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The Mediating Role of Financial Performance in The Relationship Between Competitive Advantage and Corporate Reputation

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Abtract

This study examines the impact of competitive advantage, company size, and liquidity on corporate reputation and financial performance. The research focuses on non-financial companies listed on the Indonesia Stock Exchange from 2015 to 2021, as these firms serve as key indicators of economic performance due to their high liquidity, large assets, and strong fundamentals. Using regression analysis, the findings reveal that competitive advantage, liquidity, and firm size positively influence corporate reputation and financial performance. Additionally, financial performance acts as a mediating variable in this relationship. This study contributes to the understanding of corporate reputation and financial outcomes, offering insights for business strategy and policy-making.

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1. Introduction

Basically, corporate reputation is an intangible asset that holds strategic value for business sustainability (Bergh et al., 2010; Brønn & Brønn, 2015). Reputation is earned as a form of recognition for the advantages a company possesses, such as its ability to develop performance and create innovations to meet consumer needs (Black et al., 2000; Martínez-Ferrero et al., 2016). Organizations with a good reputation can build trust, confidence, and support from various stakeholders, while organizations with a poor track record face challenges in maintaining credibility (Bergh et al., 2010; Black et al., 2000). Building corporate reputation is not easy or instant; it requires continuous efforts, including product and service development, increasing customer trust, efficient operations, visionary leadership, and attractive investments for long-term business sustainability (Eberl & Schwaiger, 2005; Lagodiienko et al., 2019). Therefore, the right strategy is essential to ensure a company's success in building a good reputation. Companies that fail to innovate may face a more uncertain future compared to those that integrate innovation into their strategic competencies. Thus, innovation capability is a crucial factor for a company's success. Innovation can be reflected in the company's competitive advantage (Aydin & Dube, 2018; Putra, 2018; Rajapathirana & Hui, 2018; Mendoza-Silva, 2020; and Migdadi, 2022). Competitive advantage itself is an intangible asset that provides added value to a company (Li et al., 2006; Gamayuni, 2015; Soewarno & Ramadhan, 2020; Mahdi & Nassar, 2021; Bagna et al., 2021; and Bamhdi, 2024). This advantage enables a company to offer superior products or services compared to its competitors, creating sustainable competitiveness (Aydin & Dube, 2018).

Additionally, a company's reputation can influence its growth and size, either through business expansion or maintaining operational sustainability (D'Souza, 2018). Company size is often used as a benchmark for a company's capacity and capability in managing its business (Çağlıyan et al., 2021). Company size also directly impacts pro-

fits (Pattiruhu, 2020). The higher the profits, the more efficiently the company can utilize its assets (Maury, 2018). Conversely, if a company fails to maximize its assets, it may indicate difficulties in meeting financial obligations (Jo et al., 2021; Myšková & Kuběnka, 2019). If debt is managed properly, a company can handle its finances more efficiently. This contributes to an improved reputation, as positive financial reports reflect strong financial performance (Roberts & Dowling, 2002; Hall Jr. & Lee, 2014; Park et al., 2018; D'Oria et al., 2021). Financial performance describes a company's financial condition over a certain period, covering fund collection and distribution. Generally, financial performance is measured using indicators such as capital adequacy, liquidity, and profitability (Chen et al., 2015; Haryanto et al., 2021; and Andreas et al., 2023). Good financial performance enhances stakeholder trust in a company (Xu et al., 2015; Lassoued, 2018; Pramisti & Istiqomah, 2024). On the other hand, poor financial performance reduces stakeholder trust (Xu et al., 2015). Transparent and well-structured financial management through clear annual reports encourages stakeholders to place their trust in the company, ultimately boosting corporate performance and reputation.

This study extends previous research on corporate reputation conducted by Park, Kim, and Kwon (2017) and Iglesias et al. (2020) which focused on the correlation between customer loyalty, corporate social responsibility, customer satisfaction, and trust in corporate reputation. However, it is assumed that a company's reputation improves when financial statements are well-managed, making corporate strategy more visible. Therefore, besides customer loyalty, corporate social responsibility, customer satisfaction, and trust, other factors such as competitive advantage and financial performance may influence corporate reputation.

