customers
			Employee Contentment

Source: Processed by author

Figure 1.



Conceptual Framework

Source: (Lee, 2010)

Hypothesis

H1: Intellectual Capital has a positive and significant effect on Innovation Capability

H2: Intellectual Capital has a positive and significant effect on SMEs' Performance

H3: Service Quality has a positive and significant effect on Innovation Capability

H4: Service Quality ty has a positive and significant effect on SMEs' Performance

H5: Entrepreneurial Marketing has a positive and significant effect on Innovation Cap

H6: Entrepreneurial Marketing has a positive and significant effect on SMEs Performance

H7: Innovation Capability has a positive and significant effect on SMEs Performance

H8: Intellectual Capital has a positive and significant effect on SME performance through Innovation Capability

H9: Service Quality has a positive and significant effect on SME performance through Innovation Capability

H10: Entrepreneurial Marketing has a positive and significant effect on SME performance through Innovation Capability

RESULTS AND DISCUSSIONS

Results

Relationship between product categories and leading SME Performance

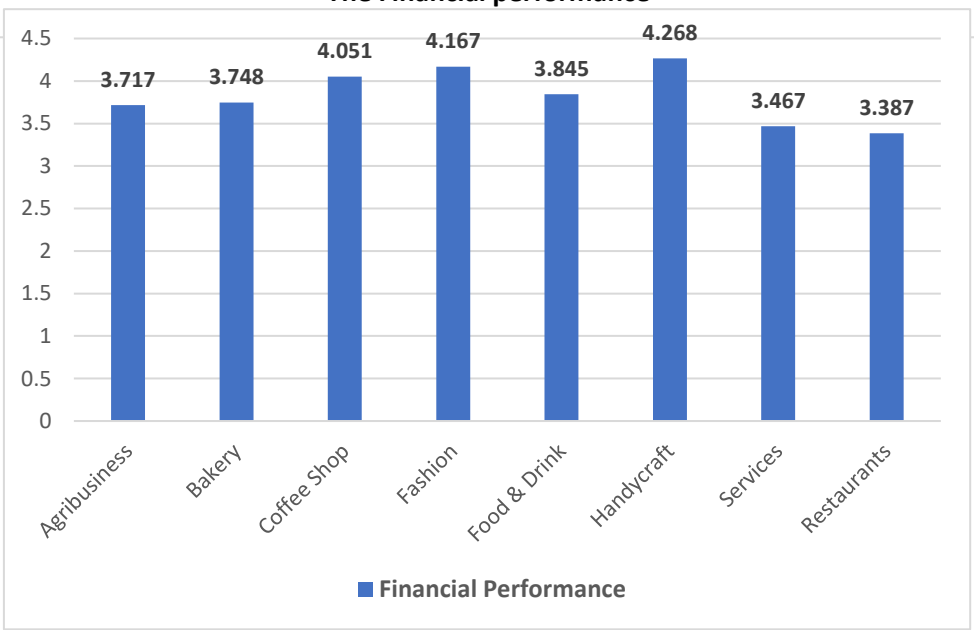
The relationship between product categories and leading SME Performance is given in Table 2 and Figures 2 and 3.

Table 2.
Relationship between Product Categories and SMES Performance

SME Product Category	Financial Performance	Non-FinancialPerformance	SMEs Performance
Agribusiness	3.717	3.763	3.740
Bakery	3.748	3.894	3.821
Coffee Shop	4.051	4.135	4.093
Fashion	4.167	4.355	4.261
Food & Drink	3.845	3.941	3.893
Handy craft	4.268	4.457	4.363
Services	3.467	3.572	3.519
Restaurants	3.387	3.692	3.539
Average	3.781	3.976	3.903

