Testing The Determinants Of Corporate Reputation And Their Impact On Market Valuation

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Abstract: This study examines model of the determinants of corporate reputation, namely managerial ability and corporate social performance and their impact on market valuation. Theoretical model is built based on Resource-based theory and signaling theory. Population of this study are all companies listed on the Indonesia Stock Exchange in 2017 – 2020. The results of this study indicate that there is an influence between managerial ability and corporate social performance on corporate reputation. This study also finds that corporate reputation has an effect on market valuation, however, both managerial ability and corporate social performance have no effect on market valuation. Subsequent testing shows that corporate reputation mediates the relationship between managerial ability and corporate social performance on market valuation.

Keywords: Corporate Reputation; Corporate Social Performance; Managerial Ability; Market Valuation.

Abstrak: Penelitian ini mengkaji model determinan *corporate reputation* yaitu *managerial ability* dan *corporate social performance* serta pengaruhnya terhadap *market valuation*. Model teoritis dibangun berdasarkan *resource-based theory* dan *signaling theory*. Populasi penelitian ini adalah seluruh perusahaan yang terdaftar di Bursa Efek Indonesia tahun 2017 – 2020. Hasil penelitian ini menunjukkan bahwa terdapat pengaruh antara *managerial ability* dan *corporate social performance* terhadap *corporate reputation*. Penelitian ini juga menemukan bahwa *corporate reputation* berpengaruh terhadap *market valuation*, namun *managerial ability* dan *corporate social performance* tidak berpengaruh terhadap *market valuation*. Pengujian selanjutnya menunjukkan bahwa *corporate reputation* memediasi hubungan antara *managerial ability* dan *corporate social performance* pada *market valuation.*

Kata Kunci: Reputasi Perusahaan; Kinerja Sosial Perusahaan; Kemampuan Manajerial; Penilaian Pasar.

INTRODUCTION

Market valuation is a market response to the company's overall performance. If the company's performance is good, the market valuation will be high and vice versa. In

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assessing company performance, (Campbell and Kracaw, 1980) stated that financial intermediaries are needed because investors cannot get full information about the actual value of the company's assets. (Jiao's, 2011) also stated that the quality of disclosure of mandatory financial reporting and voluntary disclosure is high, driven by the company's obligation to communicate information to investors, which is expected to create a positive relationship between disclosure quality and market valuation. So that market valuation can fully reflect information on the company's past, both information published in the company's financial statements and unpublished or insider information. Research (Solikhah et al., 2010) stated that apart from information systems, companies must also be able to adapt to developments in the economic field.

How the market values a company is at least illustrated in the following business phenomena. The concept of branchless banking or digital bank, which was just introduced, becomes a good prospect for business people to start participating in this business. In addition to start-up companies, banks also participate in this digital bank. One of the banks that has benefited is PT Bank Artos Tbk (ARTO), in 2019 it was a Book 1 bank with a capital of under Rp 1 trillion. However, at the end of 2019, 51 percent of ARTO's shares were acquired by PT Metamorphosis & Wealth Track Technology. The acquisition value reached almost Rp 240 billion or twice the book value at that time. In addition, the Gojek company also acquired ARTO through its financial business wing, GoPay for 22 percent. ARTO's plan to become Gojek's digital bank has a positive impact on its share price, cnbcindonesia.com (2021). With the branchless banking concept, PT Bank Artos Tbk, which has now changed its name to PT Bank Jago Tbk, creates opportunities to grow with stakeholders (customers, employees, shareholders, investors, business actors, and the community) by becoming a financial solution that focuses on life, by values of life-centricity, purposeful growth, fearless creativity, empowered agility (jawa.com, 2021).

Market valuation exists as a form of response to information held by companies, both published and unpublished. Performance information built by the company can be reflected in the corporate reputation. (Fombrun's, 2012) states about how corporate reputation is seen as an "image" built by the company. Although measures of corporate reputation do not appear anywhere in the financial statements, companies spend a lot of time and money building their reputations, in order to benefit from it in the future. (Daromes and Gunawan, 2020) proves that a favorable reputation has a positive impact to market valuation of the firm.

