



# Competitive Advantage as A Link Between the Influence of Intellectual Capital and CSR on Financial Performance

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## Abstract

This study aimed to empirically prove the influence of intellectual capital and corporate social responsibility on competitive advantage and its implications for the financial performance of MSMEs in the Buleleng Regency. The population in this study were MSMEs throughout Buleleng Regency, which amounted to 57,216 MSMEs. Determination of the number of samples using the technique of Isaac & Michael with a significance level of 5% obtained 346 MSMEs. The sample was selected using the purposive sampling technique. Data analysis was used SEM-PLS with the help of SmartPLS Version 3. The results showed that intellectual capital and CSR positively and significantly affected MSMEs' competitive advantage. Intellectual capital and CSR had a positive and insignificant effect on MSMEs' financial performance. The competitive advantage positively and significantly affected MSMEs' financial performance. Competitive advantage perfectly mediates the influence of intellectual capital and CSR on MSME financial performance.

**Keywords:** corporate social responsibility; intellectual capital; competitive advantage; financial performance

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## INTRODUCTION

MSMEs have a substantial contribution to the Indonesian economy, because MSMEs absorb 97% of the workforce, provide 99% of total employment, contribute 61.07% of total national GDP, account for 14.37% of total exports, and account for 60.42% of total investment (Kemenkopukm, 2020). So far,

MSMEs have been a safety net that saved the economy during the 1998 and 2008 crises. However, currently, MSMEs are the worst sector affected by COVID-19, which has caused a significant decline in financial performance, decreased income or sales, disrupted cash flow, and bad loans (Elena, 2020). The survey on the impact of the Covid-19 pandemic on

Indonesian MSMEs' performance showed that 94.69% of MSMEs experienced a sales decline and a decline in products/services selling price, among 58.76% MSMEs. Besides experiencing a decrease in sales and the selling price of products/services, MSME operating costs remain constant and even increase (LIPI, 2020). Sales, profit, and leverage measure financial performance (Agyemang & Ansong, 2017). Nationally, Indonesian MSMEs experienced an average sales decline of 53% (BRI, 2020). MSMEs in Buleleng Regency experienced an average sales decline of 61% (Balitbang Kabupaten Buleleng & LPPM Undiksha, 2020), which is bigger than the national average.

Various factors influence financial performance. One theory that explains the factors that affect financial performance is the Resource-Based Theory (RBT). Resource-Based Theory explains that competitive advantage can support companies in optimizing performance (Barney, 1991). Competitive advantage causes a company to have an advantage over its competitors, so that the company will have the opportunity to dominate the market that supports the company to achieve increased revenue. Competitive advantage is the ability obtained through the

characteristics and resources of a company to have a higher performance than other companies in the same industry or market. (Porter, 1985). Competitive advantage is at the heart of the company's financial performance amid increasingly competitive competition (Porter, 1985). Due to the covid-19 pandemic, the economic crisis has caused many companies to take layoff policies, forcing everyone to switch professions previously employees to become entrepreneurs. The number of MSMEs is increasing rapidly, which causes increasingly fierce competition (Kurniawan, 2021). The tighter business competition also occurs in MSMEs in Buleleng Regency that is one of the districts in the province of Bali, because during the Covid-19 pandemic, the number of MSMEs in Buleleng Regency increased rapidly, according to data DisdagperinkopUKM Kabupaten Buleleng (2021). The competitive advantage of MSMEs in the Buleleng Regency is still lower than MSMEs in several districts in Bali Province, as evidenced by the lower contribution to GRDP growth and the loss of product marketing outside the region, and even products from outside the area that are widely circulated in Buleleng (Yuniarta et al., 2017).

Financial Performance and Competitive Advantage are influenced by Intellectual Capital and Corporate Social Responsibility (CSR). Intellectual Capital and Corporate Social Responsibility are currently major topics in academic literature and essential business practices across industries (Calhan et al., 2020; Chae & Park, 2018). The influence of intellectual capital on MSMEs' competitive advantage and financial performance is based on Resource-Based Theory, which is strengthened by several previous studies regarding the effect of intellectual capital on competitive advantage (Wijayanto et al., 2017; Isa & Deviana, 2018) and the effect of intellectual capital on MSMEs' financial performance (Wijayanto et al., 2017; Isa & Deviana, 2018; Prastuti & Budiasih, 2019). Intellectual capital by most practitioners is grouped into three dimensions, namely human capital, structural capital, and customer capital (Stewart, 1997; Edvinsson & Malone, 1997; Bontis, 1998). The COVID-19 pandemic has caused economic uncertainty (Sugiarto, 2020). Companies are encouraged to use intellectual capital to remain competitive and maintain performance amid economic uncertainty (Tarutė & Gatautis, 2014; Wang et al., 2015). However, in

Indonesia, not many MSMEs are aware of the importance of optimizing intellectual capital (Widiastuti & Sulistyandari, 2013).

