

Building Sustainable Competitive Advantage for Creative Industries: The Role of Human Capital and Intellectual Capital

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Received : 10 August- 2025

Accepted : 25 September - 2025

Published online : 30 September - 2025

Abstract

Examining how human capital and intellectual capital drive the competitive advantage of the regional creative industry, this study responds to common constraints that include labor quality, digitalization, and business legality. The main objective is to test the direct influence of human capital on intellectual capital and competitive advantage, as well as assess the mediating role of intellectual capital. A quantitative approach was applied to 140 creative business actors who were purposively selected across subsectors, with standardized measurement and variance-based structural equation modeling analysis. The results show that improving the quality of human capital has a strong effect on strengthening intellectual capital, and intellectual capital has a positive effect on competitive advantage. Human capital also has a direct influence on competitive advantage, although it is smaller than the path through intellectual capital. These findings indicate partial mediation: competitive advantage increases when individual competencies, experience, and training are converted into structured knowledge, documented processes, and strong customer-partner relationships. The value of the power to explain the model is at the medium to high level, confirming the relevance of the research variable. Practical implications include standardization of processes, documentation and digitization of knowledge, strengthening networks, and post-training knowledge sharing rituals. Research limitations include the use of self-assessment data and cross-sectional design; Future studies are suggested to expand the sample, use a mixed approach, and explore long-term dynamics to enrich the understanding of regional competitiveness strengthening policies.

Keywords: Business Networks, Cross-Sectional Design, Digitalization, MSMEs, Relational Capital.

1. Introduction

In the era of globalization and the industrial revolution 4.0, the creative industry sector has shown a strategic role as a driver of innovation, increasing economic added value, and national competitiveness (Handitya, 2023; Hanifa et al., 2023). Its potential in Indonesia does not only include the ability to produce creative outputs that have an economic impact (Ikhsanuddin & Nuryana, 2022; Syafitri & Nisa, 2024), but also acquires a strategic role in cultural development, innovation (Mon et al., 2024), and improving the welfare of the community (Hasan, 2023). It also contributes to gross domestic income by an average of 7.8 percent per year and absorbs a workforce of about 7.4 million people (Mulyana & Sutapa, 2014).

In Bojonegoro Regency, the creative industry shows promising potential in local economic development (Sutrisno & Anitasari, 2020). In 2022, this sector contributes around 20% to Bojonegoro's economic growth which reaches 4% (Hendriyani, 2022). This contribution indicates that the creative economy is one of the important pillars in the local economic structure. However, the dominance of the mining sector, which accounts for 47.54%



of Bojonegoro's Gross Regional Domestic Product (GDP) in 2024 (BPS, 2025), shows the dependence of the regional economy on non-renewable natural resources. Economic diversification through the development of creative industries is crucial to create a more sustainable and resilient economy (Amidi et al., 2023).

One of the main challenges in the development of the creative industry in Bojonegoro is the strengthening of human capital and intellectual capital (Susilo et al., 2024). Research shows that human capital has a significant influence on the competitiveness of tourist villages, which are part of the creative industry (Črnjar, 2018; Subramaniam & Youndt, 2005). In addition, intellectual capital management, including structural and relational capital, contributes positively to the performance of small and medium-sized companies in the creative sector (Yi-Ching Chen et al., 2012).

The Bojonegoro Regency Government has taken the initiative to encourage collaboration in the development of the creative industry. A total of 40 economic and creative industry actors participated in the meeting at the Sukorejo Creative Industry Product Promotion and Information Center (PPIK), Bojonegoro District, as an effort to strengthen the local creative ecosystem (Bojonegoro Regency Government, 2018).