Previous research by Park, Kim, and Kwon (2017) and Iglesias et al. (2020) did not examine the mediating effect of financial performance on the relationship between competitive advantage and corporate reputation. The study by Brønn and Brønn (2015) only explored the relationship between competitive advantage and corporate reputation. This differs from Cantele and Zardini (2018) who investigated the relationship between competitive advantage and financial performance, as well as Taliento, Favino, and Netti (2019) who studied the relationship between company size and financial performance. Meanwhile, Wu and Shen (2013) examined the connection between the current ratio and financial performance. Based on these studies, there is still a gap in research regarding the role of financial performance as a mediating variable in the relationship between competitive advantage and corporate reputation. According to legitimacy theory, financial performance plays a crucial role in helping investors analyze a company's efficiency and effectiveness in generating revenue. Consequently, information on a company's competitive advantage is well-communicated to investors, allowing them to evaluate corporate performance based on product or service sales and financial transparency. With this understanding, this study aims to fill the gaps in previous research on corporate reputation.

The reputation of non-financial companies listed on the Indonesia Stock Exchange is an interesting topic for further study. Currently, economic development in Asian countries is leading toward industrialization, particularly in Indonesia. Non-financial companies operating in Indonesia have shown performance growth year after year. According to signal theory, large companies tend to showcase their achievements, both in terms of asset growth and debt repayment capabilities, thereby providing positive signals to investors, who respond favorably. In other words, large companies tend to disclose more information due to increased public and investor demand for transparency. Therefore, this study will use non-financial companies listed on the Indonesia Stock Exchange as research samples.

As a contribution, this study aims to develop a new research model by linking various correlations among previously studied variables. Brønn, (2015); Yang et al. (2017); Wang & Chen, (2018); Cantele (2018); Taliento et al. (2019); and Iglesias et al., (2020) specifically the mediating role of financial performance in the relationship between competitive advantage and corporate reputation in non-financial companies listed on the Indonesia Stock Exchange. By exploring less-examined aspects in Asian research, this study is expected to provide new insights and contribute to existing knowledge on corporate reputation in the Asian region, particularly Indonesia.

2. Hyphotesis Development

Legitimacy theory is rooted in the alignment between an organization and its surrounding environment. Legitimacy is a business management approach that focuses on society, go-

vernment, individuals, and community groups (Mousa & Hassan, 2015). Therefore, as a system that prioritizes alignment with community interests, business operations must conform to public expectations (Mousa & Hassan, 2015). The relationship between legitimacy theory and the competitive advantage variable lies in how a company discloses its advantages. If a company successfully showcases its strengths, it will gain legitimacy from shareholders, ultimately enhancing the company's image and reputation. Shareholders' trust in a company's superiority will attract investors, thereby increasing the company's reputation.

According to Connelly et al. (2011) signaling theory explains how a corporation should signal financial information to its readers. A signal is an action taken by a company to provide investors with insights into management's perception of the company's prospects (Connelly et al., 2011; Khan, 2019; and Putri et al., 2023). Signaling theory is related to company size and liquidity variables. Large companies tend to demonstrate their achievements, both in terms of asset growth and debt repayment, thereby sending positive signals to external parties such as investors, who in turn respond positively to the company (Connelly et al., 2011; Jemunu et al., 2020; Budiman & Krisnawati, 2021; Istikomah et al., 2023; and Fransisca et al., 2024). In other words, large companies tend to disclose more information due to greater demand from the public and investors (Connelly et al., 2011).

Financial performance and corporate reputation are two crucial factors in a company's growth. If obligations are managed effectively, the company will be able to handle its finances well, enhancing its reputation as positive financial statements reflect healthy financial performance (Duangekanong, 2021; Javed et al., 2019) .

Strong financial performance can boost stakeholder trust in a company (Xu et al., 2015). Conversely, companies with poor financial performance may experience a decline in stakeholder trust (Xu et al., 2015). A high level of control over finances and assets, along with transparent information conveyed through annual reports, encourages stakeholders to place their trust in the company. The more stakeholders trust a company, the better its overall performance (Xu et al., 2015). Financial performance plays a vital role in a company, serving as a benchmark for success and influencing business decision-making.

