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# Corporate Reputation, Available Slack, And Financial Distress Risk

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**Abstract:** The global COVID-19 pandemic and the associated economic recession have posed significant challenges for companies in Indonesia. Many companies have struggled to survive, leading to mass layoffs or bankruptcy. This study is motivated to research the financial factors (namely, company reputation and available slack) related to the risk of financial difficulties, using 1,699 observations from non-financial public companies in Indonesia from 2020 to 2022. The research was conducted using moderated regression analysis performed with STATA software. The research results indicate that company reputation is negatively related to the risk of financial difficulties, and available slack strengthens this relationship. These results were robustly tested using coarsened exact matching. This study provides information for companies and stakeholders on reducing the risk of financial difficulties by strengthening the company's reputation and available slack.
**Keywords:** Corporate Reputation; Available Slack; Financial Distress Risk; Corporate Sustainability.

**Abstrak:** Pandemi global COVID-19 dan resesi ekonomi yang menyertainya telah memberikan tantangan yang signifikan bagi perusahaan-perusahaan di Indonesia. Banyak perusahaan berjuang untuk bertahan hidup, sehingga menyebabkan PHK massal atau kebangkrutan. Penelitian ini dilatarbelakangi untuk meneliti faktor-faktor keuangan (yaitu reputasi perusahaan dan available slack) yang berhubungan dengan risiko kesulitan keuangan, dengan menggunakan 1,699 observasi dari perusahaan publik non-keuangan di Indonesia pada tahun 2020 hingga 2022. Penelitian dilakukan dengan menggunakan *moderated regression analysis* yang dilakukan dengan perangkat lunak STATA. Hasil penelitian menunjukkan bahwa reputasi perusahaan berhubungan negatif dengan risiko kesulitan keuangan, dan available slack memperkuat hubungan tersebut. Hasil ini diuji secara *robust* menggunakan Coarsened Exact Matching (CEM). Penelitian ini memberikan informasi bagi perusahaan dan pemangku kepentingan dalam mengurangi risiko kesulitan keuangan dengan memperkuat reputasi perusahaan dan available slack.
**Kata Kunci:** Reputasi Perusahaan; Available Slack; Risiko Kesulitan Keuangan; Keberlanjutan Perusahaan.

## INTRODUCTION

The global COVID-19 pandemic and the associated economic recession have posed significant challenges to businesses worldwide, threatening the survival of many companies (Barai & Dhar, 2021). This crisis is considered one of this century's most significant health, economic, and social crises (Avishai, 2020). In addition to the loss of lives and the impact of the disease, COVID-19 has also slowed down global economic activities due to its widespread impact and the various measures implemented by different countries to control its spread. The consequences include increased unemployment rates,

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disruptions in supply chains, decreased economic activities, and the creation of uncertainty in various financial markets (Aljughaiman et al., 2023; Hosseini & Ivanov, 2022; Mao et al., 2023; Orlando et al., 2022; Zhang et al., 2020). As a result, many companies are facing financial distress and the risk of bankruptcy due to operational disruptions (Bozkurt & Kaya, 2023; Crespí-Cladera et al., 2021; Dörr et al., 2022; Lassoued & Khanchel, 2021). Therefore, predicting financial distress has become highly important in the current economic crisis. Factors influencing the likelihood of financial problems significantly help management improve the sustainability of their companies (Ding et al., 2023). Company management strives to leverage strategic resources such as assets, skills, and valuable, difficult-to-replicate information to gain a competitive advantage and endure this crisis.

This study is inspired by the research of (Góis et al., 2020) and (Casado et al., 2017), which state that corporate reputation is an essential and valuable strategic resource that can provide a competitive advantage and help achieve and maintain superior financial performance. Corporate reputation is a strategic intangible asset that can enhance a company's value (González Sánchez & Morales de Vega, 2018). (Pires & Trez, 2018) argues that corporate reputation is a valuable resource with unique characteristics that cannot be duplicated like other resources, thus assisting in meeting the information needs of various stakeholder groups. Furthermore, (von Berlepsch et al., 2022) argue that corporate reputation is the most critical factor for the sustainability of any company. A company's reputation is an essential element built over the years and brings many benefits, such as a better competitive advantage, improved access to capital markets, and affordable pricing for offerings of different qualities. A good corporate reputation can strengthen the likelihood of repeat customer purchases.

Furthermore, from the Resource-Based View Theory (RBV) perspective, managers characterise corporate reputation as the most important asset (Veh et al., 2019). Therefore, researchers extensively investigate this proposition by testing the relationship between corporate reputation and company performance. The consensus is that a higher reputation leads to better performance (Brahmana et al., 2022). Hence, this study posits that a good corporate reputation can reduce the risk of financial distress during the economic crisis caused by the COVID-19 pandemic.

(Liu et al., 2021) state that a company's resources and capabilities are vital factors influencing its resilience, with resource availability considered a critical factor in a company's resilience because a lack of resources can limit resource allocation flexibility, thereby increasing the risk of company failure. Companies with sufficient slack resources can rebalance in a crisis by engaging in slack resource management. Financial slack can drive company actions and managerial discretion, enhancing performance (Mao et al., 2023). If a company lacks sufficient slack, the risk of financial distress may increase (Leuridan & Demil, 2022). However, research on the crucial role of organisational slack in reducing the risk of financial distress during the economic crisis caused by COVID-19 still needs to be completed.

The literature review above indicates the importance of resources and organisational slack in enhancing a company's resilience and reducing the risk of financial distress. Therefore, recent research is expected to explain further organisational slack's role in coping with economic crises, especially those triggered by the COVID-19 pandemic. This research will focus on the moderating effect of "available slack" in the relationship between corporate reputation and the risk of financial distress during a crisis. Available slack is defined as excess resources that a company has not yet utilised, which are highly

Jurnal Akuntansi
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liquid and easily accessible (such as securities and cash) (Duan et al., 2020). The study will examine how underutilised resources can help companies maintain their performance and avoid financial distress during economic crises. This research aims to provide new insights into risk management strategies during periods of economic crisis, particularly by examining how companies with a good reputation and sufficient available slack are better equipped to mitigate the risk of financial distress.

