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The Moderation Role of Government Policy on the Effect of Intellectual Capital on the Performance of Small and Medium Enterprise

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The objective of this study is to test 1) whether the performance of SMEs in Kramat Mengare Village can be influenced by human capital, 2) the influence of technology capital on the performance of SMEs in Kramat Mengare Village, 3) government policies that moderate the influence of human capital on the performance of SMEs, and 4) government policies that moderate the influence of technology capital on the performance of SMEs. In this study, the sample was 200 respondents from SMEs in Kramat Mengare Village, and the data collected using purposive sampling was used in this study. The measurement used the Likert scale to obtain primary data in this study. The analytical method used in this study uses Structural Equations Modeling with PLS 3.2.7. The study's validity and reliability test results show that the data obtained are valid and reliable. Hypothesis testing in PLS 3.2.7 shows the results that SMEs of Mengare Village can be influenced by human capital and technological capital and the performance of SMEs Kramat Mengare Village cannot be influenced by human capital and technological capital which is moderated by government policy. This research has implications especially for SMEs in the village who are aware of the importance of technology for business development and are aware of their ability to quality products and the importance of government policies in supporting SMEs

Key Words: *Human Capital, Technology Capital, Government Policy, SME Performance*

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INTRODUCTION

Poverty in these rural communities causes people to sacrifice all means to maintain their survival. The limited level of knowledge, capital, skills, education, and value systems in rural communities are the main factors for the poor to gain access and control over existing resources in economic activity in rural areas. Women's empowerment has contributed to survival in the family and has an important role; this is proven by women are actively involved in fulfilling the family economy. The empowerment of SMEs is very strategic because of its considerable potential to drive economic activity and is the main source of income for most people in improving their welfare. Hendrawan et al, 2018). SME business is an inseparable part of the economic progress of a region. SME's population reaches 99% of the total number of business units in Indonesia or there are only 1% of large-scale businesses, SME sector actors can absorb labor reaching 97% of the total workforce. It is assumed that 1 unit of SMEs can absorb a minimum of 3-5 workers (Suroto *et al*, 2015). The most chosen SME sector is culinary because it is seen as a very promising sector (Zuari *et al*, 2013).

The COVID-19 pandemic has weaken the economy, and the implementation of education has shifted to online (Nasution *et al*, 2020). The economy's weakening due to the COVID-19 pandemic also occurred in Kramat Mengare Village, Bungah District, Gresik, East Java. The village, which is located in Mengare Gresik, is a village with 90% of bread winners working as fishermen with the main income from marine products such as *grago*, crab, *small shrimps*, and other marine products; the weakening economy in Kramat Village due to the covid-19 pandemic has made SME products such as fish crackers, fish cakes, fish nuggets, and shrimp paste can not be distributed due to the large-scale social restrictions . The low level of education possessed by SME workers in Kramat Mengare Village, which on average are elementary school graduates, makes SME workers less optimal in their intellectual capital, whether they are aware of their expertise or ability to learn technology in developing innovation, as well as the COVID-19 pandemic shows how important intellectual capital is in achieving performance and maintaining business continuity in addition to the lack of government support in businesses such as providing business loans with relatively large interest rates of 20%, making the development of business owned by SMEs'workers are increasingly difficult,(Rahmawati,Tri 2022). The role of government policies is much needed in formulating the right policies to rescue SMEs in Kramat Mengare Village, Gresik, exposed to and affected by COVID-19.

Previous research on the performance of SMEs influenced by intellectual capital with government policies as a moderating variable that has been carried out by several researchers obtained inconsistent results. Researches conducted by, Santoso, *et al* (2019), Khalique *et al* (2018), Kamukama and Sulait (2017) show the results of SME performance can be affected by intellectual capital and researches by Gandhiadi and Kencana (2018) and Surin *et al* (2017) show that financial performance influenced by intellectuals can be moderated by government policies Khalique and Mansor (2016), Prasetyo and Harjanti (2013), Hartono (2013) show that financial performance cannot be influenced by intellectual capital. The large number of previous studies showing inconsistent results is a gap for researchers to make government policy a moderating variable for the influence of intellectual capital on the performance of SMEs. Intellectual capital indicators in this study are human capital and technological capital, which are structural challenges requiring serious equity for SME users with low education levels or ability. This challenge has a serious impact which causes the performance of SMEs to be affected and has a negative influence. This existence makes our research focus on government performance as a role to strengthen the intellectual capital factor of SMEs in business success. Chinakidzwa & Phiri, (2020) stated that many small companies do not receive serious attention. To our knowledge, we are the first who conduct the research on government policies and intellectual capital on SME performance.

