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THE ROLE OF COMPANY REPUTATION AS A MODERATING VARIABLE IN THE RELATIONSHIP BETWEEN CSR AND FIRM PERFORMANCE

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ABSTRACT

Purpose: This study focuses on whether the company's reputation moderates the role of CSR in improving financial performance.

Method/Design/Approach: This research was conducted on companies that follow the Corporate Image Index (CII) 2015-2019 and are listed on the Indonesian Stock Exchange. A company's CII score indicates its reputation level. A total of 180 observations met the research sample criteria.

Results and Conclusion: The results indicate that CSR has no direct relationship with good financial performance. However, reputation has a positive effect on financial performance. It has been proven that the more reputable a company is, the stronger its appeal to improve financial performance. Interestingly, when CSR is moderated by reputation, it shows a positive relationship with financial performance.

Research Implications: These results contribute to fixing previous findings by confirming the role of a firm's reputation in the association between CSR and firm performance. Therefore, ignoring a firm's reputation will mislead the conclusion of the benefits of CSR.

Keywords: CSR, ESG, Firm's Reputation, Financial Performance, Corporate linage Index.

OPAPEL DA REPUTACAO DA EMPRESA COMO UMA VARI~VEL MODERADORA NA RELA~AO ENTRE CSR E DESEMPENHO FIRME

RESUMO

Objetivo: O presente estudo centra-se na quest~o de saber se a reputa~~o da empresa modera o papel da RSE na melhoria do desempenho financeiro.

M~todo/Design/Abordagem: Esta pesquisa foi realizada em empresas que seguem o Indice de Imagem Corporativa (CII) 2015-2019 e est~o listadas na Bolsa de Valores da Indon~sia. A pontua~~o de CII de uma empresa indica seu nivel de reputa~~o. Um total de 180 observacoes atendeu aos crit~rios da amostra de pesquisa.

Resultados e Conclusao: Os resultados indicam que a RSE n~o tem rela~~o direta com o bom desempenho financeiro. Contudo, a reputac~o tem um efeito positivo no desempenho financeiro. Ficou provado que quanto mais respeit~vel uma empresa ~, mais forte ~ o seu apelo para melhorar o desempenho financeiro. Curiosamente, quando a RSE ~ moderada pela reputac~o, mostra uma relac~o positiva com o desempenho financeiro.

Implicacoes da pesquisa: Esses resultados contribuem para corrigir descobertas anteriores, confirmando o papel da reputa~~o de uma empresa na associa~~o entre a RSE e o desempenho da empresa. Por conseguinte, ignorar a reputacao de uma empresa induzir~ em erro a conclusao dos beneficios da RSE.

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Palavras-chave: CSR, ESG, Reputa~~o da Empresa, Desempenho Financeiro, Indice de Imagem Corporativa.

EL PAPEL DE LA REPUTACI~N DE LA EMPRESA COMO VARIABLE MODERADORA EN LA RELACION ENTRE LA RSE Y EL RENDIMIENTO DE LA EMPRESA

RESUMEN

Objetivo: Este estudio se centra en si la reputaci6n de la empresa modera el papel de la RSE en la mejora de! rendimiento financiero.

M~todo/Diseo/Enfoque: Esta encuesta se llev~ a cabo en empresas que siguen el Indice de Imagen Corporativa (CII) 2015-2019 y cotizan en la Bolsa de Valores de Indonesia. La puntuaci~n CII de una empresa indica su nivel de reputaci6n. Un total de 180 observaciones cumplieron con los criterios de la muestra de investigaci6n.

Resultados y Conclusion: Los resultados indican que la RSE no tiene relacion directa con un buen desempelo financiero. Sin embargo, la reputacion tiene un efecto positivo en el rendimiento financiero. Se ha demostrado que cuanto mas respetable es una empresa, m~s fuerte es su llamado a mejorar el desempeo financiero. Curiosamente, cuando la RSE est~ moderada por la reputacion, muestra una relaci~n positiva con el desempeo financiero.

Implicaciones de la investigacion: Estos resultados contribuyen a corregir hallazgos anteriores al confirmar el papel de la reputaci6n de una empresa en la asociacion entre la RSE y el rendimiento de la empresa. Por lo tanto, ignorar la reputacion de una empresa llevar~ a una conclusion erronea sobre los beneficios de la RSE.

