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IMPACT OF SELECTED FINANCIAL INDICATORS ON A COMPANY'S REPUTATION*

Róbert Világi [1], Michal Konečný [2], Michal Ruschak [3]

[1] University of Economics in Bratislava, Faculty of Business Management, Department of Business Finance, Dolnozemská cesta 1/b, 852 35 Bratislava, Slovak Republic
[2,3] Institute of Technology and Business in České Budějovice, Faculty of Corporate Strategy, Department of Tourism and Marketing, Nemanická 436/7, 370 10 České Budějovice, Czech Republic

E-mails: [1] robert.vilagi@euba.sk; [2] michal.konecny@mail.vstecb.cz; [3] ruschak@mail.vstecb.cz

Abstract. This article discusses the financial indicators of selected companies and their impact on the reputation score. In the literature, we encounter the connection between financial indicators and reputation; therefore, the article chooses several financial indicators and compares them with the increase or decrease of reputation scores over the past years. The result is an analysis of selected indicators and their impact on the change in the reputation score. The results will help to understand the impact and create a prerequisite for further analyses of the impact on the reputation score from the point of view of financial management.

Keywords: financial management; financial indicators; corporate reputation; board size

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JEL Classifications: M14, M21, M30

1. Introduction

In today's competitive environment, organisations are interested in intangible assets to survive, differentiate themselves and gain a competitive advantage. One of these intangible assets is corporate reputation, which is important to businesses due to its ability to influence all stakeholders (Deniz, 2020). Corporate reputation is companies' most valuable asset because it allows them to gain competitive advantages leading to sustainable performance (Ghuslan et al., 2021). Corporate reputation is decisive in the case of supportive or repulsive behaviour of stakeholders and is, therefore, one of the most valuable intangible resources of businesses (Baumgartner, Ernst, & Fischer, 2022). In today's business, companies must be responsible not only to their shareholders but also to wider stakeholders, in which employees, customers, investors, suppliers, the local community and the natural environment are most affected (Berber et al., 2020; Gavurova et al., 2018). Although

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not the only driver of reputation, financial performance is important to the corporate reputation score. In the RepTrak system, financial performance is one of seven factors of corporate reputation (along with workplace, leadership, headquarters and others). How stakeholders perceive a business's financial performance is critical in building corporate perception. It ultimately helps sustain the business while driving its economy, talent acquisition and retention, customer loyalty, and more (Cho, 2019). The question of corporate reputation management in the time of accelerated digitisation has been an essential topic in the research of academics and practitioners for more than a decade (Pollák & Markovič, 2022). Due to digital transformation, enterprises have to pay more attention to the quality of products, image and external reputation (Sun et al., 2022). The COVID-19 pandemic significantly affected the creation of added value within national economies. The ongoing pandemic crisis greatly affected the world economy (Vochozka et al., 2021; Novakova et al., 2022). The crisis's negative effects affected the production and service sectors, where some segments were fatally affected (Straková et al., 2021).

Global and local crises continue to destabilise stakeholders' trust in businesses, and they must therefore find a long-term solution to the problem of declining trust (Stravinskienė, Matulevičienė & Hopenienė, 2021; Olah et al., 2021). Investors' priorities have changed, especially in light of accounting irregularities and corporate scandals. The reputation of several large companies has suffered from problems with the quality of their financial reporting, sometimes due to misreporting of earnings or poor transparency. Extensive research on the financial costs and risks associated with businesses being the target of litigation suggests that litigation negatively affects corporate reputation (Hadani, 2021). Markets also react negatively to notifications of violations, especially in the case of lawsuits (Unsal & Brodmann, 2021). In the worst cases, allegations of fraud or insider trading have destroyed the reputations of well-established companies and their boards. Investors' attention is no longer just on performance and what will drive future growth – but also on integrity, ethics and competence in how a company is run. This research aims to evaluate the established hypotheses, namely:

Hypothesis No. 1:
H0: There is no significant relationship between the gross profit delta and the change in RepTrak ranking of the selected subjects.
H1: There is a significant relationship between the gross profit delta and the change in RepTrak ranking of the selected subjects.
Hypothesis No. 2:
H0: There is no significant relationship between the delta of research and development costs and the change in RepTrak ranking of the selected entities.
H1: There is a significant relationship between the delta of research and development costs and the change in RepTrak ranking of the selected entities.