Previous research has not extensively addressed the research gap concerning the relationship between legitimacy theory, signaling theory, corporate reputation, and financial performance. This study aims to bridge that gap by expanding on existing research findings. In addition to examining the relationship between legitimacy and signaling theories with corporate reputation, this study will also analyze how financial performance acts as a mediating factor in the relationship between competitive advantage and corporate reputation. Consequently, this study is expected to make a significant contribution to the development of theory and business practices, particularly in the context of non-financial companies listed on the Indonesia Stock Exchange. Based on these arguments, the hypotheses proposed are:

H_1: Competitive advantage, firm size, and liquidity directly influence financial performance.

Competitive advantage results from implementing strategies that leverage a company's diverse resources. It is a powerful combination of firm competence and organizational effectiveness in adapting to environmental changes (Olalere et al., 2017; Kamukama et al., 2017). According to Li et al., (2006) there are two primary approaches to achieving competitive advantage: resource advantage and position advantage. Meanwhile, Putra (2018) identifies two key sources of competitive advantage: cost leadership and differentiation. Additionally, a company with a strong reputation can significantly influence its growth and size (D'Souza, 2018).

If a company fails to maximize its assets, it may struggle to fulfill its current obligations effectively (Subramanyam Wild, 2010). The current ratio evaluates a company's ability to meet short-term liabilities as they become due. Simply put, it measures the availability of current assets to cover immediate obligations. The current ratio also serves as an indicator of a company's financial stability.

Despite existing research on competitive advantage and financial performance, there remains a gap in understanding how these factors interact within different corporate contexts. Previous studies have yielded inconsistent findings, particularly regarding the relationship between competitive advantage, corporate reputation, and financial performance. Furthermore, past research has not fully addressed potential weaknesses in these studies, leaving an opportunity for further exploration. Therefore, this study aims to bridge

this research gap by expanding existing findings and offering a more comprehensive analysis of the interplay between competitive advantage, company size, and financial stability.

H_2: Competitive advantage, firm size, and liquidity directly influence corporate reputation.

Bel, (2018); Muchlish & Tjahyono, (2022); Abbas et al., (2022) competitive advantage is a company's ability to gain economic benefits over other competitors in the same industry. To achieve a competitive advantage, companies must engage in continuous innovation. Innovation serves as a crucial strategic element, enabling a company to lead the market through its business activities. By fostering innovation, a company can enhance its financial performance. Additionally, analyzing past financial performance allows for an assessment of management effectiveness and employee performance in managing company assets. Financial performance, in turn, reflects the quality of strategic decision-making and management's commitment to achieving set objectives. A well-managed financial performance signifies strong managerial capabilities, and thereby strengthening the company's reputation through demonstrated competitive advantage.

A company's reputation significantly influences its growth and size. Whether a company expands or contracts depends on its financial stability over a specific period, typically measured through profitability indicators. A strong financial performance enhances stakeholder trust in the company. Effective management of company finances indicates professional financial oversight, which in turn bolsters corporate reputation.

Conversely, failure to maximize assets may result in unpaid liabilities, negatively affecting financial performance. Timely fulfillment of short-term obligations reflects competent financial management, thereby reinforcing a company's credibility. A company that effectively manages its financial statements will be perceived as reliable, further enhancing its reputation.

Despite existing research on competitive advantage, financial performance, and corporate reputation, there remains a research gap regarding the precise interaction of these variables. Previous studies have shown inconsistent results, and some have not thoroughly examined the potential weaknesses of prior research. This study aims to address these inconsistencies by expanding on existing findings and providing a more comprehensive analysis of how financial performance mediates the relationship between competitive advantage and corporate reputation. So, based on these arguments, the hypotheses proposed are:

H_3: Competitive Advantage, Firm Size, And Liquidity Influence In-Directly Through Financial Performance On Corporate Reputation.

3. Data and Methods

The approach used in this study is quantitative research method, which is a research method based on symptoms or phenomena that can be grouped, relative, concrete, observed, measurable and have a causal relationship (Sekaran & Bougie, 2016). This study focuses on a non-financial firm listed on the Indonesia Stock Exchange between 2015 and 2021. This study's data is quantitative; 112 observational data will be used based on the findings of purposive sampling.

To obtain the data needed in this study, a literature study and documentation technique approach is used by looking at the financial statements of all non-financial companies listed on the Indonesia Stock Exchange (IDX) during 2015-2021 published by the company through the official website of the Indonesia Stock Exchange, then accessing its annual financial statements and collecting the required data.

The research variables consist of competitive advantage, liquidity, company size, financial performance. The operational definition of the research variables is presented in table 1.

