

UNLEASHING THE IMPORTANCE OF INTELLECTUAL CAPITAL TO ACHIEVE COMPETITIVE ADVANTAGE IN SMEs: THE MEDIATING ROLE OF ENTREPRENEURIAL ORIENTATION

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Abstract

Taking into account the mediating effect of Entrepreneurial Orientation (EO), this study examines the connection between Intellectual Capital (IC) and Competitive Advantage (CA). Given the present economic situation, SMEs ought to implement the necessary measures to develop product distinctiveness, in which EO may play a crucial role. In the present study, data analysis has been performed on 209 participants from the Indian sports goods manufacturing units (SMEs). Using Hayes's process macro, we found evidence supporting the hypothesis that Intellectual Capital has a positive significant relationship with competitive advantage. Entrepreneurial orientation has a significant positive relationship with a competitive advantage and it fully mediates the relationship between intellectual capital and competitive advantage. The study found that intellectual capital helped employees of SMEs to create processes and products that could not be easily replicated by competitors, allowing the company to attain competitive advantage. Organisational entrepreneurship may play a significant role since entrepreneurship is a practical approach that organizations can embrace. In the future, the moderation of organizational capital needs to test for this model so that the contribution of organizational values and background can be explained.

Keywords: Intellectual Capital, Competitive Advantage, Entrepreneurial Orientation, SMEs

1. INTRODUCTION

With the technological revolution, it is understood that organizations must focus on knowledge-based skills in order to provide the market with differentiated ideas, processes, and final products. At this point, the only organizations in the successful race are those that utilize both forms of assets in an extremely uncommon combination. Intellectual capital has been considered the best method to foster innovation (Liu, 2017), which will ultimately increase a company's market-leading competitive advantage (Obeidat et al., 2020). Entrepreneurial orientation can play an important role in the enhancement of competitive advantage, as it has been observed that competitive advantage required a differentiated and unique thought process to be launched on the market (Hashim et al., 2015), and entrepreneurship is all about creating something new with innovation and creativity. Human resources are the only resource that cannot be replicated by competitors, despite the fact that they may have identical machinery, technologies, and processes. Each individual has a unique thought process that cannot be duplicated, and IC represents this unique thought process and idea processing that can provide a business with a competitive advantage in the marketplace. In this manner, competitive advantage has a substantial impact on the business world. Entrepreneurial orientation cannot only develop an environment for innovation practice but it helps to identify the major issues prevailed in the system through which it can be resolved by utilizing innovation. Intellectual capital just needs the support of a flexible culture where employees can utilize their experiences and knowledge in the search of seeking something new without any hesitation or fear of losing something. Because fear of loss or status quo always bound employees to work in a routine by using the same processes which ultimately stop the development of the organization further. On the other hand,

if an organization has been provided with a flexible culture and environment then all the employees would try to develop something new which can give a differentiation in the market to their products or services.

This primary objective of the study is to determine the impact of intellectual capital on the competitive advantage of India's small and medium-sized enterprises (SMEs) in the sports-goods manufacturing sector. Second, the effect of entrepreneurial orientation on competitive advantage as well as the role of entrepreneurial orientation as a mediator between intellectual capital and competitive advantage

The effect of intellectual capital on innovation and firm performance has been analyzed by (Khalique, et al. 2018) and it has been recommended to check the effect of intellectual capital on competitive advantage as it ultimately can define the ways to enhance the performance of firm effectively (Ibarra-Cisneros et al 2020). The effect of Intellectual capital on competitive advantage has been tested by (Kadir et al., 2018) in SMEs and it has been recommended to test this relationship in the sports manufacturing sector because this sector considered as the source of innovation to the industrial development. The significance of intellectual capital and its beneficial effects on organizational performance has been observed in term of growth and development (Ibarra-Cisneros et al. 2020, Pedro et al. 2018). However, Pitchayadol et al. (2018), Dabic et al. (2018), also support the argument that intellectual capital is more significant as a source of competitive advantage in SMEs due to the frequent scarcity of physical resources. Previously, different aspects of intellectual capital have been discussed as the model of social capital and entrepreneurial orientation has been discussed but under the mediating role of competitive advantage. It has been recommended by Rodrigo-Alarcón, et al (2018) to check the mediating role of entrepreneurial orientation for the relationship between intellectual capital aspects and competitive advantage.

