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The Impact of Corporate Reputation on the Cost of Equity as Mediated by Earnings Quality

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Abstract

A good corporate reputation is essential for a company because it can create value and an intangible asset that makes it difficult for competitors to replicate. This study investigates the effect of company reputation on the cost of equity through earnings quality as an intervening variable. The Corporate Image Index measures the reputation of the company in this study. The cost of equity is measured using the Ohlson method. Modified Jones measures earnings quality as an intervening variable. The sample used in this study were non-financial companies listed on the Indonesia Stock Exchange and the Corporate Image Index from 2016 to 2018. The sample selection was carried out using the purposive sampling method, with a total sample of 189 companies. This research uses a path analysis method with the help of SPSS version 23 software. The theory used in this research is agency theory. Based on this study's statistical results, the company's reputation does not have a significant effect on earnings quality but has a negative and significant effect on the cost of equity. This study also shows that earnings quality has a negative and significant effect on the cost of equity. In addition, the results of the Sobel test show that earnings quality does not mediate the relationship between company reputation and cost of equity.

Keywords: Company Reputation; Earnings Quality; Cost of Equity

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1. Introduction

Companies need capital to carry out their operational activities. Therefore, as a party that needs funds, the company must issue a cost of equity by paying a return on the provision of funds that investors have provided through the issuance of shares and bonds. The cost of equity is essential because it is one of the cost components that will impact investment decisions. In investing, investors need to consider the company's level of profit and risk where they invest their capital. The level of profit and risk that may occur can be seen through the company's financial statements. Financial statements show a picture of the financial condition of a company. Financial statements provide information to investors and creditors in making decisions related to their fund investments (Halim, et al., 2005). Information about earnings is one of the vital information in financial statements. This information is commonly used to measure various analytical ratios in determining the company's current and future ability to increase shareholder wealth and is used by investors to invest their funds.

Earnings to reflect actual earnings and predict future earnings, which refers to stability and persistence, is called earnings quality (Bellovary, et al., 2005). Earnings can be of high quality if report users can use reported earnings to make the best decisions and explain or predict future prices and returns.

If the profits from the company are not of good quality, it will affect the interest of investors in investing their funds and can lead to a high cost of equity.

For users of financial statements, one of the essential things in assessing the quality of financial statements is the company's reputation (Francis, et al., 2008). A good corporate reputation is essential because reputation is a potential owned by a company in creating the company's strategic value. A high reputation indicates a high level of accumulation of public recognition of the quality and output of the company (Pfarrer, et al., 2010). Reputation represents the perception of the company's past actions and prospects that describes the company's overall attractiveness for all its main elements compared to its competitors (Fombrun, 1996). The company's reputation will trigger the quality of the financial statements provided because the company wants to maintain its reputation. The financial statements produced must be of high quality.

The phenomenon that occurred in Indonesia, namely in 2018 PT. Indofood Sukses Makmur (INDF) successfully won the “Indonesia Most Admired Companies Award” given by Fortune Indonesia Magazine. This award results from surveys, research, and community assessments of companies in Indonesia covering aspects of leadership, management systems, innovation, human resource development, and Corporate Social Responsibility (CSR) (Prayogo, 2018). In addition, in the same year, PT. Indofood Sukses Makmur (INDF) recorded sales and net profit of Rp 73.39 trillion and Rp 4.17 trillion, respectively, where operating profit increased by 5.3% from the previous year. Profit for the year attributable to owners of the parent entity was relatively stable and grew by 0.24% from the previous year (Alfi, 2019). The increase in profit was accompanied by an increase in INDF's share price. PT. Indofood Sukses Makmur (INDF) distributed 50% of total net profit dividends throughout 2018 (Wareza, 2019).

