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The Effect of Intellectual Capital and Innovative Work Behavior on Business Performance

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A B S T R A C T

The twenty-first century is a century of knowledge, discovery, and innovation, with rapid advances in science and information technology marking significant developments. The level of competitiveness within organizations is increasing. This truth motivates entrepreneurs to grow in order for their businesses to thrive. The major goal of this research is to examine how intellectual capital and innovative work behavior affect business performance in SMEs. The author then explains the three constructions' conceptual structure. To further understand the relationship between variables, quantitative methods based on Structural Equation Modeling (SEM) and Partial Least Squares (PLS) variance were used. Participants were chosen from SMEs in Yogyakarta, Indonesia, via an online questionnaire. The findings of this research show that intellectual capital and creative work behavior have a positive and significant effect on business performance. SMEs can use intellectual capital to define expected performance and as a tool to evaluate performance to develop employees who will be able to meet the needs of SMEs in the future. Furthermore, it demonstrates that SMEs, not just large corporations, can attain high-performance levels through synchronizing intellectual capital and innovative work behavior.

A B S T R A K

Abad kedua puluh satu adalah abad pengetahuan, penemuan atau inovasi, dan perubahan yang ditandai dengan pesatnya kemajuan ilmu pengetahuan dan teknologi informasi. Persaingan organisasi bisnis semakin kompetitif. Fakta ini mendorong para pelaku bisnis untuk mengembangkan diri agar bisnisnya dapat bertahan. Tujuan utama dari penelitian ini adalah untuk mengetahui efek intellectual capital innovative work behavior terhadap business performance. Penulis kemudian menyajikan struktur konseptual ketiga konstruk tersebut. Untuk lebih memahami hubungan antar variabel, digunakan metode kuantitatif berdasarkan Structure Equation Modeling (SEM) dan varians Partial Least Square (PLS). Partisipan dipilih dari UKM di Yogyakarta, Indonesia, melalui kuesioner online. Hasil penelitian ini membuktikan intellectual capital dan innovetive work behavior memiliki efek positif dan signifikan terhadap business performance. Intellectual capital dapat digunakan UKM untuk menciptakan kinerja yang diharapkan dan sebagai alat untuk mengevaluasi kinerja untuk menciptakan karyawan yang akan bertahan dari kebutuhan UKM di masa depan. Selain itu, UKM dapat mencapai tingkat kinerja yang tinggi dengan mengkoordinasikan intellectual capital dan innovative work behavior, bukan hanya bisa diraih oleh perusahaan besar semata.

1. INTRODUCTION

The century of openness or globalization implies that human life in the twenty-first century undergoes major changes that differ from the preceding century's way of life. In a nutshell, it is a century of knowledge, invention/innovation, and change (Kuncoro & Suriani, 2018; Örnek & Ayas, 2015), characterized by the rapid advancement of information technology. Organizational competition is becoming more competitive as technology and science develop (Etikariena & Kalimashada, 2021). The emergence of numerous types of enterprises

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and the like creates competition. The problems and rivalry that business organizations confront today are diverse, prompting business people to develop themselves to keep their businesses afloat, one of which is increasing managerial performance and introducing new ideas (Darsono, 2020). Organizations must be able to react to quick economic changes and achieve a competitive advantage, which requires innovation (Bos-Nehles et al., 2017). Organizations continue to stress modern work processes, pleasant services, and creative goods as a strategic objective (Caniels & Veld, 2019; Dahiya & Raghuvanshi, 2021). Firms benefit from innovation because they can respond to issues faster and better exploit new goods and market opportunities (Jiménez-Jiménez & Sanz-Valle, 2011). Organizations can reap various benefits from innovation, including greater productivity (Fu et al., 2018), organizational competitiveness (Hermundsdottir & Aspelund, 2021), improved company performance (Ferreira et al., 2019), and increased profitability (López-Cabarcos et al., 2020). To stay competitive and survive in the long run, businesses must constantly innovate (Santoso & Heng, 2019). For many firms, innovative work behavior is critical in this process to compete and obtain unique benefits (Efandi & Syuhada, 2021). Innovative work behavior has become a significant context because of the pressures to increase productivity and results for the firm or organization. Efforts are made to emphasize the parties involved in competing with competitors during operational activities so that they can adapt to the global business scope through innovation (Abdullatif et al., 2016). As a result, all existing human resources must be innovative to accomplish a corporate organization's aspirations (Odoardi, 2015).

Because the many phases and activities of innovation necessitate action from employees in the form of work behavior targeted to the development of new beneficial objects, innovation has a close relationship with individual or employee engagement. Individually, innovative work behavior occurs due to personal creativity (Niesen et al., 2018). Staff plays a vital part in bringing innovation to life; hence several firms throughout the world encourage innovative behavior in their employees (Etikariena & Muluk, 2014). One method for firms to become more innovative is encouraging their people to be innovative (Agarwal, 2014). Employees can give optimal work results with innovative work behavior, allowing firms to boost business performance and win the competition (Shanker et al., 2017).