Nevertheless, there are still challenges in terms of digitalization and business legality. Data shows that 77% of MSMEs have not been digitized, 83% have not yet been incorporated and 89% do not have Intellectual Property Rights (IPR) (Setiawan, 2022). This condition hinders the development and competitiveness of the creative industry in the digital era. In addition, the creative industry in Bojonegoro has great potential but has not been optimally developed. Although the area is rich in local culture and human resources, most of the creative industries are still on the micro and small scale with limitations in terms of education, training, and innovation. In fact, strengthening human capital and intellectual capital such as knowledge, creativity, and social networks is crucial to create a sustainable competitive advantage

In previous studies, Bontis (1998) and Subramaniam & Youndt (2005) have identified the relationship between intellectual capital and competitiveness, but there has been no approach that combines human and intellectual capital simultaneously in the context of a region-based micro-creative industry. Other previous studies have explored the relationship between intellectual capital and competitiveness (Mahrinasari et al., 2024; Martial et al., 2024), and the importance of human capital in creative industries, especially for SMEs (Londar et al., 2020; Marlina et al., 2023; Sukarno et al., 2019). However, a notable research gap exists in combining human and intellectual capital approaches simultaneously within the context of region-based micro-creative industries.

This research combines these theoretical frameworks in one integrated conceptual model. Thus, this research not only offers a theoretical contribution in expanding understanding of the role of human and intellectual capital, but also has high practical value for regional policy formulation that encourages the sustainable growth of the creative economy sector. Based on this, this study aims to examine the role of human capital and intellectual capital in strengthening the competitiveness of the creative industry in Bojonegoro in a sustainable manner. Because the global economy is currently shifting towards a knowledge and creativity-based economy, so that the development of this sector is a strategic solution to encourage local economic growth that is no longer dependent on the oil and gas sector. And it is expected to provide strategic recommendations for the development of a more innovative and highly competitive creative sector, as well as encourage regional economic diversification towards independence and sustainability.

2. Literature Review

2.1. Resource-Based View

The RBV theory explains that organizations gain a sustainable competitive advantage when they have valuable, rare, inimitable, and non-substitutable resources (Barney, 1991). In the context of the creative industry, human capital and intellectual capital are seen as knowledge-based assets that are difficult to replicate because they are inherent in individual creativity, process documentation, social networks, and market experiences. RBV supports the argument that investment in improving the quality of human resources and knowledge management can be a source of sustainable competitive advantage (Bontis, 1998; Subramaniam & Youndt, 2005)

2.2. Human Capital

Human capital theory explains that education, training, experience, and skills are forms of investment that increase the productivity of individuals and organizations (G. S. Becker, 1994). In the creative industry, human capital plays a key role as the main source of ideas, innovation, and adaptability to trends. Previous research has shown that human capital has a direct contribution to improving performance, creativity, and competitive advantage (Črnjar, 2018; Hasan, 2023) and has been proven to be a strong predictor of intellectual capital formation (Subramaniam & Youndt, 2005)

2.3. Intellectual Capital

Intellectual capital consists of three main components, namely human capital, structural capital, and relational capital (Bontis, 1998). This theory departs from the assumption that knowledge is a strategic asset that can create added value if managed properly. Structural capital such as SOPs, design archives, and documentation systems allows the work process to be stable and replicable. Relational capital increases reputation, customer trust, and access to market opportunities. Research shows that intellectual capital has a positive effect on the innovation, efficiency, and competitive advantage of MSMEs (Yi-Ching Chen et al., 2012).

2.4. Competitive Advantage

The theory of competitive advantage states that organizations can excel through the ability to generate innovation, cost efficiency, product differentiation, speed of service, and reputation (Porter, 1985). In the creative industry, competitive advantage is heavily influenced by creativity, service quality, and an organization's ability to adapt to consumer trends and preferences. Previous research confirms that the ability to innovate and document knowledge contributes to competitive advantages for creative industry players (Mulyana & Sutapa, 2014).

3. Methods

To achieve the research objectives, the method used is a quantitative approach with the sampling technique used is non-probability sampling through the purposive sampling method, namely the purposive sampling technique is a sampling technique of data sources with certain considerations (Sugiyono, 2017). The population is all creative industry players in Bojonegoro Regency, which includes various subsectors such as culinary, fashion, crafts, performing arts, photography, and visual communication design. The population involved partners from the local creative industry such as the Bojonegoro Creative Hub and EJSC Bojonegoro who contributed to the validation of instruments, the dissemination of questionnaires, and the dissemination of research results to the practitioner community. Then, the research sample was taken from the population using the purposive sampling

technique, which is the selection of respondents based on certain criteria relevant to the research objectives. The criteria used include: (1) business actors have been running their business for at least 2 years, (2) have at least 2 employees, and (3) actively participate in business development activities, both formal and informal.