2. Theoretical background

Reputation has been an important risk issue for companies worldwide in recent years. Based on Deloitte's global survey, the reputational risk was identified as the main strategic business risk in 2014, as well as the 2015 AON Global Risk Management Survey and the 2016 Allianz Risk Barometer Survey, which found that that loss of reputation is one of the biggest risks for business managers. Furthermore, the importance of corporate reputation is confirmed by the fact that more than 25 per cent of the company's market value and the total market capitalisation of the S&P 500 companies are represented by corporate reputation (Vig, Dumičić, & Klopotan, 2017). Company reputation and reputation risk are increasingly relevant for companies, which is also due to their importance for the company's value. There is much empirical evidence regarding the relationship between reputational events, corporate reputation, and corporate financial performance, taking stakeholder behaviour into account (Škare & Golja, 2012; Streimkiene et al., 2021). Barić (2017) claims that the quality of the relationship between a company and its shareholders is a fundamental factor that affects a business's success in differentiating

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itself from competitors and creating a sustainable competitive advantage. A good company reputation can help companies adapt to market demand, attract investment and motivate workers. It works to differentiate its services and products in the market. Several empirical studies have recognised a clear relationship between corporate reputation and performance. Cocis, Batrancea and Tulai (2021) investigated how corporate reputation is perceived in the eyes of investors based on the equity and financial performance of selected airlines on a sample of 22 airlines, nineteen of which are listed in the World Airline Awards 2018 based on satisfied customers and three are listed in Fortune and have the best corporate reputation in the airline industry. They analysed the period of 2016-2018 to rank airlines based on financial indicators through the TOPSIS method and also to determine whether companies included in the Fortune ranking would maintain a similar ranking. After considering financial performance and balance indicators, the airlines in question maintained a similar ranking within the TOPSIS ranking, and also that airlines with good financial performance and balance had a good reputation in the eyes of investors. Orozco, Vargas and Galindo-Dorado (2018) sought to examine the relationship between board size, financial performance, and corporate reputation within the top companies ranked by the Business Monitor of Corporate Reputation - MERCO in Colombia. To classify enterprises based on performance and control variables, they performed correlations and cluster analysis on a cross-sectional sample of 84 large enterprises in Colombia between 2008-2012. They only took into account large companies listed on the MERCO stock exchange; therefore, based on this, the results can only be generalised to top companies within Colombia. They state that the optimal size of the board, based on the OECD's guide to good corporate governance practice, consists of five to nine key members, and that the board structure has a direct impact on the company's reputation and financial performance and must be carefully analysed by shareholders so that its size is balanced based on the expected results and characteristics of the company, such as family ownership, export activities or stock market standards. Castilla-Polo et al. (2018) state that corporate reputation is rarely applied within cooperatives. Therefore, they decided to analyse the consequences of reputation on their performance, focusing on olive oil cooperatives within Spain, where the need for differentiation makes them crucial subjects of study. They used the structural equation and the partial least squares technique to test empirically a theoretical model that links reputation and cooperation to performance in bivariate and multivariate ways. On the one hand, they considered that the reputation of the cooperative is reflected in four variables, namely in innovation, certified systems, social responsibility and in awards. On the other hand, they considered both financial and non-financial aspects of performance to take into account the specific nature of cooperative societies. Within the results obtained on a representative sample of the sector, specifically on a sample of 76 cooperatives within Spain, they state that reputation was among the four variables that were included in the model, well approximated and indeed directly and positively related to the performance of the cooperative and that for cooperative managers it is possible reputation, as a new key performance indicator to use even in the case of an immediate need for differentiation of this industry. Thus, the company's reputation is an intangible resource that is difficult for competitors to imitate and can be effectively transformed into a competitive advantage that is beneficial to the company's performance. Özbay (2018) claims that in today's business world, expectations of high profitability from the past have been replaced by the advantage of sustainable competition and that the boundaries of businesses and their impact on society have been dramatically expanded as a result of the development of information technology and globalisation, which in turn has led to an increase in society's expectations from businesses. For this reason, investors expect companies to be sensitive to social issues in addition to high financial performance (Belas et al. 2019, 2022). Over the years, the corporate reputation issue has been discussed within many disciplines. In most of these cases, corporate reputation is considered a strategic asset and leads to increased financial performance and sustainable competition, while financial performance is, in many cases, considered a part of corporate reputation (Olah et al. 2021; Gavurova et al. 2020). Based on a panel regression analysis of the data, he tested the relationship between corporate reputation and its market value, reaching results consistent with previous studies, namely that companies highly recognised also have a high market value. Gangi, Daniele and Varrone (2020) set out to answer two related questions, namely whether corporate environmental policy affects the company's corporate reputation and whether this link also affects profitability. They found that environmental product innovation and environmental commitment are antecedents of corporate reputation and that corporate reputation positively affects profitability. Environmental