On the other hand, the function of intellectual capital is beginning to emerge in efforts to improve a company's business performance to remain competitive and survive in the long run (Örnek & Ayas, 2015). This is because, in the previous decade, the knowledge-based economy concentrated on knowledge and intellectual capital as the key production variables influencing a business organization's economic development (Pulic, 2010). It makes intellectual capital management the primary duty of an organization's management (Castro et al., 2019). Companies that grasp the concept of intellectual capital are more successful because they recognize how vital it is to their business (Feimianti & Anantadjaya, 2014). In order to compete with other businesses, the organization regularly upgrades its capabilities and knowledge. As a result, in today's economic environment, intellectual capital has become a very important asset (Andreeva & Garanina, 2016). Intellectual capital is the sum of everything that everyone in the business knows, giving various market-competitive advantages (Chahal & Bakshi, 2014; Yaseen et al., 2016). Businesses with such a significant strength can persist for many years and achieve a competitive edge if they direct their intellectual resources toward innovative business behavior. Individual conduct that allows employees to develop and bring new and helpful ideas, procedures, and products to the workplace is innovative work behavior (Mura et al., 2012).

This research extends the study by Örnek & Ayas (2015), which only looked at the indirect effect of intellectual capital on business performance through innovative work behavior. As a result, the major goal of this research is to determine the relationship between a company's intellectual capital and innovative work behavior and how to reflect this relationship on commercial success. The author then presents the three constructions' conceptual structure. So far, research has found a link between intellectual capital, innovative work behavior, and business performance. However, research on intellectual capital, innovative work behavior, and business performance of Small and Medium Enterprises (SMEs) is still scarce, especially during the Covid-19 outbreak, which requires business organizations to review their strategies. SMEs can achieve high-performance levels through synchronizing intellectual capital and innovative work behavior. This research is expected to explain to SMEs that intellectual capital is a crucial resource that cannot be separated from business activities. Transferring intellectual capital into innovation is

required to build such ties. If the intellectual capital invested in innovation is well managed in the business, it leads to improved performance.

2. THEORETICAL FRAMEWORK AND HYPOTHESES

The following section discusses theoretical studies and previous studies that underlie the development of hypotheses for this research.

Intellectual Capital

Stewart (1991) defines intellectual capital as the knowledge within the organization that can be utilized to create a competitive advantage. It may consist of knowledge such as patents, managerial skills, technology, and unique experience. Intellectual capital is the brain power of enterprises (Örnek & Ayas, 2015).

The three basic components of intellectual capital are human capital, structural capital, and customer capital. When these components are in sync, they can boost creativity, drive innovation, and make feedback easier (Pazarceviren & Kaya, 2018). Human capital is a set of abilities, skills, expertise, and experience (Adesina, 2019). It will leave the company when the employee leaves. Technical expertise, technological knowledge, education-focused time, educational background, professional competence, professional qualifications, work of cherished values, rate of staff reduction, psychological assessment, and innovation are all examples of human capital (Wee & Chua, 2013). Employee skills, experience, and knowledge provide economic value to the company (Claver-Cortés et al., 2015). Knowledgeable and skilled employees can help a company improve its performance and assure its existence (Bayraktaroglu et al., 2019; Scafarto et al., 2016).

After a given amount of time, human capital transforms into structural capital. Structural capital has two primary components: intellectual property and infrastructure assets (Sidharta & Affandi, 2016). Structural capital is everything remaining in a business after everyone leaves the company (Cleary, 2015). The concept of structural capital is similar to that of a corporate structure. This assures the company's survival and progress toward its goals, even amid ongoing interaction with other variables (Gogan et al., 2015). It is a vital driver of the firm value (Hejazi et al., 2016).

Customer capital exists in every firm that has customers. It functions as a link between human and structural capital (Aksakal, 2020). To put it simply, customer capital represents the long-run relationship between customers and the company (Örnek & Ayas, 2015). Customers who are loyal and satisfied with the services offered generate customer capital. This will keep them returning to the company in question (Chen et al., 2020). In terms of intellectual capital, customer capital is the most important aspect (Örnek & Ayas, 2015).

Innovative Work Behavior

Innovation is the consequence of processing information and expertise that focuses on a certain topic (Ritala et al., 2015). The formulation of ideas and the implementation of those ideas are the two aspects of the work innovation process (Niesen et al., 2018). The process of producing new ideas to meet work-related difficulties or obstacles is called formation. Adopting new methods in regular job tasks and implementing new concepts (Sudibjo & Prameswari, 2021).