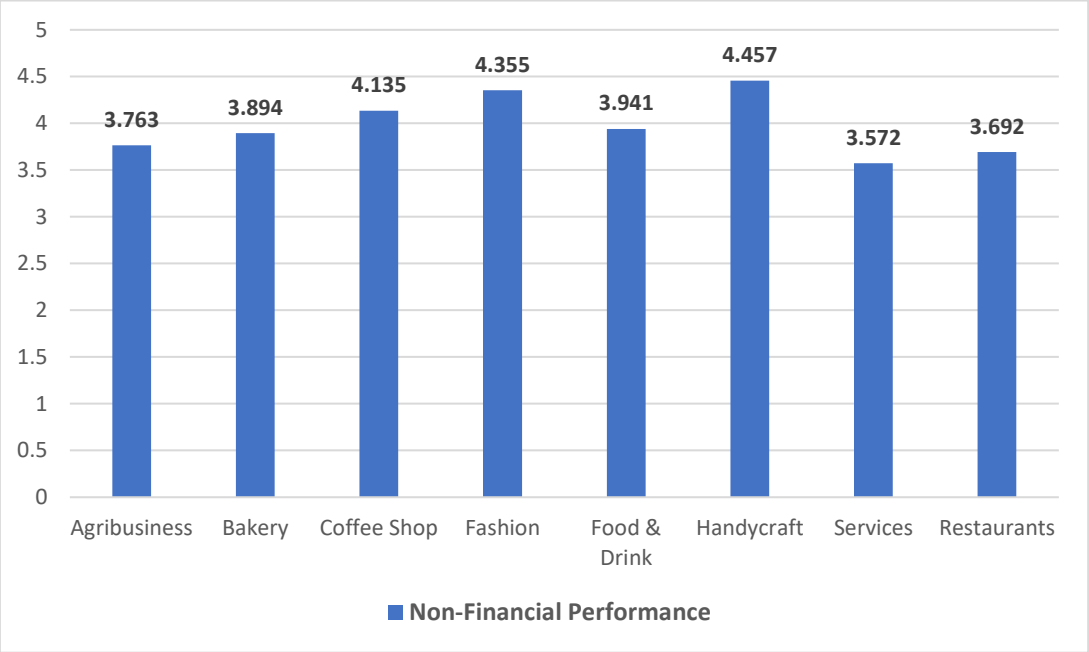
Source: Research result (2023)

Figure 2.
The Financial performance



Source: Research result (2023)

Figure 3.
The Non - Financial performance



Source: Research result (2023)

From Table 2 and Figures 2 and 3 it can be seen that in terms of financial performance, handy craft products have an average score (4.268). Meanwhile in terms of non-financial performance handy craft products have an average score (4.457), Then followed by fashion products, financial performance (4.167), and non-financial performance (4.355). Next, the coffee shop has financial performance (4.051), and non-financial performance (4.135).

Relationship between Domicile and Leading Smes Performance

The relationship between domicile and performance of leading SMEs is presented in Table 2 and Figures 3 and 4.

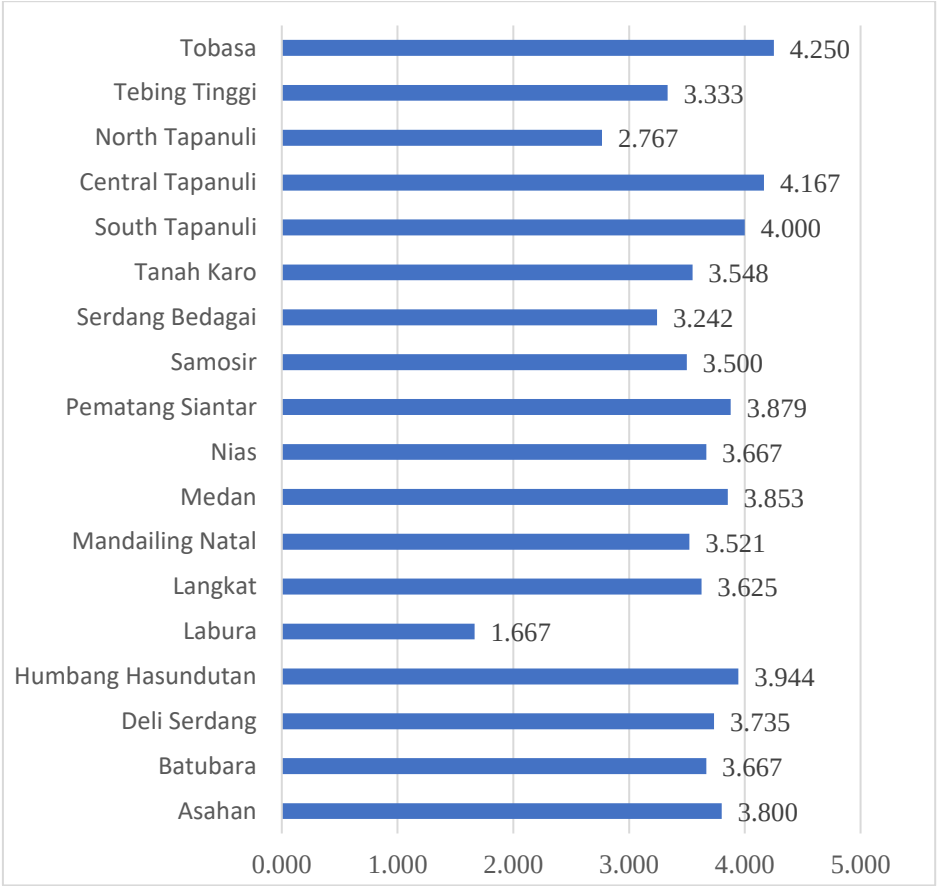
Table 3.
Relationship between Domicile and Leading SMEs' Performance