The difference between this research and previous research lies in that this research is not only about corporate reputation with market valuation as has been studied by (Holly, 2018). This study adds the factors forming corporate reputation, namely managerial ability and corporate social performance with consideration according to (Jao et al., 2020) that reputation is a representation of company’s ability to manage its resources (managerial ability) and company’s action (corporate social performance) compared to competing companies. In addition, there is still inconsistency between previous finding by (Rohman, 2021) that found corporate reputation has negative and significant impact to market valuation. This study refers to resource-based theory and signaling theory to explain the relationship between variables.

Resource-based theory explains that performance varies as a function of value, scarcity, imitability, and substitution of firm control of resources. Research by (Fernando et al., 2020) adds that managerial ability is able to create greater firm value by increasing the resource value. The findings of (Fernando et al., 2020) extend the above view by suggesting the influence of managerial ability in the creation of resource value depends on the quality of the resource. So that resource-based theory can explain the relationship of managerial ability in the formation of corporate reputation.

From a resource-based theory perspective, this study explains the relationship between corporate social performance and corporate reputation. According to (Wang *et al*., 2019) investing company resources in social activities can have internal benefits by improving corporate performance and helping companies to develop new resources and capabilities related to company knowledge and culture. As a result, investing in social and disclosure activities has important consequences on the creation or depletion of underlying intangible resources. Thus, companies that pay attention to stakeholder interests will increase corporate reputation. The resource-based theory view offers corporate social performance as a tool to refine the analysis of how corporate social policies affect the triple P bottom lines (profit, people, planet) So that by creating good corporate social performance, it will provide benefits in the future, namely creating the company's intangible assets, namely corporate reputation.

In another part, this research is explained by signaling theory, which is related to the relationship between corporate reputation and market valuation. (Jao et al., 2020) stated that reputation is a representation of company’s ability to manage its resources and company’s action compared to competing companies. Research conducted by (Daromes and Gunawan, 2020) shows that a favorable reputation has a positive impact on firm's market valuation.

Thus, this study aims to examine the model of how the mechanism of managerial ability and corporate social performance can improve the company's reputation. Further testing of the model is related to the impact of further testing on the impact of further testing on market valuation which is tested directly or through corporate reputation.

THEORITICAL REVIEW

Research conducted by (Holly, 2018) examined the relationship between company reputation and market valuation. This study provides evidence that the company's reputation has value relevance, as measured by its ability to explain the market value of the company's equity at the end of the fiscal period. The sample of this research is the companies assessed by Fortune magazine. This study provides evidence of the market's ability to value these intangible assets (company reputation), the findings of this study add support to research which states that currently unrecognized internal intangible assets contribute assets to firm value and are thus seen as assets by investors.

Research on managerial ability in the formation of firm value has been investigated by (Fernando et al., 2020). This study investigates the central premise of resource-based theory which states that managers are a potential source of value creation for companies. Current research focuses on managerial ability as a source of resource value creation. This study describes a model in which the level of performance advantage enjoyed by the company depends on the manager's ability to create value from the resources controlled by the company. Specifically, the sample of this study spans from 1992 until 2015, based on data availability. The study found that manager’s ability has a positive and significant impact on value creation for companies.

Research related to managerial ability was also carried out by (Baik et al., 2017) who tested the relationship between managerial ability and the quality of company environmental information. This study adopts a proxy for managerial ability from (Demerjian et al., 2012) which uses DEA to obtain a measure of specific management abilities. This study identified a final sample of 15,207 firm-year observations from the ExecuComp/IBES/CRSP database intersection for 1993 to 2010 to build managerial ability and proxies for the information environment. This study found a positive and economically significant relationship between managerial ability and company environmental information.

Resource-based Theory. Research by (Paulus and Murdapa, 2016) state that Resource-Based View Theory is known as a theory that seeing internal resources ability as a competitive advantage. Managed resources will produce finished products using various company assets and other bonding mechanisms. This theory relies on two assumptions, first, firms within an industry are heterogeneous, based on the resources they possess. Second is that of imperfect of resource mobility, (Kull et al., 2016).

Signaling Theory. Signaling theory, which was originally developed to to solve information problems that occur in the labor market. The function of signaling theory is to give signals or signs to parties outside the company about the situation within the company.

Dividends are often used as a signal of management's expectations for the company's future developments, where in the end the market will react by revaluing the company. Signaling theory provides incentives for companies to provide information to external parties, in the form of financial reports. The company's goal is to provide information to parties outside the company, because of the information asymmetry between the company and outsiders, (Prapaska, 2012).