This research investigates the relationship between corporate reputation and financial distress risk and examines how available slack moderates this relationship. This study uses data from non-financial public sector companies listed on the Indonesia Stock Exchange (IDX) from 2020 to 2022. There are two significant reasons for considering Indonesian companies for this study. First, as a developing country, Indonesia's economic situation is highly vulnerable to the impact of the COVID-19 pandemic. A survey by the Ministry of Manpower found that 88 per cent of Indonesian companies suffered significant losses due to this pandemic (Ministry of Manpower of the Republic of Indonesia, 2020). The Minister of State-Owned Enterprises (BUMN) stated that 90 per cent of state-owned enterprises incurred trillions of rupees in losses due to the COVID-19 pandemic (Herijanto, 2020). Some private companies that failed to improve their performance during the pandemic, such as PT Freetrend Balaraja, were forced to carry out massive layoffs (Tristiawati, 2020), while others, such as Stoqo and Giant, were declared bankrupt (Medina, 2023). Second, according to the International Debt Report 2022 published by the World Bank (Ahdiat, 2022), Indonesia has the highest foreign debt-to-export ratio among lower-middle-income Southeast Asian countries. A high foreign debt-to-export ratio indicates an increasing risk of default (Haswidi, 2018). Given the macroeconomic conditions that are vulnerable to financial distress, companies in Indonesia may experience financial distress (Nugrahanti et al., 2020).

This research is expected to provide both theoretical and practical contributions. In the literature, this study expands on research regarding factors related to the risk of financial distress by focusing on financial factors, namely corporate reputation and available slack. This is the first study in Indonesia to address this issue. This research informs directors and management that corporate reputation and available slack are valuable resources that can enhance company performance and reduce the risk of financial distress. Based on the research, it is expected that, during economic crises, companies will be able to secure available slack to improve their reputation and reduce the risk of financial distress and bankruptcy.

The structure of this paper is as follows. The second section outlines the theoretical framework and presents the research hypotheses. The third section explains the sample and methodology used in this research, followed by a discussion of the results. The final section provides the conclusion, theoretical and managerial implications, limitations, and recommendations for further research**.**

## THEORETICAL REVIEW

**Resource-Based View Theory (RBV).** In the late 1950s, Penrose argued that managing internal productive resources determined a company's growth (Almeida & Pessali, 2017). Penrose's analysis of internal resources emerged as a response to the limitations of the classical strategy model, which originated from the Structure-Conduct-Performance model, in explaining why companies in the same industry had diverse

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operational outcomes (Pires & Trez, 2018). Penrose's analysis represented an evolution in the understanding of company discretion, meaning that companies determine their strategies independently using their available internal resources. Thus, the appropriate selection of internal resources can be a factor in creating a competitive advantage.

Referring to (Pires & Trez, 2018), the RBV theory was built in three stages. First, the introduction stage marked the initiation of the development of RBV theory and, thus, the development of critical concepts. At this point, researchers began discussing internal organisational factors and contributed to laying the groundwork for this approach. The relationship between strategic resources and business performance still needed to be clarified in the early stages. Furthermore, during the growth stage, new concepts emerged – dynamic capabilities and knowledge – from RBV affiliations, such as the Natural Resource-Based View (NRBV) and the Knowledge-Based View (KBV). NRBV argued that three critical strategic capabilities represented sources of competitive advantage: pollution prevention, product responsibility, and sustainability. NRBV criticised RBV theory for failing to explore the relationship between organisations and the natural environment. On the other hand, KBV went beyond traditional strategic concepts – like strategic choices and competitive advantage – and explored fundamental business theory concepts such as internal management, organisational structure, innovation theory, and others.

Subsequently, RBV initiated a "dialogue" with other theories, such as institutional theory and evolutionary perspectives, becoming a multidisciplinary approach. The maturity stage contributed further to the foundations of RBV. At this stage, some authors considered it a resource-based theory, not just RBV. During this phase, researchers focused on intangible resources, which were seen as drivers of business performance. Therefore, the theoretical assumption in RBV is that a company's success directly results from intangible strategic resources (Pires & Trez, 2018). This is primarily because intangible strategic resources provide the company with difficult-to-imitate competitive advantages, leading to high profits and sustainable business.

In RBV theory, strategic assets possess four characteristics that form the basis of a company's business strategy: non-substitutability, rarity, value, and inimitability. RBV theory also assumes that strategic assets are generally intangible because tangible assets are easily imitated and available for purchase. Therefore, strategic competitive advantage is a function of intangible assets that competitors need help to acquire. Much literature on RBV theory notes that many intangible assets can create a strategic competitive advantage. One significant strategic asset that has been empirically tested for creating a competitive advantage for businesses is a company's reputation.

**Corporate Reputation.** Research on corporate reputation has garnered the attention of scholars from various disciplines, including accounting, finance, economics, sociology, marketing, and organisational theory (Góis et al., 2020). Researchers and managers believe that a good reputation is the most vital intangible resource for a company because it can reduce stakeholders' uncertainty about the company's future performance, strengthen its competitive advantage, and contribute to the trust of the target audience and value creation, maximising the ability to offer products and services with high added value (Sageder et al., 2018). Nevertheless, corporate reputation is not a consensus (Brahmana et al., 2022).

(Pires & Trez, 2018) identified three critical aspects of understanding corporate reputation: Awareness, Judgment, and Ownership. Firstly, reputation can be defined as the accumulation of opinions from stakeholders and other observers about a company without

Jurnal Akuntansi
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involving evaluation. Secondly, reputation results from judgments, assessments, evaluations, or measurements. This evaluative reputation is similar to opinions or beliefs and encompasses the company's appeal and the recognition it receives. The third aspect refers to reputation as an intangible asset with tangible value. This research suggests that although there is some overlap among these aspects, they are relatively distinct. Awareness does not always imply judgment, nor does it always translate into ownership. Therefore, in this study, reputation is considered an intangible asset. In other words, corporate reputation can be viewed as an intangible strategic asset that holds substantial business value and can provide a competitive advantage and achieve superior performance if the market trusts the company's strategy (Ma & Osiyevskyy, 2017).