Area	Financial Performance	Non-FinancialPerformance	SMEs Performance
Asahan	3.800	3.850	3.829
Batubara	3.667	3.800	3.743
Deli Serdang	3.735	3.831	3.790
Humbang Hasundutan	3.944	4.208	4.095
Labura	1.667	1.750	1.714
Langkat	3.625	3.797	3.723
Mandailing Natal	3.521	3.672	3.607
Medan	3.853	3.968	3.919
Nias	3.667	3.425	3.529
Pematang Siantar	3.879	4.091	4.000

Area	Financial Performance	Non-FinancialPerformance	SMEs Performance
Samosir	3.500	3.458	3.476
Serdang Bedagai	3.242	3.244	3.243
Tanah Karo	3.548	3.500	3.520
SouthTapanuli	4.000	4.200	4.114
Central Tapanuli	4.167	4.250	4.214
North Tapanuli	2.767	2.875	2.829
Tebing Tinggi	3.333	3.719	3.554
Tobasa	4.250	4.406	4.339
Rata-Rata	3.718	3.823	3.778

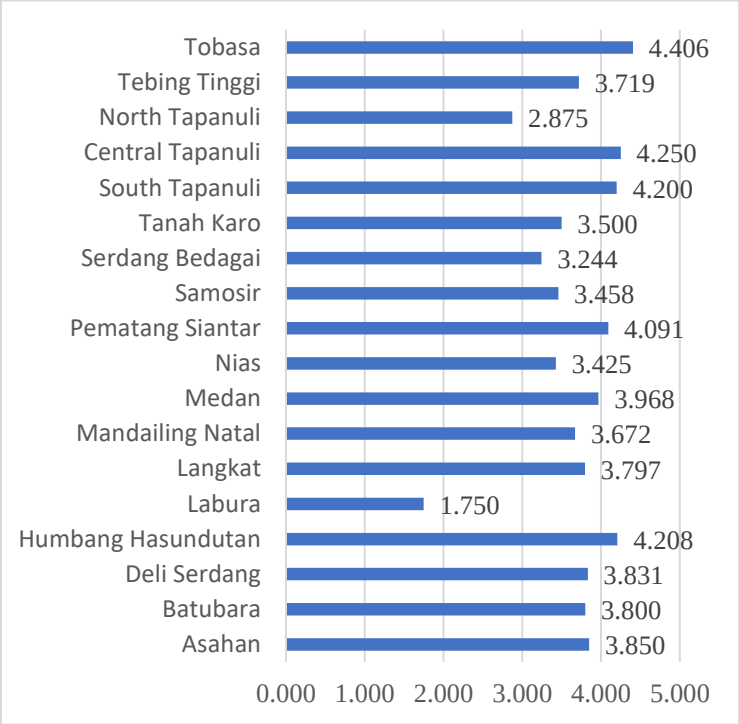
Source: Research result (2023)

Figure 4.
Financial Performance



Source: Research result (2023)

Figure 5.
Non-Financial Performance



Source: Research result (2023)

From Table 3 and Figures 4 and 5 it can be seen that in terms of financial performance, Tobasa has an average score (4.250). In terms of non-financial performance, Tobasa has an average score (4.406). Then followed by Central Tapanuli's financial performance (4.167), non- financial performance (4.250). Furthermore, South Tapanuli's financial performance is (4.000), non-financial performance (4.200).

Direct Effect

The result of the Smart PLS algorithm in assessing the path coefficient directly is served in Table

Table 4.
Direct effect

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (|O/STDEV|)	P Values
Intelectual_Capital -> Innovation_Capability	1.002	1.005	0.083	12.037	0.000
Intelectual_Capital -> SMEs_Performance	1.179	1.177	0.167	7.065	0.000
Service_Quality -> Innovation_Capability	0.091	0.089	0.050	3.385	0.004
Service_Quality ->SMEs_Performance	0.669	0.669	0.062	11.052	0.000
Entrepreneurial_Marketing -> Innovation_Capability	0.173	0.176	0.078	2.222	0.013
Entrepreneurial_Marketing -> SMEs_Performance	0.337	0.343	0.120	2.813	0.002

