Corporate Reputation and Financial Performance: The Moderating Effects of Industry competitiveness and Environmental uncertainty

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Abstract. This study analyses direct affection and moderate effect of corporate reputation on financial performance. We propose model and hypothesis based theory analyze and collect data using questionnaire survey. We use 156 firms in China as the samples and deal with data using multiple regression analysis. We draw conclusion: (1) The higher corporate reputation, the higher the firm’s financial performance; (2) Industry competitiveness moderates the relationship between corporate reputation and financial performance; (3) Environmental uncertainty moderates the relationship between corporate reputation and financial performance; (4) Industry competitiveness and environmental uncertainty jointly moderates the relationship between corporate reputation and financial performance. The study has some contribution for corporate reputation theory and practice.

1. Introduction

Financial performance is essentials and cores in the process of firm development. The manager strives to enhance financial performance in the rapidly changing and uncertain business environments. More and more, the corporate governance is focusing on the role of corporate reputation. Corporate reputation is important views and instrument for enhancing financial performance. At the same time, many researchers have found that corporate reputation is the most important factor for manager to keep their competitive advantage. Firms with greater corporate reputation will be more successful in responding to their environments and developing new capabilities that will lead to competitive advantages and superior financial performance.¹

However, the researchers seldom empirical test the relationship corporate reputation and financial performance in Chinese context. Previous studies also seldom consider the role of industry competitiveness and environmental uncertainty for corporate reputation affecting financial performance. In a word, the study will solve the based question.

(1) how does construct corporate reputation, and if corporate reputation affects financial performance?

(2) Does corporate reputation affect financial performance which it is a context of industry competitiveness?
(3) Does corporate reputation affects financial performance which it is a context of environmental uncertainty?

2. Theoretical backgrounds and hypothesis
The enterprise carries out activities to effectively achieve organize target. Financial performance is important target. Corporate reputation favors corporate imagine, and corporate improves financial performance. Corporate reputation customer satisfaction and customer loyal, certainly, customer is root of financial performance. Corporate can improve firm’s social network, which can solve difficulty of development and promote financial performance.

The environment is exterior factor that influence firm’s activity. Environmental uncertainty includes environmental dynamism and environmental complexity. Environmental complexity is difference degree of the category. Environmental dynamism is variety degree of environment. Corporate reputation can overcome complexity and dynamism of environment, thus reducing the devastating effects of environmental uncertainty and improve financial performance in the end.

Accordingly, the following hypothesis is proposed:
H1: The higher corporate reputation, the higher the firm’s financial performance;
H2: Industry competitiveness moderates the relationship between corporate reputation and financial performance;
H3: Environmental uncertainty moderates the relationship between corporate reputation and financial performance;
H4: Industry competitiveness and environmental uncertainty jointly moderates the relationship between corporate reputation and financial performance.

3. Methods
3.1. Sample
We acquired data using questionnaire survey methodology and analysed data using multiple regression analysis. We sent out 300 questionnaires and take back 179 questionnaires. We cut 23 questionnaires because of violating sampling criteria and incomplete answers. The effective sampling is 156, and effective response rate was approximately 52.0 percent.

The sample characteristics as follows. The firms represented in the sample varied in size, as measured by number of employees (≤50, 22 samples, 14.1 percent; 51-100, 23 samples, 14.7 percent; 101-500, 30 samples, 19.2 percent; 501-1000, 31 samples, 19.9 percent; ≥1001, 50 samples, 32.1 percent). Years established for the firm were as follows: ≤5, 23 samples, 14.7 percent; 6-10, 38 samples, 24.4 percent; 11-15, 29 samples, 18.6 percent; 16-20, 32 samples, 20.5 percent; ≥21, 34 samples, 21.8 percent. The firms of manufacturing industry are 41 and occupy 26.3 percent; The firms of service industry are 29 and occupy 18.6 percent; The firms of high technology industry are 70 and occupy 44.9 percent; The firms of other industry are 16 and occupy 10.3 percent.

3.2. Measures
In order to assure variables validity and reliability, we take several steps. Firstly, we further developed and perfected measure question through interviews, selective second visits, extensive debriefing and extensive pre-testing of the questionnaire. Second, we developed questionnaire in Chinese context. Finally, we used Cronbach’s α to test internal consistency.

The corporate reputation was measured by items used in the study by MacMillan, Money and Dowing (2005) [1] and Helm (2005) [2]. This is a multi-item scale comprising eight items, the Cronbach’s α is 0.926, cumulative explanatory rate of factor variance is 65.8%.

The Financial performance was measured by items used in the study by Waddock and Graves (1997) [3] and Ruf and Muralidhar et al. (2001) [4]. This is a multi-item scale comprising three items, the Cronbach’s α is 0.860, cumulative explanatory rate of factor variance is 78.4%.
The industry competitiveness was measured by items used in the study by Karniouchina et al. (2013) [5]. This is a multi-item scale comprising eight items, the Cronbach’s α is 0.916, cumulative explanatory rate of factor variance is 85.7%.

The environmental uncertainty was measured by items used in the study by and Peng (1994) [6]. This is a multi-item scale comprising eight items, the Cronbach’s α is 0.942, cumulative explanatory rate of factor variance is 81.3%.

4. Analysis and results

Given evidence of correspondence between the hypothesized constructs and their respective indicators, as well as evidence that the constructs are distinct, we proceeded to test the overall model. Table 1 reports means, standard deviations, and correlations of the variables of the study, Table 2 reports result of data analysis and hypothesis test.

Model 1 analyses the effect of size, years and industry on financial performance. F value is significant and regression coefficient of size is significant, the independent variable explains the total variance 12.3%, therefore, firm size affects financial performance.