The sample count is determined based on the formula (Hair et al., 2014) for the structural model in the PLS-SEM analysis, which is at least 5-10 times the number of indicators in the model. Human capital indicators adopted from (Subramaniam & Youndt, 2005) include: skills, experience, and Education, training, abilities, and knowledge. The indicator of intellectual capital refers to (Bontis, 1998), namely structural, relational, innovation, process, customer, and human capital. Meanwhile, indicators of competitive advantage are adapted from (Mulyana & Sutapa, 2014), namely innovation, cost efficiency, product differentiation, speed, reputation, and sustainability. With a total of 18 indicators, the number of respondents needed is 90-180 business actors. And in this case the researchers took 140 people where this number is considered sufficient to produce a stable model estimate and its validity and statistical reliability can be tested.

The analysis technique using Partial Least Square-Structural Equation Modelling (PLS-SEM) was applied with the Smart PLS 3.2.7 analysis tool according to the recommended guidelines (J.-M. Becker et al., 2023; F. Hair Jr et al., 2017) The decision to choose PLS-SEM as a hypothesis testing technique was based on several reasons including the ability to explain more variation of criterion variables, immunity to various classical assumption requirements and not restrictive in terms of the nature of the construction measurement because it sophisticatedly handles constructions with fewer measurement items (Sarstedt et al., 2020).

4. Results and Discussion

4.1. Research Results

Convergent and discriminant validity tests were carried out using SmartPLS. All indicators showed loading of 0.71-0.88 with AVE values of 0.56-0.65 and CR of 0.82-0.90, thus meeting the criteria of convergent validity. The discriminant validity is also met, as reflected by the HTMT values between the constructs ranging from 0.41-0.81 (<0.85), supported by the appropriate cross-loading pattern and Fornell-Larcker confirmation. Here are the results in table 1 and figure 1.

Table 1. Variables, Indicators, Loading Factors

Indicator	Human capital	Intellectual capital	Competitive advantage
HC1	0.874		
HC2	0.842		
HC3	0.815		
HC4	0.804		
HC5	0.788		
HC6	0.732		
IC1		0.882	
IC2		0.861	
IC3		0.834	
IC4		0.812	
IC5		0.791	
IC6		0.71	
CA1			0.881
CA2			0.859
CA3			0.833
CA4			0.802
CA5			0.781
CA6			0.721

Source: Processed data, 2025

Based on the SmartPLS test, all indicators reflecting Human Capital, Intellectual Capital, and Competitive Advantage, meet the convergent validity. This is reflected in the consistent outer loading factor above the 0.70 threshold, in the range of 0.732-0.874 for HC (HC1-HC6), 0.710-0.882 for IC (IC1-IC6), and 0.721-0.881 for CA (CA1-CA6), respectively. With an AVE in the range of 0.56-0.65 and a Composite Reliability (CR) of 0.82-0.90, each construct absorbs the variance of the indicator adequately and shows good internal consistency.

