

COMPETITIVE ADVANTAGE IN MEDIATING THE EFFECT OF FINANCIAL FLEXIBILITY ON FINANCIAL PERFORMANCE: INDONESIAN SHARIA STOCK INDEX

Diana Hasyim^{*)}¹, Kustoro Budiarta^{*)}

^{*)}Department of Management, Faculty of Economics, Universitas Negeri Medan
Jl. William Iskandar Ps. V, Kenangan Baru, Percut Sei Tuan, Deli Serdang, North Sumatera 20221, Indonesia

Abstract: Resources are considered a key driver of organizational performance. However, the means to improve performance through resources remains an issue that is yet to be conclusively addressed in both theoretical and practical terms. This study aims to examine the roles of competitive advantage and Islamic Label (IL) in the relationship between financial flexibility and the performance of companies listed on the Indonesian Sharia Stock Index (ISSI). Using a longitudinal approach covering the period 2012–2021 and observing 88 companies, a total of 880 observations were obtained for this study. The statistical technique used for the analysis was variance-based structural equation modeling utilizing partial least squares with the statistical tool of WarpPLS. The study revealed that competitive advantage is able to partially mediate the impact of financial flexibility on firm performance. Proxies of competitive advantage, such as receivable turnover and financial leverage, were found to be significant to all performance proxies, namely ROA, ROE, and Tobin's Q. However, IL did not significantly enhance the link between financial flexibility and performance. It was found that the mediating impact of competitive advantage on the relationship between financial flexibility and performance indicated that improving performance through financial flexibility is indirect. Thus, contingency factors should be given due consideration in enhancing resource-based performance. For Islamic label companies, competitive advantage can be built to enhance performance by optimizing resource utilization.

Keywords: competitive advantage, contingency factors, financial flexibility, financial performance, Islamic label

Abstrak: Sumberdaya merupakan fungsi dari kinerja organisasi. Namun, bagaimana meningkatkan kinerja melalui sumber daya masih memiliki implikasi teoretis dan praktis yang belum konklusif. Penelitian ini bertujuan untuk mengetahui peran keunggulan bersaing dan Islamic Label (IL) dalam hubungan fleksibilitas keuangan dengan kinerja perusahaan yang terdaftar di Indeks Saham Syariah Indonesia (ISSI). Dengan mengamati 88 perusahaan dengan pendekatan longitudinal selama periode 2012 – 2021, total data yang diperoleh untuk penelitian ini adalah 880 observasi. Teknik yang digunakan untuk analisis adalah pemodelan persamaan struktural berbasis varians menggunakan parsial kuadrat terkecil dengan alat statistik WarpPLS. Hasil penelitian menunjukkan bahwa keunggulan bersaing mampu memediasi secara parsial pengaruh fleksibilitas keuangan terhadap kinerja perusahaan. Semua proksi untuk keunggulan kompetitif (perputaran piutang dan leverage keuangan) signifikan untuk semua proksi kinerja (ROA, ROE, dan Tobin's Q). Namun, IL tidak secara signifikan memperkuat hubungan antara fleksibilitas keuangan dan kinerja. Pengaruh mediasi keunggulan kompetitif dalam hubungan fleksibilitas keuangan menemukan bahwa peningkatan kinerja melalui fleksibilitas keuangan bersifat tidak langsung, sehingga faktor kontinjensi menjadi pertimbangan penting dalam meningkatkan kinerja berbasis sumber daya. Bagi perusahaan label syariah, peningkatan kinerja melalui pemanfaatan sumber daya, salah satunya dapat dilakukan dengan membangun keunggulan kompetitif.