This study can assist the managers of small and medium-sized enterprises (SMEs) in designing their strategies in accordance with new market trends in order to gain a competitive edge. It will further strengthen the findings of previous research regarding the relationship between intellectual capital and competitive advantage. As a concept, entrepreneurship involves altering business practices and gaining market share. Currently, the entire world is undergoing a transformation for sustainability, and each organization is focused on developing its structure. However, there is a need to place a greater emphasis on creating capital based on knowledge creation so that employees can deliver differentiated processes that lead to competitive advantage, and entrepreneurial orientation can help organizations develop innovative strategies.

2. REVIEW OF LITERATURE AND HYPOTHESIS FORMULATION

According to Pfeffer (1994), in order to survive in a market, you must be superior to your competitors in terms of ideas, processes, seizing opportunities, and customer base. A competitive advantage is a customer's preference for your product over a competitor's (Noe et al., 2017). In order to gain a competitive advantage, a business must provide its consumers with products and services that are of greater value. A competitive advantage is a superiority an organization gains in the market by providing valuable products to its consumers, allowing it to ultimately outshine other markets (Porter & Millar 1985). It is essential to pay attention to the strategies that pertain to doing things differently.

An organization's competitive advantage can be derived from differentiation and cost leadership (Rua et al., 2018) and can be derived in the market by delivering differentiation to its customers along with good quality (Namada, 2018) because a customer desires something unique in comparison to routine things. A competitive advantage can be gained in a saturating market where each company has sales expansion strategies and is carrying out its responsibilities by employing an innovative strategy and developing novel ideas. This will result in not only gaining a strong position in the market but also in the opening of new paths to unsaturate the market, allowing for expansion in a variety of directions (Kumar & Pansari, 2016). Through this, a company not only obtains a larger market share, but market saturation is also reduced as a result of the industry's growth.

In this era of transformation, each company is attempting to extend its wings in multiple areas simultaneously so that it will be simple to invest in innovation in order to cover a larger portion of the market for which they are shaping their systems to be knowledge-based. (Alhassan & Asare, 2016; Han & Li, 2015) Intellectual capital is not a short-term profit-seeking endeavor but rather a succession of innovations that can be adopted by involving

an organization in a process of continuous learning and advancement in "value creation." Intellectual capital is the means by which an entrepreneurial mindset can be fostered within an organization, allowing human resources to be developed to the point where they are able to implement their innovative ideas, which have the potential to revolutionize an industry. This revolution ultimately results in the creation of new knowledge both internally and externally, allowing an organization to construct a knowledge shield (Hussinki et al. 2017).

Researchers in the past have proposed that the adoption of intellectual capital would result in the development of the ability to create opportunities rather than discover them, allowing an organization to gain a competitive advantage in the market by introducing solutions rather than goods or services (Hashim et al., 2015). Multiple pieces of evidence have been presented by previous researches about knowledge creation based on market conditions because an organization must have complete information about the needs and trends prevailing (Delgado-Verde, et al. 2016). Based on this information, it would be easy to analyze the shift in customers and even it would be great to create a shift in the preferences of customers by providing them with differentiation and innovation.

There is an idea that has been discussed usually about the entry of new players in the market because of market expansion but to compete with the competitive advantage firm, a new firm should have to come up with almost a different idea and new approach if they want to lead the market. According to this discussion, intellectual capital not only develops an organization but the whole industry by creating the opportunity of expansion and decreasing the saturation in the industry. Each organization has a focus to get maximum output by utilizing the minimal resources they have to invest and for this purpose. There is a need to identify different and innovative ways so that maximum utilization would be possible by considering the needs of customers. The proactive approach is a part of entrepreneurial orientation as there is any uncertainty in the environment, complexities in the working style and the adverse competition prevailing in the market so here, entrepreneurial orientation can provide with the process to deal with severe competition in the market and surviving the situation with good profit (Wales, 2016).