Palabras clave: RSE, ASG, Reputacion de la Empresa, Rendimiento Financiero, Indice de Imagen Corporativa.

1 INTRODUCTION

Some reasons that encourage companies to convey CSR information are to satisfy a sense of "social contract," to increase the company's legitimacy and to augment the company's performance (Pham & Tran, 2020). The Global Reporting Initiative added that, currently, thousands of organizations in the world deliver social responsibility. KPMG's research (2014) showed that about 80% of the 250 largest companies in the world had reported social responsibility, an increase of about 50% in 2015. In 2016, the KPMG International Survey stated that 95% of the 250 largest global companies in 34 countries reported CSR activities. In each of the 34 countries, CSR earned the top 100 companies. A total of 395 companies worldwide have done this; 86% of the 395 companies provide complex details in their CSR reports, such as location, the timing of implementation, person in charge of activities, types of CSR activities carried out, nominal funds channeled through CSR activities, recipients of CSR funds, and evaluation of CSR programs (Pham & Tran, 2020). This is a response to the demand for companies to be more transparent in their treatment of economic, social, and environmental activities. Social responsibility has a substantial impact on a company's performance. Business leaders and much academic literature acknowledge that this report also benefits the company (Riyadh et al.,2019).

On the other hand, so far, the results of research on the relationship between CSR on financial performance are still mixed. Several studies have found that CSR disclosure affects finn value (Pham & Tran, 2020; Nainggolan & Handoyo, 2019; Agyemang & Ansong, 2017; Angelia & Suryaningsih, 2015). Meanwhile, Crisostomo, Freire, and Vasconcellos (2011) studied 78 non-financial companies listed on the Brazilian stock market from 2001 to 2006 and found that CSR disclosure has no relationship with firm performance, which is in line with the research results of Buallay et al. (2020). However, other studies have shown the opposite result, where CSR negatively affects financial perfonnance (Nguyen & Nguyen, 2021; Nollet et al., 2016).

Company reputation is one of the most important intangible assets that steers company performance (Chun, 2005; Fisher-Buttinger & Vallaster, 2011; Gibson et al., 2006). Company reputation is the accumulation of consumer opinions, perceptions, and attitudes toward a company (Fombrun et al., 2000; Hatch & Schultz, 2001). In addition, a company's reputation is influenced by the relative perspective of the individual; therefore, company reputation is closely related to the independent evaluation of stakeholders about the company. In particular, companies are keen to publish their social balance sheets to demonstrate to society how responsibly they conduct their business (Cardoso, 2023)

Companies that can improve and develop their reputations will gain greater stakeholder trust. Stakeholder support is essential for the sustainability and perfonnance of a company in the future (Brammer & Pavelin, 2006). A strong reputation reduces transaction costs and offers benefits related to company performance (Galbreath, 2012). In addition, corporate reputation increases firm performance because of its well-developed reputation, which makes it easier for companies to conduct external financing (Hong et al., 2012). Successful financing activities allow the company to obtain sufficient funds for operational and expansion activities to increase finn perfonnance increases (Saeidi et al., 2015). The role of reputation is significant; a reputable company is more trusted when taking actions that embrace social and environmental responsibility than a company with a poor reputation. Therefore, this study includes reputation as a moderating variable in the relationship model between CSR and financial performance to fill the gap in previous results that have yet to show an established relationship.

This research is necessary because (1) CSR is often seen as the emergence of new obligations that have an impact on increasing costs, and very few companies in Indonesia accept that CSR is a strategic activity that has an impact on financial performance in the future (Waagstein, 2011; Juniarti, 2021). Therefore, a solid empirical study is needed to provide a positive impetus for the implementation of CSR in Indonesia. (2) Company reputation is an essential factor that needs to be considered to explain the relationship between CSR and performance; thus far, this aspect of reputation has yet to be a concern of previous studies. Therefore, reputation will better explains the relationship between CSR and financial performance.

The next section of this article contains the theoretical basis and hypothesis development, research methods, analysis, discussion, and a summary of the research results, which can be seen from the conclusions. Finally, suggestions and research opportunities are the final part of this study.

