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The Effect of Current Ratio, Debt to Equity Ratio, and Return on Equity Ratio Against Company Reputation

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ABSTRACT

In today's marketing world, competition between companies is no longer about product competition but rather seeking positive perceptions from consumers. Company reputation is a form of consumer perception, evaluation, or assessment of the company's attributes or capabilities based on their reactions to the use of products and services, as well as interaction and communication with the company, so as to form an image of past conditions and future prospects. This research aims to analyze company reputation using stewardship and signaling theory. The dependent variable in this research is company reputation, while the independent variables in the research are current ratio, debt-to-equity ratio, and return on equity. This research uses a sample of real estate and property companies listed on the Indonesian Stock Exchange. Data was collected using purposive sampling and tested using descriptive statistics, classical assumption tests, multiple linear regression tests, coefficient of determination tests, and hypothesis tests. From the results of statistical testing, it can be concluded that the current ratio has no effect on company reputation, the debt-to-equity ratio has an effect on company reputation, and return on equity has an effect on company reputation.

***Keywords**: Current Ratio; Debt to Equity Ratio; Return on Equity Ratio; dan Company Reputation.*

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INTRODUCTION

In today's marketing world, competition between companies is no longer about product competition but rather seeking positive perceptions from consumers. Company reputation is a form of perception, evaluation, or assessment of consumers of the company's attributes or capabilities based on their reactions to the use of products and services, as well as interactions and communication with the company, so as to form an image of past conditions and future prospects.

Company reputation is an intangible asset. Reputation is a manifestation of a person's experience with the product or service they get. A good reputation will increase credibility, making consumers more confident that they will get what has been promised to them.

A company's reputation results from the accumulation of all contacts made by its various stakeholders with the company. Corporate reputation is an overall trust or decision regarding the level to which a company is highly regarded and honored.

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Building and maintaining a reputation is not an easy thing for a company. According to Serrat (2010, 3), reputation is not just about whether you like it or not, but about the representation of the current perception of individuals or society based on their past experiences with the company. The evaluation obtained will be compared with other companies and will affect the sustainability of the company in the future.

Various studies conducted by Charles Fombrun from New York University's School of Business, one of the world's reputation experts, reveal that large companies build their reputation by developing business practices that integrate economic and social considerations into their business strategy. They began to actively undertake various efforts to build reputation and create goodwill towards the organization or company. Although reputation is an intangible asset, various studies show that a good reputation will increase the value of the company and create a competitive advantage.

Maignan (2005) stated that the Reputation Institute, a company engaged in reputation management, states that there are seven dimensions that affect corporate reputation, namely citizenship, governance, workplace, products/services, innovation, performance, and leadership. According to research conducted by the Reputation Institute through the Global Reputation Pulse study in 2010, citizenship, governance, and workplace factors account for 40% of the total stakeholder assessment of reputation. Public and stakeholder expectations for companies to run their business responsibly are getting bigger (source: www.reputationinstitute.com).

Based on the many influences that result from reputation, this research is very important to do for several reasons. First, reputation helps deflect or minimize negative issues of the company and also attacks from competitors. Companies with a good reputation have a positive contribution to society that will be doubted when there are negative issues about the company (Anthonissen, 2008, 45).

The second reason, Fombrum and Van Riel (in Ardianto, 2011, 71) mentioned, is that 'reputation affects the opinions of media journalists and financial analysts. Evidence shows that reporters more often write about the company's high problems, which tend to include things that are more favorable to them." Evidence also suggests that financial analysts have a friendship mentality and that their own importance is influenced by the company's visibility, prominence, and established reputation. A good corporate reputation also adds to the media coverage without paying for it, and the news is more valuable than deliberate advertising (Doorley and Garcia, 2007, 4). In addition, the importance of reputation that has been built signals to the audience about the company's products, company performance, strategy, and prospects compared to competitors (Fombrun & Shanley, 1990, 233).

The results of empirical studies on 292 large companies in the United States support the general hypothesis that the public builds reputation based on information regarding the company's position in the organizational field, specifically the company's performance, the company's conformity with social norms, and strategies that demonstrate the company's strategic position (Fombrun & Shanley, 1990, 233). Lack of awareness regarding reputation management is the worst mistake companies make. Once the company becomes scorched, it will be difficult to rebuild it. When the company is seen by the world, the impact of the company will also be great.

Third, a good reputation supports the company's growth both operationally and financially. Consumers tend to prefer buying goods from companies that have a good reputation compared to companies that have a bad reputation so that it will benefit the

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company. In addition, reputation can also improve relationships with stakeholder groups, generate profits, and offer a competitive advantage because it is an asset that is difficult to replicate.