**Financial Distress Risk.** Financial issues can involve failure, bankruptcy, and an inability to pay off debts. Financial distress occurs when a company consistently experiences inefficient investments or costs that exceed its income (Al-Hadi et al., 2019). There are two types of financial problems: restructuring efforts to avoid bankruptcy and an inability to repay debts (Pradana & Chalid, 2023). Companies facing financial problems encounter several challenges, including difficulty accessing external financing, higher cost of capital, and a low credit rating (Al-Hadi et al., 2019). Failure and restructuring are expected consequences of financial problems. Companies experiencing financial problems exhibit a reduced capacity to generate income and have more debt than their assets. Indicators of financial problems include debt yields below the risk-free rate and an inability to raise external funding (Pradana & Chalid, 2023). Accounting methods are used to measure financial issues, including predicting the risk of financial distress.

Furthermore, within accounting methods, most researchers utilise the Z-score as a crucial component, along with the O-score and ZM-score, to measure a company's financial distress risk (Boubaker et al., 2020). Research conducted by (Altman et al., 2017) reinforces the effectiveness of the Z-score as a reliable predictor of financial distress risk. Therefore, this study uses the Z-score accounting measure to assess the likelihood of financial distress. A higher Z-score value indicates a lower risk of financial distress.

**Corporate Reputation and Financial Distress Risk.** Within the Resource-Based View Theory (RBV) framework, this study examines the relationship between corporate reputation and the risk of financial distress. This research assumes that a company's reputation as an intangible asset is critical in the competitive and complex business world. RBV theory views reputation as a step above operations and explicitly regards it as crucial in creating sustainable and competitive performance (von Berlepsch et al., 2022).

From the perspective of RBV theory, to achieve and maintain this level of efficiency, strategic assets must be valuable, rare, difficult to imitate, and irreplaceable (Góis et al., 2020), providing various strategic advantages. Reputation can reduce risk or uncertainty (Brahmana & Lau, 2020), help achieve and maintain high financial performance (Huurne et al., 2018), enhance customer loyalty and stakeholder trust (Runge, 2021), and create competitive advantages (Hosseini et al., 2019). (Brahmana et al., 2022) found that an excellent corporate reputation provides valuable resources to a company. Companies with a good reputation tend to be more financially stable and better prepared to face challenging economic conditions, thus reducing the risk of financial distress. Therefore, this study posits that a good corporate reputation can reduce the risk of financial distress. Thus, this study proposes the hypothesis:

**H1:** A higher corporate reputation leads to a lower risk of financial distress.

Jurnal Akuntansi
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**The Moderating Role of Available Slack in the Relationship between Corporate Reputation and Financial Distress Risk.** Available slack, as defined in the literature, includes various forms of accessible resources, liquidity, or funds that a firm can leverage to its advantage (Picolo et al., 2018). These resources can be cash reserves, short-term investments, or available assets and can be mobilised quickly in response to unexpected financial challenges or emergencies (Duan et al., 2020). The presence of available slack, in particular, has significance as it plays a vital role in enabling companies to navigate situations of temporary financial distress that may arise during crisis scenarios (Agusti et al., 2022).

On the contrary, building and maintaining a commendable corporate reputation has far-reaching implications, significantly affecting the company's ability to obtain more favourable debt terms when dealing with creditors (Pfister et al., 2020). In addition, this is a powerful tool for fostering trust and credibility among shareholders (Runge, 2021) and triggering consumer loyalty (Pfister et al., 2020), facilitating the company's access to additional funding opportunities through company income, investors and creditors. The combination of available slack and a strong corporate reputation will equip the company with comprehensive internal and external resource reserves, strengthening its capacity to maintain and finance daily operational activities and effectively reducing the risk of financial difficulties. Based on these considerations, this research proposes the formulation of the second hypothesis:

**H2:** Available slack strengthens the relationship between corporate reputation and financial distress risk.

**Figure 1**. explains the research framework from this research.

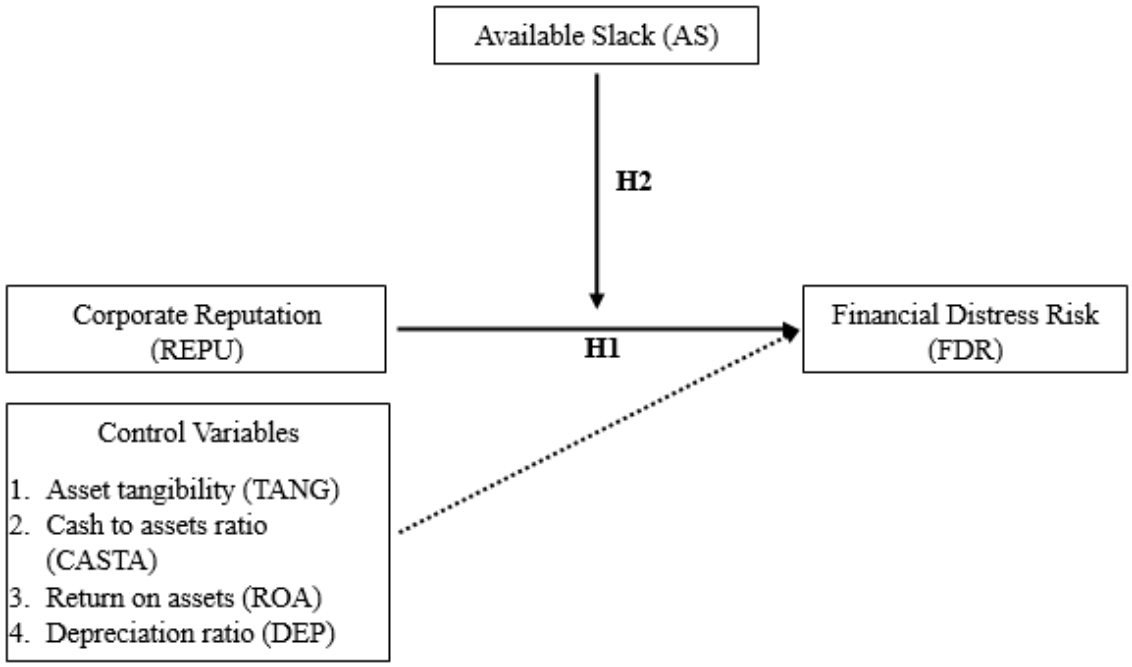


**Figure 1.** Research Model
Source: Data processing, 2023

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Jurnal Akuntansi
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## METHODS