Kata kunci: faktor kontingensi, fleksibilitas keuangan, label islami, keunggulan bersaing, kinerja keuangan

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¹ Corresponding author:

Email: dianahasyim.undip@gmail.com

INTRODUCTION

Companies that possess sufficient financial flexibility have been shown to be able to respond to opportunities, expand investment, overcome unexpected events in the future (Cherkasova and Kuzmin, 2018; Ma & Jin, 2016), withstand cash flow shocks from negative external influences (Gamba & Triantis, 2008; Bancel & Mittoo, 2011), and their side effects. Financial flexibility can be a source of gaining a competitive advantage. Companies are considered to have a competitive advantage if they can generate excess returns from their resources (Gjerde et al. 2010). In general, competitive advantage can be measured using two approaches: the resources-based (traditional) and non-resources (market/industry-based) approaches, or an expanded approach (Dickinson and Sommers, 2011; Porter, 2012). The resources-based view approach includes proxies for economies of scale, product differentiation, innovation, and capital requirements, among others, for companies to achieve good performance.

For companies that operate based on Islamic principles, obtaining an Islamic label can be beneficial in increasing their performance in their market segment. The Islamic label requires the company's operations and finances to comply with a set of Islamic rules and principles (Guizani, 2019). One of these principles is the prohibition of interest (usury), which applies to all types of systems, whether fixed or floating, simple or compounding, or nominal or excessive (Naz et al. 2017). As such, Islamic finance prohibits the attraction of excessive amounts of debt (El-Alaoui et al. 2018) and instead advocates for low debt levels to avoid excessive uncertainty or *gharar* (El Alaoui et al. 2017). Previous research suggest that debt levels should range between 30-40% of total equity (Derigs & Marzban, 2008). Alternatively, other literature suggests that total outstanding debt may not exceed one-third of market capitalization (Elgari, 2002; Hussein & Omran, 2005) or total assets (El-Alaoui et al. 2018). In Indonesia, the Fatwa of the National Sharia Council No. 40/DSN-MUI/X/2003 stipulates that the maximum total debt to total assets ratio is 45%.

Enforcement of leverage ratio requirements on IL has implications for several things. First, the capital structure of IL differs from non-IL companies (Yildirim et al. 2018). Specifically, IL's capital structure tends to be lower or more conservative than non-IL companies (Alnori and Alqahtani, 2019; Kutan et al. 2018;

Cheong, 2021). According to the financial flexibility hypothesis, a conservative capital structure can help companies become financially flexible (Marchica and Mura, 2010) by maintaining unused borrowing power (Modigliani & Miller, 1963). Therefore, unused debt capacity is closely related to and seen as the main source of financial flexibility (Hess & Immenkötter, 2014; DeAngelo et al. 2011; Denis & McKeon, 2012), and companies with a conservative capital structure tend to have high financial flexibility (Xie and Zhao, 2020). Second, since IL companies rely on liquid assets, such as cash reserves, for funding to meet financial and operational needs (Alnori and Alqahtani, 2019), they tend to accumulate cash (Alnori and Alqahtani, 2019; Bugshan et al. 2021). This is supported by empirical studies showing that IL companies have a higher level of cash holdings than non-IL companies (Akguc & Al Rahahleh, 2018; Alnori and Alqahtani, 2019; Bugshan et al. 2021; Guizani & Abdalkrim, 2021). Therefore, it can be concluded that companies with a high level of religiosity tend to have significant cash (Chen et al. 2016).

Previous research has shown inconclusive findings regarding the effects of financial flexibility on performance. Several studies have found evidence of a positive impact on performance (Rapp et al. 2014; Ma & Jin, 2016; Al-Slehat, 2019; Chang & Ma, 2019; Embaye & Haile, 2019; Teng et al. 2021). In contrast, other studies have confirmed a negative influence (Agha & Faff, 2014; Dong and Mao, 2016) and a U-shaped relationship (Kusnadi, 2011; Arslan-Ayaydin et al. 2014), indicating an interval effect on performance. Most research on financial flexibility and performance has focused on conventional companies, both globally and in developing countries. Few studies have analyzed the relationship between financial flexibility and performance of Islamic Label (IL) companies in developing countries, especially Indonesia. In general, IL operates within a very strict regulatory framework for financial ratios, one of which is the leverage ratio (Musse et al. 2021). Such conditions result in limited or less external funding access for IL (Akinsomi et al. 2015; Alnori and Alqahtani, 2019), leading to a more conservative capital structure compared to non-IL (Kutan et al. 2018; Cheong, 2021). Previous empirical research has shown that companies with high financial flexibility tend to have a conservative capital structure (Xie and Zhao, 2020). Referring to the conservatism of IL's capital structure and the conservative financial implications of financial flexibility, exploring IL

