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The Role of the Shariah and Intangible Assets in Managing Cost of Debt and Enhancing Competitiveness across the Corporate Life Cycle

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ABSTRACT
This study investigates the multilevel relationship between normative values, asset based views, finance based views, and strategic management in Islamic economics. It aims to explain how intangible assets mediate the influence of the Shariah system on the cost of debt and competitiveness across corporate life cycle stages. Using panel data of 720 firm year observations from Shariah and non Shariah firms, the study applies a multilevel mediation–moderation model. The results show that investment efficiency partially mediates the relationship between the Shariah system and cost of debt through a suppressor effect, yielding a negative total effect. However, investment efficiency does not mediate the Shariah–competitiveness relationship. Conversely, corporate reputation partially mediates the link between the Shariah system and competitiveness, but not with the cost of debt. Furthermore, the moderating role of the corporate life cycle is nonlinear and dynamic, as the Shariah system's ability to reduce cost of debt varies significantly from the introduction to the decline stage. These findings highlight the critical importance of life cycle perspectives in understanding cost efficiency and competitive strategy in Shariah compliant firms. Ultimately, this research provides vital implications for developing more adaptive Shariah based financial management policies.

Keywords: Shariah System, Investment Efficiency, Reputation, Cost of Debt, Competitiveness.
JEL Code: E44, F31, F37, G15

I. Introduction

This study seeks to explain how the Shariah system influences the cost of debt and competitiveness through investment efficiency and reputation as intangible assets. Moreover, it emphasizes that the effect of the Shariah system on the cost of debt may vary across corporate life cycle stages, from growth to decline. The development of these interrelationships is motivated by both theoretical rationales and the lack of empirical research on the relationship between Shariah Compliance (SC), cost of debt (CoD), and competitiveness. First, while religiosity has been shown to generate economic benefits such as lower debt costs (Chen et al., 2016; Jiang et al., 2018), empirical evidence regarding the link between the Shariah system and CoD remains inconclusive. For instance, previous study found that SC positively affects CoD in Morocco (Satt et al., 2020), whereas another study documented a negative relationship between SC and CoD in Indonesia (Gati et al., 2022). These contradictory results reveal that the influence of the Shariah system on CoD remains uncertain, particularly in developing countries, signaling the existence of an empirical gap.

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Second, firms adopting the Shariah system are considered to embody Islamic Ethical Practices (Zain et al., 2015)or Islamic Corporate Social Responsibility (Adnan Khurshid et al., 2014). Prior literature confirms that SC is conceptually similar to CSR (Aribi & Gao, 2011; Khan, 2016; Quttainah & Almutairi, 2017), serving as an alternative form of business ethics and accountability (Dusuki, 2008; Cheong et al., 2019). Numerous empirical studies demonstrate a positive link between CSR and competitiveness (El Garaihy et al., 2014; Nyuur et al., 2019; Zhao et al., 2019; Guo & Lu, 2021; Marakova et al., 2021; Xuetong et al., 2023). However, others find inconsistent or even contradictory results (Hassel et al., 2005; Nelling & Webb, 2009; Marín et al., 2012; Flammer, 2018; Nyuur et al., 2019), suggesting a persistent gap between theory and practice in the CSR competitiveness nexus (Martinuzzi & Krumay, 2013). This implies that the ethical dimension of CSR may not fully explain competitive advantage, and religious based ethical approaches could provide an alternative (Rae & Wong, 2009). Based on the conceptual similarity between SC and CSR, it is reasonable to infer that SC may also affect competitiveness. However, the relationship between SC and competitiveness has rarely been explored, particularly in Indonesia a Muslim majority country indicating a clear knowledge gap.

The research gaps identified above imply that: (1) the direct relationship between SC and CoD needs to be the evaluated, and (2) the combined effects of SC on both CoD and competitiveness remain insufficiently understood. To address these gaps, this study introduces mediation and moderation mechanisms in the SC CoD and SC competitiveness relationships. Specifically, it explores two intangible assets investment efficiency and reputation as mediating mechanisms to explain whether, how, and why SC influences CoD and competitiveness. Additionally, it examines the moderating role of the corporate life cycle to determine whether the SC CoD relationship varies across different stages. The formulation of mediation and moderation is grounded in three main arguments. First, both constructs represent methodological approaches to addressing research gaps. Second, contingency theory posits that simple bivariate models are insufficient and may yield invalid conclusions, emphasizing the need for more complex causal structures involving third variables (Donaldson, 2006). Third, ignoring influential variables may obscure critical relationships, leading to unreliable results; thus, identifying and testing such variables is essential for valid inferences (Saeidi et al., 2015).