Data analysis is one of the research activities in the form of the process of assembling and organizing data to analyze the data that has been acquired (Sekaran & Bougie, 2016). The data utilized in this study were first analyzed descriptively to identify the variety of the sample data. Next, the regression estimation of panel data is tested to choose the best model among the CE, FE, and RE.

After a series of data quality tests, namely the multicollinearity test and heteroscedasticity test, then panel data regression testing was carried out, so that the data samples used could be analyzed related to the symptoms of factors that affect corporate reputation, and finally a sobel test was carried out. The results of this sobel test analysis test are carried out to determine whether IV can affect DV directly or indirectly through Y_1, if the Y_1 variable has a Z value of > 1.98, then the Y_1 variable is a mediating variable. In addition, the interpretation of the results of this sobel test will refer to Zhao et.al. (2010) is a development of a type of mediation from (Baron & Kenny, 1986) by

finding three patterns that are consistent with mediation: complementary mediation, competitive mediation, and indirect-only mediation, as well as two patterns that are not consistent with mediation: direct-only nonmediation and no-effect nonmediation.

$ROA_i = py_1 Com_Adv_i + py_2 Com_Adv_i + py SIZE_i + py CR_i + e_i$

$Corp_Rep_i = py_2 Com_Adv_i + py_2 Com_Adv_i + py_3 SIZE_i + py_4 CR_i + py_5 ROA_i + e_i$

Where: β_0= Constant; ROA= Financial Performance; Corp_Rep*i*= *Corporate Reputation;* Com_Adv_i= *Competitive Advantage;* $SIZE_i$= *Firm Siize;* CR_i= *Liqudity;* e_i= Unexplained Variance

Table 1. Operationalization of variables

Variable	Definition	Formula
Competitive Advantage	Competitive advantage (CA) is the average of Customer Relationship (CR), Supplier Relationship (SR), and Intense R&D (RDI).	$CA = \frac{CR + SR + RDI}{3}$ $CR = \frac{Advertising\ expense}{Sales + Account\ receivable}$ $SR = \frac{Account\ receivable + Inventory}{Sales}$ $RDI = \frac{R\&D\ Expense}{Sales}$
Company's size	The company's size is a reflection of its size as assessed by the natural logarithm of total assets	Size = Ln (Total Aset)
Liquidity	Liquidity is a ratio that measures a company's capacity to pay short-term commitments or debt that is coming due as a whole	$\text{Liquidity} = \frac{\text{Current Liabilities}}{\text{Current Asset}}$
The financial performance	The financial performance is the company's ability to generate profits from the assets it owns.	$ROA = \frac{Net\ profit}{Total\ Assets}$
Company reputation	Company reputation is an intangible asset that has slightly different characteristics, the company's reputation is not easily transferred to other parties	*1 point if the sample is included in a company included in the Indonesia Corporate Image Award (IMAC), 0 points if not included*

4. Result

The results of the statistical description analysis are presented in table 2. The average competitive advantage is relatively low (0.172), with a median of 0.094, indicating that most companies have a competitive advantage near the lower end of the range. The wide range (0.001 to 4.654) and high standard deviation (0.315) suggest that while some firms excel in competitive advantage, most remain at modest levels. This variation implies that only a few companies within the dataset have developed significant competitive advantages, while many others still struggle to establish differentiation in their industry.

The mean firm size is 0.297, with a median of 0.265, suggesting that company sizes are relatively small, with few exceptionally large firms. The profitability range (0.000 to 5.719) indicates that some firms are significantly larger than others, contributing to the dataset's high standard deviation. This suggests that the majority of companies are on the smaller side, with a few dominant players affecting the overall distribution.

Table 1 Descriptive variable

	Mean	St. Dev	Min	Max
Com_Adv	0.172	0.315	0.001	4.654
SIZE	0.297	0.317	0.000	5.719
CR	0.245	0.348	0.000	2.194
ROA	0.069	0.082	-0.016	1.396
Corp_Rep	1.658	1.590	0.004	8.450

N observation= 122

The average competitive advantage is relatively low (0.172), with a median of 0.094, indi-cating that most companies have a competitive advantage near the lower end of the range. The wide range (0.001 to 4.654) and high standard deviation (0.315) suggest that while some firms excel in competitive advantage, most remain at modest levels. This variation implies that only a few companies within the dataset have developed significant competitive advantages, while many others

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The mean liquidity is 0.245, with a median of 0.109, showing that most firms have moderate liquidity levels. The wide range (0.000 to 2.194) highlights the differences between firms in managing short-term financial obligations. Given the high variability, it can be inferred that liquidity management is inconsistent among companies, with some maintaining substantial liquidity reserves while others operate with minimal liquidity.

