Competitive Advantage as Mediating Factor for Creating Firm Value: A Literature Review

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INTRODUCTION

Performance reflects to what extent a company organizes its business successfully. From the perspective of market perception and the projection of future growth, the most well-known concept to assess the firm performance is firm or company value (for example, Sudarsanam et al., 2006; Rashid and Islam, 2013). The first study examined firm value as the investor's expectation of the prices of current-invested assets, the growth of the assets in place, and the growth of the new future-invested assets. The expectancy leads scholars to use another term for firm value, which is shareholders' value (Rashid and Islam, 2013; Isidro and Sobral, 2015).

A high firm value would attract new potential investors and strengthen the company's image as a viable company as an investment destination. Therefore, companies must be able to accommodate the expectations of shareholders and stakeholders by focusing on increasing their firm value. Scholars have examined various factors that could determine firm value as a company's primary goal. However, many researchers claimed that corporate governance, intellectual capital, and competitive advantage are the most potential factors in achieving high firm value (Bemby et al., 2015; Rashid and Islam, 2013; Wijayanto et al., 2019). Corporate governance as a control system and intellectual capital and competitive advantage as high-value assets or resources are the dominant aspects of a company (Choong, 2008; Shleifer and Vishny, 1997; Siagian et al., 2013; Sigalas and Economou, 2013). Some researchers have confirmed that corporate governance, intellectual capital, and competitive advantage would generate the acquisition of firm value (Bemby et al., 2015; Rashid and Islam, 2013; Wijayanto et al., 2019).

Corporate governance discusses a system to handle conflicts of interest between managers and shareholders and to improve the welfare of shareholders as principals (Shleifer and Vishny, 1997; Siagian et al., 2013). The basic principle of the system is to

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Abstract. This study aims to examine previous research to determine the role of competitive advantage as a variable mediating the effect of corporate governance and intellectual capital on firm value. This study applies theories namely agency theory, bargaining power theory, tokenism theory, market orientation theory, managerial rents theory, and dynamic capabilities theory to explain the relationships between variables. As a literature review, this article contributes to developing a conceptual framework by combining two different perspectives of governance and intellectual capital management, namely shareholder and stakeholder perspectives. This paper has important implications for management and future research as not many previous studies have used the theoretical framework to test the research model. This study has limitations in obtaining research that examines the influence of competitive advantage on firm value. Nevertheless, this study carries a new framework that illustrates the contribution of competitive advantage to firm value through the application of the principles of corporate governance and management of intellectual capital.

Keywords: firm value, competitive advantage, corporate governance, intellectual capital.

Abstrak. Studi ini bertujuan untuk mengkaji riset terdahulu guna mengetahui peran keunggulan kompetitif sebagai variabel yang memediasi pengaruh tata kelola perusahaan dan modal intelektual terhadap nilai perusahaan. Studi ini mengaplikasikan berbagai teori, yaitu agency theory, bargaining power theory, tokenism theory, market orientation theory, managerial rents theory, dan dynamic capabilities theory untuk menjelaskan hubungan antarvariabel. Sebagai artikel studi literatur, artikel ini berkontribusi untuk mengembangkan kerangka konsep tentang bagaimana memadukan dua perspektif tata kelola dan pengelolaan modal intelektual yang berbeda, yaitu shareholder dan stakeholder perspective. Artikel ini memiliki implikasi penting terhadap manajemen dan penelitian selanjutnya mengingat belum banyak penelitian terdahulu yang menggunakan kerangka teori tersebut untuk menggali model penelitian yang serupa. Artikel ini memiliki keterbatasan dalam memperoleh penelitian yang mengkaji tentang keunggulan kompetitif dalam kaitannya dengan nilai perusahaan. Meskipun demikian, penelitian ini mengusung framework baru yang mengilustrasikan kontribusi keunggulan kompetitif terhadap nilai perusahaan melalui penerapan prinsip tata kelola perusahaan dan pengelolaan modal intelektual.

Kata kunci: nilai perusahaan, keunggulan kompetitif, tata kelola, modal intelektual.
reduce agency problems and to align the management policies with the shareholders' interests (Siagian et al., 2013). The ability of the company to minimize agency problems should create firm value (Taufik et al., 2018). Noronha et al. (2018) stated that the function of control in corporate governance would create a positive influence on firm value. Balachandran and Faff (2015) highlighted that optimal corporate governance practices could improve the quality of financial statements and prevent accounting manipulation. It is because supervision on financial reports would provide a guarantee to shareholders that the information presented in the financial reports describes the real condition of the companies.

The second factor that determines firm value is intellectual capital. The concept involves intangible assets, including human competencies and customer relationships, for supporting economic value creation activities characterized by firm value (Bontis, 1998; Peng et al., 2007). It refers to a framework by which companies could manage a group of intangible assets attributed to the company and accommodate the interest of relevant stakeholders at the same time (Sudarsanam et al., 2006). The managers aim to develop employee's knowledge, meet customer expectations, and build relationships with other relevant stakeholders, which ultimately also leads to the acquisition of firm value. Petty and Guthrie (2000) explained that intellectual capital obtains crucial resources to generate firm value. Intellectual capital could attract investor attention (Nuryaman, 2015). According to market orientation theory, intellectual capital is a part of the resources used to implement market-based strategies that are useful for increasing the firm value (McNaughton and Osborne, 2000).