According to (Zhang, 2006), CEO's share ownership can serve as a signal of the credibility of the company's executive oath. Since the CEO is a shareholder, the cost of certifying the false financial statements will be borne, at least in part, by the CEO. Similarly, (Zhang, 2006) argues that the CEO's external director can serve as a signal of the credibility of the firm's executive oath. Combining multiple board memberships can be indicative of a CEO's reputation or prestige in the managerial job market. Lastly, (Zhang, 2006) argues that CEO tenure can serve as a signal of the credibility of the firm's executive oath. As CEO tenure increases, CEO human capital becomes more company-specific and less generic (Zhang, 2006). In other words, as CEO tenure increases, CEO human capital becomes increasingly undiversified in the firm.

Theoretical Framework. Resource-based theory suggests that performance varies as a function of value, scarcity, imitability, and substitution of firm control of resources. (Fernando et al., 2020) added that resource-based theory explained about the ability of managers to create greater resource value. Resources are converted into final products or services using various company assets and other bonding mechanisms such as technology, management information systems, incentive systems, trust between management and workforce, etc.

The findings of (Fernando et al., 2020) extend the above view by suggesting the influence of managerial ability in the value creation of resources depends on the quality of resources. So that the increase in management's ability to manage the company's resources will be able to improve the company's reputation, and indirectly increase the market valuation of the company, (Demerjian et al., 2012).

The company's operational activities also need to pay attention to the social impacts that occur. According to (Wang et al., 2019) investing company resources in social activities can have internal benefits by helping companies to improve corporate performance by develop new resources and capabilities related to company knowledge and culture. As a result, investing in social and disclosure activities has important consequences on the creation or depletion of underlying intangible resources. So, with good CSP, it is expected to be one of the elements that will build intangible assets in the form of a good corporate reputation.

The above reality provides a signal that all activities carried out by the company in managing its resources will provide a signal in the form of corporate reputation to the public about how the company's condition is compared to competing companies. According to (Jao et al., 2020) stated that reputation is a representation of company's ability to manage its resources and company's action compared to competing companies. Where later the signal given by the company will get a response by the market (market valuation). (Daromes and Gunawan, 2020) shows that a favorable reputation has a positive impact on firm's positive market valuation.

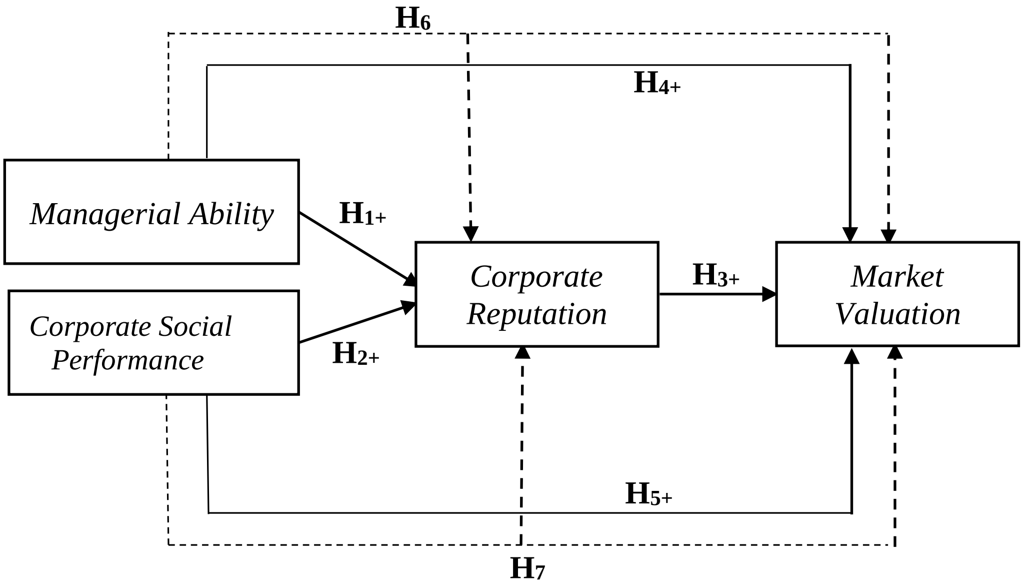

Figure 1. The Research Model

Based on the theoretical framework above, the hypotheses built in this research are as follows:

H1: Managerial ability has a positive effect on corporate reputation;
H2: Corporate social performance has a positive effect on corporate reputation;
H3: Corporate reputation has a positive effect on market valuation;
H4: Managerial ability has a positive effect on market valuation;
H5: Corporate social performance has a positive effect on market valuation;
H6: Corporate reputation mediates the relationship between managerial ability and market valuation;
H7: Corporate reputation mediates the relationship between corporate social performance on market valuation.