Based on the considerations above, the novelty and contributions of this study are threefold. First, it constructs a multilevel relationship model integrating the normative (Shariah), asset based (intangible assets), financial (cost of debt), and strategic (competitiveness) perspectives into a unified conceptual framework an approach rarely adopted, particularly for Shariah based firms. Second, it positions the corporate life cycle as a moderating variable, thereby testing whether the effects of Shariah principles differ across business phases. This integration suggests that Shariah influence is dynamic rather than fixed. Third, it conceptualizes Shariah principles not merely as ethical norms but as strategic assets that can enhance both financial efficiency and competitiveness. Collectively, the proposed multilevel model offers a more comprehensive understanding of how the Shariah system can reduce cost of debt and improve corporate competitiveness.

II. Literature Review and Hypothesis Development

2.1. Theoretical Framework

This study integrates Institutional Theory, Resource-Based View (RBV), and Contingency Theory. Institutional Theory explains how Shariah compliance builds legitimacy through ethical alignment (DiMaggio & Powell, 1983; Haniffa & Hudaib, 2007). RBV posits that intangible resources reputation and investment efficiency mediate strategic inputs and performance (Barney, 1991). Contingency Theory adds that these effects vary by corporate life cycle stages (Donaldson, 2006). Together, they explain the mechanisms and contextual boundaries of Shariah compliance.

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2.2. Shariah System and Cost of Debt

Shariah principles prohibit *riba*, *gharar*, and *maysir*, creating unique financial constraints. While some argue this enhances trust and lowers debt costs (Chen et al., 2016; Jiang et al., 2018), others find it increases costs due to limited compliant instruments (Satt et al., 2020). This inconsistency suggests the relationship is complex and context-dependent.

H1: The Shariah system has a significant effect on the cost of debt.

2.3. Shariah System and Competitiveness

Shariah compliance functions similarly to Islamic Corporate Social Responsibility (ICSR). Conforming to these normative expectations builds legitimacy and competitive advantage (DiMaggio & Powell, 1983; El-Garaihy et al., 2014). However, the literature often overlooks how ethical conformity translates into market performance via intangible assets.

H2: The Shariah system has a significant positive effect on competitiveness.

2.4. Shariah System and Investment Efficiency

Islamic principles emphasize prudent resource allocation and prohibit speculation, theoretically reducing overinvestment and enhancing efficiency (Guizani & Abdalkrim, 2022; Niu, 2006). Stricter Shariah screening should thus promote higher investment efficiency.

H3: The Shariah system has a significant negative effect on investment inefficiency (i.e., a positive effect on investment efficiency).

2.5. Shariah System and Reputation

Consistent ethical behavior builds stakeholder trust. Shariah compliance signals integrity and reduces information asymmetry, serving as a credible reputational resource (Haniffa & Hudaib, 2007; Srairi, 2020).

H4: The Shariah system has a significant positive effect on reputation.

2.6. Investment Efficiency, Reputation, and Financial Outcomes

Investment efficiency signals prudent capital allocation to creditors, potentially lowering debt costs (Gomariz & Ballesta, 2014), though its direct impact on competitiveness remains nuanced under strict Shariah constraints. Reputation acts as informal governance, reassuring creditors and attracting stakeholders to enhance competitiveness (Fombrun, 1996; Wang, 2014).

H5: Investment inefficiency has a significant positive effect on the cost of debt.
H6: Investment inefficiency has a significant effect on competitiveness.
H7: Reputation has a significant effect on the cost of debt.

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2.7. Reputation and Competitiveness

Reputational capital attracts customers, investors, and talent, serving as a durable competitive differentiator, especially for firms rooted in ethical and religious conformity (Barney, 1991; Roberts & Dowling, 2002).

H8: Reputation has a significant positive effect on competitiveness.

2.8. Mediation Roles

Based on RBV, intangible assets mediate strategic inputs and outcomes. Investment efficiency may mediate the Shariah CoD and Shariah competitiveness relationships by signaling prudence. Similarly, reputation may mediate these relationships by translating ethical conformity into financial and market advantages, addressing the "black box" of prior mixed findings.