Based on this phenomenon, it can be seen that companies that have a superior reputation gain high trust from stakeholders so that they can maintain company profitability. Companies with an excellent reputation will maintain and maintain their reputation by reporting quality earnings. Quality earnings can affect investors in investing their capital in the company, marked by rising stock prices. The increase in stock prices reflects that investors trust the information they get on the company's reported earnings to affect the cost of equity. Firstly, the motivation for doing this research is based on empirical evidence from several previous studies that still show different results. Second, most previous studies only partially examined the relationship between company reputation, cost of equity, and earnings quality.

This study refers to Cao, et al., (2015), which examines the relationship between company reputation and cost of equity. However, as for the difference with the research, the first is the research variable. In this study, one intervening variable was added, so this study examines the effect of company reputation on the cost of equity through earnings quality as an intervening variable. The second is the research sample. This study uses samples from "Indonesia Most Admired Companies" by Tempo Magazine to categorize companies with a good reputation because the ranking has passed a series of surveys. The survey has gained prominence and recognition from the business world as an authoritative standard. The third is the measurement of earnings quality using the Modified Jones model because this model is used to measure the company's level of earnings management, which will affect earnings quality. Fourth, the measurement of the cost of equity is calculated based on the discount rate used by investors to assess future cash flows.

Agency theory explains the agency relationship, where an agency relationship is a contract between the principal and the agent. Jensen & Meckling, (1976) explain that in this theory, agency relationships arise when one or more people (principals) employ another person (agent) to provide a service and then delegate decision-making authority to the agent in the hope that the company managed by the agent will make a profit. The separation between ownership and management of the company can cause a conflict called agency conflict. To optimize every decision making and the effect of the separation between the principal and the agent, some costs must be incurred when there is an agency relationship. Agency costs are costs incurred to maximize investors' interests and reduce agency problems. Agents tend to form a mechanism to guarantee that they will behave not to use specific actions that will harm the principal or guarantee that agents will be compensated if they do not take many actions, called bonding costs. One example of bonding costs is the cost incurred by managers to provide financial reports to shareholders. Companies that have a reputation for issuing bonding costs show that the company is responsible to the principal by presenting quality financial reports so that the company's reputation can be maintained.

Cao, et al., (2012), said that reputation could be considered a complementary mechanism of corporate governance in reducing agency problems and motivating companies to maintain high-quality financial reports. Thus, a reputable company will reduce agency problems by creating quality corporate profits so that it is expected to minimize agency costs. The fewer agency costs incurred by the principal, the lower the desired level of return and the cost of equity issued by the company (Martua & Nasir, 2013). Cost of equity is the actual cost that must be incurred by the company to obtain funds either from debt, common stock, preferred stock, or retained earnings to fund an investment or company operation (Weston & Copeland, 1996). Meanwhile, Gitman (2003) states that the cost of equity is the rate of return that the company must obtain on the projects it invests in to maintain market value. In other words, the cost of equity is the cost required by investors to invest their capital in the company.

Several variables cause the high and low cost of equity capital to be borne by the company Imron (2006), namely: Company size. If the company is large, it will have a higher information cost compared to a small company. The profit level required can be seen from two parties, namely the investors and the company (Sartono, 1996). From the investor's perspective, the level of profit required is the rate of return as a reflection or influence of the level of risk, assets owned, capital structure, and other factors such as management. As for companies that use funds, the required rate of return is the cost of equity that must be issued to obtain the capital. Earnings information is essential information in financial statements (Lev, 1989). For investors, earnings reports are considered to have information to analyze shares issued by issuers where profits are the center of attention of financial statement users. According to Wulansari (2013), earnings quality is the quality of earnings information available to the public that can show how earnings can influence decisions and can be used by investors to assess the company. Quality earnings are earnings that reflect the actual financial performance of the company (Irawati, 2012). Husnan (1994) states that, theoretically, stock prices will also increase if the company's ability to generate profits increases. It will have an impact on changes in trading volume. Improve earnings quality results in an increase in trading volume. The company will have a good reputation because investors trust the information obtained on the profits reported in the financial statements.