CSR is the second variable that affects MSMEs' competitive advantage and financial performance. The influence of CSR on MSMEs' competitive advantage and financial performance is based on Stakeholder Theory. Stakeholder Theory was first initiated by Freeman (1984), who stated that Stakeholder Theory is a theory about organizational management and business ethics that discusses morals and values in managing organizations. The Stakeholder Theory states that the company is not an entity that only operates for its interests but must also be able to provide benefits to its stakeholders. Stakeholder theory implies that the company will develop well and generate profits if it balances its attention to all stakeholders (Nyeadi et al., 2018). This attention can be applied in CSR programs to employees, the community based on social rights, the environment and economy, and the company's products (Clarkson, 1995). CSR is increasingly important for the company's sustainable development by improving the company's reputation, driving innovation, and fostering customer trust to achieve customer retention

and continuous support (Mishra, 2017). In the end, CSR implementation will increase competitive advantage and financial performance (Jain, Vyas, & Roy, 2017). Traditionally CSR is seen as a big business field (Kechiche & Soparnot, 2012), however, MSMEs are a very significant sector throughout the world in terms of their economic, environmental, and social impacts, so attention has begun to focus on MSME CSR practices which have caused this sector to no longer to be outside the CSR movement (Jenkins, 2009). The dominance of Stakeholder Theory in CSR theory shows that effective CSR can increase the company's competitive advantage (Maqbool & Zameer, 2018; Kassa, 2019) and improve financial performance (Famiyeh, 2017; Nyeadu et al., 2018; Maqbool & Zameer, 2018; Le et al., 2021). The dimensions of CSR in this study refer to the research of Sweeney (2009) and Agyemang & Ansong (2017) it consists of employees, customers, communities, and the environment. Awareness of Indonesian MSMEs in implementing CSR is still lacking and needs the attention of the government and academics (Trisnawati et al., 2021).

The results of previous studies related to the influence of intellectual capital and CSR on competitive

advantage and their implications for financial performance show inconsistencies. The results of the research by Wijayanto et al. (2017), Isa & Deviana (2018), Wahyuni et al. (2019), and Persada & Kusumawardhani (2021) show that intellectual capital has a positive and significant effect on competitive advantage, while the results of Putri et al. (2017) and Yuniar & Amanah (2021) show that intellectual capital has a negative effect on competitive advantage. The results of the study by Jain et al. (2017), Famiyeh (2017), Kassa (2019), and Sohail et al. (2020) show that CSR has a positive and significant effect on competitive advantage, while the results of the research by Wedysiage et al. (2021) show that CSR does not affect competitive advantage, even the research results of Yu et al. (2017) show that CSR has a negative effect on competitive advantage. The results of research by Xu & Li (2019), Wahyuni et al. (2019), Yuniar & Amanah (2021), and Le et al. (2021) showed that intellectual capital has a positive and significant effect on financial performance, while the research of Putri et al. (2017), Wibisono & Panggabean (2019), and Ristiani & Wahidahwati (2021) show that intellectual capital does not affect financial performance. The results of

research by Agyemang & Ansong (2017), Famiyeh (2017), Maqbool & Zameer (2018), Nyeadi et al. (2018), Partalidou et al. (2020), and Zahid et al. (2021) showed that CSR has a positive and significant effect on financial performance, while the research of Prastuti & Budiasih (2019) and Wibisono & Panggabean (2019) showed that CSR does not affect financial performance. The results of research by Wijayanto et al. (2017), Ristiani & Wahidahwati (2021), and Yuniar & Amanah (2021) show that competitive advantage has a significant positive effect on financial performance, while the results of research by Wahyuni et al. (2019) and Persada & Kusumawardhani (2021) show that competitive advantage has no significant effect on financial performance, even the research of Wijayanto et al. (2017) show that competitive advantage has a negative effect on financial performance.

Research results related to the effect of intellectual capital and corporate social responsibility on competitive advantage and the implications for MSME financial performance are still inconsistent. Explanatory research on MSME's CSR in Indonesia is very limited, it has never even been done. This research is based on Xu & Li (2019), which examines the influence of Intellectual

Capital on the Financial Performance of MSMEs. To create novelty, the researcher adds one independent variable, namely CSR, and one intervening variable, namely Competitive Advantage. CSR variables added are based on the latest developments in issues that have caused CSR to become a central concern in the academic literature and business practices (Chae & Park, 2018). The addition of intervening variables is based on the fact that most studies ignore the importance of competitive advantage in the relationship between intellectual capital and firm performance (Chang & Lee, 2008), and most studies only examine the direct relationship between CSR and firm performance (Margolis & Walsh, 2003). This research will produce a new model that involves Intellectual Capital, CSR, Competitive Advantage, and Financial Performance in the context of Indonesian MSMEs.

## **LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT**

### **Resource-Based Theory**

Resource-Based Theory was coined by Wernerfelt (1984), which states that a business will excel in business competition and obtain good financial performance by owning, controlling, and utilizing important

strategic assets (tangible and intangible assets). Resource-Based Theory explains competitive advantage to support companies in optimizing performance (Barney, 1991).