H9: Investment efficiency mediates the relationship between the Shariah system and the cost of debt.
H10: Investment efficiency mediates the relationship between the Shariah system and competitiveness.
H11: Reputation mediates the relationship between the Shariah system and the cost of debt.
H12: Reputation mediates the relationship between the Shariah system and competitiveness.

2.9. Moderating Role of Corporate Life Cycle

Contingency theory dictates that financial behaviors vary across organizational life cycles (DeAngelo et al., 2006). The impact of Shariah compliance on CoD likely differs across introduction (limited retained earnings), growth (internal financing), maturity, and decline stages, yet this interaction remains empirically unexplored.

H13: The corporate life cycle moderates the relationship between the Shariah system and the cost of debt in the introduction stage.
H14: The corporate life cycle moderates the relationship between the Shariah system and the cost of debt in the growth stage.
H15: The corporate life cycle moderates the relationship between the Shariah system and the cost of debt in the maturity stage.
H16: The corporate life cycle moderates the relationship between the Shariah system and the cost of debt in the decline stage.

III. Research Method

3.1. Research Approach and Design

This study adopts a quantitative explanatory approach with a causal-comparative design to examine the influence of the Shariah system on the cost of debt and competitiveness through the mediating roles of investment efficiency and reputation, and the moderating role of the corporate life cycle.

3.2. Sample and Data

The population consists of non-financial firms consistently listed in the Indonesian Sharia Stock Index (ISSI) from 2013 to 2024. After excluding incomplete data, foreign-currency financial statements, and suspended firms, the final sample comprises 60 firms observed over 12 years, producing 720 firm-year

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observations (60 × 12). Data were obtained from the Indonesian Capital Market Directory (ICMD), annual and financial reports, IDX Facts Book, and other firm performance summaries published by the Indonesia Stock Exchange.

3.3. Research Mathematical Model

The mathematical model of this research is expressed as follows:

$$CoD_{i,t} = \beta_0 - \beta_1 Shariah_{i,t} + \beta_2 Reputation_{i,t} + \beta_3 In.Eff_{i,t} + \beta_3 Shariah_{i,t} * CLC_i + \beta_3 Shariah_{i,t} * CLC_g + \beta_3 Shariah_{i,t} * CLC_m - \beta_3 Shariah_{i,t} * CLC_d + \varepsilon_1$$

$$Competitiveness_{i,t} = \beta_0 + \beta_1 Shariah_{i,t} + \beta_2 Reputation_{i,t} + \beta_3 In.Eff_{i,t} + \varepsilon_2$$

$$Reputation_{i,t} = \beta_0 + \beta_1 Shariah_{i,t} + \varepsilon_3$$

$$In.Eff_{i,t} = \beta_0 + \beta_1 Shariah_{i,t} + \varepsilon_4$$

3.4. Variables and Measurements

a. Shariah

Shariah is measured using a Shariah Compliance Index based on Shariah financial ratios. The Indonesian National Sharia Council (DSN-MUI) Fatwa No. 135/DSN-MUI/X/2020 establishes two quantitative screening criteria for Shariah compliance in Indonesia: a maximum debt ratio of ≤ 45% and a maximum non-permissible income ratio of ≤ 10%. Each ratio is assigned a weight of 70% for the debt ratio and 30% for the non-permissible income ratio. To be combined into a single composite index, all ratios are normalized on a 0–1 scale using a normalization method:

$$Score_i = \frac{Ratio_i}{Threshold_i}$$

The weighted scores of each ratio are then combined to obtain the Shariah Compliance Index (SCI), formulated as follows:

$$Shariah\ Compliance\ Index\ (SCI) = \sum (Score_i \times Weighted_i)$$

The final value of the SCI ranges from 0 to 1. The closer the value is to 1, the higher the level of Shariah compliance. The level of Shariah compliance is categorized into four (4) groups using the quartile method, namely:

Table 1. SCI ranges

Index Score	Level Compliance
≤ 0,6	Non-Compliant Shariah
> 0,6 – 0,81	Low Shariah Compliance
> 0,81 – 0,94	Shariah-Compliant
> 0,94 – 1	Highly Shariah-Compliant

b. Reputation

Quantified using market-based and asset efficiency indicators, including the Market-to-Book Value (Fombrun & Shanley, 1990; Fombrun, 1996; Roberts & Dowling, 2002; Wang et al., 2016) and Average Asset Turnover (Baruah & Panda, 2020; Hong, 2024) .

c. Investment Efficiency

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Calculated using the residual model (Biddle et al., 2009), which relates investment to growth opportunities (sales growth). The squared residuals represent investment inefficiency (InE); lower residuals indicate higher efficiency. Therefore, the test data in this study represent investment inefficiency

d. Competitiveness (Comp.)