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responsibility and green corporate practices are specialised assets increasing the value of intangible assets, namely corporate reputation. This impact is the missing link between sustainable development and the company's financial performance. Commitment to the environment and corporate reputation protect the company's competitiveness, respectively, as an insurance policy. Kludacz-Alessandri and Cygańska (2021) state that one of the main drivers of a company's reputation is its social responsibility and that, based on many studies, it can be said that a company's social responsibility can positively influence its financial performance and vice versa. The relationship between a company's financial performance and social responsibility depends on the type of industry in which it operates. Only a small amount of research related to the energy sector has been conducted in the field (Wang et al., 2022; Lu et al., 2021; Guo et al., 2022). As a basis for empirical research, they used the theory of unused resources, which claims that the cause of a company's social performance is its financial performance and analysed whether the company's financial performance affects the acceptance of corporate social responsibility within the energy sector companies. They specifically examined the relationship between selected indicators of financial performance and the adoption of corporate social responsibility, and based on the analysis of an international sample of 219 companies from 32 countries for the year 2020, and they tracked statistically significant relationships between financial performance and the implementation of the social responsibility strategy of energy companies. Based on the results, they claim that return on assets (ROA) and profitability before interest and taxes (EBIT) were significantly higher among companies that implemented a social responsibility strategy. The ratio of enterprise value to earnings before interest, taxes, depreciation, and amortisation (EV EBITDA) was lower among companies that adopted social responsibility. That return on equity (ROE), beta, and EBITDA per share was not confirmed to correlate with the adoption of corporate social responsibility. Zaby and Pohl (2019) identified factors that are related to reputational risk for banks, emphasising the development of an indicator-based reputation assessment model based on a survey of credit institutions in Germany and Switzerland during the financial crisis, particularly affected by appropriately emerging risks, which are partially influenced by it to this day. The level of reputation can be considered a time-dynamic phenomenon, developing mainly depending on the changes within the reputation factors and depending on the expectations of the groups of stakeholders, and the given control parameter can be determined through reputation index points (RIP). Effective management of reputational risk can help prevent future negative side effects from banks facing difficulties from society or taxpayers.

3. Research objective and methodology

For this research, we have selected a sample of the top 10 subjects according to the RepTrak Global report 2021, which will be analysed based on the available information. To determine individual financial indicators, we will use the annual reports of the given entities. Financial indicators used in the research:

- Gross profit
- Research and development (R&D) costs

We will compare these financial indicators with the shift on the Reptrak Global Report 2020 scale, and also compare the reputation score delta. We will transfer all data to tables and graphs. We will use the PSPP program - the CrossTables method (Kendall's Tau C) to evaluate these hypotheses.

4. Results and discussion

Externally, the company's financial indicators are used mainly to identify the health or the ability to repay its obligations. Individual accounting contexts can reveal several factors and thus show an overall view of management and management as such. We know from the literature that companies with good reputations show positive indicators from the view of investment opportunities. We select 10 companies with the best reputation according to RepTrak for 2020. We also compare the reputation index for 2019, but we keep the order according to 2020.