The accrual component in financial statements is often used as an object of earnings manipulation because the accrual concept in accounting provides management with many accounting policies and procedures in preparing financial statements, which can reduce earnings quality. Accrual transactions consist of transactions: Non-Discretionary Accrual (Normal Accruals) is the recognition of fair accruals and is subject to generally accepted accounting standards, for example, the depreciation and inventory determination method chosen following the method recognized in accounting principles (double-declining balance method or straight-line method). Discretionary Accrual (Abnormal Accruals) recognizes free accruals and is the choice of management policy in terms of accounting methods and estimates. For example, in bad debts, the company can record when the receivables are written off, whether in the current financial or the next financial year. Discretionary Accrual is an accrual component resulting from management engineering that utilizes the freedom of estimation and accounting standards to control accrual transactions so that profits look high. However, these transactions do not affect cash flow, so it impacts the quality of company earnings (Widyastuti, 2009).

According to Fombrun, (1996) reputation begins with a corporate identity reflected through the company name, logo, and other appearances, which is then connected through services, values , corporate philosophy, and communication with internal and external parties of the company. The company's reputation represents past perceptions and prospects that describe the company's overall performance.

There are four dimensions of corporate reputation, according to Fombrun (1996), namely credibility, trustworthiness, reliability, and social responsibility. Credibility is defined as this factor related to the company's image that has received credibility from investors. Trustworthiness relates to the company's image that has won trust in the views of employees. Reliable is related to the company's image to build a good image for consumers. Social Responsibility relates to how much the organization cares about and how much the organization helps develop the surrounding community. The company's reputation can be good or bad, strong or weak depending on the quality of performance, strategy, and management's commitment to achieving the goals that have been set. Earnings information in the financial statements is an essential aspect for the principal to assess the company's financial health because quality earnings can explain the company's actual financial condition and reflect the company's prospects in the future. The low quality of earnings can make mistakes in making principal decisions, so agency costs will arise, affecting the company's cost of equity.

Agency problems arise due to the separation of ownership and management due to the different interests between the principal and the agent, resulting in agency costs. Agency costs are costs incurred by the principal to encourage agents to maximize share prices instead of working for their interests. Agency costs incurred by the principal affect the desired level of return. The higher the agency costs incurred, the higher the rate of return desired by the principal and the cost of equity issued by the company. The research results conducted by Lambert, et al., (2011) stated that earnings quality affects the cost of equity. This research is also in line with that conducted by Bhattacharya, et al., (2012), which states a direct and indirect relationship between earnings quality and cost of equity.

Investors are more interested in investing in companies with a good reputation, so the company will maintain and maintain its reputation by improving its performance. Reputable companies can suppress information asymmetry so that agency problems can also be reduced. Therefore, a reputable company can reduce agency problems and can reduce the cost of equity. The research results conducted by Cao, et al., (2015) state that the company's reputation affects the cost of equity. Research conducted by Luchs, et al., (2009) supports it, which states that company reputation affects earnings quality. The high quality of company earnings is expected to reduce agency costs, decreasing the cost of equity.

H1: Company Reputation Affects Earning Quality
H2: Earning Quality Affects Cost of Equity
H3: Company Reputation Affects Cost of Equity
H4: Company Reputation Affects Cost of Equity Mediated by Quality Profit

2. Research Design and Method

The type of research used is explanatory research that builds a causal relationship. The independent variable in this study is the company's reputation, while the dependent variable in this study is the cost of equity. In addition to the independent variable and the dependent variable, there is a mediating variable in this study, namely earnings quality. The population in this study were all companies listed on the Indonesia Stock Exchange for the 2016-2018 period. The data required is financial reports and annual reports issued by the company for 2016-2018. This study uses a purposive sampling method, where the researcher selects samples that meet specific criteria according to the research objectives.

The type of data used in this research is documentary data. In this study, researchers used data in financial statements and company annual reports published during the 2016-2018 period. The source of data in this study is secondary data. The secondary data sources in this study are the annual financial statements of companies listed on the Indonesia Stock Exchange for the 2016-2018 period and a list of companies that have good reputations. The data was obtained from the website of the Indonesia Stock Exchange and “Indonesia Most Admired Companies” by Tempo magazine.