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (|O/STDEV|)	P Values
Innovation_Capability -> SMEs_Performance	0.535	0.525	0.127	4.198	0.000

Source: Research result (2023)

The following is a discussion of each hypothesis test based on the results of the test carriedout:

1. The impact of Intellectual Capital on Innovation Capability (p = 0,000 < 0,05) indicates a positive and substantial relationship between the two, with H0 being rejected and H1 being received.
2. The impact of intellectual capital on the performance of SMEs (p = 0,000 < 0,05) results in the rejection of H0 and the receipt of H1, indicating a positive and substantial relationship between the two.
3. The impact of Service Quality on Innovation Capability (p = 0,004 < 0,05) results in the rejection of H0 and the receipt of H1, indicating a positive and significant relationship between the two.
4. The influence of Service Quality on SMEs Performance (p = 0,000 < 0,05) then H0 is rejected H1 is received, meaning that there is a positive and significant influence between Service Quality and SMEs Performance.
5. The impact of Entrepreneurial Marketing on Innovation Capability (p = 0,013 < 0,05) indicates a positive and substantial relationship between the two, with H0 being rejected and H1 being received.
6. The impact of entrepreneurial marketing on the performance of SMEs (p = 0,002 < 0,05) results in the rejection of H0 and the receipt of H1, indicating a positive and significant relationship between the two.
7. The impact of Innovation Capability on SMEs Performance (p = 0,000 < 0,05) indicates a positive and substantial relationship between Innovation Capability and SMEs Performance, with H0 being rejected and H1 being received..

Indirect Effect

Indirect influence is the magnitude of influence through mediating variables. The magnitude of the indirect influence of the independent variables on the dependent variables can be summarized inTable 5.

Table 5.
Indirect effect

	The initial sample (O)	Mean of the Sample (M)	Deviation Standard (STDEV)	T Statistics (|O/STDEV|)	P Values
Intelectual_Capital -> Innovation_Capability -> SMEs_Performance	0.536	0.533	0.153	3.508	0.000
Service_Quallity -> Innovation_Capability -> SMEs_Performance	0.091	0.089	0.034	2.633	0.004
Entrepreneurial_Marketing -> Innovation_Capability -> SMEs_Performance	0.092	0.097	0.056	1.652	0.049

Source: Research result (2023)

Based on Table 5, the research results to answer the research hypothesis are as follows:

1. Innovation Capability has an indirect impact of Intellectual Capital on SME performance, with a p-value of 0.000 < 0.05 and a 0.0536 value. Thus, through innovation capability, intellectual capital indirectly significantly affects the performance of SMEs.
2. Through Innovation Capability, Service Quality has an indirect impact on SME performance of 0.091, with a p-value of 0.004 < 0.05. Thus, through innovation capability, service quality has a major indirect impact on SMEs' performance.
3. Through Innovation Capability, Entrepreneurial Marketing has an indirect impact on SME performance (0.092, p-value 0.049 < 0.05). Thus, through innovation capability, entrepreneurial marketing significantly influences SMEs' performance in an indirect manner.

Discussion

The research findings support hypothesis 1, which states that intellectual capital significantly and favorably influences innovation capability, according to the findings and hypothesis testing. The link between innovation capability and intellectual capital is unidirectional. These findings align with earlier studies (Siahaan & Tan, 2020). To innovate, this company needs knowledge that comes from intellectual capital assets. Knowledge gained from employees, networks, and embedded in an organization's structure or culture used to advance marketing programs, technology skills, and customer-focused strategies, might raise the caliber of goods or services in comparison to rivals. Innovation capability acts as a transformer separating organizational assets into much stronger capabilities enabling companies to handle hyper-competition, uncertainty, ambiguity, and short product life cycles. Businesses must use the knowledge resources that are already embedded in their organization or company to improve their capacity for innovation. These resources come from three sources: organizational capital (codified knowledge), social capital (business networks), and human capital (workers) (Barkat & Beh, 2018).

The research results also answer hypothesis 2 The way SMEs operate is positively and significantly impacted by intellectual capital. There is a unidirectional between Intellectual Capital and SME performance. The higher Intellectual Capital causes the higher SME performance. These results are in line with the previous research when intellectual capital is increased it will have increased stakeholder confidence in the company's survival which can influence the company's stock return (Rehman, Bresciani, Ashfaq, & Alam, 2021).

The research results answer hypothesis 3 Service Quality has a positive and significant effect on Innovation Capability. Companies to enhance learning capacities to better distribute and apply knowledge. By gathering, disseminating, and applying employee information, learning capacities can more effectively foster employee creativity and knowledge. Employee contact generates ideas that help create an environment that inspires innovation within the firm (Farzaneh, Wilden, Afshari, & Mehralian, 2022); (Saunila, 2020); (Teece, 2007).