One of the cases related to corporate reputation issues is the chaotic Meikarta stalled project in South Cikarang, Bekasi Regency, which is still ongoing. Consumers have never received apartment units even though they were promised a handover in 2019. The Meikarta Mega Project is owned by PT Lippo Cikarang Tbk, a well-known property company in Indonesia. However, Head of Research at Colliers Indonesia Ferry Salanto believes that big names do not always guarantee. "Meikarta is a valuable lesson. Prospective buyers see the reputation of developers as important, usually having a big name, but that cannot be a guarantee in this case,' he said in a virtual media briefing for Colliers on Wednesday (4/1/2023). As a result of the Meikarta case, consumers are now more careful in buying apartments. Consumers tend to choose ready-made units rather than buying at launch. "Finished units are more desirable," referring to the experience of projects outside Jakarta. Big enough, 'Based on the phenomenon of PT Lippo Cikarang Tbk's corporate reputation, this is the background of corporate reputation research in property and real estate companies,' he explained.

One method of assessing the reputation of an organization (company) is the Harris-Fombrun Reputation Quotient, in which there are elements and attributes of corporate reputation, namely financial performance, which include 1. Record of profitability assumes that the company's financial performance record has shown profitability. 2. Look like a low-risk investment, from the company's financial performance, making the company look like a low-risk investment. 3. Strong prospects for future growth, from the company's financial performance, make the company look like a company that has strong prospects for future growth. 4. Tends to outperform its competitors. From the company's financial performance, it can be seen that the company tends to be superior compared to its competitors.

METHOD

Research Methods

This research is causal research, which explains the effect of an independent variable on the dependent variable. Independent variables in this study include current ratio, debt-to-equity ratio, and return on equity. The dependent variable is company reputation.

Operational Definition of Variables and Measurement Scale

Table 1. Variable Names, Operational Definitions, and Variable Measurements

Variable Name	Operational Definition	Measurement and Source
Company Reputation	a view of stakeholders on the company that is assessed from the good or bad things such as openness, quality, and others (Stueb and Sun 2015).	$R_i = \frac{P_{ti} - P_{ti-1}}{F_{ti-}} \pm D_{ti}$
Current Ratio	a ratio that measures the company's ability to pay off its short-term obligations by	$CR = \frac{CA}{CL} \times 100\%$

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	liquidating its current assets, in other words, turning these assets into cash. Gibson (2004)	
Debt to Equity Ratio	The ratio used to measure the company's ability to pay off its long-term obligations (ICMD, 2007).	DER = Long Term Debt / Shareholders Equity x 100%
Return on Equity	The manager's ability to manage the funds invested by the company's shareholders in obtaining returns.	ROE = [illegible]t / [illegible]t x 100%

Research Population

The population in this study was property and real estate companies listed on the Indonesia Stock Exchange (IDX).

Research sample

This research sample was obtained using a purposive sampling method, namely random sample selection based on certain criteria tailored to the research objectives or problems.

Data Collection Technique

The type of data used in this study is secondary data in the form of financial reports of property and real estate companies that meet the research sample criteria published on the Indonesia Stock Exchange (IDX). The techniques used for data collection in this study are literature study and secondary data documentation, namely by taking data on annual reports of manufacturing companies. Data sources were obtained by researchers through the Indonesia Stock Exchange website (www.idx.co.id).

Data Analysis Method: 1. Descriptive Statistics, 2. Classical Assumption Test, 3. Model Fit Test: Determination Coefficient Test (R2), Simultaneous Significance Test (F Test) 4. Hypothesis Test; Individual Parameter Significance Test (t test), Multiple Linear Regression Analysis

$$REPUTATIONi = \beta0 + \beta1CRi + \beta2DERi + \beta3ROEi + \varepsilon$$

Where :

$REPUTATION_i$	=	Company Reputation in year k
CR i	=	Current Ratio in the i-th year
DERi	=	Debt to equity ratio in year i
ROEi	=	Return on Equity in year i
β0	=	Constant
β1	=	Regression coefficient for CR
β2	=	Regression coefficient for DER
β3	=	Regression coefficient for ROE
ε_i	=	i-th error term

RESULTS AND DISCUSSION

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This study aims to obtain empirical evidence regarding the effect of the current ratio, debt-to-equity ratio, and return-on-equity ratio on company reputation. This research was conducted using several variables, which are divided into two variables, namely the independent variable and the dependent variable. The independent variables in this study are current ratio, debt-to-equity ratio, and return on equity, and the dependent variable is company reputation.

Descriptive Statistics

Descriptive statistics contain information related to data and descriptions based on research tables. It contains the maximum and minimum values, as well as the average, number, and deviation of the current ratio, debt-to-equity ratio, return-on-equity ratio, and company reputation, which are research variables. The results can be seen in the Descriptive Statistics table as follows:

Table 2. Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
CR	105	.14676	24.88188	3.7112576	4.27690111
DER	105	.00005	5.55966	.4381920	.64681307
ROE	105	-.56448	198432.05610	1889.8472843	19364.98401176
REPUTATION	105	-34269521746.00000	2024320666201.69000	36164415833.3883400	208338249182.71370000
Valid N (listwise)	105				

Classical Assumption Test

Before conducting multiple regression analysis, the classical assumption test must be met as a condition of the known data. The results of the classical assumption test have all been met.