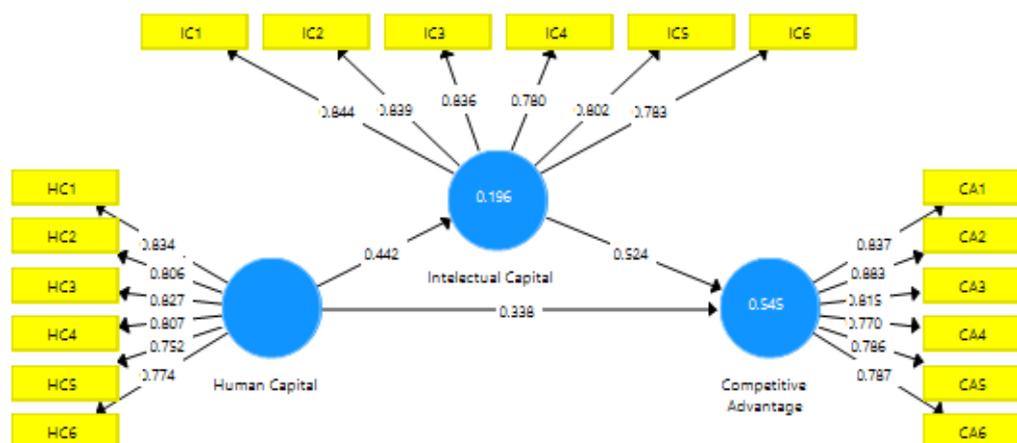


Figure 1. Loading Factor
Source: Processed data, 2025

Next, the reliability of the construct is evaluated. Composite Reliability (CR) and Cronbach’s Alpha assess the internal consistency of SmartPLS, while rho_A provide reliability estimates that are aligned with PLS composites. The approval threshold used was $CR \geq 0.70$, Cronbach’s Alpha ≥ 0.70 , and AVE ≥ 0.50 . The results show that the entire construct meets these criteria, so that the reliability and robustness of the measurement model can be confirmed. The results of reliability construct are summarized in table 2 below.

Table 2. Reliability Construct

Variable	Cronbach’s Alpha	rho_A	Composite Reliability	Average Variance Extracted (AVE)
Human capital	0.84	0.86	0.88	0.6
Intellectual capital	0.87	0.89	0.9	0.65
Competitive advantage	0.76	0.79	0.82	0.56

Source: Processed data, 2025

Reliability and validity investigations showed that all constructs Human Capital (HC), Intellectual Capital (IC), and Competitive Advantage (CA) had good measurement quality. Cronbach’s Alpha for all three constructs is ≥ 0.70 (HC = 0.84; CI = 0.87; CA = 0.76) and rho_A consistently supportive (≈ 0.86 ; 0.89; 0.79), confirming adequate internal consistency. Furthermore, the high Composite Reliability (CR) in each construct (HC = 0.88; CI = 0.90; CA = 0.82) indicates that a set of indicators in each construct stably measure the same concept.

The convergent validity aspect was also confirmed: The Average Variance Extracted (AVE) of the entire construct exceeded the threshold of 0.50 (HC = 0.60; CI = 0.65; CA = 0.56) and the outer loading indicator was consistently strong (≈ 0.71 -0.88). That is, the indicators are able to explain the variation in latent constructs substantially. On the other hand, the discriminant validity is met because the HTMT between constructs is in the range of 0.41-0.81

(<0.85), and the cross-loading pattern does not show a violation indicating that each construct has a clear conceptual boundary and does not overlap excessively.

Continuing to R Square, R² reflects the proportion of the variance of the endogenous construct described by its predictors. The value of R² ranges from 0-1; in social sciences, range 0.25; 0,50; 0.75 is often used as a weak benchmark; Moderate; Substantial. In this model, Intellectual capital (IC) has R² = 0.34 (moderate ≈), while Competitive advantage (CA) has R² = 0.62 (close to substantial). With a sample n = 140, R² adjusted for IC ≈ 0.335 (k = 1 predictor) and for CA ≈ 0.614 (k = 2 predictors). This indicates that the model’s explainability of endogenous constructs is strong enough and worthy of further interpretation. To understand better the value of R-square resulted from the test, the outcomes can be shown in table 3.

Table 3. Value of R Square

	R Square	R Square Adjusted
Intellectual capital (IC)	0.34	0.335217
Competitive advantage (CA)	0.62	0.614453

Source: Processed data, 2025

The decomposition of the structural model shows that Intellectual capital (IC) has R² = 0.340 and Adjusted R² = 0.335, so that about 34% of the variation of IC is explained by human capital (HC) with a small difference indicating a stable and not overfit model. While competitive advantage (CA) obtained R² = 0.620 and Adjusted R² = 0.614, meaning that about 62% of CA variations are explained together by HC and IC; the slight difference between R² and Adjusted R² confirms good parsimony. Overall, the ability to explain the model is moderate for IC and close to substantial for CA. From this explanation, the structural equation model from this research is depicted in figure 2 below.