The issues related to the external environment can be resolved by adopting entrepreneurial orientation as it can help the organizations to innovate their strategies, enhance the development of their processes and building up with a vast range of products so that a bigger portion of the market can be covered. Entrepreneurial orientation cannot be like the traditional one because its objectives do not belong to the financial indicators or financial gain (Hartsfield, et al. 2017) but it has a focus to grab the opportunities from the market and value addition done by the organization in that to give the market innovation and newness (Eshima & Anderson, 2017). Knowledge-based entrepreneurial orientation ultimately can build a scenario for the organization where human resources would get trained by adopting a procedure of organizational learning. An organization would be able to break the status quo and launch a change development program. "Change is the only thing which is constant" is a statement through which organizations travel so long because, after every change, a firm gets a chance to develop it and overcome the issues which are attached to the previous style of working.

2.1. Intellectual Capital (IC) and Competitive Advantage (CA)

Intellectual capital is an intangible asset that can lead an organization to be a market leader by getting a competitive advantage in comparison with its competitor (Kadir et al., 2018). It has been usually considered as a collection of intellect or knowledge which has been contained by a person or an employee in the case of an organization. Competitive advantage itself is nothing but a supportive hand to become a market leader. It has been derived from the previous studies that intellectual capital is one of the most important factors which provide an organization with the environment to practice innovation (Haryadi, 2019; Yaseen, et al. 2016). It is a variable for which multiple researchers have worked because in this competitive environment if two organizations have been provided with the same resources other than human resource then that organization can flourish in which employees show the better value of intellectual capital. Through this, it has been realized that if an employee will leave an organization, ultimately it's the intellectual capital of that organization that is going to be decreased (Chahal & Bakshi, 2015). The survival of an organization depends upon different factors and these factors are connected with human resources while human resources ultimately are the main source of IC which has the capability of developing a competitive advantage (Jain, et al. 2017). An organization can utilize intellectual capital as a source of change because it is a fact that it works as an agent of change through

which, a firm can develop the skills of its employees so that, they can perform well and grab a good portion of the market. Based on this discussion, the following hypothesis has been derived.

H1: Intellectual Capital has significant effect on Competitive Advantage.

2.2. Entrepreneurial Orientation (EO) and Competitive Advantage (CA)

Entrepreneurial orientation has been tested by different researchers being an effective variable for the enhancement of competitive advantage in the market. It provides a base to an organization for developing strategies through which competitive advantage can be achieved. Entrepreneurial orientation can provide a path to the organizations through which all the resources can be collected in one place and utilized at maximum. In this technological fast pace era, businesses are facing multiple issues which are affecting their position in the market. It has been noted that entrepreneurial orientation has a bunch of tools through which solution to all those problems can be achieved which ultimately lead towards getting a sustainable competitive advantage (Adel & Habib, 2018). It is necessary to have focus on the elements which can effectively enhance the sustainability of competitive advantage. The best technique to develop innovative processes is to focus on the opportunities prevailing in the market and exploit them in a way that will cause a positive effect on the long term. The emergence of innovation with the exploitation of opportunities deals under the head of entrepreneurial orientation. It should be adopted as behavior by the organization because through this, it can become a part of organizational culture. In addition to this, entrepreneurial orientation can overcome the shortcomings related to techniques implementation to get a competitive advantage.

H2: Entrepreneurial Orientation has significant effect on Competitive Advantage.