2 THEORETICAL FRAMEWORK

2.1. CSR AND FINANCIAL PERFORMANCE

The key to achieving sustainability is public acceptance and company presence. In addition, a sustainable business ensures that all processes and operational activities consider the impact of its activities on the environment (Agyemang & Ansong, 2017). In other words, making decisions based solely on financial performance is less relevant. Instead, companies must consider how their social and environmental performance (Nainggolan & Handoyo, 2019).

A company's interest in integrating social issues to ensure sustainable development is the basis of the importance of corporate social responsibility (Diez & Sotorrio, 2018). This is based on the belief that companies produce better assessments by implementing CSR activities. Thus, in the long run, companies can increase their perfonnance. According to Ho et al. (2019). companies use many resources to deal with social problems to effectively convey CSR infonnation to stakeholders. Thus, the challenges companies face are not only when they try to meet stakeholder expectations regarding products, services, and company behaviour; disclosing the information is also one of the challenges facing the company. The more information the company discloses, the more it will impact investor confidence (Nguyen & Nguyen, 2021).

Companies demonstrate their values and behaviour to stakeholders by carrying out CSR activities (Brin & Nehme, 2019). Based on stakeholder theory, CSR is a way for companies to communicate with stakeholders (Axjonow et al., 2016). This is important to obtain support from stakeholders to continue the company's operational activities. In addition, the smooth operation of established operational activities can improve company performance (Angelia & Suryaningsih, 2015).

This study used the environmental, social, and governance (ESG) score as a variable measurement. ESG is a measuring tool that assesses the combined criteria of elements related to corporate governance and environmental and social responsibility. The ESG score is used as an index for implementing CSR (Hedqvist & Larsson, 2020). In addition, the ESG score shows how CSR activities are related to the company's long-term goals and growth strategy (Jang, Kang, Lee, and Bae, 2020).

Several empirical studies support the positive influence of CSR disclosure on firm performance (Pham & Tran, 2020; Nainggolan & Handoyo, 2019; Agyemang &Ansong, 2017; Angelia & Suryaningsih, 2015; Ho et al., 2019; Saeidi et al. al., 2015; Galbreath & Shum, 2012; de Souza Barbosa et al, 2022). Based on this explanation, the following hypothesis is formulated:

H1. *The higher the CSR score, the higher the financial performance*

2.2 CORPORATE REPUTATION AND FINANCIAL PERFORMANCE

Corporate reputation is an essential asset in corporate strategy, defined as a measure of public recognition and social approval from stakeholders of the company's image (Bai, Lobo, and Zhao, 2017). Diez and Sotorrio (2018) stated that corporate reputation could be explained as a measure of assessments made by stakeholders from time to time-based on stakeholder views and beliefs regarding the company's ability to meet stakeholder expectations compared to competitors through information disclosed by the company. Therefore, stakeholders' perceptions of the company significantly affect its reputation and are vital in maintaining it.

According to resource-based theory (RBV), companies have resources and capabilities that are different from other companies in the same industry; for example, intangible resources can be in the form of corporate reputation (McWilliams et al., 2006); (Hur et al., 2014). Corporate reputation is a sustainable competitive advantage because it is rare, valuable, and incomparable (Barney, 2001).

This study applies the corporate image index (CII), based on data from the Frontier Consulting Group, to measure reputation. Frontier consulting groups are institutions that measure company reputation annually. Surveys are conducted on respondents, such as management, business practices, shareholders or investors, journalists, infotainment, and society. The survey, conducted by Frontier, involved direct interviews. The frontier consulting group uses four dimensions: quality, performance, responsibility, and attractiveness. The CII's assessment is based on a weighted average for each group of respondents (management: 40%, shareholders/investors: 30%, journalists: 20%, and public: 10%). Ifthe company has a CII value given by the Frontier of more than one and is in the top three in their respective categories, it shows that the company has an excellent image in the four dimensions.

Gonzalez and Vega (2018) explain that the public's trust in companies shapes a company's reputation. When a company is considered to have a reputation, there will be a tendency that the company will continue to strive to maintain and even improve its company's performance. Thus, corporate reputation affects a firm's performance. Following previous studies that have proven the positive influence of corporate reputation on finn performance (Hall & Lee, 2014; Hong et al., 2014; Weng & Chen, 2016; Gonzales & Vega, 2018; Kong et al., 2020), the second hypothesis is as follows.