SME Performance

Organizations in a business can calculate their performance by utilizing financial performance or financial measures with sales volume as a measurement tool. The SME measurement procedure can be carried out by assessing respondents's perceptions (Lechner and Gudmundsson, 2014). According to Ghifary (2015), performance, namely the achievement of a group or person at work based on responsibility or authority to achieve goals in pursuing a mission legally and not committing violations based on ethics or morals. Business performance is an accumulation of the results of activities carried out within the company itself (Prasetyo and Harjanti, 2013).

Human Capital

Human Resources in SMEs are special because they are considered as important asset where competitive differentiation can be provided in organizational resources that are utilized by improving organizational performance or in an appropriate manner. Roos *et al* (1997) states that employees generate intellectual capital through attitudes and competencies in the company, as well as employee creativity, agility, and experience, which are a source of creativity. Professional education and employee experience are valuable sources of creativity, new knowledge, and skills to improve the performance of SMEs. The inability to employ skilled workers can be a serious problem in improving the performance of SME organizations, this is because the main support for business survival and the development of a business is supported by skilled workers (Atmaja dan Purnamawati, 2020). Without human competency's capital, the performance of SMEs will be difficult to develop (Obisi and Anyim, 2012); this is supported by a statement by Dhamaningsih et al (2017) which states that human capital is the most important part of the intellectual capital that organizations must have. The theory of success indicates that increasing the quality of results can be influenced by the quality of thinking (Kim, 2018). The relationship between performance and human capital in companies and

organizations has been empirically tested in various studies. Research shows that SME organizational performance can be influenced by human capital. Research conducted by Manes Rossi et al (2018); Valentina&Esmeralda, (2015) shows that skilled, professional employees who have talent, uniqueness, and experience can improve the performance of SMEs. From the description above, this research formulates the first hypothesis as follows:

H_1: Human capital affects the performance of SMEs in Kramat Mengare Village.

Technology Capital

Technological developments are accelerating, and business actors should be aware of these developments. The ability of SMEs is referred to by technology capital in product development and used in innovation to create new services. It is based on intellectual property and R&D. Technological capital is considered an important dimension of IC, especially in SMEs with dense knowledge. Research by Khalique et al., 2018; Khalique& Mansor, 2016 proves that technological capital is an important source of competitiveness in SMEs. From the description above, this research formulates the second hypothesis as follows:

H_2: Technological capital affects the performance of SMEs in Kramat Mengare Village.

Government Policy

According to Riawan (2009:197), the government has the authority to provide direction to the community's activities; therefore, the government also has the right to make regulations or regulations for the benefit of the community. Government policy variables using indicators from Wahyu Hati and Irawati (2017), namely capital and financial assistance, development programs by the government, formation of rules and regulations, and provision of information. Munir (2010) stated that the government has a role as an entrepreneur whose responsibility is to manage economic resources so that they are economically profitable and to provide benefits for the community; as a coordinator, where local governments establish policies for regional development and embrace all components of society whose role in development as a facilitator where local government can accelerate development through improving the attitudinal environment. This is related to improving the licensing procedures and services and establishing regional regulations in setting regulations on the dimensions of development. Human capital affects SMEs' performance; government policies will strengthen or weaken the relationship. The failure and success of a business can be measured and seen based on the acquisition of business work. Business performance is the acquisition of achievement based on suitability between tasks and roles to carry out business objectives for a certain time. Performance can succeed when it can be implemented and goes under the company's vision and mission (Pramestiningrum and Iramani, 2020). Hadiyati and Mulyono (2017) explained that SMEs would develop if government policies and regulations in the business environment support and manage them well. The macroeconomic environment provides actual formation that can be predicted and facilitates access so that it can be concluded that the government's policies on SMEs' performance can support the formation's maximum performance. This is supported by a statement made by Purwaningsih and Kusuma (2015), if the performance of SMEs can be influenced by government policies, empowering SMEs through programs organized by the government will create the competitiveness of SMEs in increasing business performance. Government policies interact with human capital, which consists of three factors; experience, competence, and knowledge used by an individual. Santoso et al. (2019) and Surin et al., (2017) state that government policies are right on target and follow SMEs' problems. Technological capital will greatly assist SMEs in improving their performance and with government support by providing training to SMEs on technology with the aim that SMEs can keep up with technological developments. The government providing suggestions, such as increasing internet access and service quality, will encourage SMEs' adoption of digital technology. Tyas and Safitri (2014) state that if the lack of information related to technology is correlated with technological developments, this is the cause of the infrastructure and facilities in the development of SMEs not going well. Many SMEs do not utilize technology to support their business's development and progress for online sales and marketing.