The research results answer hypothesis 4 Service Quality has a noteworthy and favorable impact on SME performance. The results of this research are in line with what was said by (Sok, O'Cass, & Sok, 2013) made a significant contribution to RBV Theory. Resource-based Theory that a firm's ability to develop and deploy various internal capabilities (e.g. marketing innovation, learning capabilities) is important for sustainable growth and profitability. These findings highlight that some SMEs perform better than other SMEs that do not rely entirely on developing and deploying capacity for learning. (Mbengue & Sane, 2013) Emphasizes that

organizational learning is a collection of management techniques that facilitate the learning process or a collection of processes that strengthen the organization's capacity to maintain and improve performance.

The research results answer hypothesis 5 Entrepreneurial Marketing has a positive and significant effect on Innovation Capability. (Morris, Schindehutte, & LaForge, 2002) Emphasized The relationship between marketing and entrepreneurship is covered by entrepreneurial marketing. This is the result of combining market orientation with entrepreneurial orientation. Entrepreneurial Marketing is also defined as a theory of effective marketing or adaptation to the special needs of small businesses.

The research results from (Lee & Hsieh, 2010) demonstrate how entrepreneurship significantly affects one's capacity for inventiveness. The more entrepreneurial spirit an organization possesses—product innovation, initiative, risk-taking, and constant participation in membership activities—the more likely it is to support the development of innovation capabilities in management, marketing, process innovation, and product innovation. The findings of the study from (Battor & Battour, 2010) demonstrate how innovation capabilities are significantly impacted by marketing capabilities. Innovation and corporate success will be further stimulated by improved marketing capabilities in the areas of customer relationship management, market analysis, product differentiation, and customer service (Saribanon, Simarmata, Yuliantini, Wardana, & Ramdhany, 2024).

The research results also answer hypothesis 6. Entrepreneurial Marketing has a positive and significant effect on SMEs' Performance. The research result (Lee & Hsieh, 2010) further demonstrates how improved entrepreneurship would boost company success, including marketing and financial performance. The findings of the study from (Battor & Battour, 2010) show that customer relationship management has a significant effect on innovation. In the meanwhile, innovation significantly impacts business performance (Suma, 2024). According to earlier studies, entrepreneurial marketing boosts both marketing and inventive performance. (Hacioglu, Eren, Eren, & Celikkan, 2012). The findings of the study support the validity of hypothesis 7. The performance of SMEs is positively and significantly impacted by innovation capability. Financial performance increases with the level of innovation capability, which includes innovative product, process, management, and marketing innovation. The findings of this investigation align with earlier findings from (Battor & Battour, 2010).

CONCLUSIONS

The study of research data has led to the conclusion that intellectual capital significantly and favorably affects both SME performance and innovation capability. The association between SME performance and intellectual and innovation capability is unidirectional. Business owners need to concentrate on and pay attention to the three aspects of intellectual capital: relational, organizational, and human capital. Innovation Capability and SME success are positively and significantly impacted by service quality. Service quality, innovation capability, and SME performance are all correlated in a one-way fashion. The higher service quality causes a higher innovation capability, likewise, the better service quality causes the better SME performance. Companies need to develop service qualities to improve the dissemination and use of knowledge. Entrepreneurial Marketing has a positive and significant effect on Innovation Capability and also on SME performance. There is a unidirectional relationship between Entrepreneurial Marketing Innovation Capability and also SME performance. By calculating risk-taking, customer intensity, and value creation. Entrepreneurial Marketing is proactively seeking out and investigating chances to acquire and hold onto profitable

customers through an innovative approach to calculated risk-taking, customer intensity, and value creation. Innovation Capability has a positive and significant effect on SME performance. There is a straight-line relationship between innovation capability and SME performance. A stronger innovation capability causes stronger SMEs performance. From the indirect influence, Innovation Capability as an intervening variable can mediate the relationship between three antecedent variables: Intellectual Capital, Service Quality, and The performance of SMEs is positively and significantly impacted by entrepreneurial marketing.

The important resulting from this research is as an input for SME business actors, SME managers, and management practises is an effort to increase the innovation capabilities of SMEs, in line with the wishes of the Government of the Republic of Indonesia through the Ministry of Cooperatives and SMEs, targeting SMEs to be able to upgrade, SMEs can go international. SMEs must increase creativity and innovation so that SME products and services can penetrate international markets.

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