H2. *The higher a company's reputation, the higher its financial performance.*

2.3 COMPANY'S REPUTATION, CORPORATE SOCIAL RESPONSIBILITY AND FINANCIAL PERFORMANCE

Pham and Tran (2020) state that a company's reputation is an evaluation of its quality. This reflects that stakeholders value companies by comparing their performance with other companies' behavioural, instrumental, and normative expectations in business practices. Stakeholders trust companies with high reputations. When such a company exhibits socially responsible behaviour, it appears legitimate to the public, and their assessment of the company is positively influenced (Fombrun, 2001; Dowling, 2016).

In previous research, the relationship between CSR and financial performance is still not decisive because reputation has yet to be considered. The reputation of companies that carry out CSR is important to include because, according to reputation theory, companies with a good reputation gain the trust of stakeholders. Therefore, they are more trustworthy when implementing CSR activities. They are seen as more sincere, not just pretending to gain sympathy from the stakeholders. These research found that the relationship between CSR and performance is only sometimes positive; in this case, the reputation factor can explain these mixed results.

H3. *Reputation moderates the influence of CSR scores on firm performance*

3 METHODOLOGY

3.1 MODEL ANALYSIS

The relationships specified in this study are formulated into three research model analyses, Model 1, Model 2, and Model 3, respectively, to test hypotheses 1, 2, and 3.

Model 1

$$ROA_{i,t} = \beta_0 + \beta_1 ESG_{i,t-1} + \beta_2 LEV_{i,t-1} + \beta_3 FS_{i,t-1} + \varepsilon_{i,t} \quad (1)$$

Model 2

$$ROA_{i,t} = \gamma_0 + \gamma_1 ESG_{i,t-1} + \gamma_2 REP_{i,t-1} + \gamma_3 LEV_{i,t-1} + \gamma_4 FS_{i,t-1} + \varepsilon_{i,t} \quad (2)$$

Model 3

$$ROA_{i,t} = \delta_0 + \delta_1 ESG_{i,t-1} + \delta_2 REP_{i,t-1} + \delta_3 ESG_{i,t-1} \times REP_{i,t-1} + \delta_4 LEV_{i,t-1} + \delta_5 FS_{i,t-1} + \varepsilon_{i,t} \quad (3)$$

3.2 DATA

This study used secondary data from several sources, including the IDX database for company annual reports, Frontier Consulting Group for the reputation index, and Bloomberg database for Environmental, Social, and Governance (ESG) scores. In addition, companies in all sectors listed on the Indonesia Stock Exchange that follow the corporate image index (CII) conducted by the Frontier Consulting Group from 2015 to 2019 were selected as the research sample. A total of 180 observations met the sample criteria.

3.3 VARIABLE OPERATIONALIZATION

The operationalization of research variables is presented in table I below

Table 1

Variable Operationalization

Variable	Operationalization
CSR implementation (ESG)	ESG is a proxy of CSR implementation consisting of Environmental, Social, and Governance scores representing the degree of CSR implementation. This score is obtained from Bloomberg Database.
Corporate reputation (REP)	Corporate reputation in this study is measured using the Corporate Image Index (CII), which is based on data from the Frontier Consulting Group. The four dimensions the Frontier Consulting Group uses are quality, performance, responsibility, and attractiveness.
Firm Performance (ROA)	Firm performance is measured by return on assets which represents the total return generated from assets.
Leverage (LEV)	As the control variable that represents the proportion of debt total assets
Firm Size (FS)	As the control variable represents the company's size based on its assets, firm size is measured by the log of total assets.

Source: Prepared by the authors, 2023

The hypothesis testing stage begins with a descriptive analysis. This analysis provides an initial picture of whether the hypothesis is proven. Descriptive analysis included mean, minimum, maximum, and standard deviation variable profiles. Subsequently, we conducted a hypothesis test. First, hypothesis Testing I. is followed by testing the model without entering a moderating variable and finally testing the model by adding a moderating variable. Model testing without moderating variables aims to determine whether reputation as an independent variable affects performance. In contrast, testing with moderating variables aims to prove reputation's role in moderating the relationship between CSR and performance.