For now, E-Commerce marketing is one of the ways and keys to support the success of SMEs with the availability of a market to reach a wider range of products of SMEs (Tajuddin and Manan, 2017). Utari and Dewi (2014) explained that technology development could be influenced by human capital, and from these results, it can be concluded that human capital also has a stake in technology development. The existence of qualified human capital in the SME business can expand business on products reduced by utilizing technology with adequate human capital support. Research by Prastika (2017); Kaukab et al., (2020) proves that the existence of government policies can facilitate business it affects the amount of income earned. The inconsistency of previous research creates gaps for researchers in conducting this research by exploring government policies as a moderating variable for the influence of human capital and technological capital on SME performance. This government policy is an important focus of research. From the description above, this research formulates the third hypothesis as follows:

H_{3a}: Government policies moderate the influence of human capital on the performance of SMEs in Kramat Mengare Village.

H_{3b}: Government policies moderate the influence of technological capital on the performance of SMEs in Kramat Mengare Village.

METHOD

Research Design

This research uses the type of survey research because the data collection uses a questionnaire distributed to research respondents. Questionnaires were sent to respondents by

distributing questionnaires, then the answers to the questionnaires were processed using Structural Equations Modeling with PLS 3.2.7, and the researcher interpreted the results.

Research Variables and Operational Definitions

[Table 1about here]

Exogenous Variable

Human capital and technological capital are exogenous variables in this study. Five question items are used to measure human capital. A 5-point Likert scale from 1 (strongly disagree) to 5 (strongly agree) was used as the measurement scale. The question technology modal uses nine items and a 5-point Likert scale, ranging from 1 (strongly disagree) to 5 (strongly agree).

Endogenous Variables

The endogenous variable in this study is the performance of SMEs. Questions for this variable amounted to 5 question items. A 5-point Likert scale was used as a measurement scale ranging from 1 point to 5 points, from strongly disagree to agree strongly.

Moderating Variable

The moderating variable that is the focus of this research is government policy. There are 5 question items. A 5-point Likert scale is used as a measurement scale ranging from 1 point to 5 points, from strongly disagree to strongly agree.

Population and Sample

The SME community in Kramat Mengare Village is used as the population in this study. Purposive sampling is a technique in sampling. The criteria in this study are female SME actors in Kramat Mengare Village who are actively running SMEs during the Covid-19 pandemic.

Methods of Data Collection and Data Analysis

Collecting data in this study is primary data in the form of a questionnaire. Researchers sent questionnaires to the SME community in Kramat Mengare Village. Questionnaires were distributed directly to research respondents. Structural Equations Modeling with PLS 3.2.7 was used in data analysis with the following steps:

Hypothesis Test

The research hypothesis testing was carried out using the PLS 3.3 approach. (Partial Least Square) using PLS 3.3 software. The PLS analysis method is a powerful method that does not assume that the data measurement must be based on a certain scale and the total sample is small (ghozali and hengki, 2015).

Measurement Method (outer model)

Convergent Validity is the correlation between item scores/score components that PLS calculates and is a reflexive measurement model of indicators. If the correlation is more than 0.70, then the individual reflexive measure is said to be high by measuring the construct. The initial stage of development research uses a scale of 0.5-0.6, which is considered quite good (ghozali and hengki, 2015).

Discriminant Validity is the indicator reflection with a measurement model based on construct cross-loading. The relationship between the measurement items and the value construct is greater than the other constructs. If the AVE value is every other construct in the model, then the Discriminant Validity value is good. Discriminant Validity can be assessed with other methods by comparing the AVE value in each construct with the relationship between the other constructs in the model and the construct. (ghozali and hengki,2015).

Composite reliability is a measurement of a construct that is an indicator that can evaluate the size of two types, including the developed internal consistency Ghozali and Hengky, 2015).

Structural Testing (Inner Model)

To see the relationship between the constructs, it is possible to test the structural model or the inner R-square model and the significance value of the research model. The structural model was evaluated using R-square on the dependent construct, such as performing test, predictive relevance, and significance of the structural path parameter coefficients for the dependent construct (Ghozali and Hengky, 2015). The start of the PLS model assessment can be seen from the R-square on each latent dependent variable; the changed R-Square value is used in assessing the influence of certain latent independent variables on the latent dependent variable to determine whether there is a substantive effect.