Resource-Based Theory is widely used as a fundamental theory in research involving intellectual capital, competitive advantage, and the financial performance of SMEs (Wijayanto et al., 2017; Isa & Deviana, 2018; Prastuti & Budiasih, 2019). Intellectual capital supports companies, including MSMEs, to gain competitive advantage through the use of technology, quality human resources, and loyal suppliers and customers who support the company's development. Competitive advantage supports the company to gain various advantages compared to its competitors so that the company concerned can dominate the market. Competitive advantage supports the company to get more customers. Many customers cause the company to have a lot of income, so that the company's financial performance will also increase. So based on Resource-Based Theory, intellectual capital can increase competitive advantage, which impacts improving the financial performance of MSMEs (Isa & Deviana, 2018).

### **Stakeholder Theory**

Stakeholder Theory was first initiated by Freeman (1984), who stated that Stakeholder Theory is a theory about organizational management and business ethics that discusses morals and values in managing organizations. The Stakeholder Theory states that the company is not an entity that only operates for its interests but must also be able to provide benefits to its stakeholders. Stakeholder theory implies that the company will develop well and generate profits if it balances its attention to all stakeholders (Nyeadi et al., 2018). This attention can be applied in CSR programs to employees, the community based on social rights, the environment and economy, and the company's products (Clarkson, 1995). Stakeholder theory is also relevant in the context of the MSME business. Stakeholder theory is used to understand the importance of managing good relationships helpful in building network capital for MSMEs in practicing business responsibility. MSMEs have implemented CSR practices due to requests from their stakeholders. This demand cannot be separated from the demand for implementing environmentally friendly business in the international market (Matthews et al., 2019).

Based on Stakeholder Theory, increasing good relations between the company and its stakeholders will support increasing competitive advantage and performance (Mardikanto, 2014). Stakeholder theory underlies the premise of CSR improving competitive advantage and financial performance (Maqbool & Zameer, 2018).

### **Hypothesis Development**

Resource-Based Theory explains the influence of intellectual capital on the competitive advantage of MSMEs. Based on Resource-Based Theory, a business will gain a higher competitive advantage and good financial performance by owning, controlling, and utilizing important strategic assets, both tangible and intangible assets (Wernerfelt, 1984). One of the intangible assets that are a central topic in the academic literature is Intellectual Capital (Calhan et al., 2020). Empirical studies by Jain et al. (2017), Wijayanto et al. (2017), Isa & Deviana (2018), Wahyuni et al. (2019), and Persada & Kusumawardhani (2021) show that intellectual capital has a positive and significant effect on competitive advantage. So that the first hypothesis formulated is:

H<sub>1</sub>: Intellectual Capital has a Positive and Significant Effect on the

Competitive Advantage of SMEs in Buleleng Regency.

Stakeholder theory is the basic theory that explains the influence of CSR on the competitive advantage of MSMEs. Based on Stakeholder Theory, when a company pays attention to and provides benefits to stakeholders, stakeholders will support the company in achieving a competitive advantage through strategic resources. This attention can be applied in CSR programs to employees, a society based on human rights, the environment and economy, and products produced by the company (Clarkson, 1995). Furthermore, empirical studies by Jain et al. (2017), Famiyeh (2017), Kassa (2019), and Sohail et al. (2020) show that CSR has a significant positive effect on competitive advantage. Based on this, the second hypothesis formulated is:

H<sub>2</sub>: Corporate Social Responsibility has a Positive and Significant Effect on the Competitive Advantage of MSMEs in Buleleng Regency

Resource-Based Theory becomes the basic theory related to the influence of intellectual capital on the financial performance of MSMEs. Based on Resource-Based Theory, a

business will gain a higher competitive advantage and obtain good financial performance by owning, controlling, and utilizing strategic assets, tangible and intangible (Wernerfelt, 1984). One of the intangible assets that are a central topic in the academic literature is Intellectual Capital (Calhan et al., 2020). Empirical studies by Jain et al. (2017), Wijayanto et al. (2017), Isa & Deviana (2018), Prastuti & Budiasih (2019), Xu & Li (2019), Wahyuni et al. (2019), Yuniar & Amanah (2021), and Le et al. (2021) show that intellectual capital has a positive and significant effect on financial performance. Based on this, the third hypothesis formulated is:

H<sub>3</sub>: Intellectual Capital has a Positive and Significant Effect on the Financial Performance of MSMEs in Buleleng Regency.

The Stakeholder Theory is the basic theory that explains the influence of CSR on the financial performance of MSMEs. Based on Stakeholder Theory, when a company pays attention to and provides benefits to stakeholders, stakeholders will support the company in improving financial performance. This attention can be applied in CSR programs to employees, a society based on human rights, the

environment and economy, and products produced by the company (Clarkson, 1995). Empirical studies by Jain et al. (2017), Agyemang & Ansong (2017), Famiyeh (2017), Maqbool & Zameer (2018), Nyeadi et al. (2018), and Partalidou et al. (2020) shows that CSR has a positive and significant effect on financial performance. Based on this, the fourth hypothesis is formulated, namely:

H<sub>4</sub>: Corporate Social Responsibility has a positive and significant effect on the financial performance of MSMEs in the Buleleng Regency.