METHODS

Population and Sample. The population in this study are companies listed on the Indonesia Stock Exchange during the period 2017 - 2020. The data used are financial reports, annual reports, and sustainability reports issued by companies for 2017 - 2020.

The sampling method in this study uses purposive sampling, in which the researcher determines certain criteria to select samples that are in accordance with the research objectives. The sampling criteria are as follows: (1) Companies listed on the Indonesia Stock Exchange (IDX) during the period 2017 - 2020. (2) The company publishes complete financial reports, sustainability reports, and annual reports in rupiah for the period 2017 - 2020. (3) Companies that have a CII score at www.imacaward.com

Operational Definition and Measurement of Variables

Managerial Ability. (Hidayah et al., 2015) stated that managerial ability consist of capabilities to organize, direct, and encourage employee to act in line with company's goals. In terms of operational definitions, managerial ability is defined as the ability of a management company that can form accurate assessments and estimates regarding the company's efficiency, which can be relied on to predict the future. The measurement of managerial capacity variables refers to the study of (Demerjian *et al.*, 2012) as follows:

$$Firm\ Efficiency = \alpha + \beta 1\ In\ (Total\ Assets) + \beta 2\ Market\ Share + \beta 3\ Free\ Cash\ Flow + \beta 4\ In\ (age) + \beta 5\ Bussiness\ Segment\ Concentration + \beta 6\ Foreign\ Currency\ Indicator + \varepsilon i \quad (1)$$

While firm efficiency by (Demerjian et al., 2012) will be calculated by the following formula:

$$Maxv\theta = \frac{Sales}{COGS + SG\ \&\ A + PPE + Ops\ Lease + R\ \&\ D + Goodwill + Other\ Intan} \quad (2)$$

Description:

COGS	= Cost of Goods Sold
SG&A	= Selling, General, & Administrative Expense
PPE	= Property, Plant, and Equipment
Ops Lease	= Operating Lease
R&D	= Research and Development Expense

Other Intan = Other Intangible Assets

Corporate Social Performance. Broadly, corporate social performance (CSP) is defined as an action that appears to promote social good, beyond the obligatory corporate interests of (Esteban-Sanchez et al., 2017). Research by (Chen and Delmas, 2011) states that CSP is defined as "a construct that is built that focuses on the company's responsibilities to stakeholders, but also its traditional responsibilities to economic shareholders". The measurement of corporate social performance in this study uses the CSPI, namely the Corporate Social Performance Disclosure Index (CSPI), with the following formula:

$$CSPI = \frac{\sum X_{ij}}{N_j} \qquad (3)$$

Description:
CSPI = Corporate Social Performance Disclosure Index
N_j = Number of Corporate Social Performance (CSP) disclosure criteria for companies j
X_{ij} = *dummy variable*

Corporate Reputation. Corporate reputation is an intangible asset that has slightly different characteristics, corporate reputation is not easily transferred to other parties. Despite having different characteristics, corporate reputation is considered necessary to be built within the company. (Holly, 2018) provide evidence that corporate reputation has value relevance to the firm's market value. Reputation is a representation of company’s ability to manage its resources and company’s action compared to competing companies (Jao et al., 2020). Likewise, according to Indonesia Corporate Image Award (IMAC) official website that stated the dimension of Corporate Image Index (CII) is well-managed company and company with social responsibility. (Kurniawati, 2015); (Daromes and Gunawan, 2020) used data from the Indonesia Corporate Image Award (IMAC). Thus, corporate reputation can be formulated as follows:

Corporate Reputation = CII Score…………………………………………………… (4)