companies, especially in Indonesia, can broaden our understanding of organizational capabilities in improving performance.

Most of the studies analyzed the impact of financial flexibility on financial constraints. However, a limited number of studies (Kuo et al. 2006) have investigated the effect of financial flexibility from the perspective of the resource-based view (RBV) and organizational behavioral theory. To obtain more valid results in the indirect relationship between financial flexibility and performance, this study also investigates whether the Islamic label (IL) of sample companies can contribute to the model of the relationship. Therefore, the aims of this study are to (1) explore the direct relationship between financial flexibility and performance, (2) investigate the mediating effect of competitive advantage on the relationship between financial flexibility and performance, and (3) analyze the interaction effect of the Islamic label (IL) on the direct relationship between financial flexibility and performance, thus filling the identified research gap.

METHODS

The sample for this research included all companies continuously listed on the Indonesian Sharia Stock Index (ISSI) during the period of 2012 to 2021. Data sources were obtained from the Indonesian Capital Market Directory (ICMD) financial and annual reports, company performance summaries, and the IDX Facts Book. Out of 624 companies, 110 companies were continuously listed on the ISSI. After eliminating incomplete data and financial reports in foreign currency, 88 companies were obtained that met the research sample criteria. Therefore, by multiplying the total companies with the observation period of 10 years, the total observations were 880 observations.

Existing literature suggests that the financial flexibility of a company is one of the most important organizational capabilities or internal capacities (Guo et al. 2020). It has been found that confirmed financial flexibility has a positive impact on performance (Rapp et al. 2014; Ma & Jin, 2016; Al-Slehat, 2019; Chang & Ma, 2019; Embaye & Haile, 2019; Teng et al. 2021). These empirical results are consistent with the RBV perspective, which supports the relationship between internal resources and performance (Miller & Shamsie, 1996). The link between competitive advantage and performance is

in line with the postulates of the RBV theory, which states that the profitability of a company is determined by its competitive advantage (Grant, 1991). Therefore, there is a positive and significant relationship between competitive advantage and performance (Newbert, 2008; López-Gamero et al. 2009; Zhou et al. 2009; Sungyuan and Ussahawanitchakit, 2015).

Previous literature shows that the importance of being a financially flexible company comes from the notion that financial flexibility is a dimension of intangible assets (Kuo et al. 2006). Financial flexibility, as an intangible resource, provides companies with the ability to cope with unexpected events in the future (Denis and McKeon, 2009; Arslan-Ayaydin et al. 2014; Ma & Jin, 2016; Cherkasova and Kuzmin, 2018), potentially leading to the development of competitive advantages (Yi, 2020). These empirical findings are consistent with previous studies that demonstrate financial flexibility's potential to create competitive advantages (Chegini & Bashiri, 2017).

Previous empirical research has indicated that the usury principle in an IL capital structure differentiates it from that of non-IL structures (Yildirim et al. 2018) and affects its balance sheet (Adamsson et al. 2014). In comparison to non-IL structures (Kutan et al. 2018; Cheong, 2021), the capital structure of IL is more conservative or relatively lower (Alnori and Alqahtani, 2019). Financially conservative companies have been shown to be more profitable and perform better than non-conservative companies in previous research (Machokoto et al. 2021). Therefore, this study predicts that the conservatism in the IL capital structure would result in higher performance compared to non-IL structures. Based on the available literature, the following hypotheses have been developed:

- H1: Financial flexibility has a significant impact on performance
- H2: Financial flexibility has a significant impact on competitive advantage
- H3: Competitive advantage has a significant effect on performance
- H4: Competitive advantage mediates the relationship between financial flexibility and performance
- H5: Islamic Label moderates the effect of financial flexibility on performance

The variables in this study include financial flexibility as an exogenous variable, performance as an endogenous variable, competitive advantage as a mediator, Islamic

Label as a moderator, and control variables (Figure 1). The measurement specifications for each variable need to be specified. The variable of financial flexibility was measured using three proxies adopted from Teng et al. (2021) and Zhang et al. (2022), namely Unused Debt Capacity (UDC), Debt Flexibility + Cash Flexibility (DCF), and Retained Earnings Ratio to Total Assets (R/E to TA). The variable of financial performance indicators is proxied by three indicators, namely ROA (Teng et al. 2021), Tobin's Q (Arslan-Ayaydin et al. 2014), and ROE (Teng et al. 2021).

The variables of competitive advantage in this study were measured by two proxies from the non-resources approach adopted from Dickinson and Sommers (2012), namely Inverse Receivable Turnover (Inverse RTO) and Financial Leverage (FL). The variable of Islamic Label (IL) was measured in Machokoto et al.'s (2021) study, which demonstrated IL's financial characteristics, including financial conservatism with a Non-Positive Net Debt (NPND). Lastly, control variables were also examined in this study. In reference to previous research, the control variables in this study utilize two proxies, namely size (Zhang et al. 2022) and sales growth (Teng et al. 2021; Zhang et al. 2022). The

analysis technique used was variance-based structural equation modeling using partial least squares with the statistical tool of WarpPLS.

RESULTS

The results of the descriptive statistics of exogenous and endogenous variables. Table 1 consists of various financial and control indicators for a set of 880 observations. The financial indicators include financial flexibility (UDC, R/E to TA, DCF), competitive advantage (Inverse RTO, FL), performance (ROA, ROE, and Tobin's Q). This data represents various financial metrics, such as mean value, minimum, maximum, median, and standard deviation. The data showed mean values ranging from 0.025235 to 1.444423 for main variables. Moreover, the control indicators include Size and Sales Growth, with mean values of 28.79462 and 0.081287, respectively. The minimum and maximum values for these indicators range from -2.194 to 22.74186 and -0.9123 to 4.369408, respectively. The median and standard deviation values are also provided in Table 1.