RESULTS AND DISCUSSION

Performance Evaluation *Goodness of Fit*

There are two steps in evaluating the model on the partial least square, namely the inner model and outer model tests.

Inner Model Test

[Figure 1 about here]

Based on table 2, the overall question items from this study are said to be valid; this is evidenced by each question item having a value of more than 0.5; therefore, all items are said to be valid on the measurement of latent variables.

[Table 2 about here]

Based on table 3, the following can be seen if the composite reliability value exceeds 0.7 and Cronbach's alpha is above 0.6, it can be concluded that the reliability of the measurements on each construct has a high correlation.

[Table 3 about here]

Outer model test

[Figure 2 about here]

Based on table 4 shows if the coefficient of determination is 0.438 or 43.8% which is the exogenous variable of human capital, technology capital, and government policy, it can explain endogenous variables while other factors influence 56.2%.

[Table 4 about here]

Hypothesis test

Based on table 5 shows the results of hypothesis testing by looking at the P-value and t-statistics

[Table 5 about here]

If the significance is less than 0.001, then the hypothesis can be accepted based on the table on hypothesis testing then:

H1: The results in table 5 show that the real account coefficient value is 0.354, and the t-statistic path diagram is 6.589. The significance level is 0.000, where P Value <0.001, which proves that hypothesis 1 is accepted.

H2: The results in table 5 show that the value of the path coefficient in real accounts is 0.268, and the t-statistic path diagram is 3.657. The significance level is 0.000, where P Value <0.001, proving that hypothesis 2 is accepted.

H3: The results in table 5 show if the real account's path coefficient value is -0.088 and the t-statistic path diagram is 1.453. The significance level is 0.147, where P Value > 0.001, and proves that hypothesis 3 is rejected and has a negative direction.

H4: The results show if the value of the path coefficient in real accounts is -0.002 and the t-statistic path diagram is 0.024. The significance level is 0.981 where P Value > 0.001 and proves that hypothesis 4 is rejected and has a negative direction.

Discussion

Human capital affects the performance of SMEs in Kramat Mengare Village

Test results in table 5 show if hypothesis 1 is accepted, which hypothesis 1 proves that human capital affects the performance of SMEs Kramat Mengare Village; this shows that the human capital owned by SMEs Kramat Mengare Village is very important for the success of the organization. SMEs that can produce great performance indicate that the human capital contained in these SMEs can be relied on with their work motivation and has a great commitment to achieving the vision and mission of SMEs. This study has a positive influence because most SMEs in Kramat Mengare Village have experience, skills, and knowledge in business production. The results of this study support the research that has been carried out by Wu and Sivalogathasan (2013), Felicio et al. (2014), and Zuliyati and Delima (2017) in their research proves that if human capital has a significant effect on performance, the company's success lies in expertise in making the right decisions and commitment in maintaining communication with all employees and stakeholders; therefore, human capital and its overall complexity will determine the company's performance.

Technological capital affects the performance of SMEs in Kramat Mengare Village.

The results in table 5 show if hypothesis 2 is accepted, which hypothesis 2 proves that technological capital affects the performance of SMEs in Kramat Mengare Village. SMEs that have good technological capital will be able to create an increase in competitive advantage in these SMEs; technological capital has a fairly important role in the performance of SMEs this is because technology capital is a strategic source in achieving excellence to continue to exist. The proof of positive influence in this study showed how SMEs in Kramat Mengare Village could operate production equipment or machines, new products and technologies, and update products or production processes; this indicator can increase the performance of SMEs. Good technology capital increases production capacity and product quality. This is because it utilizes technology capital more efficiently. The results of this study are similar to research conducted by Handayani *et al* (2019). Sidiq and Astutik (2017) prove that if technology capital affects the performance of SMEs, information technology has a profit effect on SMEs' performance, including internal operations, marketing, customer service performance, and sales performance.

Government policies moderate human capital's influence on SMEs' performance in Kramat Mengare Village.

