

MANAGING COMPETITIVENESS AND RISK: THE EFFECT OF SHARIAH COMPLIANCE AND THE CENTRAL ROLE OF REPUTATION AND INVESTMENT EFFICIENCY

Diana Hasyim^{1*}, Kustoro Budiarta², Nurul Wardani Lubis³, Edison Parulian⁴

^{1,2,3} Faculty of Economics, State University of Medan

⁴ Faculty of Social Science and Humaniora, IBBI University, Medan

*Corresponding Author: dhecanahasheem@yahoo.com

Abstract: Business practices, especially in Muslim-majority countries, are more influenced by religious values. Therefore, CSR is less relevant or relatively limited to be implemented as an accountability mechanism, so it is advisable to consider religious values as an alternative approach to business ethics. In this context, adopting Sharia Compliance (SC) is seen as one of the dimensions of accountability, a form of business ethics implementation, and a manifestation or proxy of business ethics other than CSR. Therefore, based on the theory of business ethics, this study develops and tests a trivariate relationship model to explain how reputation and investment efficiency play a role in the relationship between SC and competitiveness and risk as proxied by the cost of equity capital. Using 825 observations, the estimation results indicate a partial mediation effect of reputation in the relationship between SC and risk (cost of equity capital). However, there is no mediation effect in the relationship between SC and competitiveness. Other estimation results indicate a partial mediation effect of investment efficiency in the relationship between SC and the cost of equity capital and competitiveness. This indicates that investment efficiency can provide additional totals in the relationship between SC and the cost of equity capital and competitiveness. However, the mediation effect of investment efficiency in the relationship between SC and SC competitiveness produces a total negative effect. Therefore, it can be said that the mediation of investment efficiency in the relationship between SC and competitiveness is an inconsistent or competitive mediation model. Overall, the partial mediation effect of reputation and investment efficiency indicates (1) there are other mediators (hidden mediators) in the relationship between SC and equity capital costs and competitiveness, (2) SC in reducing equity capital costs and producing competitiveness, among others, by building a good reputation and utilizing positive NPV investment opportunities.

Keywords: Shariah Compliance, Competitiveness, Risk, Reputation, Investment Efficiency