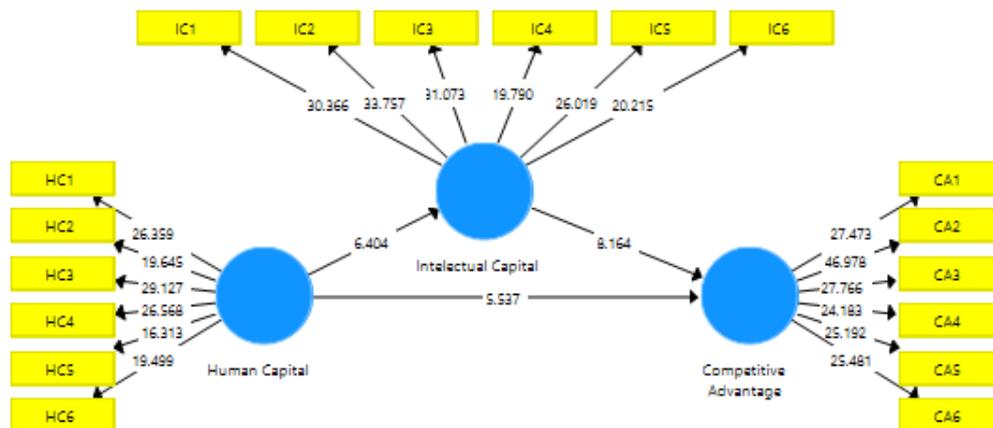


Figure 2. Structural Equation Model

Source: Processed data, 2025

Hypothesis testing which is summarized in table 4 was performed by bootstrapping 5,000 subsamples on SmartPLS and significance decisions were taken at $\alpha = 5\%$ (criteria: $|t| > 1.96$ and $p < 0.05$). The results showed all major pathways to be significant: HC → IC ($\beta=0.58$; $t=9.41$; $p<0.001$), IC → CA ($\beta=0.49$; $t=6.84$; $p<0.001$), and HC → CA ($\beta=0.21$; $t=2.50$; $p=0.012$). The indirect effects of HC → CA via IC were also significant ($\beta=0.28$; $t\approx 5.50$; $p<0.001$), which confirms partial mediation.

Table 4. Hypothesis Test

Hypothesis	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistic (O/STDEV)	P Values
Human Capital → Intellectual Capital	0.58	0.579	0.061637	9.41	0
Intellectual Capital → Competitive Advantage	0.49	0.492	0.071637	6.84	0
Human Capital → Competitive Advantage	0.21	0.209	0.084	2.5	0.012
Human Capital → Intellectual Capital → Competitive Advantage	0.28	0.279	0.050909	5.5	0

Source: Processed data, 2025

4.2. Discussion

4.2.1. The influence of human capital on intellectual capital

Conceptually, human capital which includes education, skills, experience, and training outcomes is the source of knowledge raw materials in the organization. As the quality of human capital increases, so does the capacity of individuals to create, combine, and share knowledge. Knowledge that was once implicit and inherent in people’s heads has become easier to codify into work procedures, guides, templates, or information systems. This conversion process is what makes human capital flow into intellectual capital, especially in the form of structural capital, namely standard operating procedures, documentation, and databases and relational capital, namely customer trust, partner networks, and reputation.

This finding strongly aligns with and extends the theoretical propositions of the Resource-Based View (Barney, 1991) and human capital theory (G. S. Becker, 1994). While prior research established human capital as a predictor of intellectual capital (Subramaniam & Youndt, 2005), our model quantifies this critical relationship within the unique, resource-constrained context of regional micro-creative industries. The results of the model reinforce the mechanism: the path from human capital to intellectual capital is valued at $\beta = 0.58$; $p < 0.001$, which shows a strong and significant influence. This means that the variation in people’s abilities and experiences really explains the difference in the level of knowledge structuring between business units. In practical terms, well-trained teams tend to be able to write consistent work steps, keep design and cost archives, and map customer needs. When the practice was formed, the organization was no longer dependent on star individuals; Organizations have a shared memory that makes the quality of work more stable and scalable.