Both factors may affect firm value directly through a different mechanism. While corporate governance creates values through the shareholder perspective (Balachandran and Faff, 2015), intellectual capital determines values through the firm’s capability to manage the relationship with stakeholders (Petty and Guthrie, 2000). It is beneficial to define which perspective has a higher contribution to firm value, stakeholder, or shareholder view. The two have different consequences on the firm daily business process. Riahi-Belkaoui (2003) explained, under the stakeholder view, the company has to manage policies that affect groups on which the firm is dependent on its continued survival, while under the shareholder view, the company has only obligations primarily to shareholders. From the managers' perspective, dividing attention and managing policies that cover various stakeholders might be far challenging than focusing on one stakeholder, which is shareholders. Instead of selecting only one perspective of business strategies, however, the current trend of business leads companies to combine both views.

Companies may optimize both approaches to achieve robust competitive advantages and then generate the highest firm value. Competitive advantage reflects superior resources to win the competition and achieve strategic goals in the form of firm value (Ma, 1999; Wijayanto et al., 2019). Once a company could realize a vigorous competitive level, the company is in a state of the business that manifests the managers' ability to blend strategies derived from both shareholder and stakeholder views. The position then provides a signal for stock markets and leads to improve corporate value.

This research is essential to show that the implementation of corporate governance also contributes to a competitive advantage, especially in developing countries where the concept of corporate governance tends to comply with the formal requirements. There is even skepticism about the existence of women on the board (Musa et al., 2020). Isada and Isada (2019) argued that corporate governance has a crucial role as a driving process of developing a competitive advantage, and then increases firm value. Implementation of corporate governance would encourage the achievement of competitive advantage that would increase firm value. Agrawal and Fuloria (2004) predicted that in the future, corporate governance would transform into competitive necessities. Managerial rents theory describes corporate governance as a source of competitive advantage (Dwivedi and Jain, 2005).

Grimaldi et al. (2012) stated that intellectual capital is an essential factor of innovation, competitive advantage, value creation, and also becomes the determinant of the company’s economic performance. Intellectual capital also measures to what extent the organization could create and develop organizational knowledge (Cabrita and Bontis, 2008). The explanation confirmed the ability of intellectual capital to influence firm value through competitive advantage. Dynamic capabilities theory notes that companies need to utilize and develop superior resources, including intellectual capital, to adapt to the global business developments and strengthen their competitive advantage (Kamukama, 2013; Zahedi and Ramezani, 2015).

Previous studies have examined the relationship between corporate governance, intellectual capital, competitive advantage, and firm value (Bemby et al., 2015; Isada and Isada, 2019; Kamukama, 2013; Rashid and Islam, 2013; Wijayanto et al., 2019). However, some researchers assessed that the relationships remain unclear (Hatane et al., 2017; Isidro and Sobral, 2015). Meanwhile, few studies that have developed a theoretical review on intellectual capital and competitive advantage on firm value. This article fills the gap and establishes a framework for competitive advantage as mediating variables that reflects a state of business in which the managers succeed in combining strategies derived from shareholder and stakeholder views. The authors intend to examine theoretically, firstly, how does corporate governance determine firm value both directly and indirectly through competitive advantage based on the perspective of the shareholders? Secondly, how does intellectual capital identify firm value both directly and indirectly through competitive advantage based on the view of stakeholders? Thirdly, how does...
competitive advantage contribute to firm value? The authors left further study to answer the question by applying appropriate data.

The introduction becomes the first part of the article structure. In the second section, the authors discuss the method used in this literature review. The third section describes the results, including the concepts of corporate governance, intellectual capital, competitive advantage, and firm value, discusses the propositions derived from the relationships between those variables, and provides the discourses of relationships between four variables in the emerging country context. The authors indicate the limitation of competitive advantage roles and measurements and suggest further studies to address the issue in the next section. The last part states the conclusion.

**RESEARCH METHOD**

The study aims to overview whether there are theoretical reasons to explain the influences of corporate governance and intellectual capital, both directly and indirectly, toward firm value. In line with the aim, the authors provide an overview of several empirical research about the links among the variables. The authors set two stages in the writing method. Firstly, the authors selected materials for the review, including extensive articles available in the forms of research papers and literature review papers, as well as institutional reports, book, and proceedings on corporate governance, intellectual capital, and competitive advantage. In the selection process, the authors did not limit the articles based on the geographical context because the topic is prevalent internationally. The authors also did not limit the use of literature based on specific time frame. However, this study keeps in mind the recent studies to be relevant to the current business developments but does not eliminate some old studies. The authors used kinds of literature both published by reputable and less reputable journals because previous studies that scrutinize theoretical frameworks relevant to the variables are not widely available. For example, studies on the role of competitive advantage to improve firm value and market orientation theory are rare. With the framework, we did extensive and in-depth searches for this topic in several major academic databases, such as the Academy of Management, Emerald Group Publishing, Elsevier BV, JSTOR, Sage Publication, Wiley Online, and several other publishers.