The results in table 5 show that if hypothesis 3 is rejected, hypothesis 3 does not prove that government policies moderate the effect of human capital on the performance of SMEs in Kramat Mengare Village. The government's policy of not being able to moderate this indicates that Kramat Mengare Village lacks training held by the government to increase its knowledge and competencies. Human capital consists of 3 factors; knowledge, experience, and competency; the lack of government policies in providing training in increasing competence with training and knowledge makes SME workers rely on the abilities of individuals. Underdeveloped businesses fail due to the lack of upgrading and improvement of SMEs in their business. The lack of government policies to support the ability of business actors makes the performance of SMEs less developed because of the low quality of human resources, hampering the development of SMEs. The failure and success of a business can be measured and seen based on the acquisition of business work. Business performance is the acquisition of achievement based on suitability between tasks and roles in a business in carrying out business objectives in a certain period. Performance is about whether it is successful or not when it is carried out and whether it is in accordion and mission or not (Pramestiningrum and Iramani, 2020). Hadiyati and Mulyono (2017) explained that SMEs will develop if government policies and regulations in the business environment support and manage it well, the macroeconomic environment can provide reliable information that can be predicted and

facilitates access so that it can be concluded that if the policies made by the government on the performance of SMEs can support the maximum performance, this is supported by a statement made by Purwaningsih and Kusuma (2015) which states that if the performance of SMEs can be influenced by government policies, empowering SMEs through programs organized by the government will create the competitiveness of SMEs in increasing business performance. The results of this study are in line with research conducted by Surin et al (2017) which research state that business workers pay less attention to skills than the performance of business workers.

Government policies moderate technological capital's influence on SMEs' performance in Kramat Mengare Village.

The results in table 5 show if hypothesis 4 is rejected hypothesis 4 does not prove if government policy moderates the effect of technological capital on the performance of SMEs in Kramat Mengare Village. Government policy cannot moderate this, indicating that Kramat Mengare Village has not received government assistance in technology. , This is proven by the lack of mastery of technology and internet access, especially in villages that fall into the disadvantaged category. The lack of government policy in conducting training related to technology which aims to make SMEs workers can keep up with the times in the 4.0 revolution era followed by innovations that are growing more rapidly. Technological capital is a tool that is considered capable of facilitating and speeding up production for SMEs with government policies that can strengthen the influence of technological capital, which will further improve the performance of SMEs in Kramat Mengare Village. The results of this study are similar to Rahma et al., 2020; Both show that the role of the government does not moderate the influence of technology on the income of SMEs. Someone's proficiency in technology is due to the main personal factor of that person being able and accustomed to operating technology.

CONCLUSION

Based on the analysis, this study determines the performance improvement of SMEs in Kramat Mengare Gresik Village through intellectual capital with government policies as moderating during the Covid 19 Pandemic. It can be concluded that 1) Human capital affects the performance of SMEs Kramat Mengare Village. This indicates that SMEs that can produce great performance indicate that the human capital contained in these SMEs can be relied upon; 2) Technology capital affects the performance of SMEs in Kramat Mengare Village. SMEs that have good technological capital will be able to create an increase in competitive advantage in these SMEs; 3) Government policies cannot moderate the influence of human capital on the performance of SMEs. 4) Government policies cannot moderate technological capital's influence on SMEs' performance. This result indicates that Kramat Mengare Village has not received government assistance regarding technology; this is proven by the lack of mastery in technology and internet access, especially in underdeveloped villages.

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Table 1 Definition of Operational Variables

Variables	Indicator	Item	Source
Intellectual Capital	Human Capital (Competence, Experience, Knowledge)	MM1 As SME managers, our employees are creative, smart, and motivated	Bontis dan Serenko (2009) Becker GS.1993
		MM2 As SMEs managers, our employees can develop knowledge and innovation	
		MM3 As SMEs managers our employees are proficient in their specific jobs and functions	
		MM4 As SMEs managers, in general, our employees understand the target market and customer identity	
		MM5 As SMEs managers, employees are satisfied with the SMEs management leaders	
	Technology Capital (X2) (Expertise, Managemen, Development)	MT1 The SMEs that we manage have had a major role in the market for a long time based on technology capital	Zhu dan Nakata (2007).
		MT2 The SMEs that we manage to have quite a several useful technological concepts for developing innovations	
		MT3 As a manager of SMEs, technology knowledge is easy to understand, transfer and use.	
		MT4 The SMEs that we manage has an excellent system for protecting our intellectual property	
		MT5 The SMEs that we manage have coordination among all employees or members which is very important in innovating	
		MT6 The SMEs that we manage have sufficient capital costs in technology development	
		MT7 The SMEs that we manage to realize that innovation or development is based on the control of various technologies.	
		MT8 The SMEs that we manage have good development and research infrastructure	
		MT9 The SMEs that we manage to take advantage of the latest technology and equipment to remain competitive in the market	
Government policy	(Facilities, Programs, Credit Loans, coaching, SME Regulations)	KP1 The facilities provided by the government support the successful management of SMEs	Diva (2009), Santoso *et al* (2019)
		KP2 Government programs involving SME managers support the business of SME actors	
		KP3 The loan interest rate provided by the government for SMEs is very helpful for the business development of SMEs	
		KP4 Guidance carried out by the government supports SME management businesses	
		KP5 There are regulations made by the government regarding SMEs, protecting the business of SMEs	
SME performance	(Increasing production, developing business units, increasing sales volume, and increasing profits.)	KU1 The SMEs that we manage to get an increase in customers for 3 consecutive years	Santoso *et al* (2019)
		KU2 The SMEs that we manage have had an increase in revenue for 3 consecutive years	
		KU3 The SMEs that we manage have been successful in achieving targets for 3 consecutive years	
		KU4 The SMEs that we manage to get an increase in sales in 3 consecutive years	
		KU5 The high activity of SMEs managers supports the success of the SMEs they manage	

