# The Impact of Corporate Reputation on Firm Value Moderated by Corporate Social Responsibility and Capital Structure

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**Abstract.** This study aims analyze corporate reputation on firm value with moderating role of corporate social responsibility (CSR) and capital structure. This study uses a quantitative approach, using a sample of non-financial companies listed on the Indonesia Stock Exchange (IDX) during the 2020-2023 period. The sample using a purposive sampling method based on specific criteria as many as 600 companies. The data analysis technique used was panel data regression analysis with a Moderated Multiple Regression (MMR) model. The results of this study indicate corporate reputation has a significant positive influence on firm value. CSR has been shown to moderate the influence of corporate reputation on firm value. Capital structure also moderates the influence of corporate reputation on firm value. The results of this study are expected to provide new insights for managers and investors regarding the importance of strategically managing a company's reputation, as well as decisions related to CSR and capital structure can optimize the creation of corporate value.

**Keywords:** Corporate Reputation, Corporate Value, Corporate Social Responsibility (CSR), Capital Structure.

## 1. Introduction

Enterprise value is the primary measure of success sought by every business, reflecting the market's view of its current performance and future potential. Increasing this value not only benefits shareholders but also demonstrates a company's ability to manage assets and create a sustainable competitive advantage. In today's increasingly complex and competitive business environment, factors beyond financials-particularly a company's reputation-now play a crucial role in determining a company's value. [1]. A strong reputation can foster stakeholder trust, attract investment, and strengthen customer loyalty, which in turn will drive a company's financial performance and market value.

The relationship between reputation and corporate value is often complex and influenced by external factors. One important factor currently under scrutiny is Corporate Social Responsibility (CSR). In the modern era, there are increasing demands from various parties (consumers, investors, and the public) for companies to focus not only on profit but also actively engage in social and environmental issues. Active involvement in CSR will make a company perceived as more responsible and ethical, ultimately significantly improving its public reputation. [2]. Latest research [3] suggests that authentic and strategically integrated CSR practices can significantly strengthen the impact of reputation on long-term financial performance, including firm value. Therefore, this study argues that CSR has the potential to

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moderate the relationship between corporate reputation and corporate value, where companies with a good reputation that also have a high CSR commitment will be able to create more optimal value.

Besides CSR, capital structure is a crucial foundation for determining a company's financial policies and also influences its value. The chosen ratio of debt to equity determines the cost of capital, the level of financial risk, and the extent to which the company has investment flexibility. [4]. An optimal capital structure seeks to minimize the cost of capital and increase firm value. The interaction of capital structure and reputation in shaping firm value is an interesting area of study. For example, companies with a high reputation may have easier and cheaper access to external financing, allowing them to better optimize their capital structure. A study [5] found that a high corporate reputation can reduce information asymmetry and agency costs, thus enabling the company to utilize debt more efficiently and increase firm value, especially when supported by a healthy capital structure. Conversely, an inefficient capital structure, such as too much debt or too little equity, may hinder the ability of a company's reputation to fully translate into value.

The complex interactions between reputation, CSR, and capital structure on firm value make this study highly significant. By analyzing the moderating role of CSR and capital structure, this research is expected to broaden our understanding of firm value formation and be relevant to both practitioners and academics. Previous research often examines reputation or CSR separately, or has never combined the three within an integrated moderation framework, particularly in emerging markets like Indonesia. Therefore, this study seeks to fill this gap in the literature by providing valuable empirical evidence.

## 2. Theoretical Framework

### 2.1 Agency Theory

Agency theory explains that conflicts of interest (agency costs) can arise between principals (shareholders) and agents (management). Managers may have different goals than shareholders, such as maximizing personal gain rather than firm value. Capital structure can affect these agency costs; for example, debt can mitigate agency problems by limiting the amount of discretionary funds available to management. [6]

### 2.2 Firm Value

Firm value is a central concept in corporate finance, reflecting the market's perception of a company's prospects and ability to generate wealth for its shareholders. Broadly speaking, firm value theory focuses on how a company's strategic, operational, and financial decisions can influence investor perceptions, which are ultimately reflected in the company's stock price. [4]

### 2.3 A company's reputation

A company's reputation is a valuable intangible asset that can significantly impact an organization's sustainability and success. A strong and positive reputation is built on the collective perceptions of various stakeholders, including customers, investors, employees, suppliers, and the wider community, regarding how the company operates and behaves. [5]

**2.4 Corporate Social Responsibility**

Corporate Social Responsibility (CSR) is a management concept in which companies integrate social and environmental concerns into their business operations and interactions with stakeholders. Morethan just legal compliance, CSR is a voluntary commitment by companies to contribute to sustainable development by having a positive impact on society and the environment, while taking into account their economic interests.