The average ROA is 0.069, with a median of 0.057, indicating that most firms generate modest financial returns. The range (-0.016 to 1.396) suggests that while some firms achieve high profitability, others experience financial struggles. The relatively low standard deviation implies that most firms have ROA values clustered around the mean, meaning financial performance does not vary drastically across firms.

The mean corporate reputation is 1.658, with a median of 1.084, signifying that firms generally have moderate reputational scores. The broad range (0.004 to 8.450) indicates that while some companies have built strong reputations, others struggle to establish themselves. The high standard deviation suggests a significant disparity in how firms are perceived in terms of reputation, with a few firms having highly positive reputations while others remain relatively unknown or less trusted.

The data reveals that while some firms stand out in competitive advantage, firm size, and reputation, the majority operate within moderate ranges. The wide dispersions in liquidity and corporate reputation suggest that financial stability and market perception vary significantly. Overall, firms with higher financial performance tend to align with larger firm sizes, while competitive advantage does not appear uniformly distributed across all companies. These insights provide valuable implications for strategic decision-making in corporate growth and financial management.

Panel Data Regression Estimation

Panel data regression estimation is based on three modes, namely ordinary least square or there are three types of effects: common (CE), fixed (FE), and random. The goal of selecting this panel data regression model is to find the best model for research purposes.

Table 3 Estimation Test Results

Effect Test	Prob>F	Determining test	Best Model (Prob>F) / (Prob>Chibar2) / (Prob>Chi2)	Description
CE	0.0000	Chow test	0.0000	FE
FE	0.0000	Hausman test	0.3244	RE
RE	0.0000	LM test	0.0000	RE

Based on table 3, showed of the three tests, Panel Data Regression Model that will be used in the Hypothesis Test is the Random Effect (RE) in estimating directly in this research.

Directly Test Results of Substructure 1 and Substructure 2

The following are the Directly test results for sub-structures 1 and 2 presented as table 4. Table 4 (Sub-structure 1) shows that the $F\text{-}_{statistic}$ (27.73308) > $F\text{-}_{Table}$ (2.8524) and Prob $F\text{-}_{statistic}$ 0.000000 < 0.05, it can be concluded that model estimation Sub-structure 1 is accepted. and also (Sub-structural 2) shows that $F\text{-}_{statistic}$ (14.30369) > $F\text{-}_{Table}$ (2.8524) and Prob $F\text{-}_{statistic}$ 0.000000 < 0.05, it can be concluded that model estimation Sub-structure 2 is accepted. Both sub-structure models yield significant results, meaning that Return on Assets (ROA) is influenced by factors such as Competitive Advantage, Company Size, and Current Ratio, while Corporate Reputation is also affected by these factors, along with ROA. This research supports the idea that competitive advantage, company size, and financial performance play a crucial role in shaping corporate reputation.

Table 4. Directly Test Results Sub-structure 1 & 2

Hypothese sub-structures 1 & 2	t-Statistic/ (prob)	F-Statistic/ prob)
Directly sub-structures 1		
Com_Adv → ROA	-0.4611 (0.646*)	27.733 (0.000)
Size → ROA	1.747 (0.034**)	
CR→ ROA	1.264 (0.209*)	
Directly sub-structures 2		
Com_Adv → Corp_Rep	-0.915 (0.363*)	14.304 (0.000)
Size → Corp_Rep	-0.831 (0.408*)	
CR→ Corp_Rep	10.371 (0.019**)	
ROA → Corp_Rep	-0.849 (0.398*)	

Sobel Test Results

The sobel test is performed to test the indirect influence of the indep Competitive Advantage, Firm Siize and Liqudity on Financial Performance through Corporate Reputation. The table 4, indicate that financial performance only acts as a mediator in the relationship between firm size and corporate reputation, but not for competitive advantage or liquidity. This suggests that while financial strength is crucial, companies cannot solely rely on financial performance to translate competitive advantage and liquidity into a better reputation. Instead, firms may need to consider additional strategic initiatives to enhance their reputation.