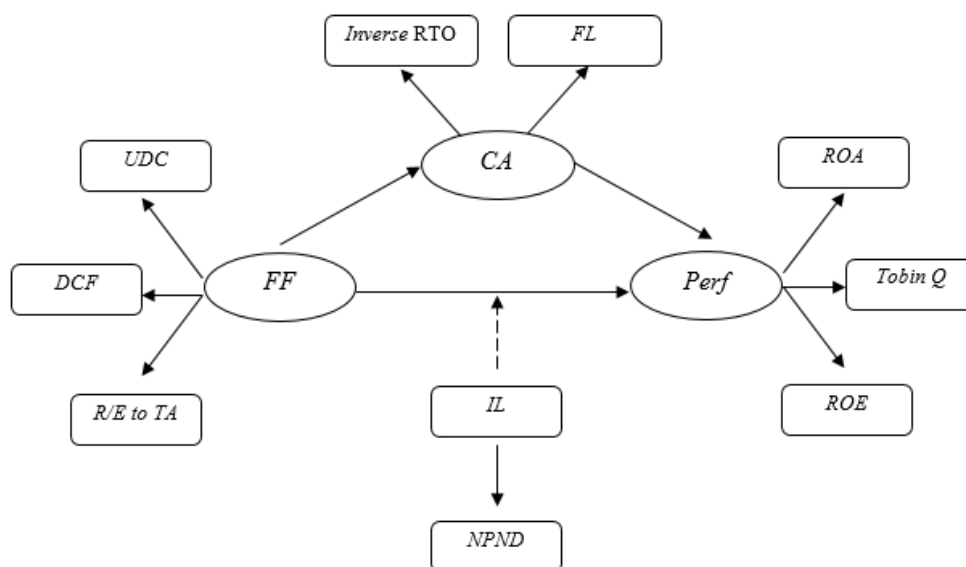


Figure 1. Research Model (FF = Financial Flexibility; CA = Competitive Advantage; Perf = Performance (Performance); Inverse RTO = Inverse Receivable Turn Over; FL = Financial Leverage; UDC = Unused Debt Capacity; DCF = Debt Flexibility + Cash Flexibility; R/E to TA = Retained Earnings Ratio to Total Assets; ROA = Return on Assets; ROE = Return on equity; NPND = Non-Positive Net Debt)

The testing for validity was based on the loading factor and Average Variance Extracted (AVE) for each construct. The loading factor value was used as the basis for the validity of each construct and was set at >0.6, while the value for AVE was set at >0.5. Table 2 shows that the constructs or variables measured, based on the loading factor and AVE, meet the required criteria. Therefore, the correlation between indicators and their constructs, or latent variables, confirms convergent validity.

Moreover, the discriminant validity was tested using Fornell-Larcker. Table 3 shows that the square root value of the AVE for each construct is higher than

the correlation value between the construct and other constructs. Therefore, the indicators are not unidimensional.

Additionally, internal consistency reliability was evaluated using the composite reliability coefficient for each construct. Table 4 shows that the composite reliability coefficient of each variable or construct meets the internal consistency reliability criterion set at >0.7. Therefore, it can be declared that all constructs were reliable. Based on validity and reliability testing, the overall indicators and constructs of this study are valid and reliable.

Table 1. Descriptive statistics of variables

Variable	Indicator	N	Mean	Min	Max	Median	Std. Dev
FF	UDC	880	0.438636	0	1	0	0.496502
	R/E to TA	880	0.348548	-0.425022	1.373336	0.337774	0.230578
	DCF	880	-1.0598E-17	-5.9175879	0.816608427	-0.00134756	0.38839797
CA	Inverse RTO	880	0.156509	0	0.985263	0.130042	0.133684
	FL	880	0.025235	-0.0935	1.481898	0.014507	0.057447
Perf	ROA	880	0.062979	-0.22927	0.920997	0.054929	0.079583
	ROE	880	0.11508	-2.194	5.203361	0.095153	0.283852
	Tobin's Q	880	1.444423	0.00526	22.74186	0.85437	2.092665
Control	Size	880	28.79462	25.27668	34.34352	28.70593	1.64511
	Sales Growth	880	0.081287	-0.9123	4.369408	0.067197	0.299173

Table 2. Loading factor and average variance extracted

Construct	Indicators	Loading Value	p-value	AVE	Confirmation
FF				0.551	Valid
	DCF	0.756	<0.001		Valid
	R/E to TA	0.757	<0.001		Valid
	UDC	0.712	<0.001		Valid
CA				0.584	Valid
	Inverse RTO	0.695	<0.001		Valid
	FL	0.695	<0.001		Valid
Perf.				0.513	Valid
	ROA	0.888	<0.001		Valid
	ROE	0.831	<0.001		Valid
	Tobin's Q	0.731	<0.001		Valid
Control					Valid
	Size	0.716	<0.001		Valid
	Sales Growth	0.716	<0.001		Valid
IL				1.000	Valid
	NPND	1	<0.001		Valid
IL*FF				0.580	Valid
	NPND*DCF	0.713	<0.001		Valid
	NPND*R/E to TA	0.684	<0.001		Valid
	NPND*UDC	0.681	<0.001		Valid

Table 3. Discriminant Validity (Fornel-Larcker)