Cost of Equity is the rate of return expected by investors on their investment in the company

(Perwira & Darsono, 2015). Measurement of Cost of Equity is calculated using the Ohlson model based on research conducted by (Botosan, 1997) to calculate the expected cost of equity capital which is formulated as follows:

$$P_t = B_t + \sum_{\tau-1} (1+r)^{-\tau} \; E_t\{X_{\tau+1} - rB_{\tau+t-1}\} \quad (1)$$

Information:
Pt = stock price in period t obtained from the average daily share price
Bt = book value per share period t
Book value per share = (Total Equity)/(Total Shares Outstanding)
The size of the book value per share is based on the research of Kothari & Zimmerman (1995).
x(t+1) = earnings per share in period t+1
r = cost of equity capital

To estimate earnings per share in period t + 1, the Random Walk model is used as follows:
E (x(t+1)) = xt+d]………]……………………………………………………………(2)

Information:
E (x(t+1)) = Estimated earnings per share in period t+1
xt = Actual earnings per share in period t
d = Drift term which is the average change in earnings per share for 5 years

Thus, the estimation of equity capital in equation (1) can be simplified as follows:

Pt = Bt + 〖(1+r)〗 ^(-1) [x_t + 1 – r B_t]…………………………………………………(3)

x(t+1) = earnings per share in the period t+1 which is estimated by the random walk model as in equation (2). After simplifying mathematical, equation (3) becomes:
(Pt - Bt) (1 + r) = (xt + 1 – r Bt)
r = (B(t)+ X(t+1)-Pt)/Pt

Information:
r = cost of equity capital
B(t) = book value per share period t
X(t+1) = earnings per share in period t+1
Pt = stock price in period t

The company's reputation represents the perception of the company's past actions and prospects that describe the company's overall performance (Fombrun, 1996). Company reputation is measured from the Corporate Image Index (CII) determined by the average of four dimensions, namely Quality, Performance, Responsibility, and Attractiveness. This survey was conducted on four groups of respondents: management/business practitioners, shareholders/investors, journalists other than infotainment, and the public.

Earnings to reflect actual earnings and predict future earnings, which refers to stability and persistence, is called earnings quality (Bellovary, et al., 2005). Earnings quality is measured based on the absolute discretionary accrual (DA) approach used in the study (Nurillah, 2018). Discretionary accruals can be seen as the opposite in measuring earnings quality, which means that the lower the DA (earnings management), the better (higher) the company's earnings quality. The stages of calculating DA with the Modified Jones model are:

1. Determine the total value of accruals
   $TA_{i,t} = NI_{i,t} - CFO_{i,t}$
2. Determine the parameter values ,β_1, and _2 using the Jones Model
   $\frac{TA_{i,t}}{A_{i,t-1}} = \beta_1\left(\frac{1}{A_{i,t-1}}\right) + \beta_2\left(\frac{\Delta REV_{i,t}}{A_{i,t-1}}\right) + \beta_3\left(\frac{PPE_{i,t}}{A_{i,t-1}}\right) + \in_{i,t}$
3. Calculating NDA values
   $NDA_{i,t} = \beta_1\left(\frac{1}{A_{i,t-1}}\right) + \beta_2\left(\frac{\Delta REV_{i,t}}{A_{i,t-1}} - \frac{\Delta REC_{i,t}}{A_{i,t-1}}\right) + \beta_3\left(\frac{PPE_{i,t}}{A_{i,t-1}}\right)$
4. Determining the value of discretionary accruals
   $DA_{i,t} = \frac{TA_{i,t}}{A_{i,t-1}} - NDA_{i,t}$

Information:

$TA_{i,t}$ = Total accruals of company i in period t
$NI_{i,t}$ = Net profit of company i in period t
$CFO_{i,t}$ = Operating cash flow of company i in period t
$NDA_{i,t}$ = Non-discretionary accruals of firm i in period t
$DA_{i,t}$ = The discretionary accruals of firm i in period t
$A_{i,t-1}$ = Total assets of company i in period t
$\Delta REV_{i,t}$ = Change in net sales of company i in period t
$\Delta REC_{i,t}$ = Changes in the company's receivables in period t
$PPE_{i,t}$ = Property, plant and equipment company i in period t
α, β_1, β_2 = Parameters obtained from the regression equation
$\in_{i,t}$ = Error term of company i in period t

3. Results and Discussion

Statistical Result

The F test aims to determine whether all the independent variables in the study have a joint influence on the dependent variable. Based on Table 1, Simultaneous significant test (F test) obtained a result of 0.005 (smaller than 0.05) which means that there is a joint influence between the independent variables, namely company reputation and earnings quality, on the dependent variable, namely the cost of equity. Partial test is used to test each variable partially so that it can find out how much the independent variable affects the dependent variable.

Table 1. Substructure Significant Test 2

Structural Model	F	Sig
Effect of Reputation, Earnings Quality on Cost of Equity	5.460	0.005

The results of the partial test of substructure 1, namely the influence of company reputation on earnings quality and the results of the partial test of substructure 2, namely the influence of company reputation, earnings quality on cost of equity are shown in table 2. The influence of the company's reputation (X1) on earnings quality (Y1) is 0.177 (greater than 0.05) and the regression coefficient value is in a negative direction, which means that the company's reputation has a negative but not significant effect on earnings quality. The influence of the company's reputation (X1) on the cost of equity (Y2) has a significance value of 0.009 (less than 0.05) and the regression coefficient value is negative, which means that the company's reputation has a negative and significant effect on the cost of equity. The effect of earnings quality (Y1) on the cost of equity (Y2) has a significance value of 0.027 (smaller than 0.05) and the regression coefficient value is in a positive direction, which means that earnings quality has a positive and significant effect on the cost of equity.

Table 2. Substructure Partial Test Results 1

Structural Model	Standardized Beta	Sig	Info
Substruktur 1 (Effect of company reputation on earnings quality)	-0.099	0.177	Not significant
Substruktur 2 (Effect of company reputation, earnings quality on cost of equity)			
Company Reputation	-0.188	0.009	Significant
Earnings Quality	0.159	0.027	Significant

Source: Data processed (2020)

Table 3. Sobel Test Results

Combination Variable	Estimated Value	Standard Error	*P value of Sobel Test*
Effect of Company Reputation on Cost of Equity through earnings quality	-0.031;0.459	0.023;0.206	0.2488

Based on the results of the Sobel test calculations in Table 3, it can be explained that the indirect effect of the company's reputation on the cost of equity has a p-value (two-tailed probability) Sobel test of 0.2488 > alpha 0.05. Thus, the earnings quality variable in this study is the No Mediation type. So it can be concluded that the earnings quality variable fails to function as an intervening variable that mediates the company's reputation on the cost of equity.

Discussion

The Effect of Company Reputation on Earnings Quality

The results of testing the first hypothesis indicate that the value of the company's reputation on earnings quality is -0.099 with a significance value of 0.177 > alpha 0.05. It shows that the company's reputation has no significant effect on earnings quality. Thus, the first hypothesis that states that the company's reputation influences earnings quality is rejected. The company's reputation does not have a significant effect on the quality of earnings because there are companies in Indonesia that practice earnings management. The reputation proxy, namely the corporate image index (CII) does not focus on evaluating the financial performance produced by the company so that in determining reputable companies in Indonesia, there are still earnings management practices that cause poor quality earnings. The test results also show that the company's reputation as measured by CII (corporate image index) has a negative effect on earnings quality as measured by discretional accruals. Earnings management practices can occur because of the preparation of financial statements using an accrual basis. Using the accrual basis, transactions or other events are recognized when they occur, not when cash or cash equivalents are received or issued. As a consequence of using this accrual basis in financial statements, earnings in a period may contain cash and accrual elements (Sutopo, 2009). This accrual basis implies that accounting profit is determined by, among others, the amount of discretionary and non-discretionary accruals. Determination of discretionary accruals to increase or decrease earnings is an action of earnings management. In addition, companies that experience asset growth tend to report asset growth but do not recognize liabilities for acquiring these assets, which are a part of discretionary accruals. The results of this study are not in line with Luchs, et al., (2009) and Huynh (2018) which state that there is a positive and significant relationship between company reputation and earnings quality. These results indicate that reputable companies will be more motivated to minimize earnings management practices to maintain the company's reputation and maintain investor confidence in the company.