Market Valuation. Market valuation is an important aspect for companies to survive in the competition. Taking into account the market valuation allows the company to gain both financial and non-financial benefits. Research by (Jiao, 2011) uses Tobin's Q to measure market valuation. This analysis is based on Tobin's pioneering insight, which introduced the variable q, the ratio of market value to replacement cost, into the macroanalysis. Tobin's Q formula is formed as follows:

$$Q_{it} = \frac{BVA_{i,t} + MVE_{i,t} - BVE_{i,t}}{BVA_{i,t}} \qquad (5)$$

Description:
BVA = Book Value of Assets
MVE = Market Value of Equity

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BVE = Book Value of Equity

RESULTS

Table 1. Descriptive Statistic

Variable	N	Min	Max	Mean	Std. Deviation
Managerial Ability (MA)	72	0.891	1.508	1.158	0.155
Corporate Social Performance (CSP)	72	0.000	0.623	0.380	0.136
Corporate Reputation (CR)	72	0.000	3.620	1.344	0.818
Market Valuation (MV)	72	0.911	3.736	1.525	0.599

Source: SPSS Data Processing Results (2021)

The results of descriptive statistical analysis show that managerial ability in the sample companies has minimum value of 0.891 and maximum value of 1.508 with an average value of 1.158 and a standard deviation of 0.115. Based on the results of the analysis, the average managerial ability of the sample companies is relatively good, namely 1.158, the value is above 1. The standard deviation value which is smaller than the average value indicates that the deviation of the firm value data is smaller than the average value so that the nature of the data from this study is quite varied.

Corporate social performance in the sample companies showed minimum value of 0.000 and maximum value of 0.623, with an average value of 0.380 and a standard deviation of 0.136. Based on the results of this analysis, the average corporate social performance of the sample companies is good, namely 0.380. This shows that the sample companies have paid attention to corporate social performance. The standard deviation value which is lower than the mean value indicates the nature of the data from the study, spread and varies.

The minimum value of corporate reputation is 0.000 and maximum value is 3.620. Corporate reputation has an average value of 1.344 and a standard deviation of 0.818. The standard deviation value which is smaller than the average value indicates that the deviation of the data is much smaller than the average value so that the nature of the data from this assessment is spread out and the average value represents the entire data well.

The market valuation has minimum value of 0.911 and maximum value of 3.736, with an average value of 1.525 and a standard deviation of 0.599. This shows that the average market valuation in Indonesia is relatively well above 1, which is 1.525. The standard deviation value which is smaller than the average value indicates that the deviation of the market valuation data is smaller than the average value so that the nature of the data from this study is spread out.

Table 2. F Test

Exogenous Variable	Endogenous Variable	F	Sig.
Managerial Ability (MA) *Corporate social performance* (CSP)	*Corporate Reputation* (CR)	7.047	0.000
Managerial Ability (MA) *Corporate social performance* (CSP) *Corporate Reputation* (CR)	*Market Valuation* (MV)	6.349	0.000

Source: SPSS Data Processing Results (2021)

Based on the results above, it shows that the substructure equation 1 which examines the effect of managerial ability and corporate social performance simultaneously on corporate reputation has a significance value of 0.000. This indicates that managerial ability and corporate social performance simultaneously affect corporate reputation. Thus the model in the substructure equation 1 has been built well.

The results of the F test on the effect of managerial ability, corporate social performance, and corporate reputation on market valuation which is the substructure equation 2 shows a significance value of 0.000. This indicates that there is a significant influence between managerial ability, corporate social performance, and corporate reputation on market valuation. Thus, the model in substructure equation 2 has been built well.

Table 3. Coefficient Determination (R^2)

	R	R Square	Adjusted R Square
Substructure 1	0.487	0.237	0.204
Substructure 2	0.524	0.275	0.232

Source: SPSS Data Processing Results (2021)

The results of the coefficient of determination test for the Substructure 1 equation shown in Table 3, the adjusted R square value obtained is 0.204, which means that 20.400 percent of the variation in corporate reputation can be explained by variations in managerial ability and corporate social performance. While the remaining 79.6 percent is explained by other variables outside this model.

The magnitude of the coefficient of determination as reflected in the adjusted R square for the Substructure 2 equation is 0.232. This indicates that 23.200 percent of the variation in market valuation can be explained by variations in managerial ability, corporate social performance, and corporate reputation. While the remaining 76.800 percent is explained by other variables outside this model.