Assessed through two ratios: Supplier Power Ratio (SPR) and Customer Power Ratio (CPR). SPR is measured by the ratio of cost of goods sold to sales (Hofmann & Sertori, 2020; Hu et al., 2023), while CPR is measured by the Gross Profit Margin (Bhattacharyya & Nain, 2011; Patatoukas, 2012; Irvine et al., 2016). These proxies capture the firm's ability to manage market pressures from suppliers and customers.

e. Cost of Debt (CoD)

Measured by (1) Interest Expense/Average Total Debt (Bliss & Gul, 2012; Harymawan, 2018; Gati et al., 2022) and (2) Interest Coverage Ratio (ICR)—Earnings Before Interest and Taxes (EBIT) divided by Interest Expense (Bhojraj & Sengupta, 2003; Campbell & Taksler, 2003; Klock et al., 2005; Almeida & Philippon, 2007).

f. Corporate Life Cycle (CLC)

Determined by retained earnings to total assets and equity ratios (DeAngelo et al., 2006; Owen & Yawson, 2010; Al-Hadi et al., 2016; Amin et al., 2023). Data distribution is grouped into four stages—Introduction, Growth, Maturity, and Decline—based on quartile ranges.

3.5. Data Analysis Procedure

Data analysis employs Partial Least Squares–Structural Equation Modeling (PLS-SEM) using Warppls 7.0. The analytical process includes testing for convergent and discriminant validity, composite reliability, and evaluating mediation and moderation effects. Model fit is assessed through AVE, CR, and path significance (p-value < 0.05).

3.6. Data Quality and Replicability

All data collection and analytical procedures were systematically documented, including variable calculations and transformation steps. This ensures the research can be replicated by other scholars using the same dataset and methodological criteria.

IV. Results and Discussion

The inferential statistics results are illustrated in Table below:

Table 2. Convergent Validity Based on Loading Factor

Variable	Indicator	Loading Value	Criterion	P-*value*	Conclusion
Shariah	SCI	1.000		<0.001	Cannot be tested due to a single indicator
Inv. In.Eff.	Residual Model	1.000		<0.001	Cannot be tested due to a single indicator
			> 0.7		
Reputation	ATO	0.790		<0.001	Fulfilled
	MTB	0.790			
CoD	Int.Exp/Av.TA	0.716		<0.001	Fulfilled

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	ICR	0.716			
Comp.	SPR	0.861		<0.001	Fulfilled
	CPR	0.861			
CLCi*Syariah	RE/TAi*SCI	0.756		<0.001	Fulfilled
	RE/TAi*SCI	0.756			
CLCg*Syariah	RE/TAg*SCI	0.976			
	RE/TAg*SCI	0.976			
CLCm*Syariah	RE/TAm*SCI	0.986			
	RE/TAm*SCI	0.986			
CLCd*Syariah	RE/TAd*SCI	0.988			
	RE/TAd*SCI	0.988			

Table 3. Convergent Validity Based on AVE

Variable	AVE	Criterion	Conclusion
Shariah	1.000	> 0.5	Cannot be tested due to a single indicator
Inv. In.Eff.	1.000		
Reputation	0.624		Fulfilled
CoD	0.550		
Comp.	0.521		
CLCi	0.572		
CLCg	0.953		
CLCm	0.972		
CLCd	0.977		

Source: Warppls Output

Table 4. Correlation among Latent Variables and Square Root of AVE

	SC	Inv. InEff.	Reputation	CoD	Comp.
SC	(1.000)				
Inv. InEff.	-0.065	(1.000)			
Reputation	0.200	0.061	(0.790)		
CoD	0.136	0.027	0.120	(0.716)	
Comp.	0.070	0.007	0.054	0.028	(0.816)
CLCi	0.014	0.014	0.071	-0.003	-0.005
CLCg	0.010	-0.011	-0.133	-0.119	0.030
CLCm	-0.014	-0.007	-0.118	-0.118	0.029
CLCd	0.002	-0.016	-0.128	-0.105	0.029
CLCi*Shariah	0.014	0.038	0.028	0.038	0.012
CLCg*Shariah	-0.446	-0.057	-0.034	-0.057	-0.052
CLCm*Shariah	-0.434	-0.035	-0.014	-0.035	-0.053
CLCd*Shariah	-0.422	-0.044	-0.025	-0.044	-0.051