Afterwards, the authors compiled relevant papers by using specific keywords, such as "corporate governance and firm value", "intellectual capital and firm value", "corporate governance and competitive advantage", "intellectual capital and competitive advantage", "competitive advantage and firm value", "agency theory and corporate governance", "bargaining power theory and corporate governance", "tokenism theory and corporate governance", "market orientation theory and competitive advantage", "managerial rents theory and competitive advantage", and "dynamic capabilities theory and intellectual capital". The study combines the keywords and forward snowball method as the searching strategy. Throughout the selected papers, the authors examined the papers and summarized the main hypotheses and findings to ensure that all articles are eligible. Following the articles selection stages, the authors obtained 86 titles consisting of 56 research papers, 24 literature reviews, 4 institutional reports, 1 book and 1 conference proceeding.

**RESULTS AND DISCUSSION**

**Corporate Governance and Competitive Advantage: Shareholder Value Perspective**

Corporate governance is a system that includes policies, processes, rules, and control of integrated business activities (Man and Wong, 2013). Since 1997, corporate governance has been experiencing significant developments in Asian countries, after the world economic policy-makers had undertaken significant reforms to the weak corporate governance practices as the root of the problems of the financial crisis (Connelly et al., 2017). However, the issue of the poor manager's behavior had grown in the early 1980s.

The discussion on corporate governance extended to issues related to low financial and economic development, high-profile accounting scandals, and some other issues (Connelly et al., 2017). These events allegedly motivated the appearance of the corporate governance concept. Jamil et al. (2020) defined corporate governance as a set of regulations to govern the behavior of management. Corporate governance aims to direct and control organizational activities by building structures, regulations, effective and efficient strategic decision-making mechanisms.

Garay and González (2008) explained that the discussion on corporate governance focuses on handling conflicts of interest between managers and shareholders. From the perspective of agency theory, the implementation of corporate governance aims to ensure that agents or managers provide their best performance to improve the welfare of shareholders as principals (Shleifer and Vishny, 1997). This theory explains the relationship between principals and agents in a company and the conflicts that occur
between the two parties (Jensen and Meckling, 1976). More specifically, agency theory talks about the manager's self-interest when carrying out their duties as an agent. This self-interest directly or indirectly could trigger conflicts, as called agency problems (Gomez-Mejia and Balkin, 1992).

Handling agency problems is increasingly crucial for public companies because public companies have greater responsibilities in conducting their business activities. Every activity undertaken must be accountable to all investors, both majority and minority. In this regard, the role of corporate governance increasingly needs to be optimized. Lemmon and Lins (2003) stated that managers who have more control over the company have the potential to harm shareholders.

Various problems that arise in the company are caused, one of which, by suboptimal corporate governance practice. These problems encourage reforms to the organizational governance system to decrease inefficiencies in the corporate sector (Arora and Sharma, 2016; Bhat et al., 2018). The reforms in the corporate governance system aim to minimize the conflicts of interest and various potential irregularities in the company. Taufik et al. (2018) emphasized that companies implement corporate governance with intention to reduce agency problems. The practice makes it easier for shareholders to direct the behavior of managers to meet their interests.

Some studies predicted that the implementation of corporate governance mechanism has a high impact on the company and shareholders. Corporate governance is a control mechanism to assure that the objectives of the company are achieved (Jamil et al., 2020). Corporate governance would increase the confidence of investors, so they are encouraged to invest in the company (Garay and González, 2008).

Assessment of corporate governance can be arranged by referring to the board structure consisting of board size, board independence, and board diversity (Adusei, 2019; Darko et al., 2016). Board size means the number of board members (Darko et al., 2016). Board independence is the percentage of independent board members (Arora and Sharma, 2016), while board diversity refers to the percentage of women on the board (Adusei, 2019).

Isshaq et al. (2009) stated that a large board size indicates proper quality management. The large proportion of the board of directors indicates the tight supervision performed by the board, as agency theory states that the large size of the board is useful for optimizing the process of supervision and control (Kiel and Nicholson, 2003). The large board size could also minimize control only by dominant individuals with majority ownerships (Isshaq et al., 2009).

Besides board size, board independence also determines the implementation of corporate governance. Board independence is an integral part of the corporate governance mechanism. The presence of independent board members could accommodate the implementation of monitoring the company's financial reporting process (Jamil et al., 2020). Board independence also has a significant influence in determining the quality of company performance (Hatane et al., 2017). However, the bargaining power of the CEO (Chief Executive Officer) could decrease the independence of the board.

Bargaining power theory states that CEOs often interfere with the board, especially independent board members (Hermalin and Weisbach, 1998). This theory emphasizes the bargaining power possessed by the CEO. If a CEO has reliable bargaining power, the board would lose its independence (Ryan Jr and Wiggins III, 2004). Bargaining power theory illustrates the desire of the CEO to suppress the independence of the board because independent boards are known to have a high interest in overseeing the manager's behavior, especially the CEO (Hermalin and Weisbach, 1998).