**Data Sources and Sample Selection.** The initial sample for this study comprises all public companies in Indonesia, excluding those in SIC 6 (listed on the Indonesia Stock Exchange), over three years (2020 to 2022). The selection of 2020 as the starting point for the sample period is due to the increasing significance of the topic related to the risk of financial distress following the economic crisis triggered by the COVID-19 pandemic. The global spread of COVID-19 had adverse impacts on the world economy, including disruptions in the supply chain (Hosseini & Ivanov, 2022; Orlando et al., 2022) and economic crises (Khan, 2022), thereby elevating the likelihood of financial distress and bankruptcy (Bozkurt & Kaya, 2023; Crespí-Cladera et al., 2021; Dörr et al., 2022; Zhao et al., 2023). Consequently, identifying factors that can mitigate the risk of financial distress during economic crises would be highly beneficial for management in enhancing corporate sustainability. The initial list of public companies in Indonesia for 2020 to 2022 comprised 2,553 firm-year observations. This study subsequently excluded 540 observations from the financial sector (SIC 6) due to their specific regulatory requirements (Guizani & Abdalkrim, 2023) so that the study samples can be more comparable (Ngelo et al., 2022).

Additionally, 404 firm-year observations were excluded due to missing data. As a result, the final sample for this study consists of 1,699 firm-year observations. All data were collected from the financial statements of each company. **Table 1** provides the sampling procedure employed in this study.

**Table 1.** Summary of the sample selection procedure and sample characteristics

| Descriptions | Sample size |
|---|---|
| The total observed population of the research (2020 to 2022) | 2,553 |
| (-) Financial firms with SIC 6 | (540) |
| (-) FDR data missing | (90) |
| (-) REPU data missing | (305) |
| (-) TANG data missing | (9) |
| Total data final sample size (N) | 1,699 |

Source: Processed data, 2023

**Sample Distribution. Table 2** shows the sample distribution by industry and year. This study uses samples from all non-financial industries classified based on primary one-digit Standard Industrial Classification (SIC) codes. In addition, the research sample covers the period from 2020 to 2022. Thus, the results of sample distribution by industry and year are as follows. The most significant sample includes 425 observations in the plastics, metals, and appliance manufacturing industry (SIC 3). This is consistent with the Ministry of Industry of the Republic of Indonesia (2022) statement, according to which the manufacturing sector contributes the most to gross domestic product (GDP).

Meanwhile, the smallest sample includes 62 observations in professional, museums, and miscellaneous services sectors (SIC 8). Additionally, based on year, the most significant sample is in 2022, with 609 observations. The smallest sample based on year is in 2020, with 525 observations. Based on the year, it can be observed that the sample size has increased from year to year.

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Jurnal Akuntansi
e-JA
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**Table 2.** Sample distribution by industry and year

| Panel B: Distribution of firm-year observations by industry and year | | | | |
|---|---|---|---|---|
| **SIC** | **Year** | | | **Total** |
| | **2020** | **2021** | **2022** | |
| (SIC 0) Agriculture, forestry and fisheries | 20 | 25 | 32 | 77 |
| (SIC 1) Mining and construction | 77 | 83 | 85 | 245 |
| (SIC 2) Manufacturing (1) | 135 | 143 | 147 | 425 |
| (SIC 3) Manufacturing (2) | 74 | 78 | 86 | 238 |
| (SIC 4) Transportation, communications, and utilities | 89 | 93 | 98 | 280 |
| (SIC 5) Wholesale and retail trade | 56 | 62 | 70 | 188 |
| (SIC 7) Service (1) | 57 | 60 | 67 | 184 |
| (SIC 8) Service (2) | 17 | 21 | 24 | 62 |
| Total | 525 | 565 | 609 | 1,699 |

Source: Processed data, 2023

**Variable Definition and Measurement.** Dependent variable: Since this research investigates the relationship between corporate reputation and available slack with financial distress risk, financial distress risk is the dependent variable. The financial distress risk variable in this study is referred to as FDR. This study uses Altman's z-score measurement as a proxy for FDR. Following prior studies (Boubaker et al., 2020; Kuzey et al., 2023; Shan et al., 2023), a higher z-score indicates a lower risk of financial distress. Altman's z-score in this study is calculated using the formula as follows: Altman's z – z-score = 1.200 (Working capital / Total assets) + 1.400 (Retained earnings / Total assets) + 3.300 (EBIT / Total assets) + 0.600 (Market value of equity / Book value of total liabilities) + 0.999 (Net sales / Total assets)

The independent variable in this study is corporate reputation, hereafter referred to as REPU. Reputation essentially refers to stakeholders' perceptions of a company's past performance and future rankings compared to similar companies in achieving valuable outcomes (Sehgal et al., 2023). Market capitalisation reflects a company's ability to absorb market fluctuations and represents investors' perceptions and image of the company (Arora et al., 2021). Therefore, companies with high market capitalisation are considered renowned due to their stable growth characteristics, excellent stability, liquidity, performance, and lower risk. Furthermore, high market capitalisation provides a competitive advantage for a company because of its outstanding qualitative characteristics (Sehgal et al., 2023). It can be concluded that companies with large market capitalisation have an excellent reputation in the market and are thus considered an indicator of corporate reputation (Arora et al., 2021; Kaur & Singh, 2020; Sehgal et al., 2023). Therefore, corporate reputation is calculated using the formula as follows: Corporate reputation = ln (Market capitalisation)

Moderator variable: This study uses available slack as the moderator variable, which will be abbreviated AS in the future. Available slack refers to the surplus of innovative resources within the company, especially those most liquid and easily accessible, such as cash and securities (Duan et al., 2020). It also encompasses resources not utilised by the company but can be activated at any time since managers can easily use them for innovative activities (Demirkan, 2018). Managers tend to prefer projects with better potential due to the availability of slack, which can ultimately enhance the company's

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Jurnal Akuntansi
e-JA
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performance. Following a prior study (Duan et al., 2020), this study measures available slack using the formula:

$$\text{Available slack} = \frac{current\ assets}{,current\ liabilities.}$$

Control variables: To understand the relationship between corporate reputation and available slack with financial distress risk, certain variables related to financial distress risk have been included in the regression model. The aim is to achieve an unbiased and explicit relationship between corporate reputation and available slack with financial distress risk. Following a prior study (Boubaker et al., 2020; Kuzey et al., 2023), this study selects asset tangibility (TANG), cash-to-asset ratio (CASTA), return on assets (ROA), and depreciation ratio (DEP) as the control variables.