Table 4. Sobel Test Results

A	Independen > Moderator Prob.	B	Mediato > Dependent Prob.	C		Desc
(Com_Adv → ROA)	0.646	(ROA → Corp_Rep)	0.3980	(Comp_Adv → Corp_Rep)	0.363	No-effect nonmediation
(SIZE → ROA)	0.033			(SIZE → Corp_Rep)	0.408	Indirect-only mediation
(CR → ROA)	0.209			(CR → Corp_Rep)	0.019	Direct-only mediation
Com_Adv → ROA → Corp_Rep			0.000*			
Size → ROA → Corp_Rep			2.370**			
CR → ROA → Corp_Rep			0.090*			

* Financial performance has not been able to mediate the relationship between competitive advantage and corporate reputation with Z-score criteria of 0.000 < 1.98.
** Financial performance is able to mediate the relationship between firm size and corporate reputation with Z-score criteria of 2,370 > 1.98.
* Financial performance has not been able to mediate the relationship between liquidity and corporate reputation with Z-score criteria of 0.090 < 1.98.

5. Discusssion

The Effect of Company Size, competitive Advantage and Liquidity on Financial performance

The study results indicate that the competitive advantage variable does not have a significant influence on financial performance. This suggests that many non-financial sector companies in Indonesia have not effectively integrated their core competitive advantage activities into financial reporting. Activities such as customer relationship management, supplier relationship management, and intensive R&D investments are not adequately disclosed in financial statements. This finding aligns with legitimacy theory, which states that companies tend to disclose information that aligns with societal expectations (Suchman, 2014). The lack of transparency regarding competitive advantage activities indicates that companies may not yet see the necessity of such disclosures in maintaining legitimacy. This result is

consistent with previous research by Kamukama et al., (2017), which found that competitive advantage does not always directly translate into financial gains. However, it contrasts with the findings of Li et al., (2006), who argue that firms leveraging their competitive advantage effectively report higher financial performance.

The research findings on firm size indicate a significant influence on financial performance. This suggests that larger asset holdings in non-financial sector companies in Indonesia contribute positively to financial performance, as higher asset values are directly proportional to greater revenue generation. This supports signal theory, which posits that larger firms disclose more financial information to signal their stability and attract investors (Connelly et al., 2011). The importance of asset size in financial performance is also consistent with previous research, such as Pattiruhu, (2020), which demonstrates that firm size positively impacts financial outcomes. The relevance of this finding is further reinforced by descriptive statistical test results, which show that the average firm size value of non-financial sector companies in Indonesia is 0.297685 with a median value of 0.317360. These findings suggest that large firms tend to perform better financially and are more likely to utilize their assets effectively to generate revenue. However, these results contradict the findings of Çağlıyan et al., (2021), who suggest that firm size alone is not a sufficient determinant of financial success.

The study results on liquidity do not indicate a significant influence on financial performance. This implies that the ability of nonfinancial sector companies in Indonesia to meet short-term obligations does not necessarily trans-late into improved financial performance. This finding aligns with previous research by Wild & Subramanyam, (2010), which suggests that liqui-dity alone does not determine financial success, as companies may prioritize other financial strategies over maintaining high liquidity levels. From the perspective of legitimacy theory, companies might maintain liquidity primarily to assure stakeholders of their financial stability rather than as a key driver of profitability (Eberl & Schwaiger, 2005). Furthermore, the current ratio is often used as a measure of financial security rather than a direct contributor to financial performance. This argument is supported by descriptive statistical test results, which show that the average liquidity value of non-financial sector companies in Indonesia is 0.245688, with a median value of 0.349. These findings indicate that while liquidity is important for risk management, it does not necessarily drive financial performance improvements in the non-financial sector. However, this conclusion contrasts with the research of Xu et al., (2015), which found that liquidity plays a critical role in enhancing corporate profitability.

Overall, these findings contribute to the ongoing discussion regarding the relationship between competitive advantage, firm size, liquidity, and financial performance. While some aspects align with previous literature, discrepancies indicate the need for further research to explore the contextual factors influencing financial performance in non-financial sector companies in Indonesia.