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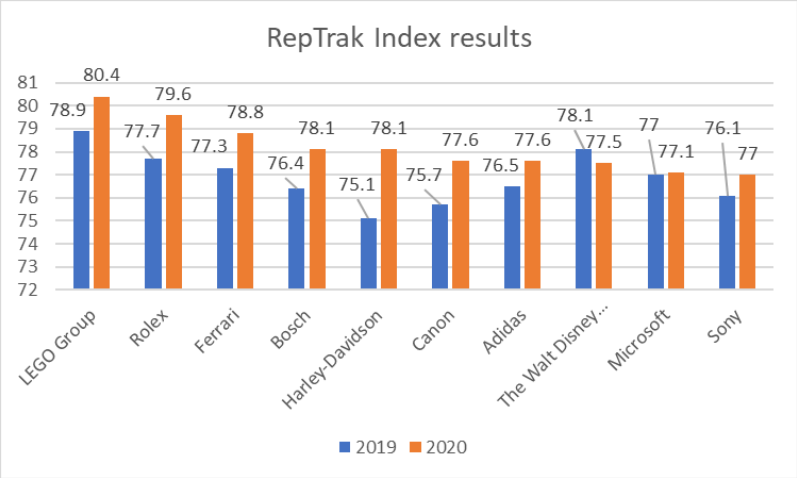

Figure 1. RepTrak Global Index

Source: Own processing based on RepTrak Global Report 2020 and 2021

In Figure 1, we observe that the difference in results for 2020 between the company with the best reputation score and the top 10 is 3.4 points. A decimal number represents a relatively small difference between each position. This slight shift in the level of the RepTrak index is a significant jump in external reputation.

We determined selected indicators for individual companies on the defined sample while we entered the data into individual tables. The first financial indicator is gross profit. According to the annual reports of separate entities, we found the gross profit for 2019 and 2020. Using the percentage share, we calculated the change compared to the previous year. We marked a positive result in green and a negative result in red. The data are displayed graphically in table 1.

Table 1. Gross profit (in millions) and its percentage change

Company	Gross profit 2020	Gross profit 2019	% Change
LEGO Group	4,087.63	3,541.40	15.42
Rolex	n/a	n/a	n/a
Ferrari	2,026.00	2,197.00	-7.78
Bosch	551.60	652.02	-15.40
Harley-Davidson	1,372.00	1,922.00	-28.62
Canon	12,933.00	14,812.00	-12.69
Adidas	9,855.00	12,293.00	-19.83
The Walt Disney Company	21,508.00	27,546.00	-21.92
Microsoft	96,937.00	82,933.00	16.89
Sony	34,480.00	34,310.00	0.50

Source: Own processing based on Annual reports

Companies such as Microsoft and Lego Group recorded the most significant increase. On the contrary, Harley-Davidson and The Walt Disney Company had the most significant declines. We see a substantial difference in investments, which is also reflected in individual entities' product lines and the portfolio's selling price. Since it is irrelevant to compare individual amounts, we will focus on the percentage change in the given periods. We will use this data in the following analysis.

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Subsequently, we are interested in another financial indicator, namely the development and research costs. This figure is responsible for the total costs spent on the company's development, mainly the portfolio's improvement. Reputation is influenced by the quality of the product or service, so we are interested in how companies approach these facts. We have created an overview of individual companies and their costs for development and research. The data are shown in table 2.

Table 2. Development and research costs (in millions) and its percentage change

Company	R&D costs 2020	R&D costs 2019	% Change
LEGO Group (mil. DKK)	937.00	768.00	22.01
Rolex	n/a	n/a	n/a
Ferrari (mil. EUR)	707.00	699.00	1.14
Bosch (mil. EUR)	5,890.00	6,079.00	-3.11
Harley-Davidson	n/a	n/a	n/a
Canon (mil. YEN)	272,312.00	298,503.00	-8.77
Adidas (mil. EUR)	983.00	1,031.00	-4.66
The Walt Disney Company	n/a	n/a	n/a
Microsoft (mil. USD)	19,269.00	16,876.00	14.18
Sony (mil. YEN)	525.20	499.30	5.19

Source: Own processing based on Annual reports

To the data from the analysis, we also added the percentage ratio for 2020. Here we find out the increase or decrease for this indicator. Individual results will be used in further research. Another indicator that needs to be determined is the decrease or increase of individual placements over the monitored period. For this purpose, we analyse the position of individual companies in the RepTrak Global Report ranking. The data are shown in table 3.