2.3. Mediating role of Entrepreneurial Orientation between Intellectual Capital and Competitive Advantage

Previous studies have been discussed that entrepreneurial orientation has the power to enable an organization for creating an effective connection between intellectual capital and competitive advantage. For this purpose, entrepreneurial orientation provides employees with methods of innovation and uniqueness (Adel & Habib, 2018). On the other hand, entrepreneurial orientation helps higher management to develop a flexible culture in which each employee can experiment the unique ideas and different ways of doing the same thing. It is a known fact which has been supported by the previous studies of (Chien, 2014; Shahid, et al. 2018) that entrepreneurial orientation works in different steps to build a connection between intellectual capital and competitive advantage for which firstly, it engages in break the status quo because innovation cannot be practiced in an environment where a fixed working style has been followed. In the second step, it moves towards developing a flexible environment where each employee has a chance to utilize its intellect though which some inimitable processes and methods can be achieved. These inimitable processes and methods are the factors that ultimately lead an organization towards getting the competitive advantage in the market. An organization has to adopt the way of introducing differentiation in the market which is a specialty of entrepreneurial orientation (Anwar, et al 2018). Entrepreneurial orientation helps intellectual capital in another way which is of adopting different methods at different times and enhancing the accuracy of forecasting by utilizing the best available sources for analyzing future trends. The figures which an organization has gotten by the comparison of actual sales and forecast are the ultimate picture of the vision of its employees. The closer these values, the more development will be made. Entrepreneurial orientation can utilize or enhance the activity of intellectual capital in a way that these values will match with each other in a closer way. This way, an organization can get competitive advantage in the market and will be able to lead the market. Based on this discussion, the following hypothesis has been derived.

H3: Entrepreneurial Orientation significantly mediates the relationship between Intellectual Capital and Competitive Advantage.

3. HYPOTHETICAL MODEL

As per hypothesis developed based on objectives of the research, the independent variable is Intellectual capital, the dependent variable is a competitive advantage while the mediating part played by the entrepreneurial orientation.

Below mentioned is the model for this research:



4. METHODOLOGY

This study has been conducted to know about the effect of intellectual capital on competitive advantage under the mediation of entrepreneurial orientation. The sector which has been targeted for data collection was the sports goods manufacturing sector of north India. Managing staff of SMEs was the population from which firms from major cities of Punjab, Haryana and Delhi NCR have been targeted. The reason to choose these cities was that all of these cities have been considered the manufacturing hub of India so that the data can be more reliable. In addition to this, the sports goods manufacturing sector (SMEs) is flourishing with an unpredicted speed because of which it is becoming a major part of GDP. Due to higher competition and technological inclusions in the processes, it is important to know about the behavior of intellectual capital for competitive advantage is important to know. Convenience sampling has been adopted to choose a reasonable sample while this research has been processed under quantitative methodology.

The participants have been chosen through convenience sampling from different sports items manufacturing firms. All of these respondents belong to managerial positions as it is a known fact that intellectual capital and entrepreneurial orientation have been planned and implemented by the higher management. The data has been collected by designing a questionnaire. Responses have been collected in the form of coded options and then have been converted into proper numerical data.

The instrument for this study has been developed on a five-point Likert scale containing two different portions. One portion was about analyzing the descriptive side of data and the other portion was about to know the behavior of intellectual capital, competitive advantage and entrepreneurial orientation in the model. To measure intellectual capital, 27 questions have been adopted from the study of (Bontis, 2001; Moon & Kym, 2006; Rudež & Mihalič, 2007). For entrepreneurial orientation, 20 questions have been included which were depends upon to cover five different dimensions of it including "Risk-taking, Pro-activeness, Innovativeness, Autonomy and Competitive Aggressiveness" adopted from the study of (Lumpkin & Dess, 1996; Miller & Friesen, 1982). To analyze competitive advantage, 6 items have been adapted from the study of (Chaston, et al. 2001; Porter, 2001). Survey technique has been adopted for data collection by using two modes including online and firm visits. Around 209 questionnaires have been filled online. After having data collection from all the respondents, data has been arranged in the numerical form and analyzed using SPSS. To check the reliability, alpha chrome has been calculated. In addition to this, Process Macro has been utilized to check the direct and indirect relationships that exist between understudy variables.

5. RESULTS AND DISCUSSIONS

The descriptive results from data collection shows that there were about 160 (76.55%) male respondents and 49 (23.45%) were of female respondents. In terms of age, 21 (10.04%) respondents lie in the range of 25-30 years, around 65 (31.10%) lie in the category of 30-35 years, 102 (48.80%) respondents were from category of 36-40 years while only 21(10.04%) were from the range of 41 or above. If the experience level of respondents

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has been observed then it can be said that around 18 (8.61%) have 1-2 years of experience, 48 (22.96%) have 2-5 years of experience, 93 (44.49%) have 5-8 years of experience and 50 (23.92%) have 8-10 years or above experience. The respondents involved in the data collection are of managerial level from whom around 46 (22%) were supervisors, 120 (57.41%) were from middle management and the remaining 43 (20.57%) were