4 RESULTS AND DISCUSSION

4.1 DESCRIPTIVE STATISTIC

This research was conducted on companies with a corporate image index (CII) that represents the company's reputation level. The company was also listed on the Indonesia Stock Exchange during the 2015-2019 research period. A total of 180 observations met the sample criteria. The sample profiles are listed in Table 2.

The sample companies have a highly variable ESG score, with the lowest score of 7.85 and a maximum value of 55.37. The average ESG score of the sample companies is 31.83, indicating that the sample companies' CSR application level is relatively high. The reputation side shows that the sample companies had a very high reputation, with an average reputation score of 1.39. The average ROA, a measure of financial perfonnance, shows a positive value of 5.6; generally, the sample companies have good financial performance. The average company leverage is relatively high at 3.43, which indicates that most of the financing is from debt, and the condition of high leverage needs to be monitored because the risk of default will be high. The company is large, as seen from the average firm size (FS) value.

Table 2

Descriptive Statistic

	N	Minimum	Maximum	Mean	Std. Deviation
ESG	180	7,85	55,37	31,8276	11,97052
REP	180	,40	3,88	1,3932	,69137
ROA	180	-3.72	22,07	5,6471	4,95091
LEV	180	1,16	12,97	3,4366	2,55057
FS	180	,13	99,13	23,8573	28,83455

Source: Prepared by the authors, 2023

4.2 MODEL CSR TO FINANCIAL PERFORMANCE, EXCLUDING COMPANY'S REPUTATION

As measured by the ESG score, CSR implementation has no relationship with company performance (Table 3). This result contradicts previous research, which generally shows a positive relationship between ESG scores and company financial performance (Pham & Tran, 2020; Nainggolan & Handoyo, 2019; Agyemang & Ansong, 2017; Angelia & Suryaningsih, 2015). Partially, CSR practices do not affect a company's financial perfonnance, as evidenced by previous studies (Buallay et al., 2020; Crisostomo et al., 2011). The relationship between CSR and performance shows a negative tendency, as seen from the negative regression coefficient, although the coefficient is insignificant. In the Indonesian context, CSR has not been implemented strategically; it is often just fulfilling the applicable regulations; thus, if seen from the implementation of CSR, it seems that it has not succeeded in influencing performance improvement.

Table 3

CSR to Financial Performance

Model 1	β	t	Sig	
Constant	9.892	9.583	0.000	***
ESG	-0.20	-0.31	0.756	
LEV	-0.519	-7.77	0.000	***
FS	-0.126	-1.86	0.064	*
F	20.318		0.000	***
Adjusted R^2	0.245			

Source: Prepared by the authors, 2023

4.3 MODEL WITHOUT MODERATING

The test is continued by including the reputation variable (REP), and the results consistently prove that CSR does not affect performance (Table 4). In contrast, reputation has a positive relationship with financial performance, with a significance of <0.01. A good company reputation will produce benefits such as influencing customer product selection, limiting the potential space for competitors, and securing a position in the industry (Fombrun, 2001; Dowling, 2016). A company with a good reputation will provide benefits in increasing profitability, expanding market share, and strengthening competitiveness (Hall & Lee, 2014). In addition, a good reputation can lower costs for the company. Companies with a good reputation can make employees willing to work, recruit employees, and create a competitive work environment with inadequate supervision and contract costs (Hong et al., 2012).

Including the reputation variable in the relationship model between CSR and financial performance contributes to increasing Adj R2 from 24.5% (Table 3) to 29.9% (Table 4).

Table 4

Model without moderating

Model2	Y	t	Sig	
Constant	7.649	6.637	0.000	***
ESG	-0.133	-0.311	0.895	
LEV	-0.481	-7.400	0.000	***
FS	-0.028	0.401	0.689	
REP	0.262	3.844	0.000	***
Adjusted R^2	0.299			

Source: Prepared by the authors, 2023

4.4 MODEL WITH MODERATING

Testing the moderating effect of the relationship between CSR and firm performance using corporate reputation as a moderating variable showed the opposite result. In the two initial tests, CSR was not proven to affect financial performance; however, when CSR interacted with reputation, it showed a significant positive relationship (Table 5). CSR implementation is meaningful for companies with a good reputation. Companies with high reputations trust stakeholders that CSR is not merely an opportunistic act to fulfil the demands of an obligation but a behaviour aimed at the interests and welfare of all parties. On the other hand, for companies with a bad reputation, being socially responsible will not have any impact because stakeholders are more concerned with the reputation of the companies that carry out CSR. However, companies should be careful and pay attention to their responsibility to implement CSR because the company's consistency in implementing CSR will ultimately receive appreciation from stakeholders.