(Boubaker et al., 2020) argue that tangible assets enhance a company's ability to collateralise its debt, potentially resulting in more debt financing and thus expected to be positively related to financial distress. Furthermore, companies with a high depreciation ratio indicate significant depreciation, leading to lower net income, which may result in a smaller profit margin. Therefore, this study predicts that the depreciation ratio positively relates to financial distress risk. In contrast, companies with a higher cash-to-asset ratio tend to rely less on external financing and exhibit less debt, thus expected to have a negative relationship with financial distress risk. Company profitability, measured by return on assets (ROA), reflects the company's ability to generate profits from its assets. Companies with a high ROA indicate efficient utilisation of their assets to create profits and, hence, are expected to have a negative relationship with financial distress risk (Guizani & Abdalkrim, 2023). Finally, to control for the effect of time and industry, this study included year-fixed effects and industry-fixed effects, respectively, in the regression model. **Table 3** provides definitions of all variables in this study.

**Table 3.** Variable Definitions

| Variables | Definitions | Measurement | Sources |
|---|---|---|---|
| Dependent variable | | | |
| FDR | Financial distress risk (Boubaker et al., 2020; Kuzey et al., 2023) | Altman's Z – score = 1.200 (Working capital / total assets) + 1.400 (Retained earnings / total assets) + 3.300 (EBIT / total assets) + 0.600 (Market value of equity/book value of total liabilities) + 0.999 (Net sales / total assets) | Financial report |
| Independent variable | | | |
| REPU | Corporate reputation (Arora et al., 2021) | Natural logarithm of market capitalisation | Financial report |
| Moderator variable | | | |
| AS | Available slack (Duan et al., 2020) | Current assets/ current liabilities | Financial report |
| Controls variable | | | |
| TANG | Asset tangibility (Boubaker et al., 2020) | Total fixed assets / total assets | Financial report |
| CASTA | Cash to asset ratio (Boubaker et al., 2020) | Cash and cash equivalents / total assets | Financial report |

UNTAR Universitas Tarumanagara
Jurnal Akuntansi
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| | | | |
|---|---|---|---|
| ROA | Return on asset ratio (Ali et al., 2023) | Net income / total assets | Financial report |
| DEP | Depreciation ratio (Boubaker et al., 2020) | Total depreciation / total assets | Financial report |

Source: Processed data, 2023

**Empirical Models.** The purpose of regression analysis is to determine how much a change in the independent variable (X) will affect the value of the dependent variable (Y) (Nuswantara et al., 2023). The research methods used in this study are multiple regression analysis and moderated regression analysis. Multiple regression analysis tests the relationship between corporate reputation and financial distress risk. Meanwhile, moderated regression analysis is employed to test the moderating role of available slack on the relationship between corporate reputation and financial distress risk. This study used two regression equations, which are stated as follows:
Multiple regression analysis

$$FDR_{i,t} = \beta_0 + \beta_1 REPU_{i,t} + \beta_2 AS_{i,t} + \beta_3 TANG_{i,t} + \beta_4 CASTA_{i,t} + \beta_5 ROA_{i,t} + \beta_6 DEP_{i,t} + \beta_7 Industry\ Fe_{i,t} + \beta_8 Year\ Fe_{i,t} + \varepsilon_{i,t} \quad (1)$$

Moderated regression analysis

$$FDR_{i,t} = \beta_0 + \beta_1 REPU\_AS_{i,t} + \beta_2 REPU_{i,t} + \beta_3 AS_{i,t} + \beta_4 TANG_{i,t} + \beta_5 CASTA_{i,t} + \beta_6 ROA_{i,t} + \beta_7 DEP_{i,t} + \beta_8 Industry\ Fe_{i,t} + \beta_9 Year\ Fe_{i,t} + \varepsilon_{i,t} \quad (2)$$

In this research, the regression model was calculated using the STATA software. A winsorising technique was applied to all continuous variables to prevent issues associated with outliers or extreme data, setting the 1st and 99th percentiles as the threshold values (Shan et al., 2023).

## RESULTS

**Descriptive Statistics.** Descriptive statistics is a data analysis technique for explaining data in general or generalisation by calculating minimum, maximum, average, and median values. The results of the descriptive statistics are presented in **Table 4**. The minimum FDR value of -15.887 indicates that companies have the highest financial distress risk. Meanwhile, the maximum FDR value of 88.276 means that companies have the lowest financial distress risk. Furthermore, corporate reputation scores based on market capitalisation values show a narrow range between the minimum value (24.267) and the maximum value (32.532). Companies with a score of 486.717 have the highest available slack, while companies with a score of 0.002 have the lowest available slack.

**Table 4.** Descriptive Statistics

| | Mean | Median | Minimum | Maximum |
|---|---|---|---|---|
| FDR | 5.283 | 2.501 | -15.887 | 88.276 |
| REPU | 27.910 | 27.778 | 24.267 | 32.532 |
| AS | 4.318 | 1.573 | 0.002 | 486.717 |
| TANG | 0.394 | 0.375 | 0.001 | 0.927 |

UNTAR Universitas Tarumanagara
Jurnal Akuntansi
e-JA
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| | | | | |
|---|---|---|---|---|
| CASTA | 0.124 | 0.072 | 0.000 | 0.667 |
| ROA | 0.008 | 0.017 | -0.659 | 0.447 |
| DEP | 0.040 | 0.028 | 0.000 | 0.196 |

Source: Output software Stata 16, 2023

**Pearson Correlation. Table 5** shows the results of the Pearson correlation test. The relationship between two variables is significant if *the p*-value of the Pearson correlation is less than 0.100. Based on **Table 5**, this study found a positive and significant relationship between REPU and FDR (*coeff.* is 0.114, *p-value* is 0.000). These results indicate that a good corporate reputation is correlated with lower financial distress risk. A positive and significant relationship is also documented between AS and FDR (*coeff.* is 0.492, *p-value* is 0.000). These results indicate that high available slack is correlated with lower financial distress risk. However, the Pearson correlation coefficient can only measure the linear relationship between two variables. Therefore, a multivariate, moderated regression analysis is necessary to test the moderating role of available slack in the relationship between corporate reputation and financial distress risk.

