

The Essentiality of Corporate Reputation on Firm Performance

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Abstract—Corporate reputation becomes more important for the investor to make the decision. Reputations reflect to the company's image from the perception and the information from the annual report. The study aims to examine the relationship of corporate reputation on firm performance. Bond rating is one proxy of corporate reputation. Company performance proxied by Tobin's Q and Return on Asset (ROA). This research use sample population from 396 observations on listed companies in the Indonesian Stock Exchange. The data has been taken from the period 2007 to 2017 on finance companies and non-finance companies. Method analysis for panel data used regression with STATA program to test the estimate pool least squares (PLS), the Fixed Effect Model (FE), and The Random Effect Model (RE). The finding results are shown that corporate reputation has a positive correlation on Tobin's Q and ROA as proxies of firm performance.

Keywords—Firm Performance, Tobin's Q, Return on Asset (ROA), Corporate Reputation

I. INTRODUCTION

The business competition encourages every company to create a good image to present to outsiders. One of the efforts to expand the business requires sufficient funds; thus, it will be easy to expand and get more profits. Companies need supporting fund resources from external funding. The investor will be interesting for investments depend on the company's image. The company's reputation is a reflection of the sustainability of a business. A good reputation can attract other parties to be able to invest so that the sustainability of the company will be more advanced and developed. Reputation is as part of the resources of the company as included intangible assets as the value driver on firm performance [12]. A prior study found that the companies have good reputation has a significant impact on increasing firm performance [9]. Therefore, the company's reputation

is the big issue for the external parties on decision making.

II. LITERATURE REVIEWS

Signaling theory refers to the company information to the external parties with the condition of the firm [17]. Corporate reputation tends to be the reflection of credibility and the quality of the company [8]. Stakeholders make the company's reputation as an asset [2]. It is also described as the evaluation from the social environment [5]. A good image of the company could determine from the perception of stakeholders [13]. The good information of the company from stakeholders has a significant impact on company performance ([6], [10]). The company perception and the actual condition of the firm are the elements of corporate [16]. Perception refers to the information which stakeholders perceive. Meanwhile, the reality includes the procedure and system used by the firm, policies, and the annual reporting of the firm.

Reputation becomes an evaluation for stakeholders in determining investment [8]. One of the strategies to maintaining the asset of the firm is making good of a reputation. Moreover, a good reputation as enhances the goodwill. A company that has a good reputation has a positive correlation to increase firm performance [22]. Moreover, corporate reputation has a significant impact to influence on superior earnings quality [18]. Black et al. argued that corporate reputation has a positive impact in the market value in the capital market [19]. A good firm reputation creates an increasing company performance [9].

III. RESEARCH METHOD

This research to analyze the relationship of corporate reputation and firm performance has listed in the Indonesian Stock Exchange. The data used 36 companies from the period 2007 – 2017, and the total

observation was 396. The data analysis used STATA program.

Dependent variable as measured by Tobin's Q and Return on Asset (ROA). Tobin's Q measurement is (Equity market value + Liabilities book value)/(Equity book value + Liabilities book value). Meanwhile, ROA measure is Earnings/assets. Control variables in this research use Industry sector and size. Industry sector measures are: 1 is non-finance company and 0 is finance company. Size is measure by Total asset. The Independent variable in this research used PEFINDO rating as presented in table 1.

TABLE I. THE PEFINDO RATING

Symbol	Rating	Symbol	Rating
AAA	1	B+	14
AA+	2	B	15
AA	3	B-	16
AA-	4	CCC+	17
A+	5	CCC	18
A	6	CCC-	19
A-	7	CC+	20
BBB+	8	CC	21
BBB	9	CC-	22
BBB-	10	C+	23
BB+	11	C	24
BB	12	C-	25
BB-	13	Default	26

^a. Source: The data for both the dependent and independent variables were obtained from ISE

Table II presents the summary statistics of the variables used in the regression analysis.

TABLE II. SUMMARY STATISTIC OF DEPENDENT VARIABLE AND INDEPENDENT VARIABLES

Variables	Mean	Min	Max	Std. Dev.
Tobin's Q	3.007669	.0035	19.6208	3.145833
ROA	.0661992	-.02	.3452	.0844943
BDR	20.34091	1	26	4.985797
SIZE	3.872566	2.4297	5.4592	.7346763
IND	0.6111111	0	1	.4881147

^b. Note: The table presents the summary statistics of the variables used in the regression analysis

This research the econometric model to test the relationship between firm performance and bond rating as provided below:

$$FP_t = \alpha + BDR_{it} + \beta_{11}SIZE_{it} + \beta_{12}IND_{it} + U_{it}$$

Where FP refers to a measure proxy by Tobin's Q; BDR is represented by bond rating SIZE refers to the firm size by total asset of the firm; and IND is the industry sector, categorized as Finance and non-Finance Company. Lastly, U refers to the term error.

