ABSTRACT

This study was conducted to address the inconsistency in empirical findings regarding the influence of Intellectual Capital on Competitive Advantage. While several studies confirm a strong relationship, others fail to demonstrate significant effects, indicating the need to explore the underlying mechanisms. This research aims to examine how Intellectual Capital—which includes human, structural, and relational capital—supports the development of an Internal Innovative Climate and strengthens Competitive Advantage in startups across Central Java.

Using a quantitative approach with Structural Equation Modeling (SEM), data were gathered from 280 startups in various sectors. The results show that Intellectual Capital significantly contributes to the formation of an Internal Innovative Climate, which mediates its effect on Competitive Advantage. Furthermore, dynamic capabilities are identified as key to enhancing innovative performance and enabling startups to respond effectively to environmental changes.

This study highlights the strategic importance of managing Intellectual Capital through talent development, technology investment, and innovation culture. The synergy between Intellectual Capital and dynamic capabilities is essential in building sustainable Competitive Advantage.

The findings contribute to both theory and practice, especially in the areas of startup competitiveness, innovation, and strategic management, offering guidance for business actors and policymakers in Central Java.

***Keywords**: Intellectual Capital, Internal Innovative Climate, Competitive Advantage, Startups, Dynamic Capabilities.*