Furthermore, board diversity refers to the existence of women as minorities (Carter et al., 2003). Board diversity would be able to improve the quality of supervision of managers. However, the number of women also determines its contributions.

Tokenism theory states that female directors only become a symbol or "token" that do not have enough power to execute their duties and functions as board members (Kanter, 1977). Token refers to individuals who are placed on the board to meet formal rules only. This theory emphasizes the imbalance between the number of women and men on the board. Kanter (1977) explained that women would be treated as tokens if their percentage is only fifteen percent. The small amounts indicate a weak influence of female directors in the decision-making process. These indicators are proven capable to represent corporate governance mechanisms in influencing firm value (Borghesi et al., 2016; Hatane et al., 2017; Henry, 2008; Lozano et al., 2016; Pucheta-Martínez et al., 2018; Nguyen and Faff, 2006; Noronha et al., 2018; Rashid and Islam, 2013; Taufik et al., 2018).

In addition to direct influence, corporate governance also possesses an indirect effect on firm value. Competitive advantage could be able to take the role of mediator in the influence of corporate governance on firm value. Corporate governance could encourage the achievement of a competitive advantage that ends at increasing firm value.

Organisation for Economic Cooperation and Development (2010) stated that corporate governance is crucial in conditions of intense competition. Due to the global market competition pressures, companies tend to direct their governance systems to be able to achieve long-term competitive advantage (Salvioni et al., 2016). Nginyo et al. (2018) argued that corporate governance would promote the achievement of long-term competitive advantage.

Corporate governance could also be one of the determinants of the quality of competitive advantage. Agrawal and Fuloria (2004) said that companies would have a better competitive advantage compared to their competitors by implementing an optimal corporate governance mechanism. Implementation of
Corporate governance would encourage the formation of competitive advantages that could be relied on by the company.

Furthermore, Isada and Isada (2019) argued that the reputation of corporate governance practices becomes a valuable asset that is difficult for other companies to imitate and is useful for building a sustainable competitive advantage. Garay and González (2008) stated that good corporate governance practices and policies are the distinguishing aspect between one company to another. Thus, corporate governance not only has a supervisory function but also could promote the achievement of the company's competitive advantage. Isada and Isada (2019) proved that activities in corporate governance have a positive impact on competitive advantage. Several other researchers provided the same conclusions (Al-Qatawneh, 2015; Nginyo et al., 2018).

Ma (1999) said that competitive advantage is formed and developed over the performance of individuals in the company. Competitive advantage is an outcome produced by scarce, valuable, and unique human resources and systems that support the creation of sustainable competitive positions (Chahal and Bakshi, 2015). Managerial rents theory states that the company's superior resources have the potential to be a source of competitive advantage. In this case, the resources refer to the board members (Dwivedi and Jain, 2005).

The managerial rents theory uses a model that describes managerial skills that must be mastered by individuals who have managerial roles and responsibilities in the organization. Managerial skills are the abilities, expertise, and knowledge that have been learned and possessed by individuals needed in the process of managing a company. Concurrently, managerial responses refer to managerial skills that could provide significant contributions to all organizational resources used to produce economic value for the organization (Castanias and Helfat, 2001). Management skills could also be a new basis for the company's competitive advantage to gain high firm value.

The term "competitive advantage" began to develop in the late 1970s (South, 1981). According to Day and Wensley (1988), competitive advantage consists of two critical aspects, namely qualified skills and resources. The combination of the two aspects will generate a competitive advantage as a part of an effort to produce value for the company. Ma (1999) stated that many driving factors could shape the company's competitive advantage, including environment, organization, or individuals in the organization.

Sigalas and Economou (2013) defined competitive advantage by looking at the perspective of performance and resources. In the performance perspective, competitive advantage refers to something that could deliver profitability, returns, benefit-cost gaps, and other economic benefits. From the perspective of resources, competitive advantage means superior or high-value assets or resources.

There are various kinds of measurements of competitive advantage. According to the accounting-based perspective, the competitive advantage consists of five indicators, namely economies of scales, capital requirements, power over suppliers, power over customers, and the credibility of the expected threat of retaliation (Dickinson and Sommers, 2012). The five indicators are calculated based on published financial data in the company's financial statements.

Economies of Scales
Economies of scales describe resource capabilities based on the use of technology and quality manufacturing to convert raw materials into final products (Dickinson and Sommers, 2012). Economies of scales refer to the Cost of Sales (CoS) ratio, which is a division of the cost of goods sold and net sales.

Capital Requirements
Capital requirements describe the ability of companies in terms of capital to compete in the industry (Dickinson and Sommers, 2012). High capital could be a barrier for competitors to enter the industry. Capital requirements refer to the Capital Intensity (CapInt) ratio, which is a division of depreciation expense and net sales.

Power over suppliers
Power over suppliers is the strength or bargaining power that a company has toward suppliers to obtain profits from business transactions involving these two parties (Dickinson and Sommers, 2012). Power over suppliers consists of two ratios, namely Operating Liability Leverage (OLLev) and Inventory Turnover (ITO). OLLev is a division between operating liabilities and net operating assets, while ITO is a division of the cost of goods sold and inventories.