Furthermore, REPU is also significantly correlated with other company-specific variables, which correlate considerably with FDR. For example, FDR is significantly associated with TANG, CASTA, ROA, and DEP, indicating that these specific company variables should be controlled for in multivariate analysis.

**Table 5.** Pearson Correlation

| | | [1] | [2] | [3] | [4] | [5] | [6] | [7] |
|---|---|---|---|---|---|---|---|---|
| [1] | FDR | 1.000 | | | | | | |
| [2] | REPU | 0.114*** | 1.000 | | | | | |
| | | (0.000) | | | | | | |
| [3] | AS | 0.492*** | -0.058** | 1.000 | | | | |
| | | (0.000) | (0.017) | | | | | |
| [4] | TANG | -0.145*** | 0.036 | -0.132*** | 1.000 | | | |
| | | (0.000) | (0.139) | (0.000) | | | | |
| [5] | CASTA | 0.283*** | 0.195*** | 0.259*** | -0.347*** | 1.000 | | |
| | | (0.000) | (0.000) | (0.000) | (0.000) | | | |
| [6] | ROA | 0.182*** | 0.324*** | 0.011 | -0.075*** | 0.221*** | 1.000 | |
| | | (0.000) | (0.000) | (0.644) | (0.002) | (0.000) | | |
| [7] | DEP | -0.140*** | 0.058** | -0.105*** | 0.455*** | -0.115*** | -0.157*** | 1.000 |
| | | (0.000) | (0.016) | (0.000) | (0.000) | (0.000) | (0.000) | |

Source: Output software Stata 16, 2023

**Multiple Regression Analysis.** Multiple regression analysis is a statistical method applied to assessing the relationship between a single dependent variable and several independent predictors (Lucà et al., 2018; Ngatno et al., 2021). Therefore, this study uses multiple regression analysis to assess the relationship between financial distress risk (dependent variable) and corporate reputation with several control variables (independent predictors). **Table 6** presents the result of the multiple regression analysis used to answer the first research hypotheses. Multiple regression analysis will accept the hypothesis if the *p-value* is less than 0.100. **Table 6** shows that REPU is positively and significantly associated with FDR (*coeff.* is 0.615, *t-value* is 3.950). This result indicates that corporate reputation is negatively and significantly related to financial distress risk.

Jurnal Akuntansi
e-JA
E-ISSN 2549-8800
P-ISSN 1410-3591

**Table 6.** The Results of Multiple Regression Analysis

| | FDR |
|---|---|
| REPU_AS | |
| REPU | 0.615*** |
| | (3.950) |
| AS | 0.271*** |
| | (5.850) |
| TANG | -1.294 |
| | (-0.780) |
| CASTA | 7.638** |
| | (2.420) |
| ROA | 10.927*** |
| | (3.710) |
| DEP | -20.886** |
| | (-2.130) |
| _cons | -14.066*** |
| | (-3.060) |
| Year FE | Yes |
| Industry FE | Yes |
| $R^2$ | 0.332 |
| $R^2$_adjusted | 0.326 |
| *N* | 1699 |

Source: Output software Stata 16, 2023

**Moderated Regression Analysis.** Moderated Regression Analysis is a particular application of multiple regression analysis where the regression equation contains elements of interaction (multiplication of two or more independent variables) (Ngatno et al., 2021). Therefore, this study applied moderated regression analysis to answer the second research hypothesis. Moderated regression analysis will accept the hypothesis if the *p-value* is less than 0.100. **Table 7** presents the result of the moderated regression analysis. Table 7 shows that REPU_AS is positively and significantly associated with FDR (*coeff.* is 0.095, *t-value* is 2.710). This result indicates that the interaction between corporate reputation and available slack is negatively and significantly related to financial distress risk.

**Table 7.** The Results of Moderated Regression Analysis

| | FDR |
|---|---|
| REPU_AS | 0.095*** |
| | (2.710) |
| REPU | 0.305** |
| | (1.980) |
| AS | -2.280** |
| | (-2.490) |
| TANG | -1.776 |
| | (-1.150) |
| CASTA | 7.146** |
| | (2.250) |
| ROA | 11.103*** |
| | (3.690) |
| DEP | -17.852* |

Jurnal Akuntansi
e-JA
E-ISSN 2549-8800
P-ISSN 1410-3591

| | |
|---|---|
| | (-1.860) |
| _cons | -5.350 |
| | (-1.200) |
| Year FE | Yes |
| Industry FE | Yes |
| $R^2$ | 0.358 |
| $R^2$_adjusted | 0.352 |
| *N* | 1699 |

Source: Output software Stata 16, 2023

**Robustness Analysis.** One of the viewpoints related to endogeneity suggests that the sample used for observation is only partially comparable, which could introduce bias into the results if the observations do not adequately represent the characteristics of each other, leading to what is known as a sample selection bias problem (Harymawan, Putra, et al., 2022). In business and management studies, the matching technique is a standard method to address this issue, including Coarsened Exact Matching (CEM) regression (Nasih et al., 2022). In this study, to apply the CEM regression, the sample is divided into two groups, the treatment group and the control group, based on the median value of an exciting variable (REPU). Each observation within these groups is then matched against observations in the other group using all the control variables across three strata. The results of the CEM regression test are presented in **Table 8**.

Overall, this study found similar results to the primary regression in **Table 6** and **Table 7**. These findings confirm, even when including observations with a high degree of similarity, that REPU is positively and significantly associated with FDR (*coeff.* is 0.709, *t-value* is 4.820), meaning that a good corporate reputation is related to lower financial distress risk. Furthermore, the study also found that REPU_AS is positively and significantly associated with FDR (*coeff.* is 0.148, *t-value* is 2.620), indicating that companies with a good reputation and high available slack can reduce financial distress risk. In conclusion, these findings indicate that the results of this research are not subject to endogeneity issues.