**2.5 Capital Structure**

Capital structure refers to the mix or proportion of various long-term funding sources a company uses to finance its assets and operations. These primary funding sources typically consist of debt and equity. Capital structure decisions are among the most crucial in financial management because they can affect a company's cost of capital, financial risk, and ultimately, its value. [4]

## 3. Research Methods

The population in this study includes non-financial companies listed on the Indonesia stock Exchange during the 2020-2023 period. Data collection via the websites www.idx.co.id and https//emiten.kontan.co.id. [7] The sample is part of the total number of characteristics possessed by the population. In this research, the sample was selected using a purposive sampling method to ensure representativeness in accordance with predetermined criteria.

The criteria used as research samples are:

a. Non-financial companies listed on the Indonesia Stock Exchange (BEI)
b. Companies that do report financial reports in the 2020-2023 period
c. Companies that do use the Rupiah currency

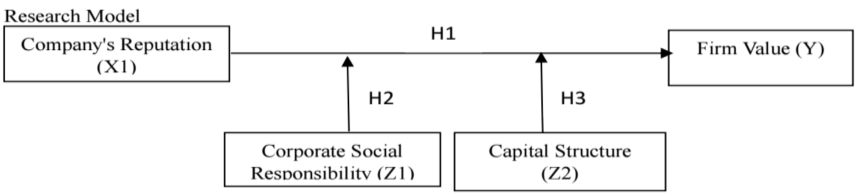


**Fig. 1.** Research Model

Variable Measurement
Dependent Variable (Firm Value)
Firm value proxy using Tobin's Q.

$$Tobin's\ Q = \frac{Equity\ Market\ Value + Book\ Value\ of\ Debt}{Book\ Value\ of\ Total\ Assets}$$

**3.1 Independent Variable (A company's reputation)**

Corporate reputation proxy using Fortune's "World's Most Admired Companies" (WMAC). The rankings are based on a survey of executives, directors, and financial analysts who were asked to rate other companies in their industry on nine attributes, including innovation, management quality, long-term investment value, social responsibility, human resource management, product/service quality, financial health, use of corporate assets, and global competitivenes

### 3.2 Moderation Variable

a. Corporate Social Responsibility
   CSR proxies using the Global Reporting Initiative (GRI), namely GRI G4) provide a detailed list of economic, environmental and social performance indicators.
b. Capital Structure

$$DER = \frac{Total\ Liabilities}{Total\ Assets}$$

### 3.3 Data Analysis Techniques

Descriptive Statistical Analysis
Descriptive analysis is used to analyze data by describing or illustrating the data that has been collected as it is without intending to make general conclusions or generalizations (7).
Classical Assumption Test
To test classical assumptions, this research uses the normality test, multicollinearity test, heteroscedasticity test, and correlation test.

### 3.4 Hypothesis Testing

a. F Test (Simultaneous Significance Test)
Purpose: To test whether all independent variables simultaneously or together have a significant effect on the dependent variable.
Steps:
Determine the hypothesis:

$H_0$: All regression coefficients ($\beta_1$, $\beta_2$, ..., $\beta n$) = 0 (no significant effect simultaneously). $H_1$: At least one regression coefficient $\neq 0$ (there is a significant effect simultaneously).

b. t Test (Partial)
The t test was carried out to see the partial influence of each independent variable on the dependent variable with the following conditions.

1) IfthePvalue<0.05, Hoisrejected, theindependent variablehas asignificant effect onthe dependent variable.
2) 2) If the P value is > 0.05, Ho is acceptable, the independent variable has no significant effect on the dependent variable.

c. Coefficient of Determination ($R^2$)
The Coefficient of Determination is an indicator that can show the ability of the independent variable to explain changes in the dependent variable. The R2 value is zero to 1 (0-1). If the coefficient of determination value is close to zero (0), then there is a very small or limited ability of the independent variable to explain the dependent variable. On the other hand, if the coefficient of determination value is close to 1 (one), then there is the ability of the independent variable to provide almost all the information needed to interpret the dependent variable

d. Mediation Test (Sobel Test)

Testing the mediation hypothesis can be carried out using a procedure developed by Sobel and is known as the Sobel test. The Sobel test is carried out by testing the strength of the indirect influence of X on Y via Z. The Sobel test formula is as follows:

$$Sab = \sqrt{b^2sa^2 + a^2sb^2} + sa^2sb^2$$

Sab : the size of the standard error of indirect influence

a : path of variable X with variable Z

b : path of variable Z with variable Y sa : standard error coefficient a

sb : standard error coefficient b

To test the significance of the indirect effect, it is necessary to calculate the t value of the ab coefficient using the following formula:

$$T = \frac{ab}{sab}$$

This calculated t value is compared with the t table value, if t calculated > t table value then it can be concluded that there is a mediation effect.