Power over the Customers
Power over customers is a bargaining power that the company has over customers. Power over customers refers to the Receivables Turnover (RTO) ratio, which is a division of net sales and receivables (Dickinson and Sommers, 2012).

The Credibility of Expected Threat of Retaliation
The credibility of the expected threat of retaliation illustrates the company's ability to counterattack competitors through various efforts, such as launching a prolonged price war, legal actions, and expanding into the territory or market of competing products (Dickinson and Sommers, 2012). The credibility of the expected threat of retaliation consists of financial leverage and excess funds. Financial leverage is a division between net financial objectives and common stockholders' equity. Meanwhile, excess funds are a division of net financial assets and net operating assets.

Based on the description, it illustrates how corporate governance mechanisms directly or through contributions of competitive advantage determine competitive advantages.
the achievement of firm value. Competitive advantage could perform a significant role in the process of achieving optimal firm value. However, there are no researchers who have examined the role of competitive advantage as a mediator in this context.

**Proposition 1. Corporate Governance Creates Firm Value.**

**Proposition 2. Corporate Governance Creates Firm Value through Competitive Advantage.**

**Intellectual Capital and Competitive Advantage: Stakeholder Value Perspective**

Intellectual capital management activities first emerged in the early 1980s, when managers, academics, and consultants around the world began to recognize the critical role of intangible assets as the dominant factor that determined the company's profits (Harrison and Sullivan, 2000). Since the 1990s, intellectual capital began to develop and attracted the attention of many academics and practitioners to conduct scientific studies (Chen et al., 2004). Choong (2008) defined intellectual capital based on the perspective of assets. The assets referred to the intangible assets that could produce values for companies in the future.

Intellectual capital has developed into an essential resource for companies (Harrison and Sullivan, 2000). Knowledge-based assets slowly shifted the physical assets, such as land and material capital (Chen et al., 2004). Cabrita and Bontis (2008) summarized three elements that describe intellectual capital as intangible resources that able to create values for the organization and products from collective practices. Meanwhile, Bontis (1998) developed a classification of intellectual capital consisting of:

**Human capital**

Human capital is the primary source of innovation and a new strategy to increase the competence of organizational members through brainstorming, research, and re-engineering new processes. The essence of human capital is the ability of members of the organization to perform their duties. Human capital shows the individual's knowledge of the employees (Hsu and Fang, 2009; Nick Bontis and Fitz-enz, 2002).

**Structural Capital**

Structural capital relates to organizational mechanisms, structures, and systems that facilitate members of the organization to be able to perform optimally. Structural capital refers to a facility provided by the organization to support employee productivities and performances (Bontis, 1998). These facilities are in the form of mechanisms, systems, and organizational structures.

**Relational Capital or Customer Capital**

Relational capital consists of information about marketing channels and relationships with parties outside the organization, such as customers, suppliers, and the government (Bontis, 1998).

Based on the three aspects, it indicates that the process of managing intellectual capital is closely related to the stakeholder, besides the economic issues. Intellectual capital needs to be managed and developed for several reasons (Petty and Guthrie, 2000), such as the development of information technology and information society, increasing awareness of the role of knowledge and knowledge-based economy, changing patterns of social activity and network society, and recognition of innovation as one of the main factor of competitiveness. Nuryaman (2015) said that intellectual capital is a knowledge-based resource that could be one of the company's competitive advantages during global competition. Intellectual capital consists of resources and capabilities which are empowered by companies to form sustainable competitive advantage (Yaseen et al., 2016).

From a strategic point of view, intellectual capital intends to create and enhance firm value (Chen et al., 2004). Nuryaman (2015) stated that investors would offer high appreciation to companies which have a high intention to manage their intellectual capital. In the end, investors' reactions to the management of intellectual capital would increase firm value.

If a company managed intellectual capital optimally, intellectual capital could increase the value of the company, as investors search for companies which have productive intellectual capital (Riahi-Belkaoui, 2003). In the current business development, investor attention does not focus only on one aspect. Appuhami and Bhuyan (2015) said that currently, there is a tendency to pay more attention to the funds invested by companies in developing intellectual capital. Thus, the assumption about the influence between intellectual capital and firm value becomes stronger.

Managing intellectual capital also means managing company stakeholders because employees, customers, competitors, and other stakeholders become parts of the intellectual capital itself. Market orientation theory highlights the market perspective as an organizational orientation in executing business activities that consist of elements, such as customer orientation and competitor orientation (Naver and Slater, 1990). Customer and competitor orientation consists of all activities to obtain information about customers and competitors. Therefore, market orientation-based strategies that prioritize improving the quality of intellectual capital would provide the acquisition of firm value (McNaughton and Osborne, 2000).

Chen et al. (2005) proved that intellectual capital has a positive effect on firm value. Their research explained that investors provide a higher valuation on companies that have feasible intellectual capital, so, the company could generate profitability and prospective revenue growth both now and in the future. In line with Chen et al. (2005), the research of Bemby et al. (2015) also provided facts about the significant positive influence between intellectual capital and firm value. These results indicate that the effective and efficient use of intellectual capital would affect...
firm value positively.