Resource-Based Theory becomes the basic theory that explains the effect of competitive advantage on the financial performance of MSMEs. Based on Resource-Based Theory, a business will gain a higher competitive advantage and obtain good financial performance by owning, controlling, and utilizing important strategic assets, both tangible and intangible assets (Wernerfelt, 1984). When a company has an advantage over competitors in terms of cost, ability to exploit market opportunities, and resistance to competitive threats, the company's business continuity will be able to survive in the long term, which



in turn has an impact on improving financial performance. Empirical studies by Jain et al. (2017), Wijayanto et al. (2019), Ristiani & Wahidahwati (2021), and Yuniar & Amanah (2021) show that competitive advantage has a positive and significant effect on financial performance. Based on this, the fifth hypothesis formulated is:

H<sub>5</sub>: Competitive Advantage has a Positive and Significant Effect on the Financial Performance of MSMEs in Buleleng Regency.

Resource-Based Theory becomes the basic theory that explains the influence of Intellectual Capital through competitive advantage on the financial performance of MSMEs. Based on Resource-Based Theory, a business will gain a higher competitive advantage and obtain good financial performance by owning, controlling, and utilizing important strategic assets, both tangible and intangible assets (Wernerfelt, 1984). One of the intangible assets that are a central topic in the academic literature is Intellectual Capital (Calhan et al., 2020). Therefore, implementing intellectual capital will support the company in achieving a competitive advantage that will ultimately improve financial performance. The empirical

study by Putri et al. (2017), Wijayanto et al. (2017), and Isa & Deviana (2018) show that competitive advantage significantly mediates the influence of intellectual capital on financial performance. So that the sixth hypothesis formulated is:

H<sub>6</sub>: Competitive Advantage Mediates the Effect of Intellectual Capital on the Financial Performance of MSMEs in Buleleng Regency.

Stakeholder Theory is the basic theory that explains the influence of CSR through competitive advantage on the financial performance of MSMEs. Stakeholder theory implies that the company will develop well and generate profits if it balances its attention to all stakeholders consisting of shareholders, employees, consumers, communities, and suppliers (Nyeadi et al., 2018). Based on Stakeholder Theory, when a company pays attention to and provides benefits to stakeholders, stakeholders will support the company in achieving a competitive advantage by providing the strategic resources needed. As a result, the competitive advantage obtained by the company will impact improving financial performance. This attention can be applied in CSR programs to employees, a society based on human rights, the environment and economy,

and products produced by the company (Clarkson, 1995). Empirical studies by Jain et al. (2017) and Zahid et al. (2021) show that competitive advantage mediates the effect of CSR on financial performance. Thus, the seventh hypothesis formulated is:

H<sub>7</sub>: Competitive Advantage mediates the influence of Corporate Social Responsibility on the Financial Performance of MSMEs in Buleleng Regency.

## **METHOD**

### **Research Design**

This research is quantitative. The population in this study were MSMEs throughout Buleleng Regency, amounting to 57,216 MSMEs. The number of samples obtained using the technique proposed by Isaac and Michael with a significance level of 5% shows that the minimum sample required in this study is 346 MSMEs. This study took samples based on the purposive sampling technique. The purpose of using the purposive sampling technique is to get respondents who fit the criteria needed in this study so that the list of statements in the distributed questionnaire can be understood and according to the conditions faced by the respondents, in the end the respondents can give the right

answers and not make it up so that the results more reliable research. The sample criteria used in this study are: (1) UMKM which are recorded at the Dinas Perdagangan, Perindustrian dan Koperasi, Usaha Kecil dan Menengah Kabupaten Buleleng; (2) MSMEs that have employees; (3) Minimum MSMEs are classified as micro businesses that already have net assets of up to Rp. 50,000,000 excluding land and buildings or have annual sales of up to Rp. 300,000,000 based on the provisions in Pasal 6 Undang-Undang Nomor 20 Tahun 2008 tentang UMKM. This research data collection using a questionnaire instrument with a Likert scale. Questionnaires were distributed online via the WhatsApp application. The data analysis technique used is Structural Equation Modeling-Partial Least Square (SEM-PLS) with the help of the SmartPLS Version 3 application.

### **Operational Definition and Measurement of Variables**

Financial performance (Y<sub>2</sub>) is a condition that reflects the financial condition of a company based on established goals, standards, and criteria. The indicators used in measuring financial performance are profit growth, sales growth, and

leverage (Sweeney, 2009; Man, 2011; Agyemang & Ansong, 2017).

Competitive advantage (Y1) is the ability obtained through the characteristics and resources of a company so that it has a higher performance than other companies in the same industry or market. Indicators of measuring competitive advantage are the reduction of costs, the exploitation of market opportunities, and the neutralization of competitive threats (Barney, 1991).