IV. FINDING RESULTS

4.1 Pooled Least Square

The Pooled Least Square estimation for the regression results focuses on the relationship between bond rating and firm performance, as presented in Table 3. The model performs reasonably inappropriately when the p-value (Prob.> F) < Alpha 0.05, which indicates the Pooled Least Square model should be rejected. Therefore, the appropriate model to use is the fixed effect model or random-effect model.

TABLE III. POOLED LEAST SQUARE ESTIMATION FOR BOND RATING AND TOBIN'S Q

Variable	Coefficient	Std. Dev.	t-test Statistics	Probability
BDR	-.2392812	.0317557	-7.54	0.000
SIZE	-.8918756	.217568	-4.10	0.000
IND	-2730752	.291203	-9.38	0.000
Cons Observation	12.99751	.8681374	14.97	0.000

R-Square = 0.2991

F-Statistic = 55.77

Prob. (F-Statistic) = 0.000

Based on Table III, bond rating (BDR) has the coefficient -.2392812 and a significant relationship with Tobin's Q. Meanwhile, firm size as the control variable has the coefficients of -.8918756, and the industry sector has the coefficients of -2730752. However, in spite of the rejection of the Pooled Least Square model the fixed effect estimator was found to be useful as an estimator of the coefficient in the regression model.

TABLE IV. POOLED LEAST SQUARE ESTIMATION FOR BOND RATING AND ROA

Variable	Coefficient	Std. Dev.	t-test Statistics	Probability
BDR	-.0023894	.0009938	-2.40	0.000
SIZE	-.0072975	.0068087	1.07	0.000

Variable	Coefficient	Std. Dev.	t-test Statistics	Probability
IND	-.0285195	.0091131	3.13	0.000
Cons Observation	.0691131	.0271681	0.011	0.000

R-Square = 0.0412991
 F-Statistic = 6.66
 Prob. (F-Statistic) = 0.000

Based on Table IV, the bond rating has the coefficient -.0023894 and significantly impacts return on asset (ROA) relationship with Tobin's Q. Meanwhile, firm size as the control variable has the coefficients of -.0072975 and industry sector has the coefficients of -.0285195. However, in spite of the rejection of the Pooled Least Square model the fixed effect estimator was found to be useful as an estimator of the coefficient in the regression model.

4.2 Fixed Effect Model

TABLE V. BOND RATING AND FIRM PERFORMANCE (TOBIN'S Q), FIXED EFFECT MODEL

Variable	Coefficient	Std. Dev.	t-test Statistics	Probability
BDR	-.290099	.045215	-6.42	0.000
SIZE	-2.090986	.2616643	-7.99	0.000
IND	0	.(omitted)		0.000
Cons Observation	17.00603	.1185329	14.35	0.000

R-Square = 0.2811
 F-Statistic = 70.01
 Prob. (F-Statistic) = 0.000

According to Table V, the results show bond rating has a coefficient of -.290099 and has a significant correlation with Tobin's Q. The control variable firm size has a coefficient of -2.090986 and a significant relationship with Tobin's Q. However, the industry sector was omitted.

TABLE VI. BOND RATING AND FIRM PERFORMANCE (ROA), FIXED EFFECT MODEL

Variable	Coefficient	Std. Dev.	t-test Statistics	Probability
BDR	-.0099091	.0011623	-8.53	0.000
SIZE	-.0281371	.0067261	-4.18	0.000
IND	0	.(omitted)		0.000
Cons Observation	1587965	.0304689	5.21	0.000

R-Square = 0.0227
 F-Statistic = 38.53
 Prob. (F-Statistic) = 0.000

Based on Table VI, the results of bond rating has a coefficient of -.0099091. The relationship between bond rating and ROA has positive, with a p-value is 0.000. Firm size has a coefficient of -.0281371 and a significant relationship with ROA. On the other hand, the industry sector was omitted.

4.3 Random Effect Model

TABLE VII. BOND RATING AND FIRM PERFORMANCE (TOBIN'S Q), RANDOM EFFECT MODEL

Variable	Coefficient	Std. Dev.	t-test Statistics	Probability
BDR	-.2700195	.045215	-6.42	0.000
SIZE	-1.896657	.2616643	-7.99	0.000
IND	-3.308041	.8308842		0.000
Cons Observation	17.86662	.1321007	13.53	0.000

R-Square = 0.2811
 F-Statistic = 142.25
 Prob. (F-Statistic) = 0.000

Referring to Table VII, the bond rating has a coefficient of -.2700195 and has correlation on Tobin's Q. The control variables have a coefficient of -1.896657 for firm size, and -3.308041 refers to the coefficient by sector industry. Both of them have a positive relationship on firm performance measured by Tobin's Q.

According to the results in Table V and Table VI, to determine the appropriate model for the panel data regression used the Hausman test. Based on Table IX, test the determinant of correlation has results of the null hypothesis indicate the model fixed effect is more appropriate.

