

## **ABSTRACT**

*This study aims to examine the role of intellectual capital in competitive advantage to improve the financial performance of Batik Tulis Lasem MSMEs in Rembang Regency. Batik Tulis Lasem MSMEs is used as an object of research because it has a strong relationship with intellectual capital. Good management of intellectual capital is important for MSMEs to achieve competitive advantage and improve financial performance.*

*The research model relates to intellectual capital as an independent variable, competitive advantage as a mediating variable and its impact on financial performance. The study population was Batik Tulis Lasem MSMEs in Rembang Regency which is registered in Dinindagkop UKM Rembang. The final sample used was 60 Batik Tulis Lasem MSMEs, after the sampling technique was carried out using purposive sampling. The research was conducted using a survey method with questionnaire-based data collection. Analysis of the research data used path analysis.*

*The results of this study indicate that intellectual capital has a positive effect on competitive advantage, competitive advantage has a positive effect on financial performance, intellectual capital has a positive effect on financial performance and competitive advantage mediates the effect of intellectual capital on financial performance.*

*Keywords: Financial Performance, Competitive Advantage, Intellectual Capital*