Intellectual Capital (X1) is an intangible asset based on knowledge in the company and is the basis for the company's core competencies that can affect resilience, competitive advantage, and financial performance. Indicators measuring intellectual capital are grouped into three dimensions (Stewart, 1997; Edvinsson & Malone, 1997; Bontis, 1998; Daat et al., 2021) namely human capital, structural capital, and customer capital. The human capital dimension consists of training programs, credential, experience, competence, recruitment, mentoring, learning programs, individual potential, and personality (Brinker, 2000). The structural capital dimension consists of corporate culture, organizational structure, organizational learning, operation process, information system, and innovation achievements

(Asonitis & Kostagiolas, 2010). Finally, the customer capital dimension consists of customer profile, customer duration, customer role, customer support, and customer success (Edvinsson & Malone, 1997).

Corporate Social Responsibility (X2) is a multidimensional concept that reflects the business response to the expectations and needs of diverse stakeholders, including individuals, communities, and the environment. The indicators used in measuring CSR are grouped into four dimensions (Sweeney, 2009; Agyemang & Ansong, 2017), namely employees, customers, society, and environment. The employee's dimension consists of: ensure adequate steps are taken against all forms of discrimination, consult employee on important issues, and committed to the health and safety of employees. The customer's dimension consists of: supply clear and accurate information and labeling about products and services, resolve customer complaints in timely manner, committed to providing value to customer, and quality assurance criteria adhered to in production. The society dimension consists of: donate to charity, actively involved in projects with local community, purchasing policies that favor the local communities in which it operates, and recruitment policies that favor the

local communities in which it operates. Finally, the environment dimension consists of energy conservation (Sweeney, 2009; Agyemang & Ansong, 2017).

## RESULTS AND DISCUSSION

### Outer Model

The outer model is a measurement model to assess the validity and reliability of the model.

#### *Convergent Validity*

Convergent validity testing can be seen from the loading factor for each construct indicator. The results of the convergent validity test show the following results. Table 1 shows that the outer loading of all variable indicators has a value higher than 0.70, so that all indicators are valid.

#### *Composite Reliability*

Composite reliability testing is presented in the table 2. Table 2 shows that all variables have composite reliability higher than 0.70, so all variables are declared reliable.

### Inner Model

The inner model describes the relationship of latent variables based on the substantive theory.

#### *R-Square ( $R^2$ )*

Testing of the structural model is done by looking at the R-Square value, which is the goodness-fit test of the model. The R-Square values of 0.75, 0.50, and 0.25 can be concluded that the model is strong, moderate, and weak (Ghozali & Latan, 2015). The R-Square ( $R^2$ ) of this study is presented in the Table 3.

Table 3 shows the R Square value for the Competitive Advantage variable (Y1) of 0.273 (weak model) and the Financial Performance variable (Y2) of 0.297 (weak model).

#### *Predictive Relevance ( $Q^2$ )*

Q-square measures how well the observed values produced by the model and the parameter estimates are. The  $Q^2 > 0$  indicates the model has predictive relevance or vice versa. More specifically, the value of  $Q^2$  is 0.02; 0.15; and 0.35 shows a weak, moderate, and strong model (Ghozali & Latan, 2015). The Q-square value of this study is presented in the table 4.

Table 4 shows that competitive advantage (Y1) and Financial Performance (Y2) have  $Q^2$  values of 0.231 and 0.243, so the model has good predictive relevance with a moderate model.

**Table 1. Convergent Validity**

	Corporate Social Responsibility (X2)	Intellectual Capital (X1)	Competitive Advantage (Y1)	Financial Performance (Y2)
X1.01		0,815		
X1.02		0,916		
X1.03		0,913		
X1.04		0,901		
X1.05		0,924		
X1.06		0,878		
X1.07		0,704		
X1.08		0,847		
X1.09		0,828		
X1.10		0,937		
X1.11		0,865		
X1.12		0,931		
X1.13		0,901		
X1.14		0,911		
X1.15		0,871		
X1.16		0,711		
X1.17		0,826		
X1.18		0,946		
X1.19		0,882		
X2.01	0,930			
X2.02	0,845			
X2.03	0,930			
X2.04	0,884			
X2.05	0,909			
X2.06	0,864			
X2.07	0,933			
X2.08	0,876			
X2.09	0,911			
X2.10	0,932			
X2.11	0,895			
X2.12	0,725			
Y1.01			0,914	
Y1.02			0,938	
Y1.03			0,922	
Y2.01				0,906
Y2.02				0,927
Y2.03				0,924

**Table 2. Composite Reliability**

	Composite Reliability
Intellectual Capital (X1)	0,983
Corporate Social Responsibility (X2)	0,978
Competitive Advantage (Y1)	0,947
Financial Performance (Y2)	0,942

**Table 3. R Square**

	R Square
Competitive Advantage (Y1)	0,273
Financial Performance (Y2)	0,297

**Table 4. Q Square**

	SSO	SSE	Q <sup>2</sup> (=1-SSE/SSO)
Intellectual Capital (X1)	6612,000	6612,000	
Corporate Social Responsibility (X2)	4176,000	4176,000	
Competitive Advantage (Y1)	1044,000	803,328	0,231
Financial Performance (Y2)	1044,000	790,068	0,243

*Goodness of Fit*

The criteria for GoF values are 0.10 (GoF small), 0.25 (GoF medium) and 0.36 (GoF large) (Ghozali & Latan, 2015). The Goodness of Fit value can be searched with the following formula:

$$GoF = \sqrt{AVE \times R^2}$$

This study has a GoF value of 0.480, indicating this research model has a large GoF, so that the model is declared fit.