TABLE VIII. BOND RATING AND FIRM PERFORMANCE (ROA), RANDOM EFFECT MODEL

Variable	Coefficient	Std. Dev.	t-test Statistics	Probability
BDR	-.008969	.0042444	-2.11	0.035
SIZE	.026982	.0102215	2.64	0.008
IND	.08183473	.0277178	0.66	0.503
Cons Observation	1329353	.0758019	1.75	0.079

R-Square = 0.0327
 F-Statistic = 43.4
 Prob. (F-Statistic) = 0.0206

According to Table VIII, the bond rating has a coefficient of -.008969 and has a correlation on ROA. The control variables have a coefficient of .026982 for firm size has a positive correlation on return on asset as proxy performance. On the other hand, the

coefficient of .08183473 for sector industry has no significant impact on ROA

According to the results in Table V and Table VI, to determine the appropriate model for the panel data regression used the Hausman test. Based on the Table X test, the determinant of correlation has results of the null hypothesis indicate the model fixed effect is more appropriate.

4.4 Post Estimate Test

Using the Hausman test, the random-effects model was compared to the fixed effects models, the results of which are shown in Table IX. Results indicate that the fixed effects model was inconsistent compared to the random effect model.

TABLE IX. HAUSMAN TEST OF THE REGRESSION MODEL (TOBIN'S Q)

Variable	Coefficients		Difference (b-B)	sqrt (diag(V_b-V_B))
	b (fixed)	B (random)		
BDR	-.290099	-.2700195	-0.200795	.0185313
SIZE	-2.029605	-1.896657	-1943287	.0874587

Notes: b = consistent under Ho and Ha; obtained from xtreg

B = inconsistent under Ha, efficient under Ho; obtained from xtreg

Test: Ho: difference in coefficients not systematic
 $\chi^2(11) = (b-B)'[(V_b-V_B)^{-1}](b-B) = 6.07$
 $Prob>\chi^2 = 0.0480$

As shown in Table IX, the Hausman test results on regression have a Prob > chi2 resulting in 0.0480. This means that the Prob. < chi2 is small than 0.05 or 5 percent. Therefore, it appears that the fixed model is a more appropriate comparison to the random effect model.

TABLE X. HAUSMAN TEST OF THE REGRESSION MODEL (ROA)

Variable	Coefficients		Difference (b-B)	sqrt (diag(V_b-V_B))
	b (fixed)	B (random)		
BDR	-.0099091	-.2700195	-2601104	.
SIZE	.0281371	-1.896657	1.924794	.

Notes: b = consistent under Ho and Ha; obtained from xtreg

B = inconsistent under Ha, efficient under Ho; obtained from xtreg

Test: Ho: difference in coefficients not systematic
 $\chi^2(11) = (b-B)'[(V_b-V_B)^{-1}](b-B) = -142.44$

As shown in Table X, the Hausman test results on regression have a Prob < chi2 resulting in 142.44.

This means that the Prob > chi2 is large than 0.05 or 5 percent. Therefore, it appears that the random effect model is more appropriate.

4.5 Discussion of Findings

According to table XII and XIII the result of this research, the relationship of bond rating as a proxy of corporate reputation has a positive impact on the performance use measure of Tobin's Q and ROA. This implies that the company has good reputation could manage resources such as human resources on monitoring all activities. Controlling the financial reporting of a firm creates the efficiency of cost has leading to increase profitability. This indicates that good management encourages a good reputation as the results make the investor confident. Thus, it is essential for companies to improve the quality of reputation. These results are consistent with signaling theory that the information accurate and reliable from the firm creates a positive image as the signal for the investor trust. Moreover, support the prior study that company could maintain the reputation would possibility increasing the firm value by corporate market value [20]. Moreover, corporate reputation as part of intangible assets has a positive correlation on market share, which has a significant impact on increasing the earning of the firm in the future [7]. Furthermore, the company has well of quality management due to influence by the corporate reputation [21]. This implies that corporate reputation creates a good perception of management have working on the system and being more productive. Corporate reputation has a significant impact on increasing earning quality and total sales [18]. Moreover, the evidence in UK and US companies firm reputation as the same value with the price of the product [4]. Company has good corporate create increasing company performance [9]. The organization has a good reputation will be attracting the customer leading to increase profitability [11]. Good company reputations become more trusted from stakeholders as the results could motivate the employee more productive to improve firm value [15]. Furthermore, the bond rating indicates the information of quality and marketability of the firm on decision-making for investors [1]. The bond rating is crucial information for the investors to make the decision [3].

V. CONCLUSION

The crucial of information about the financial report and non-financial report of the firm as reflect of reputation. Therefore, the corporate reputation is needed for the investor to make the decision. Moreover, a good reputation is one of the elements to improving firm performance. Thus, companies should be maintain a good image as the results increase the

profitability due to make the investor confident. The finding results are consistent with signaling theory. The relationship between bond rating and firm performance has a positive correlation by Tobin's Q and ROA measure.

ACKNOWLEDGMENT

This research was funded by DIPA Politeknik Negeri Samarinda. The authors would like to thank the management of Politeknik Negeri Samarinda for funding this research.

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