## 4. Results and Discussion

Population of infrastructure and property companies listed on the Indonesia Stock Exchange during the 2017-2023 period

**Table 1.** Sampling Criteria

| Information | Amount |
|---|---|
| Sample Criteria: | |
| 1. Non-financial Company for the 2020-2023 | 784 |
| 2. Companies that do the report financial report in 2020-2023 | 175 |
| 3. Companies that do use the rupiah currency | 150 |
| Sample | 150 |
| Sample Total (150 x 4) | 600 |

Source: Processed Data, 2024

**Table 2.** Coefficients

| Model | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|---|---|---|---|---|---|
| | B | Std. Error | Beta | | |
| (Constant) | 3260 | 3,547 | | 0,631 | 0,324 |
| Company's Reputation | 1,508 | 5,632 | 0,032 | 0,436 | **0,031** |
| CR_FV_CSR | 2,204 | 4,218 | 0,214 | 1,532 | **0,045** |
| CR_FV_CS | 1,312 | 3,231 | 0,421 | 2,346 | **0,033** |

### 4.1 The Influence of Company's Reputation on Firm Value

Based on data analysis, a sig value of 0,031 was obtained with a coefficient value of 1,508, meaning that company reputation has an effect on company value. This is in accordance with Signaling Theory, which explains how one party (company) can send signals to other parties (investors, customers) about quality characteristics that cannot be observed directly, especially in conditions of information asymmetry. A company's reputation acts as a strong signal regarding product/service quality, management integrity, financial stability, and future prospects. A good reputation reduces uncertainty for investors, reassuring them of the prospect of lower-risk, higher-return investments, thus encouraging them to assign higher valuations. According to the journal [8] which says that company reputation has a positive influence on company value.

#### 4.2 Company reputation has an effect on company value with CRS as a moderator

Based on the results of data analysis, a sig value of 0.045 was obtained with a coefficient of 2.204, which means that company reputation has an effect on company value with CRS as a moderator. Corporate reputation has a significant positive effect on firm value, and this effect is even stronger and more positive when the company also practices good Corporate Social Responsibility (CSR). CSR acts as a moderating variable, strengthening this relationship. According to signal theory which explains how companies can send information (signals) to the market to reduce information asymmetry and uncertainty. according to research [9] CSR can moderate the influence of corporate reputation on corporate value.

#### 4.3 Capital structure moderates the influence of corporate reputation on corporate value

Based on the data analysis, a significant value of 0.033 with a coefficient of 1.312 was obtained. It can be concluded that Capital structure moderates the effect of corporate reputation on firm value. According to signaling theory, Corporate reputation serves as a signal of quality and credibility to the market. A strong corporate reputation can amplify the positive signal of a particular capital structure. For example, a reputable company taking on debt for a growth investment project may be viewed very positively by the market, as its reputation reduces the perceived risk inherent in that debt. The market will interpret this signal as a sign of strong management confidence, which in turn increases the firm's value. Without a strong reputation, the debt signal may not be received as positively. According to [8] this Capital structure moderates the effect of corporate reputation on firm value.

## 5. Conclusions, Implications and Limitations

### 5.1 Conclusion

The conclusions of this research are:

a. Company reputation has a positive influence on company value
b. CSR can moderate the influence of corporate reputation on corporate value.
c. Capital structure moderates the effect of corporate reputation on firm value.

#### 5.2 Implication

The implication of this research is that financial managers can no longer view capital structure solely from the perspective of the cost of debt and equity. They need to consider how a company's reputation affects its ability to use debt effectively.

Companies with excellent reputations may be able to take on higher levels of debt and still be valued positively by the market, as their reputations reduce creditor and investor concerns about risk. Conversely, companies with less established or negative reputations may need to be more conservative in their use of debt.

### 5.3 Limitations

The limitation of this research is that it only focuses on non-financial companies, so it is hoped that future research will be conducted on all companies listed on the IDX.

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