TABLE 1 - RELIABILITY STATISTICS

Variable	N	Cronbach Alpha
Competitive Advantage (CA)	209	0.874
Intellectual Capital (IC)	209	0.885
Entrepreneurial Orientation (EO)	209	0.855

The reliability of scales is the foremost important part of the analysis which assures that the instrument has calculated the desired aspect. It shows the consistency of the respondents while answering the questions of the particular variables. For this purpose, Alpha chrome value has been calculated which threshold is equal to or above 0.7. The above-mentioned values for Cronbach alpha have been showing the value which is more than 0.7 and it depicts that data is reliable.

TABLE 2 - MODEL SUMMARY-EO

R	R-sq	MSE	F	df1	df2	p
.798	.636	.251	380.27	1.000	207.000	.000

Table 2 has figures for the model of EO in which R-square has a value of .636 having a value of p equal to .000.

TABLE 3 - MODEL – OUTCOME: EO

	Coeff	se	t	p	LLCI	ULCI
Constant	.0136	.1803	.0756	.9398	-.341	.369
IC	1.019	.0523	19.500	.0000	.916	1.122

The above-mentioned table 3 can describe the significant relationship between Intellectual Capital on entrepreneurial orientation as the value of the coefficient for this is 1.019 (t=19.500, p=.000).

TABLE 4 - MODEL SUMMARY – CA

R	R-sq	MSE	F	df1	df2	p
.653	.426	.409	60.540	2.000	206.000	.000

Table 4 has the second model which is showing values for CA. it is showing the value of R-square as .426 having p-value of .000.

TABLE 5 - MODEL – OUTCOME: CA

	coeff	se	t	p	LLCI	ULCI
Constant	.8158	.2632	3.100	.002	.297	1.334
EO	.3832	.1077	3.559	.000	.171	.595
IC	.4013	.1306	3.071	.002	.143	.658

To describe the above-mentioned values clearly, the description must be followed by the research hypotheses which have been developed in the section of the Literature review. The first hypothesis which has been mentioned is "Intellectual capital has a significant effect on Competitive Advantage". The above-mentioned table can describe the relationship between Intellectual Capital and competitive advantage as the value of the coefficient for this is .4013 (t=3.071, p=.002), and it is significant as well. The results can be described as an organization that has more IC in the form of employee experience and knowledge can get a better position in the market by gaining competitive advantage. This result has been achieved by multiple previous studies (Chahal & Bakshi, 2014, 2015; Kamukama, et al. 2011). In addition to this, the significance of the relationship

between different variables can be judged by their upper and lower limits. According to Process macro (Hayes, 2015), it is a fact that if both upper and lower limits have similar sign whether positive or negative, it justifies that relationship is significant. According to this rule, the upper and lower values shown for IC and CA relationships have the same positive sign on which base, First hypothesis H1 has been accepted.

H2 is about "Entrepreneurial orientation has a significant relationship with Competitive Advantage". Table 5 has described this relationship between EO and CA as the value of the coefficient is .3832 (t=3.559, p=.000). The result can be described as an organization that has an approach of Entrepreneurial orientation that can develop an environment that supports innovation in employees and this innovation enables that organization to gain competitive advantage by introducing differentiation in their features or processes. This hypothesis has been approved by previous studies of (Jogarathnam, 2017; Kamau, 2016; Kuratko, et al. 2001). Another study has been described as the relationship of Intellectual Capital with Competitive Advantage based on its dimensions. Intellectual capital has different dimensions which include "Human Capital, Social Capital, and Structural Capital". These dimensions help an organization to develop innovation by playing their parts. As far as the values for the upper and lower limit have been concerned, it is showing a similar and positive sign which approves the significance of the relationship between these variables. Based on this discussion, the second hypothesis H2 has been accepted.