Table 5. Internal Consistency Reliability

Variable	Cronbach's Alpha	Composite Reliability Coefficients	Criterion	Conclusion
SC	1.000	1.000	> 0.7	Cannot be tested due to a single indicator
Inv.InEff.	1.000	1.000		
Reputation	0.798	0.769		Fulfilled
CoD	0.722	0.721		

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Comp	0.750	0.751		
CLCi	0.752	0.728		
CLCg	0.951	0.976		
CLCm	0.972	0.986		
CLCd	0.976	0.988		

Source: Warppls Output

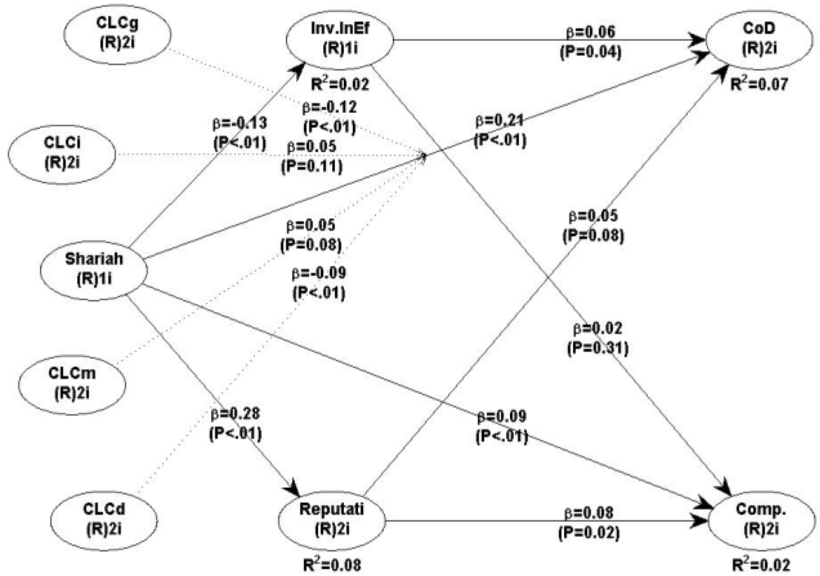

Figure 1. Path Coefficient and P-values

Table 6. Significance Tests

Hypothesis	***Path***	***Path Coefficient***	***P-Value***	**Direction of Relationship**	**Conclusions**
H1	Syariah --> CoD	0.207	< 0.001	Positive	Significance
H2	Syariah --> Daya Saing	0.090	0.008	Positive	
H3	Syariah --> In. InEff.	-0.128	< 0.001	Negative	
H4	Syariah --> Reputasi	0.277	< 0.001	Positive	
H5	In.InEff --> CoD	0.064	0.043	Positive	
H6	In.InEff--> Daya Saing	0.018	0.312	Positive	Not Significance
H7	Reputasi --> CoD	0.053	0.078	Positive	
H8	Reputasi --> Daya Saing	0.076	0.021	Positive	Significance
H13	CLCi*Sy --> CoD	0.046	0.109	Positive	Not Significance
H14	CLCg*Sy --> CoD	-0.124	< 0.001	Negative	Significance
H15	CLCm*Sy --> CoD	0.053	0.075	Positive	Not Significance
H16	CLCd*Sy --> CoD	-0.090	0.008	Negative	Significance

Tabel 7. *Adjusted* R^2 dan *Predictive Relevance* (Q^2)

Variable	***Adjusted R^2***	***Predictive Relevance* (Q^2)**	
		Coefficient	**Practical Rule**
Inv.InEff	0.015	0.018	*Good if*> 0
Reputation	0.075	0.077	
CoD	0.065	0.076	
Competitiveness	0.014	0.051	