	FF	CA	Perf	Control	IL	IL*FF
FF	(0.742)					
CA	-2.208	(0.695)				
Perf	0.157	-0.222	(0.819)			
Control	-0.204	-0.083	0.186	(0.716)		
IL	0.393	-0.182	0.126	-0.186	(1.000)	
IL*FF	-0.003	0.108	-0.029	0.023	-0.209	(0.693)

Table 4. Composite Reliability

Variable	Coefficient	Criteria	Conclusion
FF	0.786	>0.7	Reliable
CA	0.859	>0.7	Reliable
Perf	0.652	>0.7	Reliable
Control	0.678	>0.7	Reliable
IL	1.000	>0.7	Reliable
IL*FF	0.734	>0.7	Reliable

To examine the hypotheses, the next step is to test the significance of the influence of exogenous variables on endogenous variables, as well as the strength of the relationships among the variables. The results are shown in Figure 2 and Table 5.

The findings of this study indicate that financial flexibility (FF) positively affects performance (Perf) with a path coefficient value of 0.179 and is significant with a p-value of 0.000 < 0.05. Therefore, the first hypothesis is accepted, demonstrating that the FF possessed by the sample companies can enhance performance. The results support earlier empirical studies that suggest FF has a significant impact on performance (Al-Slehat, 2019; Chang & Ma, 2019; Embaye & Haile, 2019; Teng et al. 2021). Theoretically, the outcomes align with the Resource-based View (RBV) theory, which posits that resources play a significant role in performance (Kweh et al. 2013). Additionally, the results correspond with the FF hypothesis, which states that low leverage attributes, or capital structure conservatism, can contribute to a company's financial flexibility (Marchica and Mura, 2010).

The research findings indicate that financial flexibility (FF) has a significant and negative impact on competitive advantage (CA), with a path coefficient value of -0.286, a p-value of 0.001, and a variability (R²) of 8.2 percent. Consequently, the second hypothesis was supported. The study further reveals that

all proxies (UDC, DCF, and Retained Earnings Ratio to Total Assets) in financial flexibility (FF) have an adverse impact on competitive advantage (CA), which is represented by the inverse of receivables turnover and financial leverage. The harmful influence of FF on receivables turnover inverse implies that higher FF corresponds to higher accounts receivable turnover, which indicates shorter credit terms, limiting the buying power of clients. For that reason, the favorable effect of FF on accounts receivable turnover indicates that the FF possessed by the sample companies can be utilized to establish competitive advantage, visible in the rise of bargaining power of buyers. The elevated bargaining power of buyers, reflected in a higher level of accounts receivable turnover, can shorten the cash conversion cycle, enhancing the efficiency of cash flow management and leading to increased profitability, consistent with the theoretical perspective of the cash conversion cycle (Deloof, 2003; Eljelly, 2004). The results corroborate the view that financial flexibility constitutes a component of intangible assets (Kuo et al. 2006), which can be utilized to establish competitive advantage (Yi, 2020). The findings of this study support previous empirical research (Chegini & Bashiri, 2017; Yi, 2020) and comport with the behavioral organizational theory and RBV theory, which suggest that there is a link between resources and capabilities with competitive advantage (Barney, 1991; Grant, 1991) or that competitive advantage is a function of resources and capabilities (Wernerfelt, 1984; Conner, 1991).

Table 5. Hypothesis Testing

Hypotheses	Path	Path Coefficient	P-Value	Confirmation
H1	FF → PERF	0.179	0.000	Accepted
H2	FF→ CA	-0.286	0.001	Accepted
H3	CA → PERF	-0.179	0.001	Accepted
H4	FF→ CA → PERF	0.051	0.016	Accepted
H5	IL*FF → PERF	-0.040	0.117	Rejected
	Control → PERF	0.236	0.000	Accepted
R-Square	FF → CA	0.082		
	FF → PERF	0.125		