The Effect of Competitive Advantage, Company Size and Liquidity on Company Reputation

The results of this study indicate that the competitive advantage variable does not have a significant effect on corporate reputation. This suggests that merely possessing a competitive advantage does not necessarily translate into a strong corporate reputation. Competitive advantage is often developed by companies that are still in the process of building their reputation, as corporate reputation is not easily established. It requires a long-term commitment to product and service development, consumer trust, efficient business operations, visionary leadership, and cost-effective investments that support long-term business sustainability (Eberl & Schwaiger, 2005; Pham & Tran, 2020; Bahta et al., 2021). These findings align with legitimacy theory, which suggests that companies seek legitimacy through sustained efforts and not merely through competitive advantages. This finding is consistent with the study by Kim et al. (2021), which also found no significant impact of competitive advantage on corporate reputation. However, this contrasts with the findings of Porter & Kramer, (2006), which suggest that competitive advantage plays a crucial role in shaping corporate reputation through differentiation and strategic positioning.

Similarly, the firm size variable does not exhibit a significant influence on corporate reputation. This implies that a company's asset size is not a direct indicator of its reputation. Some companies with substantial assets may still lack a strong reputation, as reputation is built through intangible factors such as consumer trust, brand perception, and strategic initiatives. However, previous studies suggest that firm size is often

used as a benchmark for capacity and can impact profitability (Çağlıyan et al., 2021; Pattiruhu, 2020). From a legitimacy theory perspective, large firms may still need to engage in extensive signaling efforts to maintain their reputation. Descriptive statistical tests further support this finding, as the standard deviation of Firm Size for non-financial sector companies in Indonesia is 0.317, a relatively low value compared to other variables, reinforcing the notion that firm size alone is insufficient to determine corporate reputation. This result is in line with the research of Nguyen & Vo, (2020), who also found that firm size does not significantly influence corporate reputation. However, it contradicts the fin-dings of Zhang et al., (2022), which argue that larger firms tend to have stronger reputations due to greater visibility and market influence.

In contrast, the liquidity variable demonstrates a significant effect on corporate reputation. This suggests that companies with a strong reputation tend to maintain financial credibility, particularly in fulfilling obligations to creditors and stakeholders. This finding is in line with signal theory, which asserts that well-managed liquidity sends positive signals to investors and stakeholders, reinforcing trust in the company (Xu et al., 2015). A company that can manage its financial obligations effectively will likely have a better reputation, as well-structured financial statements reflect strong financial health. Descriptive statistical tests confirm this observation, as the standard deviation of Liquidity for non-financial sector companies in Indonesia is 0.349, which is relatively high compared to other variable values. This highlights the critical role of liquidity in shaping corporate reputation, as companies with better liquidity management tend to gain stronger stakeholder confidence and improve their market standing. These findings align with the research conducted by Olorunsola et al., (2022), which also emphasized the role of liquidity in strengthening corporate reputation. However, the results differ from the study by Singh et al., (2016), which found no direct relationship between liquidity and corporate reputation.

Lastly, the financial performance variable does not show a significant effect on corporate reputation. This indicates that financial performance alone is not a sufficient indicator of reputation in non-financial sector companies. Other key factors, such as brand perception, stakeholder relationships, and market presence, contribute to a company's reputation beyond its financial success. Previous studies have suggested that stock market trends often serve as better indicators of corporate reputation, as the stock market reflects public perception of a company's value and long-term sustainability. Descriptive statistical tests support this finding, showing that the standard deviation of Financial Performance for non-financial sector companies in Indonesia is 0.082, which is relatively low compared to other variables. This further supports the idea that financial performance is not the primary driver of corporate reputation, reinforcing the relevance of legitimacy theory in explaining how companies gain recognition and trust through sustained strategic efforts rather than short-term financial success. This result is consistent with the study by Archer-Brown & Kietzmann, (2018), which also found that financial performance alone is insufficient to drive corporate reputation. However, it contrasts with the findings of Zhao et al., (2019), which argue that financial performance is a strong determinant of corporate reputation in certain industries.

This study aligns with both legitimacy theory and signal theory in explaining the relationship between corporate reputation and its influencing factors. Liquidity plays a crucial role in shaping reputation, as it signals financial stability to stakeholders. However, competitive advantage, firm size, and financial performance alone are not sufficient indicators of corporate reputation. These findings highlight the need for companies to adopt long-term strategies that go beyond financial indicators to build and maintain a strong reputation.