Table 5

Model with moderating

Model 3	0	t	Sig	
Constant	8.123	5.552	0.000	kkk
ESG	-0.059	-0.883	0.79	
LEV	-0.496	-7.542	0.000	kkk
FS	-0.020	-0.281	0.779	
REP	0.088	0.912	0.363	
ESG*REP	0.201	2.092	0.038	k#
F	16.332		0.000	k#k
Adjusted R•	0.300			

Source: Prepared by the authors, 2023

The stakeholder theory mainly used to explain the relationship between CSR and company performance (Miles, 2017; Freeman, 2016; Scherer & Palazzo, 2007). According to this theory, CSR manifests a company's commitment to accommodate stakeholders' interests to gain stakeholder support. Therefore, stakeholder support is essential for achieving the expected financial performance.

The findings indicate that efforts to gain stakeholder support through CSR activities are unlikely to be successful. However, it should be emphasized that stakeholders are not only satisfied with the company's CSR implementation; they see how the reputation of companies that run CSR is. Companies that do not have a good reputation tend to ignore CSR. However, stakeholders trust and provide support when a reputable company conducts CSR.

The findings of this study address the inconsistency of previous research results on CSR and financial performance (Crisostomo, Freire, Vasconcellos, 2011; Angelia & Suryaningsih, 2015; Nollet et al., 2016; Agyemang & Ansong, 2017; Nainggolan & Handoyo, 2019; Pham & Tran, 2020; Buallay et al., 2020; Nguyen & Nguyen, 2021). Furthermore, the reputation variable explains the inconsistency of the results of previous research that the reputation of companies that implement CSR makes CSR valuable, which can improve the company's financial performance.

The research findings simultaneously confirm that stakeholder theory itself cannot independently explain the relationship between CSR and financial performance; it must be complemented by resource-based theory. This has practical implications for managers because a company's reputation is crucial. With such a reputation, it is easier to gain support from stakeholders, and efforts to show concern for stakeholders are in vain. In addition, implementing CSR is costly and incurs high costs; consequently, it must bring commensurate benefits. Finally, CSR is a strategic decision; therefore, companies must ensure that they have unique resources, such as reputation, that can be used as a basis for CSR.

Furthermore, if not scrutinized, the findings of this study can reinforce companies' denial that CSR does not bring benefits to the company, and, at the same time weaken companies that have used CSR as a strategic tool, because research results consistently show that there is no the effect of CSR on financial performance. This can trigger endless debates about the benefits of CSR. Here, the role of reputation is very dominant because it can stop the heated debate over the benefits of CSR for companies. CSR is valuable, when implemented by companies that have a good reputation, otherwise, it will be a burden or cost for companies that do not have a good reputation (Fombrun, 2001; Dowling, 2016).

5 CONCLUSION

This study adds to the inconsistency in the results of previous studies on the effects of CSR on financial performance. Theoretically, according to stakeholder theory, companies that carry out CSR receive support from stakeholders to achieve the expected financial performance. Unfortunately, the empirical results are only sometimes supportive, and some previous studies have found that CSR has no effect on financial performance or even has a negative effect. These results that have yet to be solid will be able to discourage companies from implementing CSR. Moreover, some companies still believe that CSR is synonymous with costs. This study adds a reputation aspect to explain why CSR only sometimes positively affects financial performance. The findings of this study indicate that reputation moderates the influence of CSR on financial performance; CSR run by a reputable company has value, thereby increasing financial performance and vice versa. If an unreputable company runs CSR, then CSR is only a symbol that has no meaning in improving perfonnance.

Reputation is an important asset; only companies with these resources can make their CSR meaningful in improving financial performance. This study selectively selects a sample of companies with an ESG score to measure CSR achievement objectively and comprehensively. However, this study does not compare companies that implement CSR but still need an ESG score. Future research should follow up with a broader sample.

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