The empirical results illustrated in the path diagram (Figure 1), it is known that:

a. There is a mediating effect of investment inefficiency in the relationship between the Shariah system and the cost of debt, although this mediation acts as a *suppressor effect* (a mediation that suppresses the direct effect). This means that while there is a direct effect that worsens the outcome, there is also an indirect effect that improves it, resulting in a net negative total effect. This finding can be interpreted as follows: although the investment efficiency path contributes to lowering the cost of debt, it is not substantively strong enough to reduce the overall cost of debt. In this context, creditors still perceive Shariah labeled firms as riskier than their ability to allocate funds efficiently, making the efficiency benefits insufficient to offset the perceived risk premium;
b. There is no mediating effect of investment inefficiency in the relationship between the Shariah system and competitiveness. This finding provides evidence that the influence of the Shariah system on competitiveness is direct, not through the mediation mechanism of investment efficiency, and may instead operate through other aspects. Hence, the Shariah system plays a more dominant role in building competitiveness than through investment inefficiency as a mediator.
c. Reputation does not statistically mediate the influence of the Shariah system on the cost of debt. This result indicates that the effect of the Shariah system on the cost of debt is direct, not through the mediation of reputation, and may operate through other factors.
d. Reputation partially mediates the relationship between the Shariah system and competitiveness. This *partial mediation* effect implies that reputation is not the sole mediator in this relationship; other *hidden mediators* may exist. Overall, reputation contributes an additional positive effect to the link between the Shariah system and competitiveness. This finding suggests that competitiveness can be built through a strong reputation.
e. The Shariah system has a significant positive effect on the cost of debt (CoD). This finding contradicts prior empirical evidence showing that Shariah compliance reduces debt costs in Indonesia (Gati et al., 2022) but aligns with evidence from Morocco (Satt et al., 2020). One explanation is the limited availability of Shariah-compliant financing instruments and market liquidity. Shariah-based debt instruments, such as sukuk or profit-sharing financing, are generally less liquid than conventional instruments. This limitation causes creditors and investors to demand higher liquidity premiums as compensation a phenomenon observed among firms consistently listed in the ISSI (Gati et al., 2022).
f. The Shariah system has a significant positive effect on competitiveness. This finding is consistent with *Institutional Theory*, which asserts that organizational legitimacy achieved through compliance with social norms and regulations can serve as a source of competitive advantage (DiMaggio & Powell, 1983). It also reinforces earlier empirical arguments that Shariah compliance correlates with improved access to capital, enhanced reputation, and consumer preference, all of which contribute to competitive advantage (Haniffa & Hudaib, 2007).
g. The Shariah system has a significant negative effect on investment inefficiency, or conversely, a positive effect on investment efficiency. This aligns with empirical findings that adopting Islamic principles in business can both enhance investment opportunity utilization and reduce overinvestment, thereby improving capital allocation efficiency (Guizani & Abdalkrim, 2022). This behavior indicates the efficient allocation of organizational resources into investment projects (Niu, 2006).
h. The Shariah system significantly and positively influences reputation. This strengthens previous empirical findings showing that ethical identity embodied in Shariah practices attracts market trust and enhances corporate reputation (Haniffa dan Hudaib, 2007).
i. Investment inefficiency has a significant positive effect on the cost of debt, meaning that investment efficiency has a negative effect on the cost of debt. This result is consistent with empirical studies showing that efficient investment plays an essential role in reducing external financing costs (Gomariz & Ballesta, 2014).

j. Investment inefficiency has an insignificant positive effect on competitiveness. This finding contradicts earlier research documenting that firms with efficient investment behavior not only create more shareholder value but also enhance their competitive position (Harford, 1999). Strict regulatory constraints such as prohibitions on *riba*, *gharar*, and non-halal sectors limit business exploration for Shariah firms, making them more focused on capital efficiency for stability and compliance rather than competitive expansion or innovation. Thus, within a Shariah framework, investment efficiency functions more as a *risk control mechanism* than a *growth driver*.

k. Reputation has an insignificant positive effect on the cost of debt. Possible explanations include:
   - Creditors may not prioritize reputation when assessing the risk of Shariah-compliant firms. Factors such as cash flow, leverage, and profitability tend to be more influential. If reputation is not significantly recognized by stakeholders (including lenders), its impact on the cost of debt remains minimal.
   - To make reputation an effective variable for reducing debt costs, firms must ensure consistent implementation of Shariah-based transparency and ethics. Prior literature suggests that Shariah firms are less transparent and riskier (Gati et al., 2022), which contributes to higher debt costs (Satt et al., 2020).