**Table 8.** The Results of Coarsened Exact Matching Regression

| | 0 | 1 |
|---|---|---|
| All | 850 | 849 |
| Matched | 846 | 848 |
| Unmatched | 4 | 1 |
| | (1) | (2) |
| | FDR | FDR |
| REPU_AS | | 0.148*** |
| | | (2.620) |
| REPU | 0.709*** | 0.244 |
| | (4.820) | (1.190) |
| AS | 0.524*** | -3.438** |
| | (3.640) | (-2.210) |
| TANG | -0.950 | -1.707 |
| | (-0.630) | (-1.150) |
| CASTA | 5.620* | 4.970* |
| | (1.830) | (1.660) |
| ROA | 10.676*** | 10.756*** |
| | (3.820) | (3.720) |
| DEP | -15.139 | -10.577 |

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Jurnal Akuntansi
e-JA
E-ISSN 2549-8800
P-ISSN 1410-3591

| | | |
|---|---|---|
| | (-1.550) | (-1.160) |
| _cons | -17.485*** | -4.527 |
| | (-4.060) | (-0.760) |
| Year FE | Yes | Yes |
| Industry FE | Yes | Yes |
| $R^2$ | 0.314 | 0.356 |
| $R^2$_adjusted | 0.308 | 0.350 |
| *N* | 1694 | 1694 |

Source: Output software Stata 16, 2023

**Additional analysis.** Following the research of Harymawan et al. (2022), this study divides the sample into two categories, namely low-growth and high-growth industries, to assess the relationship between company reputation, available slack and the risk of financial distress in each category. The company is categorised as a low-growth industry if included in SIC 1, 2, or 3. Meanwhile, the company will be categorised as a high-growth industry if included in SIC 0, 4, 5, 7, or 8.

The results of additional analysis tests are shown in **Table 9.** Column (1) shows a positive and significant relationship between REPU and FDR in industries with low growth (*coeff.* is 0.553, *t-value* is 2.820). These results indicate that in low-growth industry categories, a good company reputation will encourage a lower risk of financial distress. However, available slack fails to moderate the relationship between company reputation and the risk of financial distress in the low-growth industries, as shown in column (2), namely REPU_AS is not significantly related to FDR (*coeff.* is 0.077, *t-value* is 1.160). Next, columns (3) and (4) show the test results in the high-growth industry category. Column (3) shows a positive and significant relationship between REPU and FDR (*coeff.* is 0.786, *t-value* is 3.200). The result means that a good company reputation will encourage a lower risk of financial distress in high-growth industries. Then, column (4) shows a positive and significant relationship between REPU_AS and FDR (*coeff.* is 0.170, *t-value* is 3.310). The result shows that available slack strengthens the negative relationship between company reputation and the risk of financial distress in high-growth industry categories.

**Table 9.** The Results of Additional Analysis

| | **Low-Growth Industries** | | **High-Growth Industries** | |
|---|---|---|---|---|
| | **(1)** | **(2)** | **(3)** | **(4)** |
| | FDR | FDR | FDR | FDR |
| REPU_AS | | 0.077 | | 0.170*** |
| | | (1.160) | | (3.310) |
| REPU | 0.553*** | 0.300 | 0.786*** | 0.223 |
| | (2.820) | (1.270) | (3.200) | (0.900) |
| AS | 0.245*** | -1.835 | 0.342*** | -4.099*** |
| | (5.520) | (-1.020) | (2.740) | (-3.070) |
| TANG | -5.124*** | -4.874*** | 2.148 | -0.112 |
| | (-3.320) | (-3.340) | (0.850) | (-0.050) |
| CASTA | -0.542 | -0.116 | 13.800*** | 10.331** |
| | (-0.150) | (-0.030) | (2.810) | (2.100) |
| ROA | 15.338*** | 15.818*** | 7.432 | 7.129 |
| | (6.010) | (6.230) | (1.560) | (1.470) |
| DEP | -4.199 | -4.868 | -29.436* | -16.718 |
| | (-0.850) | (-0.980) | (-1.960) | (-1.190) |

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Jurnal Akuntansi
e-JA
E-ISSN 2549-8800
P-ISSN 1410-3591

| | | | | |
|---|---|---|---|---|
| _cons | -11.692** | -4.769 | -21.814*** | -5.550 |
| | (-2.170) | (-0.720) | (-2.970) | (-0.760) |
| Year FE | Yes | Yes | Yes | Yes |
| Industry FE | Yes | Yes | Yes | Yes |
| $R^2$ | 0.430 | 0.448 | 0.298 | 0.359 |
| $R^2$_adjusted | 0.424 | 0.441 | 0.287 | 0.348 |
| *N* | 908 | 908 | 791 | 791 |

Source: Output software Stata 16, 2023

## DISCUSSION

**Corporate reputation and financial distress risk.** Data processing involving multiple regression analysis has uncovered a compelling and noteworthy relationship, which indicates that corporations with a solid and positive reputation tend to exhibit reduced susceptibility to financial distress. This successful validation of Hypothesis 1 (H1) adds substantial weight to the current research and seamlessly corroborates the core principles of the resource-based view theory (RBV theory). According to the RBV theory, reputation is an invaluable and intricate intangible asset, distinguished by its rarity and inimitability. This distinctive attribute imparts substantial advantages to a company, including heightened overall performance and a competitive edge that is particularly pronounced (von Berlepsch et al., 2022). These advantages mitigate the company's financial distress risk in a cascading effect. The robustness of these findings is further underscored by the existing body of research in this domain, exemplified by studies like (Góis et al., 2020), (Pfister et al., 2020) and (Brahmana et al., 2022), which have independently established a negative correlation between corporate reputation and the level of risk faced by a company.

On the other hand, these findings contrast with the results of (Setiawan et al., 2022), who stated that corporate reputation does not significantly affect the risk of financial distress. A rational explanation for this outcome difference is the variation in measuring corporate reputation. This study uses market capitalisation as a proxy for corporate reputation, while the research by (Setiawan et al., 2022) relies on rankings based on Kompas 100. Newspaper rankings may be more subjective and influenced by various factors, including analysts' opinions or editorial assessments. Moreover, newspaper rankings may not always accurately reflect market value or sentiment. This study measures corporate reputation using market capitalisation because it can directly reflect the company's market value based on stock prices, encompassing investors' perceptions of its performance and prospects. This provides a real-time and direct overview of how the market evaluates the company. The results of this study are subject to rigorous testing and scrutiny through the utilisation of CEM regression, thus solidifying the reliability and validity of the findings.