De Jong & Den Hartog (2010) reinforces the role of individuals or employees in innovative work behavior (IWB), which shows that employees go beyond routine tasks formed in groups or organizations to seek out the latest technology, advocate for new ways to achieve goals, perform current work methods, and secure resources to support their original ideas. Higher-order thinking patterns, detecting present and future difficulties, seeking opportunities, examining performance gaps and looking for current approaches to address these gaps and problems are all part of innovative work behavior (Afsar, 2016; Masyhuri et al., 2021). Employees that engage in innovative work behavior (IWB) can recognize new work conditions quickly and properly, as well as propose original ideas to improve services and goods (Afsar et al., 2018). Four features of innovative behavior are problem exploration, idea generation, idea championing, and implementation of innovative ideas (Bos-Nehles et al., 2017).

The idea exploration step of the innovation process involves exploring opportunities. At this point, new ways to improve existing products and services are being sought (Örnek & Ayas, 2015). This stage includes activities such as the establishment of company processes and the search for alternative new products and services. This stage includes extensive market research and client feedback evaluation. As a result, it is clear what type of innovation is required in certain domains. The second phase is to determine an exploration idea after the location and path to be traversed been determined (De Jong & Den Hartog, 2010).

Idea generation is related to the creation of a new product or service and the process of entering a new market or resolving a business problem. This stage aims to collect and select useful information to solve problems or improve performance (Örnek & Ayas, 2015). In the idea generation process, re-editing new components generated through constant modification is critical (De Jong & Den Hartog, 2010). Many elements contribute to the development of innovative ideas, such as unexpected developments, discrepancies between expectations and results achieved, process needs, changes experienced in the sector or market, demographic changes, changes in perception, and the construction of new information about the business (Örnek & Ayas, 2015).

Idea Championing includes finding support for ideas, relying on innovative behavior, forming an enthusiastic framework, including employee rights in the process, and assuring immortality (De Jong & Den Hartog, 2010). Innovative solutions appear tempting, with the hope of filling performance gaps. In terms of business, many of the advantages of a business idea and the costs of developing and/or implementing it are uncertain (Örnek & Ayas, 2015). As a result, creative ideas should be championed, enriched, and brought to colleagues, executives, and consumers ready to be adopted (De Jong & Den Hartog, 2010).

Idea implementation is crucial because if the concept of an innovative idea is not used in the commercial world, it is pointless. The fact that innovative ideas are put into action is proof of their worth. The innovation process is complete with the idea of implementing the prototypes being fought for. Customer feedback can determine the efficiency and production of innovative ideas (Scott & Bruce, 2017). Only by working as a coordinated and integrated team during the implementation stage of an idea will they be able to take innovation one step further and make it a routine in the business (Radaelli et al., 2014).

Business Performance

Business performance is one of the topics that has received much attention in the management literature. As a result, performance metrics are critical for charting a course. It is impossible to manage or control something that cannot be quantified (Örnek & Ayas, 2015). Although business performance is primarily concerned with the financial side, obtaining an appropriate estimate in the research undertaken is difficult. The first issue arises in business work units that operate in various industries. The second type is prevalent in private-sector enterprises. Because data or sensitive business owners to give data about their businesses is tough to reach in both types of businesses (Eniola & Entebang, 2015).

Financial and non-financial data can objectively or subjectively measure business performance. Quantitative data can be used to achieve objective assessments, while perceptual questions can be used to achieve subjective measures based on competition or business expectations (Zehrer et al., 2017). Financial indicators such as increasing business sales, profitability, investment, attained sales, and equity capital are used to assess the objective performance of financial indicators (Van Looy & Shafagatova, 2016). Subjective performance indicators, such as market share, the number of new items introduced to the market, product quality, marketing activities, and technological activities, are employed in non-financial company performance measurements (Singh et al., 2016). Both objective (financial) and subjective (non-financial) indicators can be used to evaluate business performance. Business financial and non-financial indicators are measured using the balanced scorecard (Zula & Chermack, 2016). Market-based and value-based metrics provide more precise findings in gauging business performance than accounting-based measures (Rajapathirana & Hui, 2018). The objective performance metrics approach is considered more dominating and respectable in terms of reflecting company financial goals.

Resource-Based Theory and Knowledge-Based Theory

Resource-based theory refers to a firm's resources that may be leveraged as a competitive advantage and can help the firm achieve strong long-term results (Quaye & Mensah, 2019). This theory examines the resources that can offer a firm added value and a competitive edge if the firm can effectively and efficiently process and utilize its resources (Nolan & Garavan, 2016). While knowledge-based theory assumes that information is the most significant resource in a company's long-term viability, knowledge will always be present in the activities and production process (Lozano et al., 2015). Individuals or organizations within the firm are in charge of developing, innovating, and sharing information for the company's advantage. Through the use of two variables, we can see that intellectual capital and innovative work behavior are not only important aspects of these two theories but also the perceived benefits to the firm by achieving

performance improvements such as increased productivity, employee commitment, profit growth, and sales and employment growth.