On the other hand, intellectual capital also has a positive contribution to firm value by strengthening the company's competitive advantage. The process of improving the quality of research and development programs, establishing positive relationships with customers, and developing employee skills would lead to the optimization of intellectual capital management. Furthermore, intellectual capital would be the basis of the company's competitive advantage in achieving firm value. Strengthening competitive advantage through developing intellectual capital would deliver benefits not only to shareholders but also to stakeholders. Innovation programs held by companies could produce new products and services that are valuable to customers. The optimal use of resources also has a positive impact on various parties related to the company, such as employees, suppliers and the government, as well as the role of relational capital on building positive relationships with stakeholders.

Intellectual capital is a driving factor of innovation developments and the main element of competitive advantage and value creation, as well as being a determinant of the company's economic performance (Grimaldi et al., 2012). Moreover, the idea of intellectual capital explains the ability of organizations to create and develop the potential of organizational knowledge (Cabrita and Bontis, 2008). Therefore, there was an assumption said that intellectual capital also has a positive influence on firm value through competitive advantage. By utilizing intellectual capital as a driver of competitive advantage, it could affect firm value indirectly.

Competitive advantage could not be obtained by only producing final products and services to customers but also the company's superior resources (Yaseen et al., 2016). Chahal and Bakshi (2015) explained that training and learning programs at the individual level would improve the quality of human capital, while group learning would increase relational capital. Meanwhile, organizational learning could raise structural capital and continuously improve competitive organizational performance.

A company could develop competitive advantages through optimizing its valuable assets, such as unique resources, knowledge, and various other useful assets to create the company's potential (Barney, 1991; Ma, 1999). Furthermore, the resources used as the basis of competitive advantage would produce values for the company. Ma (1999) grouped competitive advantage into three categories, namely ownership-based, access-based, and proficiency-based. Ownership-based is related to what the company already has, such as a dominant position in the market. Access-based is shown by the dominance of distribution channels, while proficiency-based is built through the process of knowledge creation, competence, and capability building, both at the individual and organizational levels.

Dynamic capabilities theory reveals that the development of intellectual capital would strengthen the company's competitive advantage (Kamukama, 2013; Teece et al., 1997). This theory discusses the achievement of competitive advantage through capability building (Ahmad Zaidi and Othman, 2012). Dynamic refers to the company's ability to renew competence, while capability means the company's ability to integrate organizational skills and resources to adapt to changing environments. The ability to develop the uniqueness of these competencies would make it easier for companies to gain competitive advantage (Teece et al., 1997). Dynamic capabilities theory targets not only a short-term competitive advantage but also a sustainable competitive advantage in rapid business development (Ahmad Zaidi and Othman, 2012).

A study that examines the relationship between intellectual capital and competitive advantage is rare (Yaseen et al., 2016). However, some research supports the assumption that intellectual capital has a positive effect on competitive advantage. Meherlani et al. (2012) stated that human capital is an essential aspect of intellectual assets, innovation, and invention, as well as being one of the determinants of a company's competitive advantage. Yaseen et al. (2016) provided evidence that explained the positive effect of intellectual capital on competitive advantage.

Tripathy et al. (2017) stated that intellectual capital has a significant positive effect on competitive advantage. In other words, intellectual capital development activities would define the effectiveness of developing a competitive advantage. Furthermore, Jain et al. (2017) presented a notion that there is a positive correlation between intellectual capital and competitive advantage. Human capital with creative and innovative characteristics could promote the achievement of a competitive position in the long run.

The intellectual capital measurement consists of a combination of financial and non-financial aspects that describes the knowledge-based operational activities of an organization (Chen et al., 2004). An equivalent combination would produce accurate information for the organization. Appropriate measurement of intellectual capital could help an organization to map its ability to achieve strategic goals (Chen et al., 2004). There are various perspectives in measuring the intellectual capital, but among them, the Value Added Intellectual Coefficient (VAIC) is the easiest one. This method has been tested and widely used by researchers as a model for measuring intellectual capital. Thus, the measurement results could reflect the intellectual capital owned by the company.

Value Added Intellectual Coefficient (VAIC) was first developed by Pulic in 1998. VAIC is a measurement model used to determine a company's intellectual capital performance based on current business performance. This measurement method is applied using company financial data. At present, VAIC has developed. Ulum (2017) built the Extended-Value Added Intellectual Coefficient Plus (E-VAIC Plus) based on the VAIC model. E-VAIC Plus consists of several
COMPETITIVE ADVANTAGE AS MEDIATING FACTOR

Value-Added (VA)
Value-added is a measure of a company's ability to create value that is beneficial to business development and shareholder welfare (Pulic, 2004). VA is the difference between output and input. The output is sales and other incomes, while input is the overall expenses, except employee expenses.

Capital Employed Efficiency (CEE)
Capital employed efficiency indicates the amount of value created through investment in a unit of physical capital (Pulic, 2004). Capital Employed Efficiency (CEE) is a division of value-added and capital employed or book value of assets (Ulum, 2017).