Here we see that the scores of individual subjects are increasing year-on-year. The only subject of the Walt Disney Company deteriorated by 0.6 points year-on-year, which brought the expected drop in the ranking to 8th place. It is interesting to see the competition between companies from the point of view of the increase in the reputation score. Even if it grows year-on-year, it is not an automatic guarantee of a higher position in the ranking.

Table 3. Individual entity ranking and RepTrak 2021 RepTrak scores and their 2020 delta

Company	Ranking 2020	Rep. score 2020	Ranking 2019	Rep. score 2019	Δ Ranking	Δ Score
LEGO Group	1	80.4	1	78.9	0	1.5
Rolex	2	79.6	3	77.7	1	1.9
Ferrari	3	78.8	4	77.3	1	1.5
Bosch	4	78.1	9	76.4	5	1.7
Harley-Davidson	5	78.1	20	75.1	15	3.0
Canon	6	77.6	14	75.7	8	1.9
Adidas	7	77.6	8	76.5	1	1.1
The Walt Disney Company	8	77.5	2	78.1	-6	-0.6
Microsoft	9	77.1	5	77.0	-4	0.1
Sony	10	77.0	11	76.1	1	0.9

Source: Own processing based on RepTrak Global Report 2020 and 2021

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Based on these findings, we entered the individual data into the PSPP program, where the resulting Kendall's Tau-C analysis revealed (see Table 4 below):

Table 4. Statistical result of Kendall's Tau C test (% change in gross profit and Δ Placement)

Symmetric measures.

Category	Statistic	Value	Asymp. Std. Error	Approx. T	Approx. Sig.
Ordinal by Ordinal	Kendall's tau-c	-.37	.34	-1.11	
N of Valid Cases		9			

Source: Own processing, where: r_k = -0.37 (0.34)

In this case, there is no significant relationship between the company's gross profit change and its position in the RapTrak ranking. Therefore, we accept the null hypothesis (H0). We used the same procedure for changes in development and research costs. The results are interpreted as follows (Table 5):

Table 5. Statistical result of the Kendall's Tau C test (% change in R&D costs and Δ Locations)

Symmetric measures.

Category	Statistic	Value	Asymp. Std. Error	Approx. T	Approx. Sig.
Ordinal by Ordinal	Kendall's tau-c	-.71	.14	-4.95	
N of Valid Cases		7			

Source: Own processing, where: r_k = -0.71 (0.14)

Also, in this case, there is no significant dependence between the change in the company's research and development costs and its position in the RapTrak ranking. Therefore, we accept the null hypothesis (H0).

Conclusions

Based on the facts found, it can be assumed that a change in gross profit, or a change in R&D costs will not affect the company's reputation score. In this case, it should be noted that the sample is tiny, and the given facts need to be analysed on a larger data package. In addition, this sample gives us only a partial view of the changes since the changes used to cover only two years. This research opened questions for further monitoring financial indicators and their impact on reputation scores. Space is being created for extensive research into the company's financial indicators and their effect on its reputation. Reputation as a company asset is still a new value in the era of vast possibilities of online business and customer interaction. Financial management will still be needed for reputation scores as well. The question remains as to how it can specifically influence the external reputation.

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Róbert VILÁGI, M.Sc. is the PhD student at the Faculty of Business Management, Department of Business Finance of the University of Economics in Bratislava, Slovak Republic. Research interests: corporate reputation in the context of its sustainable development.
ORCID ID: https://orcid.org/0000-0001-5078-0963

Michal KONEČNÝ, M.Sc. is the Assistant at the Faculty of Corporate Strategy, Department of Tourism and Marketing of the Institute of Technology and Business in České Budějovice, Czech Republic. Research interests: corporate reputation in the context of its sustainable development.
ORCID ID: https://orcid.org/0000-0001-7926-257X

Michal RUSCHAK, M.Sc., MBA is the Director of the Faculty of Corporate Strategy of the Institute of Technology and Business in České Budějovice, Czech Republic. Research interests: corporate reputation in the context of its sustainable development.
ORCID ID: https://orcid.org/0000-0002-8896-4765