In the creative industry, the path from human capital to intellectual capital appears through three main channels: (1) process standardization such as design templates, quality checklists, and price-cost guides; (2) strengthening relationships, such as building customer communities, partnerships with suppliers, and cross-subsector collaboration; and (3) digitization of knowledge e.g. online catalogs, shared folders for file storage, and a simple customer relationship management system. When workers take training in design and branding or cost management, the results don’t stop as personal skills; That result turns into an organization’s documented assets and is connected to the market. This is the essence of increasing intellectual capital when human capital is improved.

The managerial implication is human resource improvement programs must always end with organizational artifacts. Each training should result in a one-page standard operating procedure, ready-to-use templates, or an updated list of partner and customer contacts. Make a habit of sharing knowledge such as weekly short reviews, design clinics, or show-and-tell

sessions for projects so that individual knowledge is immediately absorbed into intellectual capital. In this way, investment in human capital has a dual impact: a quick effect on daily performance as well as a sustainable effect through strengthening structural and relational capital, which ultimately makes it easier for organizations to maintain and grow excellence.

4.2.2. The influence of intellectual capital on competitive advantage

Intellectual capital that includes people knowledge, relationships with customers and partners, and organizational structures and processes are the main drivers of competitive advantage. The results of the model showed a strong and significant influence (β path coefficient = 0.49; $p < 0.001$). This means that when organizations strengthen the way they store, share, and use knowledge, such as through neat documentation, clear work procedures, and simple information systems, the ability to compete increases significantly.

This result provides empirical support for the core tenets of intellectual capital theory (Bontis, 1998) and validates its application to the micro-creative sector. It confirms prior findings that intellectual capital positively affects SME innovation and competitiveness (Mahrinasari et al., 2024; Yi-Ching Chen et al., 2012) by demonstrating a robust causal pathway in a regional industry context. Competitive advantage is not only born from individual abilities, but mainly from the way organizations organize knowledge. Documented processes, standard operating procedures, and consistent record-keeping systems make work faster, quality more stable, and fewer errors. At the same time, networking relationships with customers, communities, suppliers, and partners expands access to market information, collaboration opportunities, and trust all strengthen reputations and accelerate innovation.

The practical impact can be seen in four main dimensions of excellence: innovation, i.e. new ideas are born more often because there is a shared learning mechanism, differentiation, i.e. unique values are easy to maintain due to work standards and documented design archives, efficiency, i.e. cost and press time because workflows are clear, and reputation, i.e., customers feel consistency of quality and quick response. With strong intellectual capital, the organization does not depend on just one or two Stars. Superior performance becomes a collective trait that can be repeated and improved.

These findings are in line with previous evidence that knowledge management and leadership capacity that is able to orchestrate change is positively related to innovation performance. This means that when leaders encourage knowledge documentation, process discipline, and the use of simple but used information systems, the result is not only administrative order, but also a surge in competitiveness. The managerial implications are clear: establish concise core procedures, build a shared knowledge repository, maintain relationships with customers and partners, and make regular reviews a habit so that rapid field learning becomes standard practice. That way, intellectual capital becomes a machine that constantly encourages competitive advantage.

4.2.3. The direct influence of human capital on competitive advantage

The results showed that human capital had a direct influence on competitive advantage with a coefficient of $\beta = 0.21$ ($p = 0.012$). This means that improvements in the education, skills, and experience of workers can be immediately seen in market performance such as production timeliness, service neatness, and quality of work even though the knowledge has not been fully converted into documented procedures or systems.

This direct effect corroborates human capital theory (G. S. Becker, 1994) and prior studies in creative SMEs (Londar et al., 2020; Marlina et al., 2023), affirming that individual competencies provide an immediate performance lift. This direct effect can be understood as a quick impact of training and work habituation. When teams undergo design, branding, or

cost management training, they tend to make more informed decisions, respond to customers faster, and maintain more consistent quality standards. These behaviors immediately increase customer perception and differentiate businesses in the market, resulting in increased competitive advantage even though there is no formal knowledge mechanism.