Effect of Earnings Quality on Cost of Equity

The second hypothesis testing shows that the effect of earnings quality on the cost of equity is 0.159 with a significance value of 0.027 < alpha 0.05. It shows that the quality of earnings as measured by discretional accruals has a positive and significant effect on equity. It means that when discretional accruals increase, the cost of equity will also increase. Earnings quality has a positive and significant effect on the cost of equity. This relationship indicates that companies whose financial statements do not contain discretionary accruals will bear the costs of obtaining a high cost of equity. If the income and receivables presented in the financial statements do not contain high discretionary accruals, the total assets listed also do not contain high discretionary accruals. The higher and higher the quality of earnings generated by the company, the greater the total assets, which causes the rewards to be given to investors to be higher as reflected in earnings per share. It means that the profit per share, which is part of the investor, will be higher. An investor who invests in a company will receive a return on the shares he owns. The higher the earnings per share given by the company will provide a reasonably good return. It will encourage investors to invest even more so that the company's stock price will increase. Good earnings quality can attract investors to increase their share ownership so that earnings per share will be even more significant and increase the cost of equity. This result is in line with Yasser, et al., (2016), which states a significant relationship between earnings quality and cost of equity. Likewise, research conducted by Efrina & Faisal (2017) states a significant relationship between earnings quality and cost of equity. It has implications for companies with high earnings management, resulting in low earnings quality so that the cost of equity becomes high. Profit is considered capable of reflecting the overall performance of the entity so that it is expected that profit can be helpful for users of financial statements. The quality of information contained in earnings affects investor decision-making. So that companies that provide quality earnings can reduce the company's cost of equity.

Effect of Company Reputation on Cost of Equity

Based on testing the third hypothesis, it shows that the influence of the company's reputation on the cost of equity is -0.188 with a significance of 0.009 < alpha 0.05. It means that the company's reputation as measured using the CII (corporate image index) has a negative and significant effect on the cost of equity. It means that a reputable company will have a low cost of equity. Thus, the third hypothesis in this study states that the company's reputation affects the cost of equity. A company with a good reputation indicates a high quality company, which means that the company has the competence and business behavior consistent with investors. Factors that affect the company's reputation are quality management and workforce, company attractiveness, reliability, quality of financial reporting, quality of products and services (Adzor & Igbawase, 2014). These factors are relevant to the value but difficult for competitors to imitate, so the company's reputation is referred to as an intangible asset. Reputable companies can attract investors' attention to increase investor awareness regarding company shares by expanding or maintaining their shares and leading to a reduction in the cost of equity. It is in line and consistent with research conducted by Cao, et al., (2015) which states that the company's reputation has a negative and significant influence on the cost of equity. The company's reputation signifies the company's ability and commitment to work in the interests of investors, thereby reducing information asymmetry. A high company reputation can increase investor recognition, thereby increasing stock liquidity and reducing the cost of equity. The research conducted by Pfister, et al., (2019) stated that the company's reputation could reduce the cost of equity. Companies that have a reputation are considered more secure and have a stable income. Companies with a reputation for higher value, even investors, will be willing to buy shares at a premium price. Investors believe that investing in companies with a good reputation will affect the rate of return in the future. Therefore, a reputable company will reduce the cost of equity.