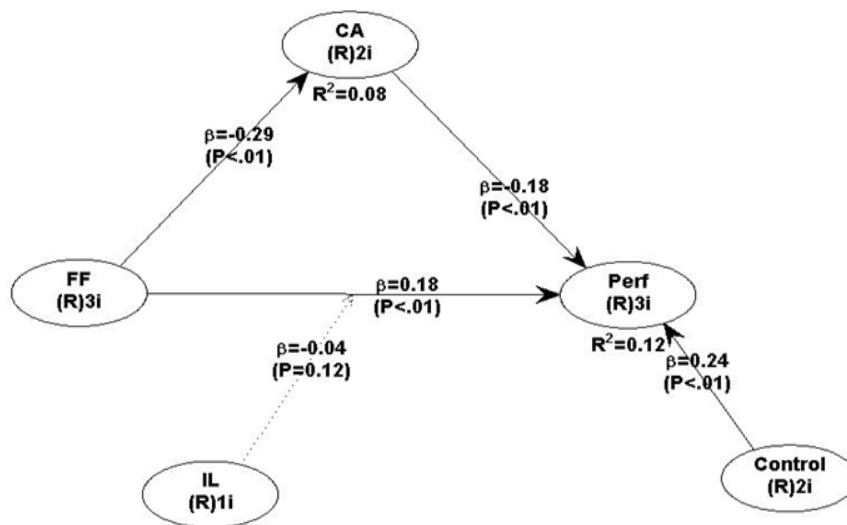


Figure 2. Path Coefficient and p-value

The results also showed a positive effect of competitive advantage on performance (Perf) with a path coefficient value of -0.179, which is significant with p-values of $0.000 < 0.05$. Thus, the third hypothesis was accepted. Therefore, the negative effect of CA on performance indicates that Inverse Receivable Turn Over (Inverse RTO) and Financial Leverage, proxies for CA among the sample companies, are able to increase performance. This empirical evidence supports the agency theory, which states that companies operating in a risky business environment, such as facing high competition, tend to reduce the use of debt because risks will increase, making debt expensive and the outcome uncertain (Jensen and Meckling, 1976; Botosan and Plumlee, 2005). Thus, when the intensity of competition is high, the effect of debt on performance becomes negative (Jermias, 2008), and debt does not provide any real benefits. On the other hand, a company will be credible in facing competition if it has sufficient financial flexibility or borrowing capacity (Dickinson

and Sommers, 2012). Financial leverage is the inverse of borrowing capacity from the perspective of financial flexibility (Dickinson and Sommers, 2012). Therefore, the negative relationship between competitive advantage and performance indicates that competitive advantage (proxied by financial leverage) can improve performance (ROA, ROE, Tobin's Q).

Statistical analysis also revealed that competitive advantage (CA) mediates the relationship between financial flexibility (FF) and performance (PERF), with a p-value of 0.016 and a path coefficient of 0.051. Hence, CA can function as a mechanism or provide an additional 22.24% contribution to the FF-PERF relationship model. Consequently, the fourth hypothesis is validated. These results indicate that the impact of financial flexibility on performance is more indirect, via competitive advantage. This finding confirms earlier empirical evidence (Yi, 2020) and extends prior research that did not investigate the role

of competitive advantage in the FF-PERF relationship. For firms in the sample, these results imply that enhancing performance through financial flexibility can be achieved by developing competitive advantage.

The results showed that the Islamic Label (IL) does not significantly moderate the relationship between FF and PERF, with p -values = 0.117 and a path coefficient value of -0.040. The findings indicate that capital structure conservatism as an Islamic label, as measured by NPND (Non-Positive Net Debt), is unable to moderate the effect of financial flexibility on performance. Thus, the fifth hypothesis is rejected. One justification for this finding is related to the relatively strict regulations on IL financial ratios, including the leverage ratio (Musse et al. 2021). These conditions result in limited or reduced access to external funding for IL firms (Akinsomi et al. 2015; Alnori and Alqahtani, 2019). Referring to the perspective of the financial constraint hypothesis, limited access to funding leads to fewer opportunities to accumulate cash and debt capacity. Companies facing financial constraints tend to be less profitable as a result (Bessler et al. 2013).