Table 4. Path Analysis

Structural Model	Standardized Beta	Sig.	Confirmation of Significance
Substructure 1 (The effect *managerial ability, corporate social performance* on *corporate reputation*)			
Managerial Ability (MA)			
Corporate social performance (CSP)	0.303	0.008	Significant
	0.316	0.005	Significant
Substructure 2 (The effect *managerial ability, corporate social performance,* and *corporate reputation* on *market valuation/MV))*			
Managerial Ability (MA)	0.060	0.601	Insignificant
Corporate social performance (CSP)	-0.025	0.825	Insignificant
Corporate Reputation (CR)			
	0.526	0.000	Significant

Source: SPSS Data Processing Results (2021)

Table 5. Sobel Test

Variables Effect	Estimation Value	*Standard Error*	*P value of sobel test*
MA → MV via CR	1.603; 0.209	0.585;0.047	0.019
CSP → MV via CR	1.905;0.209	0.653;0.047	0.015

Source: SPSS Data Processing Results (2021)

Based on the results of the Sobel test in Table 5, it shows that the influence of managerial ability (MA) on market valuation (MV) through corporate reputation shows a significance probability value of 0.019. Thus, H6, which states that corporate reputation mediates the effect of managerial ability (MA) on market valuation (MV), is accepted. The effect of corporate social performance on market valuation through corporate reputation using the Sobel test, shows a significance probability value of 0.015. Thus, H7, which states that corporate reputation mediates the effect of corporate social performance on market valuation, is accepted.

DISCUSSIONS

The association between managerial ability and corporate reputation. The results of this research support the research of (DP et al., 2020) which states that one of the components that make up corporate reputation is management quality. Quality management explained that, the public likes well-managed organizations which can also benefit high-quality managers with a clear vision for the future. The quality of management is reflected in the managerial ability to make the right decisions and lead subordinates in a company. Quality management is also able to manage company resources effectively and efficiently, and is explained in resource-based theory. (Fernando et al., 2020) stated that managerial ability is the main key in helping companies to increase their value by synchronize their resources to create performance advantages.

The results of this study are consistent with the results of research by (Fernando et al., 2020) which describes a model in which the level of performance advantage enjoyed by the company depends on the ability of managers to create value from the resources controlled by the company. The results of this study are also in line with (DP et al., 2020) which states that management quality is one of the factors in increasing corporate reputation, because managers are part of the company's members and their perception of the company determines the reputation they associate with the company.

The results of the calculation of the managerial ability ratio show that the average managerial ability in companies in Indonesia is 1.158, which means that managerial ability in companies in Indonesia is quite high. These results show that company managers in Indonesia are able to manage company resources, namely assets owned by the company. Managers are able to make the company work more efficiently, in terms of production costs, efficient use of fixed assets to generate cash flow and future profits. Thus, high managerial ability has a significant influence on corporate reputation. This indicates that the quality of management is an assessment in determining the company's reputation.

The association between corporate social performance and corporate reputation. The results of this study support the research conducted by (Ali et al., 2015) which states that corporate social performance is the second largest antecedent, after company age which affects corporate reputation. Companies that are able to manage their resources, while still paying attention to the welfare of their stakeholders, such as being selective in choosing the basic ingredients to be used, initiatives in corporate philanthropy, will create a good corporate reputation, (Saeed, 2018). (Fombrun, 2012) also states that companies need to identify groups of people or individuals (stakeholders) who have a stake in company actions and company results (products). Stakeholders have different abilities in influencing an organization's ability to achieve its objectives, so their preferences must be assessed and monitored regularly if companies are to be successful in implementing their strategies.

According to (Daromes and Gunawan, 2020) corporate social performance is one of the factors that build up corporate reputation. The study stated that a company that is aware of its social responsibility and supports good causes in society is a reward for the company. Research (Wang et al., 2019) corporate reputation is a collective representation of a company's past actions and future prospects, including paying attention to stakeholders and fulfill their social responsibilities. Research by (Esteban-Sanchez et al., 2017) states that companies that are considered to have good CSP by stakeholders will increase their reputation among their main stakeholders and more easily achieve greater CFP. This indicates that companies that pay attention to the interests of stakeholders will create intangible assets for the company, namely reputation.

The association between corporate reputation and market valuation. According to (Banker et al., 2019) the market is able to assess the company's performance through its operating expenses, which will create future benefits in the form of intangible assets.

(Arslanagic-Kalajdzic and Zabkar, 2017) corporate reputation is a cognitive representation of the company's capabilities to provide valuable results to its stakeholders.

The results of this study are consistent with the research of (Holly, 2018) which found a positive influence between corporate reputation on increasing firm value. This study explains that the market has the ability to assess a company's reputation, and explains that corporate reputation is one of the most important intangible assets. The results of this study are also consistent with research by (Jiao, 2011) which found high-quality disclosures will increase market value and also future operating performance.