Table 2/ Validity test (Loading Factor)

Variable	Item	Loading Factor	Description
Human Capital (X1)	MM1	1,163	Valid
	MM2	1,101	Valid
	MM3	1,236	Valid
	MM4	1,086	Valid
	MM5	1,240	Valid
Technology Capital (X2)	MT1	1,536	Valid
	MT2	1,424	Valid
	MT3	1,622	Valid
	MT4	1,549	Valid
	MT5	1,513	Valid
	MT6	1,403	Valid
	MT7	1,453	Valid
	MT8	1,408	Valid
	MT9	1,555	Valid
Government Policy (Z)	KP1	1,169	Valid
	KP2	1,030	Valid
	KP3	1,044	Valid
	KP4	1,038	Valid
	KP5	1,156	Valid
SME Performance (Y)	KU1	1,317	Valid
	KU2	1,720	Valid
	KU3	1,742	Valid
	KU4	2,223	Valid
	KU5	1,434	Valid

Table 3/ Reliability test

Variable	Composite Reliability	Cronbach's Alpha	Description
Human Capital (X1)	0,741	1,000	Reliable
Technology Capital (X2)	0,850	0,804	Reliable
Government Policy (Z)	1,000	1,000	Reliable
SME Performance (Y)	0,861	0,799	Reliable

Source: SmartPLS Output 3.3

Table 4 / Coefficient Determination

Variable	R Square
SME Performance (Y)	0,438

Source: Output SmartPLS

Table 5/ Hypothesis Testing Mean, STDEV, T Value, and P Value

Variable	Original sample variables (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistik (| O/STDEV |)	P Values
Human Capital (X1) -> SME Performance (Y)	0.354	0.358	0.054	6.589	0.000
Technology Capital (X2) -> SME Performance (Y)	0.268	0.290	0.073	3.657	0.000
MM*KP -> SME Performance (Y)	-0.088	-0.085	0.061	1.453	0.147
MT*KP -> SME Performance(Y)	-0.002	0.005	0.088	0.024	0.981

Source: Output SmartPLS 3.3

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Figure 1/ Inner model

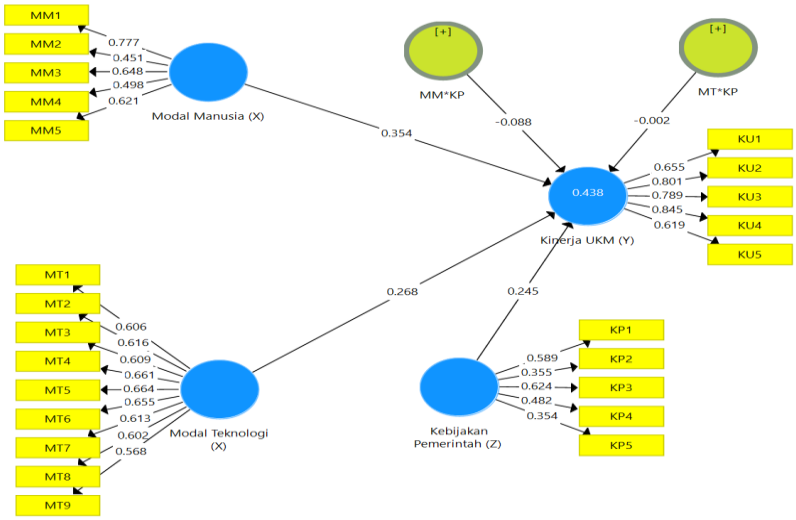

Figure 2/ Outer Model