Intellectual Capital and Business Performance

By owning, managing, and exploiting essential strategic assets, the company will excel in commercial rivalry and get favorable results (tangible and intangible assets). Intellectual capital is a type of intellectual property that focuses on human resources and boosts a company's competitiveness (Scafarto et al., 2016). It is predicted that when human resource capability improves, the company's performance will improve, resulting in increased profitability (López-Cabarcos et al., 2020; Tiwari, 2021). As a result, if a corporation can effectively manage and grow intellectual capital, its business performance will increase. This situation will give the organization a competitive advantage (Chahal & Bakshi, 2015; Yaseen et al., 2016). Intellectual capital is thought to play a significant impact in boosting the value of a company. Several studies show that intellectual capital has a positive and significant impact on business performance (Ahmed, 2019; Chahal & Bakshi, 2014; Cleary & Quinn, 2016; Örnek & Ayas, 2015; Rahayu & Ramadhanti, 2019; Widhiadnyana & Ratnadi, 2019).

H_1: Intellectual capital has a positive and significant impact on business performance

Innovative Work Behavior and Business Performance

Business performance represents an organization's success, suggesting that the higher the commercial enterprise's overall performance (Sumiati, 2020). Because business performance (BP) is a broad and general concept and a complex construct, the authors will only discuss it concerning innovation and small and medium-sized enterprises. Maldonado-Guzmán et al. (2018) argue that relatively few analyses and discussions on innovation and business performance on this business measure have been published. On the other hand, Expósito & Sanchis-Llopis (2019) state that much research has been done on this topic in recent decades. However, the authors point out that some studies' conclusions are varied and ambiguous due to the intensity of innovation resources and thus the major constraints of small and medium firms' innovative potential (Sok et al., 2016). Although empirical studies on the interrelationships between the different dimensions of innovation and business performance have not yielded conclusive results, there is general agreement that innovation and business performance are multi-dimensional (Camisón & Villar-López, 2014; Kafetzopoulos et al., 2020; Mensah et al., 2012; Prajogo, 2016;). Outcome-related and outcome-focused performance metrics are the two most common forms of measuring business performance (Silva et al., 2019). However, Löfsten (2014) says that long-term profit is the essential indicator for firm survival, profit, sales growth, and employment growth. They are appropriate metrics to analyze the relationship between innovation and business performance (Zahra, 2017).

In the context of the business performance of SMEs, innovation has a significant positive impact not only on finances (increased sales and lower production costs in subsequent years) but also on operations (productive capacity and product/quality services) (Expósito & Sanchis-Llopis, 2019; Jankelová et al., 2021). According to Kraus et al. (2012), there are considerable disparities in creativity and business performance between family and non-family enterprises. Brines et al. (2013) confirmed this theory in the case of SMEs. National, regional, cultural, or sectoral features and environmental governance considerations are moderating factors in the innovation-performance link (Saunila, 2016; Yang, 2017). Based on these findings, the second study hypothesis is:

H_2: Innovative work behavior has a positive and significant impact on business performance

Based on the above explanations, the conceptual model of this study is presented in Figure.1