Companies that maintain and maintain their quality both in terms of products and management, according to signal theory, will give a signal to their stakeholders that the company is able to manage the company well, and will gain the trust of the public. Stakeholder trust is built in the company's intangible assets, namely corporate reputation. Companies that have a good reputation will ultimately increase the market valuation of the company.

The association between *managerial ability* and *market valuation.* This study is consistent with research by (Fernando et al., 2020) which found that there is a synchronization between managerial ability and the creation of firm value. Similar research results were also found by (Demerjian et al., 2017) which stated that highly skilled managers are more likely to engage in intentional income smoothing. The initiative of highly skilled managers to carry out intentional income smoothing, because there are profitable demands for stakeholders. High managerial ability has a tendency to carry out intentional income smoothing, due to two things: First, to fulfill the incentive contract design prepared by the board of directors, (Demerjian et al., 2017). Second, the demand for high managerial ability has a high quality of income.

Agency theory explains that in the relationship between the agent and the principal there is an obstacle called the agent-principal problem. The agent-principal problem is caused by the authority to make financial decisions of the company delegated to the agent, resulting in the possibility of differences of opinion, even priorities and interests between the agent and the principal. There is a tendency for agents to have their own interests, in addition to achieving company goals. According to (Hidayah et al., 2015) the ability of managers to manage the employees to be in line with company goals. However, not all management has the same goals as the company. This is what causes high managerial ability to increase market valuation but not significantly.

The association between corporate social performance and market valuation. The results of this research are inconsistent with research conducted by (Esteban-Sanchez et al., 2017) which defends the positive impact of CSP on CFP when the interests and expectations of the company are aligned with the interests of all stakeholders as a whole, reducing agency conflict, according to stakeholder theory. The results of this study are also inconsistent with signaling theory. Where signaling theory explains that stakeholders will respond according to the information the company provides (Fenandar, 2012). Companies that have corporate social performance will produce outputs expected by stakeholders. So that the market assessment of the company will increase. However, in this study, companies with corporate social performance will make market valuations decline.

The results indicate that there is a negative effect between corporate social performance on market valuation. Reveal that CSR activities reduce the efficiency of the company's capital allocation. CSR activities are considered detrimental to financial performance. Shareholders believe that CSR activities are not in the interests of shareholders, but rather to overcome agency problems, and every benefit from stakeholders sacrifices the value of the company itself. This is in line with (Soana, 2011) which argues that good corporate social performance results in costs that are clearly higher than profits, and this lowers CFP. The results of this study are consistent with shareholder theory, which explains that the most basic responsibility of the board of directors is to increase shareholder value. This theory explains that management and shareholders must work together to increase the value of the company, which focuses on increasing profits and minimizing losses.

Thus, companies that have high corporate social performance lower their market valuation. Because the company no longer focuses on increasing the wealth of its shareholders, but focuses on how the company can carry out its operational activities while maintaining the welfare of the stakeholders. Companies that carry out their social responsibility generate more additional costs so that the company has the potential not to generate maximum profit, making investors not interested in the company. This is what causes an increase in corporate social performance, which will reduce market valuation but not significantly.

The role of corporate reputation as a mediation variable on the relationship between managerial ability and market valuation. The results of testing the direct influence between managerial ability and corporate reputation are positive and significant, and the direct influence of corporate reputation on market valuation is significant positive. The results of the Sobel test show that the role of corporate reputation as a mediating variable on market valuation on managerial ability has a probability of 0.019 less than 0.050. This means that corporate reputation acts as a mediating variable for the influence of managerial ability on market valuation.

Resource-based theory explains that companies must be able to manage their resources, in order to have a competitive advantage compared to competitors. Resources owned by the company are all available stock and controlled by the company, which will eventually be processed into a product. In line with this theory, a manager is required to be able to manage company resources in order to create value for the company.

Managerial ability is one of the considerations for potential investors in assessing a company. Because managers are an important part of the company, potential investors consider it necessary to assess how far a manager's ability to run the company is. High managerial ability will certainly provide additional value for potential investors to determine whether to invest or cooperate with the company.