Lastly, in testing for the effects of the control variable proxied by size and sales growth, the results showed that these variables have significant effects on performance, with a path coefficient value of 0.236 and a p -value of 0.001 < 0.05. These findings are consistent with previous empirical research (Ma et al. 2015; Mahmood et al. 2018; Song et al. 2021; Teng et al. 2021; Zhang et al. 2022). However, the exogenous variables' variability in explaining the endogenous variables' variation is very limited (12.5%). Therefore, this study recommends using various proxies for financial flexibility, considering that there is no widely accepted proxy for measuring financial flexibility (Teng et al. 2021; Zhang et al. 2022).

Managerial Implications

This research produces several managerial implications for companies listed in the Indonesian Sharia Stock Index (ISSI). The results regarding the effect of financial flexibility on competitive advantage, proxied by financial leverage, are in line with the role of financial flexibility in minimizing fixed costs. This has direct managerial consequences in terms of lowering the cost structure. A lower cost structure means it is not necessary to achieve a high sales volume to reach the

breakeven point. Conversely, a higher portion of fixed costs in the cost structure leads to a greater intensity of competition, increasing the required level of breakeven point. The effect of financial flexibility on performance depends on a cost-benefit analysis of the resources owned by the company. Managerially, this implies that if the returns generated by the company's resources are greater than the costs, the company has a competitive advantage. Financial flexibility is one of the factors that affect company performance.

The theory of the firm perspective provides a view that financial flexibility in the form of cash is a versatile resource that can be used in various activities to generate competitive advantage. This implies that financial flexibility, also known as financial slack, is seen as excess financial resources that have a role in creating competitive advantage. From the perspective of behavioral organizational theory, slack acts as a buffer between the organization and external contingencies, facilitating the company's adaptation to environmental changes. In addition to improving long-term performance, slack also has a positive impact on risk-taking, facilitating innovation, change, and creating an excellent advantage. Therefore, it is crucial to manage internal resources as the main drivers of competitive advantage. Lastly, these findings show that financial constraints faced due to the requirements of Islamic law principles are not an obstacle in building and producing competitive advantage.

CONCLUSIONS AND RECOMMENDATIONS

Conclusions

The study's results indicate that financial flexibility has a significant impact on performance and a significant effect on competitive advantage. Empirical testing further demonstrated a significant influence of competitive advantage on performance. Competitive advantage was proven to be a mediating variable, mediating the relationship between financial flexibility and performance. However, the study found no moderating effect of the Islamic label on this relationship.

Theoretically, the findings highlight some implications. First, they contribute to RBV theory, agency theory, and add evidence to previous research. Second, the

empirical evidence regarding the effect of Islamic Label (IL) moderation in the relationship between financial flexibility and competitive advantage contributes to the role of Islamic finance in RBV. Agency theory also expands the corporate governance literature and Islamic finance studies.

Practically, the findings emphasize IL as a potential driver of quality information and therefore tend to provide reliable and relevant information for Islamic companies indexed in ISSI. This indicates a high degree of accountability enforcement. The presentation of reliable information through transparency, fairness, accountability, and ethical behavior is a major part of good governance. To ensure good governance, sample companies need to increase good governance to reduce agency risk. They must ensure that business activities are carried out correctly in an Islamic ethical manner. This also practically has consequences to establish sustainable growth and long-term corporate value.

Recommendations

For companies listed in ISSI, Islamic principles should be adhered to in their financial management to cover business ethics. From the perspective of business organizations, IL must be operated automatically in a moral, ethical, and socially responsible manner, rather than focusing solely on profit maximization. Based on such Islamic laws and principles, IL should be simultaneously implemented in the two functions of economic and social functions of company operation. The application of dual functions results in IL being beneficial to improving sustainability practices and long-term performance compared to non-IL practices.

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