l. Reputation has a significant positive effect on competitiveness. This finding supports numerous empirical studies affirming that *intangible resources* serve as productive assets enabling firms to achieve competitive advantage (Edvinsson et al., 1997; Brennan, 2001; Hall, 2001; Lev, 2001; Edvinsson, 2013). Reputation, as a core element of intangible resources (Barney, 1991; Gomez-Mejia dan Balkin, 2002), directly enhances competitiveness (Podolny, 1993; Fombrun, 1996; Roberts & Dowling, 2002; Walsh et al., 2006; Davies et al., 2010; Wang, 2014).

m. In the introduction phase of the corporate life cycle, the moderating effect of the Shariah system on the cost of debt is insignificant. At this stage, the Shariah system has limited capacity to reduce debt costs due to financial ratio restrictions that constrain profit accumulation (Hasan & Dridi, 2011). Consequently, retained earnings—an important internal capital buffer—are limited (Berkovitch & Israel, 1996), weakening financial resilience (Habib & Hasan, 2019) and increasing the risk of early-stage failure (Anthony & Ramesh, 1992).

n. During the growth phase, the corporate life cycle negatively moderates the Shariah–debt cost relationship, meaning that growth weakens the positive link between the Shariah system and cost of debt. This aligns with evidence that regulatory constraints encourage Shariah firms to maximize retained earnings as internal financing, strengthening financial flexibility (Majbouri, 2020), thereby reducing reliance on external financing and lowering debt costs.

o. In the maturity phase, the moderating effect is insignificant. This aligns with arguments that retained earnings accumulation slows down in the maturity stage (DeAngelo et al., 2006), reducing their ability to lower debt costs (Gup & Agrrawal, 1996).

p. In the decline phase, the life cycle negatively moderates the Shariah–cost of debt relationship, meaning that the Shariah system strongly reduces debt costs during decline. This supports prior evidence showing that retained earnings serve as a stabilizing force for cost of capital during downturns (Majbouri, 2020). The negative effect also indicates that prudent Shariah firms avoid new debt financing amid declining profitability, consistent with life cycle theory, where declining firms prioritize internal funding and risk minimization (DeAngelo et al., 2006).

q. Finally, from the path diagram (Figure 4.1) and Table 7, it is evident that the explanatory power of all exogenous variables on competitiveness and cost of debt is limited, indicating that these outcomes are predominantly influenced by other external factors.

V. Conclusion

Based on the results of the mediation, moderation, and direct relationship model tests, it is evident that the Sharia system exerts a complex and non-linear influence on the cost of debt and firm competitiveness. The positive and significant relationship between the Sharia system and the cost of debt (CoD) implies that the Sharia framework has not yet effectively reduced borrowing costs. On the other hand, although investment efficiency partially mitigates the cost of debt, the effect is suppressive. This means that the benefit of investment efficiency is not strong enough to reduce the total CoD due to the persistent perception of Sharia related risk. Furthermore, reputation was not proven to be a significant mediator in the relationship between the Sharia system and CoD, indicating that traditional financial factors remain more dominant in determining debt costs.

Referring to the positive and significant relationship between the Sharia system and competitiveness, the findings indicate that adherence to Sharia principles plays a crucial role in establishing legitimacy and competitive advantage. Investment efficiency does not mediate this relationship; instead, reputation serves as a partial mediator, suggesting that the Sharia system enhances competitiveness both directly and indirectly through improved reputation. However, reputation is not the sole mediating channel, implying that other mediators such as innovation, customer loyalty, or ethical image may also strengthen this relationship. Meanwhile, the corporate life cycle acts as a significant moderator in several phases. During the growth phase, the Sharia system becomes more effective in reducing the cost of debt due to strengthened retained earnings and improved financial flexibility. In contrast, during the early and mature phases, the Sharia system's ability to reduce CoD becomes insignificant because of limited internal funding. Conversely, in the decline phase, the Sharia system demonstrates a strong ability to lower CoD through prudent financial behavior and reliance on internal funds. Overall, the findings of this study affirm that the Sharia system functions as a mechanism for legitimacy and financial stabilization. However, its effectiveness in reducing the cost of debt and enhancing competitiveness largely depends on the firm's internal efficiency, reputation, and life cycle stage. The results also indicate that competitiveness and the cost of debt are influenced by other external factors beyond the research model, thereby calling for further exploration of variables such as corporate governance, financial flexibility, and ownership structure to strengthen the developed theoretical framework.

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