**Hypothesis Testing (Bootstrapping)**

The results of hypothesis testing are presented in the Table 5. The results of testing the direct and indirect effects presented in tables 5 and 6 above indicate that hypothesis testing is 1, 2, 5, 6, and has a positive influence coefficient, t-statistic > 1.65, and P-value < 0.000, so the hypothesis is accepted. Hypothesis testing 3 and 4 has a positive effect coefficient, t-statistic < 1.65, and P-value > 0.000, so the hypothesis is rejected.

**Table 5. Test of Direct Effect**

	Original Sample (O)	T Statistics ( O/STDEV )	P Values
Intellectual Capital (X1) -> Competitive Advantage (Y1)	0,287	5,790	0,000
Corporate Social Responsibility (X2) -> Competitive Advantage (Y1)	0,376	7,739	0,000
Intellectual Capital (X1) -> Financial Performance (Y2)	0,055	1,133	0,129
Corporate Social Responsibility (X2) -> Financial Performance (Y2)	0,053	0,933	0,176
Competitive Advantage (Y1) -> Financial Performance (Y2)	0,496	8,780	0,000

**Table 6. Indirect Effect Test**

	Original Sample (O)	T Statistics ( O/STDEV )	P Values
Intellectual Capital (X1) -> Competitive Advantage (Y1) -> Financial Performance (Y2)	0,142	5,045	0,000
Corporate Social Responsibility (X2) -> Competitive Advantage (Y1) -> Financial Performance (Y2)	0,187	5,923	0,000

**The Influence of Intellectual Capital on the Competitive Advantage of MSMEs in Buleleng Regency**

Testing the direct influence of intellectual capital on competitive advantage obtained a positive effect coefficient of 0.287, t-statistic 5.790 > 1.65, and P-value 0.000 < 0.05, which indicates intellectual capital has a positive and significant effect on competitive advantage.

The influence of intellectual capital on the competitive advantage of MSMEs is based on Resource-

Based Theory. Based on Resource-Based Theory, a business will gain a higher competitive advantage and obtain good financial performance by owning, controlling, and utilizing important strategic assets, both tangible and intangible assets (Wernerfelt, 1984). One of the intangible assets that are a central topic in the academic literature is Intellectual Capital (Calhan et al., 2020). The implementation of intellectual capital in a business related to aspects that are superior and difficult to imitate by competitors

will be able to encourage companies to achieve a competitive advantage.

The results of this study are supported by the empirical study of Jain et al. (2017), Wijayanto et al. (2017), Isa & Deviana (2018), Wahyuni et al. (2019), and Persada & Kusumawardhani (2021).

### **The Influence of Corporate Social Responsibility on the Competitive Advantage of MSMEs in Buleleng Regency**

The results of testing the direct influence of corporate social responsibility on competitive advantage show that the coefficient of positive influence is 0.376, t-statistic  $7.739 > 1.65$ , and P-value  $0.000 < 0.05$ , which indicates that corporate social responsibility has a positive and significant effect on competitive advantage. Testing the direct influence of variables that affect competitive advantage shows that corporate social responsibility has a dominant effect because it has the largest coefficient of influence, 0.376.

The stakeholder theory is the basic theory that explains the influence of corporate social responsibility on the competitive advantage of MSMEs. Stakeholder Theory explains organizational management and business ethics that discuss morals and values in

managing organizations and implies that companies are not entities that only operate for their interests but must also be able to provide benefits to their stakeholders (Freeman, 1984). Based on Stakeholder Theory, when a company pays attention to and provides benefits to stakeholders, stakeholders will support achieving competitive advantage by providing strategic resources needed by the company. This attention can be applied in CSR programs to employees, a society based on human rights, the environment and economy, and company products (Clarkson, 1995).

Empirical studies by Jain et al. (2017), Famiyeh (2017), Kassa (2019), and Sohail et al. (2020) also show that CSR has a positive and significant effect on competitive advantage. The results showing that CSR has a dominant effect on competitive advantage are supported by the empirical study of Jain et al. (2017) and Zahid et al. (2021).

### **The Influence of Intellectual Capital on the Financial Performance of MSMEs in Buleleng Regency**

Testing the direct influence of intellectual capital on the financial performance obtained a positive influence coefficient of 0.055, t-



statistic  $1.133 < 1.65$ , and P-value  $0.129 > 0.05$ , indicating that intellectual capital has a positive and insignificant effect on financial performance.

Resource-Based Theory is the basic theory that explains the influence of intellectual capital on the financial performance of MSMEs. Based on Resource-Based Theory, a business will gain a higher competitive advantage and obtain good financial performance by owning, controlling, and utilizing important strategic assets, both tangible and intangible assets (Wernerfelt, 1984). One of the intangible assets that are a major topic in the academic literature is Intellectual Capital (Calhan et al., 2020).