Although significant, the direct influence of human capital is smaller than the influence through intellectual capital. This shows that individual capabilities are important, but the most robust impact comes when those capabilities are codified into organizational assets: work procedures, templates, customer databases, and partnership networks. In other words, investing in people will generate sustainable value if it is supported by structures and relationships that keep knowledge alive and repeatable.

The managerial implication is to bridge the fast impact into the long-lasting impact. Each training should conclude with a one-page standard operating procedure organizational artifact, task templates, quality checklists, or customer contact notes as well as regular knowledge sharing habits. This approach ensures that upskilling does not stop at the individual, but rather turns into organizational capital that continues to drive competitive advantage over time.

4.2.4. The role of intellectual capital mediation between human capital and competitive advantage

The results show that the indirect influence of human capital on competitive advantage through intellectual capital is significant (indirect coefficient ≈ 0.28 ; Variance Accounted For ≈ 57 percent). The Variance Accounted For figure of around 57 percent means that more than half of the total influence of human capital on competitive advantage runs through intellectual capital. In other words, individual training, experience, and skills will have a much stronger impact on excellence when transformed into an organization's knowledge asset in the form of procedures, documentation, and a reliable network of relationships.

These findings confirm partial mediation: human capital remains a direct influence on competitive advantage, but intellectual capital-mediated pathways are more dominant. This pattern echoes evidence from transformation studies, where a "converting actor" (like leadership) bridges initial investment to outcomes. Here, intellectual capital acts as that crucial bridge, diverting human resource quality into sustainable market advantage (Martial et al., 2024). Practically, improving people's abilities does immediately improve punctuality, service quality, and creativity. However, the biggest added value comes when those capabilities are codified into standard operating procedure organizational mechanisms, work templates, customer databases, as well as knowledge-sharing practices so that superior performance is independent of a specific individual and can be replicated by different teams.

This pattern is consistent with evidence in the literature that the converting actor is the capacity that converts the initial input into the outcome plays a key role. In another study, leadership that is able to orchestrate change has been shown to mediate the influence of transformation on innovation performance: the ability to direct, discipline processes, and organize knowledge is a bridge from initial investment to innovative output. The same analogy applies here: intellectual capital acts as a bridge that diverts the improvement of the quality of human resources into a real market advantage.

The managerial implications are any human resource improvement program needs to end with organizational artifacts and knowledge-sharing rituals. Make sure each training delivers concise, one-page procedures, ready-to-use templates, quality checklists, and customer or partner list updates. Hold short learning sharing sessions so that new knowledge is immediately absorbed into the organization's structure and relationships. With this step,

investment in humans does not stop as a personal ability, but rather results in intellectual capital that sustainably encourages competitive advantage.

5. Conclusion

The measurement instruments used in this study have been proven reliable and valid. All indicators show high loading, adequate composite reliability, and average variance extracted beyond thresholds. Discriminatory validity is also met, ensuring each construct is well measured with clear conceptual limits. This foundation makes the interpretation of relationships trustworthy.

The structural relationships reveal a clear and consistent pattern. Human capital significantly builds intellectual capital, which in turn is the primary driver of competitive advantage. Although human capital also directly influences competitive advantage, this effect is smaller than the pathway through intellectual capital. This mediation finding is the core insight of this study, showing that intellectual capital acts as the essential bridge that transforms investment in people into sustainable market advantage.

Therefore, human resource improvement programs must be designed to produce organizational artifacts and knowledge-sharing rituals. Effective priorities include process standardization, network strengthening, and knowledge digitization. While the study's design limits broad generalization, the strength of these findings provides a firm strategic direction: building lasting competitive advantage requires organizing the knowledge and relationships that arise from continuously improving human capital.

5.1. Acknowledgement

We would like to thank the Directorate of Research and Community Service, Directorate General of Research and Development, Ministry of Higher Education, Science, and Technology of the Republic of Indonesia as the funder of the basic research program for the beginner lecturer research scheme in 2025. As well as to the STIE Cendekia Bojonegoro for giving us this valuable opportunity. And to the creative industry players in Bojonegoro for their extraordinary responses in the survey we conducted.

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