The Effect of Company Reputation on Cost of Equity Mediated by Earnings Quality

The fourth hypothesis in this study states that the company's reputation affects the cost of equity through earnings quality as an intervening variable. The research results conducted with the Sobel test show no mediating role of the earnings quality variable that connects the company's reputation as an independent variable and the cost of equity as the dependent variable. Earnings quality in this study failed to be a mediating variable. Thus, the fourth hypothesis in this study was rejected. The capital market in Indonesia is still inefficient, so that investors still consider conditions outside the company and circulating issues as a factor in making an investment decision. According to Ng & Daromes (2016), information on economic conditions related to investment, fiscal and monetary policies from the government, changes in exchange rates, interest rates, and macroeconomic conditions are factors that can influence investors' decisions. Thus, earnings information in the financial statements is not one of the factors used by investors to make investment decisions in a company. The research conducted by Ng & Daromes (2016) states that market profits in Indonesia tend not to pay attention to operational activities and the use of company resources in generating profits. It shows that investors rely more on external information or technical elements in the investment decision-making process than the company's essential information, which may contain a fairly high discretionary accrual element so that the resulting profit will be transitory rather than permanent. Transitory earnings mean that the nature of the information content of the accrual component and the cash flow component is not reflected in the stock price so that it cannot predict future earnings. It causes the trust of stakeholders to tend to decrease in the company.

4. Conclusions

This study succeeded in testing the effect of company reputation on the cost of equity through earnings quality by using a sample of 189 companies listed on the Indonesia Stock Exchange (IDX) and listed in the Frontier Consulting Group's Corporate Image Award for the 2016-2018 period which had passed various testing processes. This study concludes that the company's reputation as a positive but not significant effect on earnings quality. The reputation proxy (Corporate Image Index) does not focus on the company's financial performance. Earnings quality has a negative and significant effect on the cost of equity. This study indicates that companies that provide quality earnings affect investors' decision-making, where investors will set a low risk so that it will reduce the cost of equity. The company's reputation has a negative and significant effect on the cost of equity. This study indicates that a reputable company can attract investors to invest in the company, thereby increasing stock liquidity and reducing the cost of equity. This study found no mediating role of the earnings quality variable that connected the independent variable, namely the company's reputation, and the dependent variable, namely the cost of equity. It is because the capital market in Indonesia is still inefficient. Investors still consider conditions outside the company and circulating issues as a factor in making an investment decision. Investors rely more on external information, such as fiscal and monetary policies from the government, changes in exchange rates, interest rates, and macroeconomic conditions, than profit information generated in the company's financial statements.

The theoretical implication of this research strengthens the agency theory proposed by (Jensen & Meckling, 1976), which states that there are costs that must be incurred in an agency relationship, namely agency costs. These costs are incurred to optimize decision-making due to the separation between the agent and the principal. One of the agency costs is bonding costs, which are costs incurred by agents to ensure that they will behave according to the principal's interests. The company issues bonding costs to show that the company is responsible to the principal by presenting financial statements. The practical implication of this research is that it is expected that reputable companies need to present quality earnings to avoid wrong perceptions among external parties. The higher the quality of the information provided to investors, the higher the cost of equity.

This research is inseparable from all the shortcomings, so this study has several limitations, namely the observations of this study are limited to three years, namely the 2016-2018 period. There is a limitation in measuring earnings quality. This study only uses one measurement, namely Modified Jones discretional accruals. The limitation in measuring the company's reputation is based on the Corporate Image Award, which does not focus on assessing the company's financial performance to determine the company's reputation. Some recommendations for future research on this topic are that future research can extend the number of observations and research period to improve the quality of research findings and show the relationship between company reputation, earnings quality, and cost of equity. Future research is expected to use other proxies in determining earnings quality. Future research could use other reputation surveys from surveyors such as Forbes or Investor Magazine to determine a company's reputation.

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