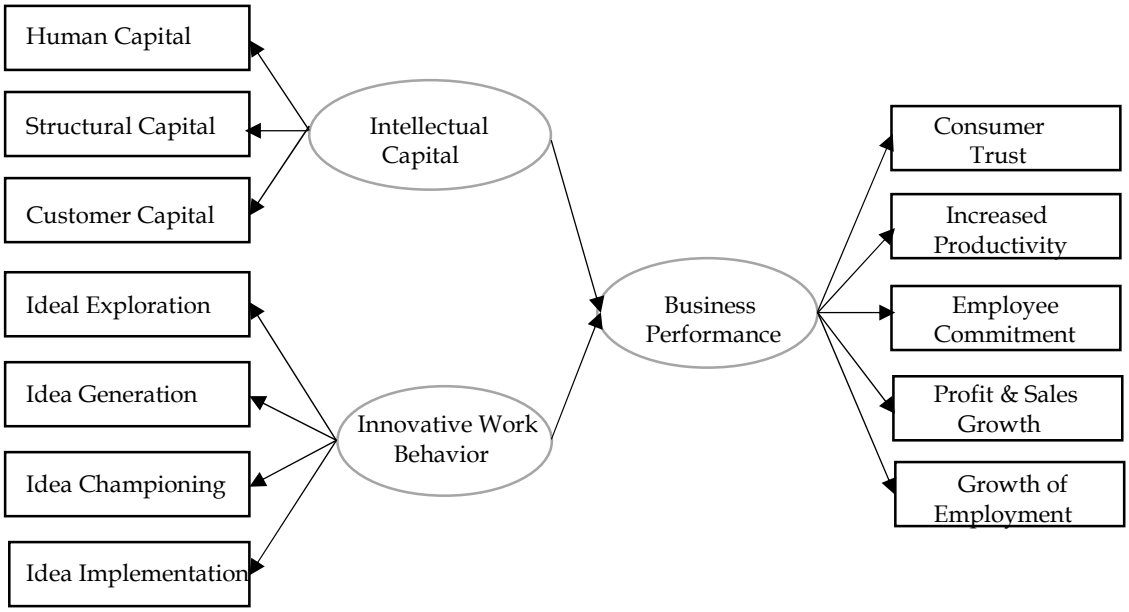

Figure 1. Conceptual Framework

3. RESEARCH METHOD

This study is quantitative since it collects data in numerical form and analyzes it statistically to meet scientific concepts. Intellectual capital and innovative work behavior are exogenous variables, while business performance is endogenous. Intellectual capital is measured using three indicators: human capital, structural capital, and customer capital (Örnek & Ayas, 2015). Innovative work behavior is measured using four indicators: idea exploration, idea generation, idea championing, and idea implementation (Bos-Nehles et al., 2017). Business performance is measured using five indicators: consumer trust, increased productivity, employee commitment, profit and sale growth, and employment growth. All variables are measured using the Liker scale (1 strongly disagree - 5 strongly agree). The research instrument is presented in Table 1; the details are provided in Appendix.

Table 1. Research instrument

Variable		Indicator	References
Intellectual Capital (IC)	IC1	1. Human capital	Örnek & Ayas (2015)
	IC2	2. Structural capital	
	IC3	3. Customer capital	
Innovative Work Behavior (IWC)	IWB1	1. Idea exploration	Bos-Nehles et al. (2017)
	IWB2	2. Idea generation	
	IWB3	3. Idea championing	
	IWB4	4. Idea implementation	
Business Performance (BP)	BP1	1. Consumers trust	Zahra (2017)
	BP2	2. Increased productivity	
	BP3	3. Employee commitment	
	BP4	4. Profit and sale growth	
	BP5	5. Growth of employment	

Purposive sampling was utilized, with special criteria such as business size, assets, turnover, and the number of employees. Small enterprises are firms with total assets of >IDR 50-IDR 500 million, sales of >IDR 300 million-IDR 2.5 billion, and a number of employees of 5-19 people, while medium enterprises are those with total assets of >IDR 500–IDR 10 billion, sales of >IDR 2.5 billion-IDR 50 billion, and a number of employees of 20-99 people. The next condition is a business that has been in operation for more than 5 years. An online questionnaire (google form) was distributed to SMEs in Yogyakarta from August 2021 to October 2021. This technique is considered appropriate

during the COVID-19 pandemic, which forces people to work from home. A total of 104 respondents were gathered; however, seven had to be eliminated since they did not fulfill the requirements. As a result, the other 97 samples were used as respondents.

4. DATA ANALYSIS AND DISCUSSION

Respondent Characteristics

The characteristics of the firms are summarized in Table 2. This table shows that of the 97 selected respondents in Yogyakarta, 64 firms are on a small-scale businesses, and the remaining 33 are medium enterprises. Meanwhile, based on the age of business, it can be seen that as many as 41 firms are in the age range of 6-10 years, 34 firms are between 11-15 years, then 15 firms are 16-20 years, and the remaining of 7 firms are more than 20 years in business. These results can be concluded that the food and beverage business sector contributed the most to this study. Furthermore, based on business type, 12 firms were in the fashion sector, 29 firms in the food and beverage sector, 9 firms in the electronics sector, 19 firms in the homestay sector, 16 firms in the inventory sector, and the remaining of 12 firms in the tour and travel sector.

Table 2. Enterprise characteristics

Characteristics	Number	Percentage	Characteristics	Number	Percentage
Enterprises scale			**Enterprises type**		
Small	64	65.98%	Fashion	12	12.38%
Medium	33	34.02%	Food & Beverage	29	29.89%
Enterprises age			Electronic	9	9.28%
6-10 years	41	42.26%	Homestay	19	19.59%
11-15 years	34	35.05%	Inventory	16	16.49%
16-20 years	15	15.47%	Tour & Travel	12	12.37%
>20 years	7	7.22%			

The data gathered were tested using the statistical technique of SEM-PLS (Structural Equation Model-Partial Least Squares) by SmartPLS 3.2.9 software. SEM-PLS analysis consists of two sub-models: the outer model and the inner model. The outer model shows how the manifest variable represents the latent variable to be measured. At the same time, the inner model shows the power of estimation between latent variables or constructs. The results of the SEM-PLS test in this study are presented in the following tables.