Corporate reputation is an intermediary or media built to help potential investors to assess the extent to which the company is running its operations. In determining corporate reputation, management quality is one of the assessments. So that the higher the corporate reputation of the company, it is considered that the managerial ability within the company is also high. The manager of the company is considered to be able to run the company's operations well. Thus, the market valuation of the company will increase.

The success of the corporate reputation variable in mediating the influence of managerial ability on market valuation is supported by (Wang et al., 2019) which states that corporate reputation is a collective representation of the company's past actions and future prospects. So that corporate reputation becomes a signal to potential investors, regarding the company's ability to manage its resources and its action regarding society (Jao et al., 2020). Research by (Holly, 2018) provides evidence that corporate reputation has value relevance to the firm's market value.

The role of corporate reputation as a mediation variable on the relationship between corporate social performance and market valuation. The results of testing the direct influence between corporate social performance and corporate reputation have a positive and significant effect. The direct effect of corporate reputation on market valuation is significant positive. Furthermore, the results of the Sobel test show that the role of corporate reputation as a mediating variable on market valuation on corporate social performance has a probability of 0.015 less than 0.050. This means that corporate reputation acts as a mediating variable for the influence of corporate social performance on market valuation.

Signal theory explains that signals are needed by potential investors to assess the performance of the company, because there are limitations in obtaining overall information. The signal contains information that is relevant to the decisions that will be taken by the stakeholders. This signal is reflected in the corporate reputation. Research by (Ali et al., 2015) explains that there are 7 antecedents in building corporate reputation, one of which is corporate social performance. Companies that have a good level of corporate social performance are expected to produce outputs that are as expected by stakeholders. This is because companies that carry out good corporate social performance are considered successful in carrying out their operational activities while maintaining the interests of stakeholders.

The company's performance in managing its company is reflected in its corporate reputation. Because corporate reputation is one of the intermediaries for external parties to assess the performance of the company, taking into account several aspects. With the company maintaining its reputation, of course, it will gain the trust of outsiders that the company has worked well.

The results of the Sobel test show that corporate reputation is successful in mediating the effect of corporate social performance on market valuation. This indicates that companies that have positive corporate social performance, as described by (Soana, 2011), engage in dialogue with local communities and philanthropy, client orientation, level of involvement in illegal practices and respect for the environment, indicating that companies can carry out their operational activities consistently. pay attention to the interests of stakeholders, it will increase corporate reputation. Because the company is considered successful in implementing a strategy that considers the interests of stakeholders. Thus, increasing corporate reputation will give a signal to the market, which in turn will increase market valuation.

CONLUSIONS

The conclusion of this research, which is as follows: Managerial ability has a positive and significant impact on corporate reputation. Thus, the higher the composition of managerial ability in a company, the corporate reputation tends to increase, because high managerial ability is able to manage company resources more optimally.

Corporate social performance has a positive and significant impact on corporate reputation. This means, the higher the composition of corporate social performance in a company, the corporate reputation tends to increase. This shows that the company is able to carry out its operational activities while still paying attention to the interests of stakeholders.

Corporate reputation has a positive and significant influence on market valuation. Thus, the higher the composition of corporate reputation, the market valuation tends to increase, because a company that has a high reputation gains trust from the market that the company will be able to maintain product quality and management, so that it can dominate its market share.

Managerial ability has an insignificant positive estimate on market valuation. This means that the higher the managerial ability composition in a company, the market valuation tends to increase but not significantly. This is because there are indications that managers from the company will make decisions that are also profitable for themselves (conflict of interest).

Corporate social performance has an insignificant negative estimate on market valuation. This indicates that the higher the composition of corporate social performance in a company, the market valuation tends to decrease, but not significantly. This is because companies that pay attention to corporate social performance will generate other additional costs that will reduce the profits that will be distributed to potential investors.

Corporate reputation acts as a mediating variable on the influence of managerial ability on market valuation. This is because a company's reputation is a collective representation of a company's past actions and future prospects, and how stakeholders interpret a company's ability to provide valuable results on market valuation.

Corporate reputation acts as a mediating variable on the influence of corporate social performance on market valuation. This is because a company that has a good reputation is considered to have carried out its operational activities by taking into account the interests of stakeholders, so that it can mediate with market valuation.

Limitations and Suggestions. The limitations of this research are in the data where there are still few companies that provide sustainability reports, corporate reputation uses the CII score. Future research is advised to expand the sample to be taken in continuing this research, and use the latest corporate reputation measurement tools.

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