TABLE 6 - INDIRECT EFFECT OF X (IC) ON Y (CA)

Mediator	Effect	SE	LLCI	ULCI
EO	.3906	.1034	.1870	.5922

H3 is about "Entrepreneurial orientation significantly mediates the relationship of Intellectual capital and Competitive Advantage". Table 6 shows the values for EO which describes its mediation effect as 0.3906 having both upper and lower limits with similar and positive values. These values approve that EO fully mediates the relationship of IC and CA which can be described as a firm to get competitive advantage in the market should have to focus on EO development because this variable can utilize the best resources available to provide a base for practicing innovation within the organization. Innovation practice has been considered the best source of getting competitive advantage. As far as the individual effect of under discussion variables are concerned, it shows .383 and .401 for the variables while the standard error placed with the value of .1034 in comparison with mediating effect value which is .3906. Above mentioned discussion about all the variables in terms of mediation shows that EO fully mediates the relationship between IC and CA. With this discussion, H3 has been accepted. This hypothesis has an acceptance from different previous studies which includes (Khedhaouria, et al. 2015; Mohammad et al., 2013; Rosenbusch, et al. 2013)

6. CONCLUSIONS

The main purpose of conducting this study was to know about the effect of intellectual capital on competitive advantage through the mediating effect of entrepreneurial orientation. The objectives have been carried out based on knowledge about the direct effect of IC on CA, EO on CA and the effect of IC on CA via the mediation of EO. Competitive advantage which has been considered the most important aspect of the SMEs because now, the organization is focusing to introduce technological innovation so it is even more important now to have a focus on that which act of differentiation cannot be followed or imitated by the competitors.

The direct effect of intellectual capital for competitive advantage has been identified and data analysis shows that this relationship is significant in SMEs (Chahal & Bakshi, 2014, 2015; Kamukama, et al. 2011). Through this, it can be described that an organization should have more focus on its human resource because of intellectual capital held by the employees of an organization in terms of experience, knowledge and aesthetic sense. Each human being works with different approach so, it would be very difficult for the competitors to follow the same processes or ideas which have been developed by your employees. In addition to this, competitive advantage requires differentiation in ideas, processes, and methods because similarity increases the competition and saturation in the market then it became difficult for the organizations to show their capabilities. Innovation in the processes allows an organization to develop and along with provides with new opportunities for expansion.

Mediation of entrepreneurial orientation has also been analyzed and discussed which results show that it fully mediates the relationship of intellectual capital and competitive advantage (Jogarathnam, 2017; Kamau, 2016; Kuratko, et al. 2001). It is a known fact that entrepreneurship has the spark to build a flexible environment so that new products and the process can be introduced which can ultimately lead towards getting a competitive advantage. The gaps which have filled by this research include analysis of intellectual capital, CA and EO in the same model so that behavior of EO can be explained for the relationship of IC and CA. In addition to this, study has been conducted in SMEs which previously has been conducted in other organizations so through this, validity and generalizability of the results have been increased.

7. LIMITATIONS AND FUTURE RECOMMENDATIONS

Every research has different limitations which open a new way for future studies and different orientations of the variable. Firstly, this study has tested the effect of IC on CA under the mediation of EO but there is a need to know about the difference when there will be an involvement of culture because EO always needs flexible culture to be implemented. So, organizational culture can be utilized as a moderator in the model. Secondly, this study has been done data analysis through a quantitative approach but there is a need to have a combination of statistical and detailed theoretical data so that reliable conclusions can be drawn. The sample size chosen for the study was not good enough to generalize the results so, a bigger sample must be chosen so that the high validity of results can be achieved. Another limitation is that understudy variables are important in general for each organization round the world. This study has been conducted in India and data has been collected from limited cities. For the future, it has been recommended that this study should be involve maximum cities of the countries so that the behavior of these variables under different policies, regulations, and cultures can be highlighted. There is another limitation which needs to be omitted in future as this research has utilized intellectual capital but its dimensions have not been utilized in analysis so, it is recommended for future research that the different dimensions of intellectual capital would be utilized so that, it can be identified which dimension can cause how much change in getting competitive advantage or in the value of competitive advantage.

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UNLEASHING THE IMPORTANCE OF INTELLECTUAL CAPITAL TO ACHIEVE COMPETITIVE ADVANTAGE IN SMEs: THE MEDIATING
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