Research Instrument

The convergent validity test of a reflective indicator is done by looking at its loading factor value. An indicator is valid when it has a loading factor higher than 0.60 and an Average Variance Extracted (AVE) higher than 0.50 (Hair et al., 2021). Table 3 shows that all construct indicators produce a loading factor value higher than 0.60 and an AVE value higher than 0.5. It means that they are valid and meet the convergent validity criteria. Table 3 also reveals that all constructs have a Cronbach's Alpha and Composite Reliability higher than 0.60. It means that all constructs are reliable (Hair et al., 2021).

Table 3. Measurement model analysis

Variable	Indicator	Factor Loading	Cronbach's Alpha	Composite Reliability	AVE
Intellectual Capital (IC)	IC1	0.846	0.798	0.875	0.706
	IC2	0.913			
	IC3	0.753			
Innovative Work Behavior (IWB)	IWB1	0.805	0.808	0.874	0.635
	IWB2	0.831			
	IWB3	0.767			
	IWB4	0.783			
Business Performance (BP)	BP1	0.795	0.825	0.877	0.589
	BP2	0.829			
	BP3	0.762			
	BP4	0.717			
	BP5	0.729			

The discriminant validity test compares the value of outer loading to the cross-loading. A construct is significantly different from other constructs when the outer loading of the construct is higher than the value of cross-loading (Hair et al., 2021). Table 4 shows that the construct outer loadings (bold) exceed the cross-loading. It means that each construct measures a different concept.

Table 4. Discriminant validity test

Indicator	IC	IWB	BP
IC1	**0.846**	0.406	0.457
IC2	**0.913**	0.358	0.448
IC3	**0.753**	0.221	0.367
IWB1	0.257	**0.805**	0.680
IWB2	0.464	**0.831**	0.666
IWB3	0.176	**0.767**	0.581
IWB4	0.363	**0.783**	0.577
BP1	0.495	0.635	**0.795**
BP2	0.472	0.650	**0.829**
BP3	0.285	0.588	**0.762**
BP4	0.307	0.518	**0.717**
BP5	0.357	0.623	**0.729**

Hypothesis Testing

Table 5 shows the results of hypothesis testing. This table reveals that all hypotheses are supported. Both intellectual capital (IC) and innovative work behavior (IWB) increase business performance (BP). The value of the R-square shows 0.667. That is, the intellectual capital and innovative work behavior variables can explain the business performance by 66.7%, while the remaining 33.3% contribute to other factors outside this study. R2 (R-square) value is higher than 0.33, meaning that the model is appropriate and moderate (Hair et al., 2021).

Table 5. Hypothesis testing results

	Variable	Coefficient	T-Values	PValues	Decision
H1	IC → BP	0.230	3.784	0.000	Accepted
H2	IWB → BP	0.697	14.415	0.000	Accepted
R^2		0.667			

The Effect of Intellectual Capital on Business Performance

The first hypothesis asserts that intellectual capital positively and significantly impacts business performance. One of the most prominent factors that might affect the success of SMEs is intellectual capital. Regarding innovation, competitiveness, productivity growth, and firm performance, intellectual capital is critical (Susanto, 2017). Effective intellectual capital management positively impacts a company's performance and productivity. Skills, knowledge, learning abilities, experiences, relationships, procedures, inventions, ideas, market presence, and community influence are all examples of intellectual capital (Kanchana & Mohan, 2017). Integrating intellectual capital and organizational knowledge management can help organizations improve operational performance (Mehralian et al., 2018). In today's corporate world, intellectual capital is the most valuable asset (Abdullah & Sofian, 2012). Organizations that wish to be more efficient in the market and obtain a sustained competitive edge should invest in intellectual capital (Gogan et al., 2016). Intellectual capital has a positive effect on business performance (Kalkan et al., 2014; Hashim et al., 2015; Andreeva & Garanina, 2016; Díaz-Fernández et al., 2015; Hussinki et al., 2017; Kianto et al., 2014; Pedro et al., 2018; Olarewaju & Msomi, 2021).

The positive impact of intellectual capital on business performance may reflect the characteristic of Yogyakarta. It is a popular tourist destination and a center for creative industries, attracting many visitors. This reflects the strength of Yogyakarta's industrial characteristics, namely the Small Industry Center, an area or land designation where various small industrial business activities of the same type grow and develop in a specific location. This is, of course, supported by a well-established intellectual capital of people involved in the industry. This

situation certainly achieves the goal of industrial development within the national territory, including utilizing existing growth centers and supervising or stimulating the development of new centers.