Financial Performance Mediation: The Influence of Firm Size, Competitive Advantage and Liquidity on Firm Reputation

Based on the statistical test results financial performance does not mediate the relationship between competitive advantage and corporate reputation. This finding suggests that competitive advantage does not directly influence financial performance, nor does it indirectly impact corporate reputation. In other words, financial performance does not act as an intermediary in measuring the competitive advantage of non-financial sector companies in Indonesia with established reputations. Instead, financial performance merely reflects the company's financial health. These results align with legitimacy theory, which emphasizes that corporate reputation is built through conformity to societal expectations rather than merely financial success (Suchman, 2014).

Furthermore, this finding is consistent with previous studies that indicate that a company's competitive advantage is primarily linked to operational efficiency and market positioning rather than financial indicators (Barney, 1991; Tumwebaze et al., 2022). However, these results contrast with findings from Abdelhak et al., (2023), who argue that financial success plays a crucial role in leveraging a firm's competitive edge to enhance corporate reputation.

On the other hand, financial performance is found to mediate the relationship between firm size and corporate reputation. This is supported by a Z-score of 2.370, which exceeds the 1.98 threshold, confirming statistical significance. According to the Sobel test, this type of mediation is categorized as Indirect-only mediation. This implies that firm size directly affects financial performance but does not have an immediate impact on corporate reputation. In other words, financial performance serves as a bridge that connects firm size with reputation in non-financial sector companies in Indonesia. However, the size of assets recorded in financial statements alone is not a definitive measure of corporate reputation. This finding supports signal theory, which suggests that larger firms tend to disclose more financial information to maintain investor trust (Spence, 1973; Wickert et al., 2016). Prior research has also highlighted that larger firms are more transparent due to their need to meet public and regulatory expectations, further strengthening their reputation (Diamond & Verrecchia, 1991; Nishitani et al., 2024). Nonetheless, this conclusion diverges from the perspective of Jensen & Meckling, (1976), who argue that firm size alone is insufficient to drive corporate reputation without proper financial governance.

Furthermore, financial performance does not mediate the relationship between liquidity and corporate reputation, as indicated by the Z-score of -0.090, which is below the 1.98 threshold. The Sobel test classifies this mediation as Direct-only mediation, meaning that liquidity does not directly influence financial performance but does have an indirect effect on corporate reputation. This suggests that financial performance is not an accurate indicator of whether a non-financial sector company in Indonesia can meet its short-term debt obligations. Moreover, financial performance alone cannot serve as a definitive measure of a company’s reputation. However, reputable companies tend to maintain trust and confidence among their customers, particularly by ensuring timely payment of short-term liabilities. This finding reinforces legitimacy theory, which argues that companies build reputations through responsible financial practices that align with stakeholder expectations (Newburry et al., 2019). Prior studies have also indicated that liquidity management plays a key role in sustaining corporate reputation, as firms that consistently fulfill financial obligations are perceived as more trustworthy (Roy & Karna, 2015). However, these findings contrast with those of Holmström Olsson & Bosch, (2017), who suggest that liquidity serves as a crucial determinant of financial strength and, subsequently, corporate reputation.

In conclusion, these findings contribute to a deeper understanding of how financial performance interacts with competitive advantage, firm size, and liquidity in shaping corporate reputation. While financial performance plays a mediating role in the relationship between firm size and reputation, it does not serve the same function in the case of competitive advantage and liquidity. This suggests that companies seeking to enhance their reputations should focus on broader strategic initiatives beyond financial performance alone, such as operational efficiency, transparency, and stakeholder engagement. These insights align with both legitimacy theory and signal theory while also supporting prior empirical findings on corporate reputation determinants.

6. Conclusion and Suggestion

Conclusion

This study found that competitive advantage has no effect on financial performance or corporate reputation. Firm size positively affects financial performance. However, firm size does not directly affect corporate reputation. Liquidity affects corporate reputation but does not directly improve financial performance. The implication of this research is that firms should focus on improving financial transparency by integrating competitive advantage activities into financial statements. In addition, firms should manage liquidity effectively as a signal of financial stability, which increases trust and credibility among investors and stakeholders.

Suggestion

For further research, business strategy factors can be added. Research can differentiate between companies with offensive or defensive business strategies.

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