The findings highlight the importance of a company's reputation as a valuable and rare intangible asset that can provide a significant competitive advantage. Based on these findings, companies are advised to invest in building and maintaining an excellent reputation to reduce the risk of financial distress and achieve a competitive edge.

**The Moderating Role of Available Slack in the Relationship between Corporate Reputation and Financial Distress Risk.** The results derived from moderated regression analysis present a compelling narrative in corporate risk management. They reveal that companies possessing both a strong and favourable reputation and a significant pool of

available slack resources can significantly mitigate the risk of financial distress. This intriguing relationship that has surfaced underscores that, as a company's reputation and available slack resources increase, there is a corresponding decrease in the risk of financial distress. In essence, available slack is a crucial element that reinforces the interplay between corporate reputation and financial distress risk, thereby providing empirical support for Hypothesis 2 (H2). This finding is further fortified through the rigorous application of CEM regression, reinforcing the robustness of the results.

These observations dovetail effectively with the Resource-Based View (RBV) theory principles, highlighting the importance of available slack and reputation as intrinsic assets that yield substantial advantages. Available slack, for instance, plays a crucial role in enabling companies to maintain the stability of their cash flows, especially during periods of economic turbulence such as the COVID-19 pandemic, rendering them less vulnerable to resource limitations (Picolo et al., 2018). In essence, available slack functions as an internal financial reservoir that can be strategically tapped into during times of crisis, providing a critical financial lifeline to navigate through temporary periods of financial distress (Agusti et al., 2022).

Concurrently, an excellent corporate reputation comes with its own set of benefits. It enhances a company's ability to negotiate more favourable terms for debt financing (Setiawan & Hermawan, 2018) and fosters heightened shareholder confidence (Runge, 2021). This, in turn, creates a conducive environment for the company to secure external funding, further reinforcing its financial position. By having two robust sources of financial support, internal (available slack) and external (favourable debt terms and shareholder confidence), companies can adeptly navigate operational challenges without significant disruption, thus drastically diminishing the risk of financial distress. This multifaceted approach to risk management enhances a company's resilience. It cements its ability to withstand financial turbulence, emphasising the importance of available slack and reputation as critical assets in contemporary corporate strategies.

The findings underscore the importance of building and maintaining a good reputation and efficiently managing available slack. Based on these findings, this study suggests that management should incorporate the reputation of the company and available slack as part of the company's sustainability strategy because both resources play a crucial role in enhancing the company's resilience and maintaining better performance, especially in unstable economic situations. This can help reduce the risk of financial distress faced by the company.

**Additional analysis: low-growth industries vs high-growth industries.** The findings derived from additional tests presented in Table 8 illustrate the capacity of a positive corporate reputation to mitigate the levels of financial distress risk across both low-growth and high-growth sectors. This observation underscores the universal significance of corporate reputation as a pivotal resource for businesses. Firms with a commendable reputation are positioned to earn the trust and confidence of a broad spectrum of stakeholders, including customers, investors, and creditors. This elevated level of trust, in turn, catalyses enhanced operational performance, effectively diminishing the likelihood of encountering financial distress. These empirical results support the Resource-Based View (RBV) theory, which posits that intangible assets, particularly those characterised by their non-imitability, such as corporate reputation, represent invaluable reservoirs of strategic resources that confer a significant competitive edge.

In addition, the results of the additional tests also indicate that available slack can

Jurnal Akuntansi
e-JA
E-ISSN 2549-8800
P-ISSN 1410-3591

only moderate the relationship between corporate reputation and financial distress risk in high-growth industries. These findings can be explained by examining the characteristics of high-growth industries. High-growth industries often exhibit rapid fluctuations, such as unforeseen changes in market demand, intense competition, and expansive technological advancements (DePamphilis, 2019). These challenges drive high-growth companies to innovate to gain a competitive edge consistently. Innovation is key in addressing the challenges and opportunities in high-growth industries (Ayala et al., 2018). Companies that consistently innovate are more likely to achieve sustainable growth and long-term success. The presence of available slack allows companies in high-growth industries to respond quickly to changes in the business environment and to innovate without being constrained by resource limitations.

## CONCLUSION

This study examines the relationship between corporate reputation and financial distress risk and the moderating role of available slack in this relationship. The study uses a sample of non-financial public companies in Indonesia listed on the Indonesia Stock Exchange (BEI) from 2020 to 2022. Multiple and moderated regression analyses were applied to answer the research hypothesis. This study found that a good corporate reputation is associated with a lower risk of financial distress. Furthermore, this study also found that available slack strengthens the negative relationship between corporate reputation and financial distress risk. The robustness of the research results was analysed using CEM regression.

The results of this study have both theoretical and practical implications. First, this study expands empirical research on factors related to financial distress risk, focusing on financial factors such as corporate reputation and available slack. It also extends empirical research on the resource-based view theory. Second, the study is expected to provide critical information for management regarding the crucial role of reputation and available slack in reducing financial distress risk, especially during economic crises. Based on the test results, this study suggests that company management should improve corporate reputation and maintain available slack to ensure that the company has sufficient funding sources during economic crises like the current one. In turn, it ensures that the company's operations and performance are not disrupted, reducing the risk of financial distress.

This study has limitations. First, it only uses one proxy commonly used to measure financial distress risk. Future research is advised to use other proxies, such as ZMScore and O-Score (Boubaker et al., 2020), for comparison. Second, this study only tests the relationships between variables after the COVID-19 pandemic (2020 to 2023), so it cannot compare the roles of corporate reputation and available slack in financial distress risk before and after COVID-19. Future research is recommended to examine the relationships between variables before and after COVID-19. Third, this study only focuses on financial factors (corporate reputation and available slack) related to financial distress risk. Future research should expand on non-financial factors related to financial distress risk, such as corporate governance or top-level management characteristics.

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Jurnal Akuntansi
e-JA
E-ISSN 2549-8800
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