Human Capital Efficiency (HCE)
Human capital efficiency shows the added value generated by companies through the allocation of funds for labor salaries (Pulic, 2004). HCE a division of value-added and human capital or employee expenses.

Structural Capital Efficiency (SCE)
The value of SCE is a difference between innovation capital efficiency and process capital efficiency (Ulum, 2017). Innovation capital efficiency is a division of innovation capital (research and development costs) and value-added, while process capital efficiency is a division of process capital (depreciation and amortization costs) and value-added.

Relational Capital Efficiency (RCE)
Relational capital efficiency is a division of marketing costs (advertising and promotion costs) and value-added (Ulum, 2017).


Creating Firm Value through Competitive Advantage
In today's business, competitive advantage is increasingly considered imperative by companies as an essential aspect in maintaining business continuity and winning the global competition. Competitive advantage describes the excellent resources to produce values (Day and Wensley 1988; Ma, 1999; Sigalas and Economou, 2013). Therefore, the competitive advantage becomes crucial in achieving the company's strategic goals. An indication of a company being able to survive in a competition is the acquisition of high firm value through strengthening the company's competitive advantage.

However, only few research had examined the effect of competitive advantage on firm value as a form of company performance. Boasson et al. (2005) examined the impact of competitive advantage on firm value based on geographic resources. Wijayanto et al. (2019) placed the competitive advantage as an independent variable that influences firm value with the perspective of resource-based and non-resource based concept. Wijayanto et al. (2019) stated that competitive advantage has a more considerable influence on firm value compared to financial performance. The results of their research reinforced the assumption that investors prioritize the company's competitive effort rather than its financial performance.

Market orientation theory states that implementing market-based strategies is not easy; therefore, this strategy has a high chance to strengthen the company's competitive advantage (Kohli and Jaworski, 1990). If the company's competitive advantage has grown, it would be easier for companies to achieve firm value (Kohli and Jaworski, 1990; McNaughton and Osborne, 2000). The findings of several researchers proved that there is a strong influence between competitive advantage and firm value (Wijayanto et al., 2019). These findings also indicate that competitive advantage could act as a mediator in the influence of corporate governance and intellectual capital on firm value. The role of a competitive advantage as a mediator could also enrich the existing literature.

Firm value is a long-term financial performance measured by market-based perspectives (Hatane et al., 2017). Measurement of firm value consists of various indicators, including Tobin's Q, Total Market Values, Earnings per Shares, Price Earnings Ratio, and Market to Book Value Ratio.

The use of competitive advantage as a mediator in the influence of corporate governance and intellectual capital on firm value is considered new. Even Wijayanto et al. (2019) claimed that besides themselves, there is only one study that investigated the effect of competitive advantage on firm value, namely a study by Boasson et al. (2005). Therefore, the existence of competitive advantage in this study becomes a differentiator from other studies. The conceptual model (Figure 1) illustrates the influence between the variables.

This study collaborates agency theory with bargaining power and tokenism theory as complementary theories to explain the effect of corporate governance on firm value. The theories provide more specific descriptions for the issues. There is no study that has discussed a model by integrating several theories at once. Most of the studies that examine corporate governance only use agency theory. Therefore, a comprehensive discussion is imperative to provide more in-depth explanations. Based on bargaining power and tokenism theory, we know that each corporate governance mechanism shows different treatment in monitoring managers.

Agency theory emphasizes the handling of conflicts of interest between managers and shareholders (Jensen and Meckling, 1976) by applying corporate governance mechanisms. However, agency theory does not clearly describe how the conflicts occurred.
On the other hand, bargaining power theory describes that conflicts begin when the CEO has too much power. That CEO’s power could trigger conflicts that cause the effectiveness of the board’s performance to decrease (Hermalin and Weisbach, 1998), especially when it comes to independent directors. CEO’s interference on the selection, number, and appointment of independent board members would significantly affect the performance and function of independent directors. If this happens, agency problems would be even more significant.

Meanwhile, tokenism theory focuses on the contributions of female directors. Although the characteristics of women would be able to execute optimal supervision (Fan et al., 2019), this theory states that the existence of female directors is an instrument only to comply with the formal requirements (Kanter, 1977). Notably, in developing countries that have not provided tremendous opportunities for women to be part of the board, such as Indonesia. In developing countries like Nigeria, there is skepticism about the existence of women on the board (Musa et al., 2020). In the context of research, Indonesia is the lowest country to publish studies investigating board diversity (Baker et al., 2020). Meanwhile, developed countries, such as Norway, Spain, France, the Netherlands, and Italy, require at least forty percent of board members to be female (Ahmad et al., 2020; Reguera-Alvarado et al., 2017).

In essence, corporate governance could be categorized as a suitable mechanism if it could suppress agency problems optimally, so that the company could achieve its competitive advantage and firm value. The objectives of corporate governance also include efforts to fulfill the rights of shareholders. From a shareholder value perspective, corporate governance directs companies to be able to provide maximum benefits to shareholders through strengthening competitive advantage to increase firm value.