The study results, which showed that intellectual capital had a positive and insignificant effect on financial performance, indicated that MSMEs used more physical assets to increase added value and financial performance (Ristiani & Wahidahwati, 2021). This study shows that MSMEs have not been able to develop the ability to increase employee motivation to innovate and do not yet have a good system and structure to improve financial performance, so intellectual capital has not significantly affected financial performance. The intellectual capital

of MSMEs tends to be less than optimal, so appropriate policies are needed to maximize the financial performance obtained based on the intellectual capital (Wibisono & Panggabean, 2019). In addition, financial performance is not a direct result of implementing intellectual capital. However, other factors have a role in bridging the influence of intellectual capital on financial performance (Chang & Lee, 2008).

The results of this study are supported by the empirical research of Putri et al. (2017), Wibisono & Panggabean (2019), and Ristiani & Wahidahwati (2021).

### **The Influence of Corporate Social Responsibility on the Financial Performance of MSMEs in Buleleng Regency**

Testing the direct influence of corporate social responsibility on financial performance showed that the coefficient of positive influence was 0.053, t-statistic  $0.933 < 1.65$ , and P-value  $0.176 > 0.05$ , indicating that corporate social responsibility has a positive and insignificant effect on financial performance.

The stakeholder theory is the basic theory that explains the influence of corporate social responsibility on the financial performance of MSMEs. Stakeholder

Theory explains organizational management and business ethics that discuss morals and values in managing organizations and implies that companies are not entities that only operate for their interests but must also be able to provide benefits to their stakeholders (Freeman, 1984). Based on Stakeholder Theory, when a company pays attention to and provides benefits to stakeholders, stakeholders will support the company in improving financial performance by providing strategic resources needed by the company and other support to increase the ability to earn profits. This attention can be applied in CSR programs to employees, a society based on human rights, the environment and economy, and products produced by the company (Clarkson, 1995).

In the context of MSMEs, the implementation of CSR is poorly understood and gets the attention of stakeholders. The implementation of CSR results in costs and benefits, but because stakeholders in the context of MSMEs ignore CSR, the implementation of CSR does not get feedback from stakeholders. So that the implementation of CSR by MSMEs leads to an increase in costs and has little impact on increasing benefits. So that even if MSMEs have taken care of their social environment, the business

will not have a significant impact on financial performance (Wibisono & Panggabean, 2019). Financial performance is also not a direct result of CSR implementation, but other factors are in the middle of this relationship (Saeidi et al., 2015). So that many researchers claim that testing the direct influence of CSR on financial performance is not appropriate, a mediating variable is needed to obtain more reliable research results (Wood, 2010; Galbreath & Shum, 2012).

The results of this study are supported by the empirical study of Prastuti & Budiasih (2019) and Wibisono & Panggabean (2019). The results of this study indicate that CSR has a positive and significant effect on the financial performance of MSMEs in various regions.

### **The Effect of Competitive Advantage on the Financial Performance of MSMEs in Buleleng Regency**

The results of testing the direct effect of competitive advantage on financial performance showed that the positive effect coefficient was 0.496, t-statistic 8,780 > 1.65, and P-value 0.000 < 0.05, indicating that competitive advantage has a positive and significant effect on financial performance. Testing the direct

influence of variables that affect financial performance shows that competitive advantage has a dominant influence because it has the greatest influence coefficient, namely 0.496.

The influence of competitive advantage on the financial performance of MSMEs is based on Resource-Based Theory. Performance-Based on Resource-Based Theory, a business will gain a higher competitive advantage and obtain good financial performance by owning, controlling, and utilizing important strategic assets (tangible and intangible) (Wernerfelt, 1984). Resource-Based Theory states that companies that can manage resources and knowledge well will have a competitive advantage that affects financial performance. When a company has advantages over competitors in terms of cost, ability to exploit market opportunities, and resistance to competitive threats, the company's business continuity will be able to survive in the long term. Directly competitive advantage can lead the company to lead the market, which impacts improving financial performance.

The results of this study are supported by the empirical study of Jain et al. (2017), Wijayanto et al. (2019), Ristiani & Wahidahwati (2021), and Yuniar & Amanah (2021),

who also found that competitive advantage had a positive and significant effect on financial performance. This shows that competitive advantage supports the performance of MSMEs in various regions, so that in order to develop a business, MSMEs should be able to increase their competitive advantage. Then, the results of research showing that competitive advantage has a dominant influence on financial performance are supported by empirical studies by Yuniar & Amanah (2021) and Ristiani & Wahidahwati (2021).

### **The Influence of Intellectual Capital through Competitive Advantage on the Financial Performance of MSMEs in Buleleng Regency**

The results of testing the indirect effect of intellectual capital on financial performance through competitive advantage obtained a positive effect coefficient of 0.142, t-statistic  $5.045 > 1.65$ , and P-value  $0.000 < 0.05$ , which indicates a positive and significant influence of intellectual capital on financial performance through competitive advantage, or competitive advantage mediating the influence of intellectual capital on financial performance.