Hypothesis Testing

Coefficient of Determination (Adjusted R-Square)

In this study the coefficient of determination uses the adjusted R2 value. The results of multiple regression tests to determine the magnitude of the influence between Current Ratio (X1), Debt to Equity Ratio (X2), and Return on Equity Ratio (X3) on Company Reputation can be seen based on the results of calculations using the SPSS version 25.00 program as follows:

Table 3. Correlation Coefficient, Between X1 X2 and X3 Against Y

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Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.613 (a)	.376	.317	235860.17271

a Predictors: (Constant), LNROE, LNDER, LNCR
b Dependent Variable: SQRTREPUTASI

Source: SPSS data that has been processed (2022)

The coefficient of determination is used to determine how much the percentage of current ratio (X1), debt-to-equity ratio (X2), return on equity (X3) on company reputation (Y) together. In this study, the coefficient of determination, or the adjusted R-squared (R2) number, is 0.317 (31.7%), which shows the strength of the influence given by the current ratio (X1), debt-to-equity ratio (X2), return on equity variables together on company reputation (Y). The adjusted R-squared (R2) number of 0.317 indicates that 31.7% of the company reputation (Y) variable is influenced or can be explained by the current ratio (X1), debt-to-equity ratio (X2), return on equity (X3) variables. While the rest (100% - 31.7% = 68.3%) is influenced by other factors not examined in this study.

Simultaneous Significance Test (F Test)

The F test is used to test whether the research model is feasible to use. The results use SPSS version 25 :

Table 4. Simultaneous Test Results
ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1072281133382.969	3	357427044460.990	6.425	.002(a)
	Residual	1780160674332.355	32	55630021072.886		
	Total	2852441807715.324	35			

a Predictors: (Constant), LNROE, LNDER, LNCR
b Dependent Variable: SQRTREPUTASI

Source: SPSS data that has been processed (2022)

From this, the probability of the F test is 0.02 when compared to the simultaneous test of 0.05. This can be shown that the research model is feasible to use.

Partial Significance Test (t-test)

Conducted to determine whether or not there is an influence in the independent variable partially. The t-test used is <0.05, and it is concluded that Ha is accepted or Ho is rejected because it affects the dependent and independent variables. The following t-test results of this study will be presented:

Coefficients(a)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	194957.090	117822.405		1.655	.108
	LNCR	44753.741	48120.829	.132	.930	.359
	LNDER	-72230.007	20283.666	-.500	-3.561	.001
	LNROE	72574.338	31595.789	.325	2.297	.028

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Figure 1. Partial Test Results (t test)
Source: SPSS data that has been processed (2022)

Partial tests in the table can be concluded that the significance value of the Current Ratio variable (X1) is 0.359; the significance value is > 0.05, so the conclusion is that the Current Ratio variable has no effect on Company Reputation (Y). The Debt to Equity Ratio (X2) variable significance value is 0.001; the significance value is <0.05, and the conclusion is that the Debt to Equity Ratio (X2) has an effect on the company's Reputation variable (Y). The Return On Equity (X3) variable significance value is 0.028, and where the significance value is <0.05, it can be concluded that Return On Equity (X3) has an effect on the Company Reputation variable (Y).

1. Effect of Current Ratio on Company Reputation.

The higher the company's current ratio, the more funds are available for the company to pay dividends and finance its operations and investments, so that investors' perceptions of the company's reputation increase. Under different conditions, an increase in the current ratio can also be perceived as bad. If the increase in the current ratio does not increase dividends but increases free cash flow in the company.

2. The Effect of Debt-to-Equity Ratio on Company Reputation.

Debt is one of the company's funding sources. The company's management decision to use debt is a signal given to investors to assess the company's prospects. In general, companies with good prospects will choose to use debt as an alternative funding compared to funding with outside equity because providing debt by third parties requires a good company reputation. Management uses capital, some of which comes from debt, to develop business activities that will increase the company's ability to generate profits, so that the amount of debt is a positive signal for investors in assessing the company's reputation.

3. The Effect of Return on Equity on Company Reputation.

According to Purwohandoko (2017), it is said that investment can make investors richer. In other words, investors become greater in prosperity after investing. The most important thing for the company is how to maximize shareholder returns and not how much profit the company makes.

CONCLUSION

Conclusion

This study aims to determine the effect of the current ratio, debt-to-equity ratio, and return-on-equity ratio on corporate reputation. The data used in this study are the annual

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reports of property and real estate companies listed on the Indonesia Stock Exchange. From the results of statistical testing, it can be concluded that

1. Current Ratio has no effect on Company Reputation.
2. Debt-to-equity ratio affects the company's reputation.
3. Return on Equity affects the company's reputation.

Suggestion

This research can serve as a reference for further study development by adding other variables that may also influence company reputation, such as non-financial indicators (e.g., CSR, ESG score, governance quality, etc.), or by expanding the research object to different industry sectors or multinational companies.

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