Model 2 analyses the effect of size, years, industry and corporate reputation on financial performance. F value is significant and regression coefficient of corporate reputation is significant, the independent variable explains the total variance 41.3%, corporate reputation affects financial performance, therefore, hypothesis 1 gets support.

Model 3 analyses the effect of size, years, industry, corporate reputation and industry competitiveness on financial performance. F value is significant and regression coefficient of corporate reputation and industry competitiveness is significant, the independent variable explains the total variance 51.6%.

Model 4 adds up interaction of corporate reputation and industry competitiveness. The independent variable explains the total variance 53.3%. The regression coefficient of interaction is significant and therefore hypothesis 2 gets support.

Model 5 analyses the effect of size, years, industry, corporate reputation and environmental uncertainty on financial performance. F value is significant and regression coefficient of corporate reputation and environmental uncertainty is significant, the independent variable explains the total variance 50.0%.

Model 6 add up interaction of corporate reputation and environmental uncertainty, the independent variable explains the total variance 51.7%, regression coefficient of interaction is significant, therefore, hypothesis 3 gets support.

Model 7 analyses the effect of size, years, industry, corporate reputation, industry competitiveness and environmental uncertainty on financial performance. F value is significant and regression coefficient of corporate reputation, industry competitiveness and environmental uncertainty is significant, the independent variable explains the total variance 51.9%. Model 8 add up interaction of corporate reputation, industry competitiveness and environmental uncertainty, the independent variable explains the total variance 52.1%, regression coefficient of interaction is not significant, therefore, hypothesis 4 has not gets support.
5. Conclusion and discussions

The purpose of our study was to theoretically and empirically examine the effect mechanism of corporate reputation on financial performance. We find that corporate reputation can enhance the firm’s financial performance, industry competitiveness and environmental uncertainty are important context factor in this process. The above results have important theory contribution and management implications.

The study finds that corporate reputation is significant factor for improving financial performance. Hence, we should accumulation corporate reputation in the development of the firms. We should think highly of corporate social responsibility, cultivate the character of honest and morality, train corporate culture of energy and humanity.

The study finds that industry competitiveness and environmental uncertainty moderate the relationship corporate reputation and financial performance. Industry competitiveness and

### Table 1. Means, standard deviations, correlations

| Multi-item scales          | Means | S.D  | 1    | 2    | 3    | 4    | 5    | 6    | 7    |
|---------------------------|-------|------|------|------|------|------|------|------|------|
| 1.size                    | 3.41  | 1.427| 1.000|      |      |      |      |      |      |
| 2.years                   | 3.10  | 1.383| 0.354***| 1.000|      |      |      |      |      |
| 3.industry                | 2.39  | 0.987| 0.064| 0.150| 1.000|      |      |      |      |
| 4.corporate reputation    | 3.239 | 0.950| 0.308***| 0.306***| 0.070| 1.000|      |      |      |
| 5.financial performance   | 3.221 | 0.943| 0.363***| 0.209***| 0.007| 0.622***| 1.000|      |      |
| 6.industry competitiveness| 3.378 | 1.019| 0.157| 0.065| 0.023| 0.217***| 0.466***| 1.000|      |
| 7.environmental uncertainty| 3.317| 1.019| 0.231***| 0.153***| 0.076| 0.264***| 0.472***| 0.779***| 1.000|

| Dependent variables (financial performance) | Model 1 | Model 2 | Model 3 | Model 4 | Model 5 | Model 6 | Model 7 | Model 8 |
|--------------------------------------------|---------|---------|---------|---------|---------|---------|---------|---------|
| Constant                                   | 2.337   | 1.073   | 0.308   | 0.596   | 0.483   | 0.692   | 0.288   | 0.087   |
| size                                       | 0.331***| 0.199** | 0.163*  | 0.136*  | 0.151*  | 0.128*  | 0.154*  | 0.148*  |
| years                                      | 0.096   | -0.032  | -0.021  | -0.024  | -0.041  | -0.045  | -0.028  | -0.028  |
| industry                                   | -0.028  | -0.041  | -0.044  | -0.041  | -0.056  | -0.032  | -0.049  | -0.053  |
| CR                                         | ——      | 0.579***| 0.515***| 0.444***| 0.515***| 0.454***| 0.507***| 0.554***|
| IC                                         | ——      | ——      | 0.331***| 0.308** | ——      | ——      | 0.235** | 0.251*  |
| EU                                         | ——      | ——      | ——      | 0.312***| 0.294***| 0.128   | 0.142   |         |
| CR*IC                                      | ——      | ——      | ——      | ——      | ——      | ——      | ——      |         |
| CR*EU                                      | ——      | ——      | ——      | ——      | ——      | ——      | ——      |         |
| CR*IC*EU                                   | ——      | ——      | ——      | ——      | ——      | ——      | ——      |         |
| R²                                         | 0.140   | 0.428   | 0.532   | 0.551   | 0.516   | 0.535   | 0.538   | 0.543   |
| Adjust R²                                  | 0.123   | 0.413   | 0.516   | 0.533   | 0.500   | 0.517   | 0.519   | 0.521   |
| F                                          | 8.246***| 28.280***| 34.042***| 30.433***| 32.001***| 28.603***| 28.881***| 25.091***|

CR is corporate reputation, IC is industry competitiveness, EU is environmental uncertainty.

*p<0.05, **p<0.01, ***p<0.001.
environmental uncertainty should be considered to enhance financial performance. The firm should value corporate reputation in the context of intense competitiveness and complex environment.

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