The Resource-Based Theory is the basic theory that explains the influence of intellectual capital through competitive advantage on the financial performance of MSMEs. Based on Resource-Based Theory, a business will gain a higher competitive advantage and obtain good financial performance by owning, controlling, and utilizing important strategic assets (tangible and intangible) (Wernerfelt, 1984). One of the intangible assets that are a central topic in the academic literature is Intellectual Capital (Calhan et al., 2020).

Implementing intellectual capital, which consists of human capital, structural capital, and customer capital will support the company in achieving a competitive advantage. Ultimately have an impact on improving the company's financial performance. First, proper management of intellectual capital will result in a competitive advantage. Later, it can create value-added that is useful for improving its financial performance because intellectual capital is considered a driver of company performance to create competitive advantage and sustainability in a business (Xu & Wang, 2018). Based on this explanation, intellectual capital affects financial performance through

competitive advantage. Alternatively, in other words, competitive advantage mediates the effect of intellectual capital on financial performance.

The results of this study are in line with empirical studies by Putri et al. (2017), Wijayanto et al. (2017), and Isa & Deviana (2018). More specifically, the results of this study indicate that competitive advantage can mediate the influence of intellectual capital on financial performance, namely in the form of perfect mediation.

### **The Influence of Corporate Social Responsibility through Competitive Advantage on the Financial Performance of MSMEs in Buleleng Regency**

The results of testing the indirect effect of corporate social responsibility on financial performance through competitive advantage obtained a positive influence coefficient of 0.187, t-statistic  $5.923 > 1.65$ , and P-value  $0.000 < 0.05$  which indicates that there is a positive and significant influence of corporate social responsibility on financial performance through competitive advantage or competitive advantage mediating the effect of CSR on financial performance.

Stakeholder Theory is the basic theory that explains the influence of CSR through competitive advantage on the financial performance of MSMEs. Stakeholder Theory explains organizational management and business ethics that discuss morals and values in managing organizations and implies that companies are not entities that only operate for their interests but must also be able to provide benefits to their stakeholders (Freeman, 1984). Furthermore, stakeholder theory implies that the company will develop well and generate profits if it balances its attention to all stakeholders consisting of shareholders, employees, consumers, communities, and suppliers (Nyeadi et al., 2018).

Based on Stakeholder Theory, when a company pays attention to and provides benefits to stakeholders, stakeholders will support the company in achieving a competitive advantage by providing strategic resources needed by the company. The competitive advantage obtained by the company will impact improving financial performance. This attention can be applied in CSR programs to employees, a society based on human rights, the environment and economy, and products produced by the company (Clarkson, 1995). Based on this explanation, CSR affects financial

performance through competitive advantage, or competitive advantage mediates the effect of CSR on financial performance.

The results of this study are supported by the empirical study of Jain et al. (2017) and Zahid et al. (2021). More specifically, the results of this study indicate that competitive advantage can mediate the influence of CSR on financial performance, namely in the form of perfect mediation.

#### **CONCLUSION, IMPLICATION, AND LIMITATION**

Based on the research results that have been described previously, the theoretical and practical implications can be stated. The theoretical implication is that research results can be used as a reference and theoretical study material for further research and strengthen Resource-Based Theory and Stakeholder Theory, as additional library materials for students, and contribute greatly to the development of social responsibility accounting science related to CSR topics from MSMEs. Practical implications, research results can be used as consideration for the Buleleng Regency Government in determining policies to increase competitive advantage and the financial

performance of MSMEs, especially by focusing on CSR and competitive advantage as variables that have a dominant influence, can be used in determining competitive strategies by MSMEs to increase competitive advantage and financial performance through maximizing the implementation of CSR, can be used as a reference for further research and become additional knowledge material in the fields of social responsibility accounting, financial accounting, and strategic management.

This study concludes that intellectual capital and CSR have a positive and significant effect on MSMEs' competitive advantage, intellectual capital and CSR have a positive and insignificant effect on MSMEs' financial performance, competitive advantage has a positive and significant effect on MSMEs' financial performance, and competitive advantage perfectly mediates the effect of intellectual capital and CSR on MSMEs' financial performance.

This study has several limitations, namely only focusing on internal factors that affect financial performance. In addition, the research location is limited to Buleleng Regency and uses a relatively simple research model.

Suggestions that can be given are that the Buleleng Regency Government is advised to provide further attention to the importance of implementing CSR through the formulation of policies and programs related to CSR implementation for MSMEs, such as empowerment and counselling for MSMEs. In addition, MSMEs in Buleleng Regency are advised to implement CSR to increase competitive advantage, which will improve financial performance. Further researchers are advised to examine other variables that may have a more significant influence on MSMEs' competitive advantage and financial performance in terms of external factors such as government policies related to MSME capital assistance, economic stability, and fluctuations in credit interest rates as the latest and ever-evolving variables. Further researchers are also advised to conduct research on a broader location, such as the coverage of Bali Province or several districts where MSMEs have the same problem. Finally, further researchers are advised to develop research models that are more complex and involve more variables.

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