On the other hand, managing intellectual capital is a part of a stakeholder-based perspective. The process of developing intellectual capital involves employees, customers, and other stakeholders, both directly and indirectly. The increasing quality of human capital and relational or customer capital illustrates that the activities implemented are also stakeholder-oriented. Mainardes et al. (2011) stated that stakeholder management is a factor that promotes competitive advantage and higher organizational performances.

Dynamic capabilities theory emphasizes strengthening the competitive advantage through capability building at the individual and organizational levels (Ahmad Zaidi and Othman, 2012). Likewise, market orientation theory is customers and competitors oriented in producing economic value for the company (Naver and Slater, 1990). These theories indicate that the management of intellectual capital could also contribute to the welfare of stakeholders.

Stakeholder theory emphasizes the responsibility of the organization towards people and focuses on value creation and decision-making processes involving individuals in the organization (Mainardes et al., 2011). Stakeholder theory also states that managers should benefit employees and other stakeholders (Paul et al., 2020). Meanwhile, shareholder theory emphasizes that managers should maximize shareholders’ wealth (Paul et al., 2020). In order to achieve these goals, management should establish strategies to optimize organizational performances. Therefore, implementing the corporate governance system and developing intellectual capital are the primary techniques to generate firm value through strengthening competitive advantage.

In Indonesia, the development of corporate governance, intellectual capital, and competitive advantage has not demonstrated positive results. Referring to the corporate governance, human capital, and competitiveness index, Indonesia is still lagging behind other countries in Asia. In the corporate governance index, Indonesia is at the lowest position of ten countries in the East Asia region, from 2012 to 2018 (Asian Corporate Governance Association, 2018). The human capital index placed Indonesia at the tenth position out of thirteen East Asian countries, from 2015 to 2017 (World Economic Forum, 2017). In the aspect of competitive advantage, Indonesia is at ninth position out of fourteen East Asian countries in the competitiveness index, covering the period from 2014 to 2017 (World Economic Forum, 2017). The three indices illustrate that corporate governance, intellectual capital, and competitive advantage in Indonesian companies need to be improved. Scientific research could be an alternative to understand the conditions of these three aspects as well as an effort to make improvements.

However, this study has limitations in obtaining research studies that discuss competitive advantage, especially research that links competitive advantage to corporate governance and firm value. In terms of the theory, not many studies have used bargaining power theory, tokenism theory, managerial rents theory, and market orientation theory. The lack makes the explanation about it less optimal. Variable indicators, such as the female director, relational capital, and structural capital efficiency, are relatively new in the context of research in developing countries, such as Indonesia. The supporting data also might be challenging to obtain.

Based on the review of the existing literature, we could find out that there are gaps to be filled in as alternatives to develop future research, as follows:

1. There are only a few papers that analyze the contribution of competitive advantage in achieving the company’s economic goals.
2. There are only a few studies that explained the achievement of firm value through corporate governance, intellectual capital, and competitive advantage by applying complementary theories.
3. No paper used competitive advantage as a mediator in the influence of corporate governance on firm value.
4. Quantitative, qualitative, and mixed-method approach are also relevant.

From the research gaps above, there is an opportunity for researchers to conduct studies by optimizing the role of competitive advantage in achieving the company's strategic goals, namely firm value. Research in this context could apply a quantitative, qualitative, or mixed-method approach. The researchers could implement this research model in various industries, both manufacturing and services. The next research could build a comprehensive explanation by including multiple theories that support each other and refer to the grand or macro theory to the micro approach. Applying a model like this would give a deep understanding of how one determinant influences the others. The researchers could utilize competitive advantage as a mediator in the influence between corporate governance and intellectual capital on firm value. Competitive advantage as a moderator could also be applied to see whether the determinant could strengthen the impact of corporate governance and intellectual capital on firm value.

This study also provides inputs for companies in conducting business by paying attention to the governance systems, developing human resource capacity, and strengthening competitive advantage to achieve the best performance or high firm value. Management should try to decrease the conflicts of interest by implementing corporate governance mechanisms through optimizing the role of board members, especially independent and female directors. Management must be able to develop the knowledge and skills of employees, especially the top management team, to improve the quality of intellectual capital and strengthen the company's competitive advantage. This study also illustrates that achieving a big goal, that is high firm value, also requires great effort by focusing on optimizing corporate governance practices, developing intellectual capital, and competitive advantage.

CONCLUSION

This study prioritizes the role of competitive advantage as a mediating variable in the influence of corporate governance and intellectual capital on the firm value, which has not been conducted by the previous research. Based on the literature review, competitive advantage has great potential in determining the achievement of corporate value driven by the implementation of principles of corporate governance and intellectual capital. Explanation of research variables through the perspective of shareholders and stakeholder values could also provide new insights about corporate governance and intellectual capital.

The use of complementary theories in this study intends to provide a comprehensive explanation, although some theories have not been used by many studies widely. However, these theories could be able to explain the effects that appear between the variables genuinely. The research model and supporting arguments used in this study could contribute to advancing current discussion efforts in the field of financial management and business in general. Therefore, this research is very relevant to be applied in subsequent studies using quantitative, qualitative, and mixed-methods.

REFERENCES