This study measures intellectual capital using three dimensions: human capital (based on human resources), structural capital (based on resources outside of knowledge and refers to the company's composition and structure, and customer/relational capital (based on the company's relationship with external parties). The findings suggest that the Indonesian SMEs have recognized human capital as the lifeblood of intellectual capital and a source of innovation and improvement. SMEs owners are also extremely likely to believe that human capital is a very valuable source of information, skills, and competencies in a company. Human capital refers to a company's or a small business's collective ability to develop the best solutions based on the knowledge of its employees. If SMEs can put their employees' knowledge to good use, their human capital will rise. In order to improve performance, SMEs must view human capital as capital or an important asset. The SMEs in this study have demonstrated that they have used human capital well. An increase in human capital will impact the company's performance. Previous research has shown that human capital significantly impacts business performance (Abdullah & Sofian, 2012; Olarewaju & Msomi, 2021; Ozkan et al., 2017; Pedro, 2018). Human resource development will boost organizational performance (Gogan et al., 2016; Lee & Lin, 2019). Human capital positively affects a firm's value, profitability, and productivity (Fu et al., 2018; Li & Zhao, 2018; López-Cabarcos et al., 2020; Tiwari, 2021).

The second type of capital is structural capital. The results of this study show that SMEs have realized and implemented structural capital, which is the ability to fulfill SMEs' routine processes and structures that support employees in producing optimal intellectual performance and overall business performance, such as operational systems, manufacturing processes, organizational culture, management philosophy, and all forms of intellectual property owned by SMEs. The SMEs in this study already have solid business processes in place, as well as knowledge and information that can aid employees in achieving peak performance. Gilaninia & Matak (2012) propose that structural capital is linked to SME performance and that SME management should be focused on intellectual capital. Previous research has also demonstrated that structural capital positively and significantly impacts firm performance (Abdullah & Sofian, 2012; Hejazi et al., 2016; Susanto, 2017).

The third is customer or relational capital. The outcomes of this study show that SMEs have recognized that this dimension is a valuable source of intellectual capital. SMEs have good and harmonious relationships with their partners, including quality suppliers, loyal consumers who are satisfied with their services, and SMEs' relationships with the government and the surrounding community. A good relationship between a company and its various sources outside the business can contribute value to the company. The right method aligns with SMEs' goals, allowing SMEs' partnerships with outside parties to increase business performance. In terms of the company's ability to relate to its customers and control their perceptions of public recognition of its brand and corporate image, high-performing organizations have strong relational capital (Lalović & Koman, 2018). Customer capital aids in the improvement of business performance (Kalkan et al., 2014). Customer capital is a critical dimension that positively and significantly impacts a company's value development (Bchini, 2015). Consumers will be loyal to the company due to their trust, and loyal customers will continue to buy the company's products. This high and positive value indicates that the company has a positive relationship with its customers. Customer capital can help businesses acquire a competitive advantage (Inkinen, 2015). In order to achieve high performance, relational capital is the most important driver of value (Ur Rehman et al., 2021).

The Effect of Innovative Work Behavior on Business Performance

The second hypothesis asserts that innovative work behavior positively and significantly impacts business performance. Organizational innovation is now one of the most important sources of competitive advantage for businesses (Camisón & Villar-López, 2014; Honyenuga et al., 2019; Meyer & Subramaniam, 2014), and innovative work behavior is critical for long-term organizational survival (Lin et al., 2020; Thurlings et al., 2015). The study's key finding is that innovative work behavior significantly impacts business performance. Shanker et al. (2017) found innovative work behavior (IWB) to be a major determinant in promoting organizational performance. Innovative work behavior is important as a key factor influencing business performance (Saunila, 2016).

Furthermore, this research suggests that highly innovative employee behavior backed by organizational management improves the success of

SMEs. Employee activities at all stages, from idea generation to promotion and implementation, are covered by innovative work behavior (IWB). Businesses are most successful when assisting employees in developing and implementing new ideas, but support for their advancement is less common (Jankelová et al., 2021). These circumstances allow for a greater impact of innovative work behavior. The findings also show that highly educated SME owners are likely to influence the association between innovative work behavior (IWB) and business performance (BP). As a result, we believe that managerial training and development can help managers become better suited to support their workers' innovative work behavior (IWB). According to Leitão et al. (2019), workers who feel their supervisor's support by listening to their concerns and believing that the supervisor accepts them are integrated into a good work environment, and are respected both as a professional and as a person, have a positive attitude toward contributing to organizational performance. Innovative behavior has a significant positive effect on performance (Kim & Koo, 2017).

Small industrial business facilities, which are business facilities given in an industrial estate with links to diverse businesses inside the industrial estate, are one of the industry's characteristics in its implementation. It will not be successful if a company does not collaborate with other companies. This necessitates innovative behavior on the part of the firm, which is proved to be held by SMEs in this study. This means that creative industries and/or SMEs in Yogyakarta will always be aware of the importance of business collaboration, especially those in their area that support or motivates them to always survive in order to fulfill the desire for comfort, security, peace, happiness and general convenience for local or foreign tourists and in turn, will lead industry or business and SMEs to a higher level so that business organizations in Yogyakarta can be more famous in foreign countries.

5. CONCLUSION, IMPLICATION, SUGGESTION, AND LIMITATIONS

The findings reveal that intellectual capital and innovative work behavior have a positive and significant impact on the business performance of SMEs. Because SMEs can use intellectual capital to create expected performance and as a tool for evaluating employee performance to create employees who will survive the needs of SMEs in the future, the results of this study answer or provide concrete evidence that intellectual capital plays an important role on employee performance and will affect the performance of SMEs in the long run. Therefore, intellectual capital as a knowledge source must be prepared for it to be felt in its entirety. Although intellectual capital is highly effective, it is insufficient on its own. Intellectual capital is transferred to innovation, which leads to increased performance. In short, for many businesses, employee intellectual capital based on innovative work behavior is critical.

The findings of this study contribute to the resource-based theory, which holds that SMEs' resources can be leveraged as competitive advantages and can guide SMEs to strong long-term performance. This means that SMEs can effectively and efficiently process and utilize intellectual capital and innovative work behavior to provide added value and long-term benefits to performance through indicators such as increased productivity, employee commitment, profit growth, and sales and employment growth. As we all know, sustainable business operates not only for profit but also to safeguard the environment and meet the requirements of future generations. This is what Yogyakarta's SMEs are very likely to implement through human capital. Furthermore, the study's findings have implications for knowledge-based theory, in which SMEs have put forward aspects of intellectual capital because they recognize that these attributes are the resources that play an important role in the sustainability of small and medium enterprises, particularly in tourist cities and creative industries like Yogyakarta.

On the other hand, SMEs with good and well-established intellectual capital will be automatically responsible for creating creativity, innovation, and various ideas or knowledge for the benefit of SMEs in the future. As we all know, creativity and innovation are critical in the business world. Various procurements of products or services might attain success through innovation and creative ideas fueled by intense corporate competition. Every businessperson must have a forward-thinking mindset distinct from existing items or services. With the emergence of fresh and different inventions due to this creative mind, SME products have become well-known and superior to existing goods or services. Yogyakarta's SMEs are expected to have a positive, adventurous spirit.

The results of this study imply that SMEs can attain the high levels of performance required by coordinating their intellectual capital and innovative work behavior. Intellectual capital that can be converted into business innovation has the potential

to improve business performance. Effective intellectual capital management is critical for gaining a competitive advantage. It also guarantees a long-term competitive edge. With the influence of information exchange, innovation and innovative activities can occur more easily in a business where intellectual capital is directed effectively. As a result, patents and processes develop, and new products and services are introduced to the market to suit client needs. In short, human capital's innovative work behavior, together with structural capital's contribution, influences and is influenced by consumer capital. As a result, reciprocal effectiveness has an impact on performance development.

This study only uses 97 SMEs as the research unit, with most SMEs having inadequate resources. In reality, if the unit of analysis is a huge corporation, it would be more interesting to use the three latent components in this study. Because, as we all know, many major and well-established companies vanish or go bankrupt without warning. Of course, a slew of reasons could influence such a large loss. Perhaps because the role of intellectual capital and innovation is not properly implemented in the organization or because the manager's role in selecting competent personnel is less sensitive or apathetic. As a result, more research focused on business performance can reveal the role of managers in increasing intellectual capital and innovative work behavior among employees in a large corporation as part of the corporation's efforts to survive and be relevant in a disruptive technological civilization. Although it has limitations, research that examines intellectual capital and innovative work behavior in SMEs, especially in the Yogyakarta area, is still rare, so the results of this study can enrich fresh academic references.

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APPENDIX

The Questionnaires Description

Variables	Indicators	Description
Intellectual Capital	Human capital	Overall, the competency of this SMEs employees is on par with the most optimal level that can be expected
	Structural capital	The SMEs has a robust and well-equipped infrastructure that allows it to implement and support the majority of new product development
	Customer capital	Consumers' wants and requirements are embodied by this SMEs, which strives to keep them satisfied at all times
Innovative Work Behavior	Idea exploration	SMEs have historically created operations around alternate product and service searches in order to improve business continuity
	Idea generation	SMEs are constantly gathering and editing data that will be utilized to solve problems or improve performance
	Idea championing	SMEs prioritize employees' rights to compete in expressing ideas in order to develop an enthusiastic framework within business processes and assure effective performance by depending on the inventive behavior of employees.
	Idea implementation	Owners and employees' innovative ideas are constantly put into action, explored, developed, and pushed.
Business Performance	Consumers trust	Customer connections that are built on trust can encourage customers to return to acquire the new products that have been created.
	Increased productivity	Owners and employees with intellectual capital and innovative behavior can boost SMEs' productivity
	Employee commitment	Employee engagement to SMEs can be increased by the owners' willingness to reward positive contributions from employees through ideas or the development of added value
	Profit growth and sales	Owners and employees' intellectual capital and innovative behavior can help SMEs grow profits and sales
	Growth of employment	To achieve the development of higher employee performance, owners' intellectual capital, innovative behavior, and awarding rights and obligations are all important