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## Article

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# Does Corporate Reputation Still Affect the Cost of Equity in an Emerging Market? Evidence from Managerial Overconfidence

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## ABSTRACT

**Purpose:** This paper examines the relationship between corporate reputation, managerial overconfidence, and the cost of equity in the context of Vietnam - a fast-growing emerging market.

**Design/methodology/approach:** The paper employs Pooled Ordinary Least Square, Fixed Effect Model and Random Effect Model to test the effects of corporate reputation and managerial overconfidence on the cost of equity on 391 non-financial Vietnamese listed firms during 2011 and 2020. In addition, Principal Component Analysis is also applied for calculating the corporate reputation score.

**Findings:** The finding shows that firms with higher corporate reputation are associated with a lower cost of equity. The results also indicates that despite the insignificant relationship between managerial overconfidence and the cost of equity, firms operated by overconfident managers can promote the negative effect between corporate reputation and the cost of equity. In addition, the more reputable corporates increase, the lower the cost of equity will be.

**Research limitations/implications:** Firms in Vietnam can manage the cost of equity better. Furthermore, based on the managers' characteristics and the state of corporate reputation, investors can make appropriate investment decisions.

**Originality/value:** Prior research shows that corporate reputation is negatively related to the implied cost of equity. However, in Vietnamese stock market, under managerial overconfidence, the association between corporate reputation and the cost of equity is also greatly affected. Furthermore, changes in corporate reputation also have certain effects on the cost of equity, especially when corporate reputation is enhanced every year.

*Keywords:* Corporate reputation, Cost of equity, Emerging market, Managerial overconfidence

## I. Introduction

In recent decades, the role of intangible assets has been proven to have certain effects on business operations. In which, economic theory suggests that

corporate reputation plays an important role in guiding corporate behavior (Weigelt & Camerer, 1988). Moreover, reputation is also considered as a valuable intangible asset and one of the key foundations to build corporate success (Dolphin, 2004). In fact, it often takes many years for companies to build a reputation in the hearts of customers. It must be the accumulation of value over time, the perception and feelings of the individual about what the business has declared and acted. In the globalized economy,

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reputation is considered as an indispensable aspect to maintain and improve competitiveness, a measure of enterprises' competitive advantage (Tischer & Hildebrandt, 2014; Raihel & Schwaiger, 2015; Wang et al., 2016). Previous empirical studies have also demonstrated the effects of corporate reputation on the actions and decisions of business professionals (Jackson 2005; Cowen et al., 2006); and stakeholder behavior (Schwaiger & Raihel, 2014); as well as the relationship between corporate reputation and net income, stock prices (Tischer & Hildebrandt 2014; Raihel & Schwaiger, 2015); and its impact on the firm's cost of debt (Anginer et al., 2011).

Hence, it can be seen that the corporate reputation is indeed very essential for businesses, helping to build a position and a foothold in the business world, creating a solid advantage for businesses, coping with difficulties and prolonged economic crisis. Especially, in developing countries, where the market is not really stable and effective, the importance of building and developing the corporate reputation is much greater. Firms in the emerging markets in general and Vietnam in particular must also have a good reputation to attract and build trust with both domestic and foreign investors. Therefore, many researchers and financial analysts have studied about the influence of corporate reputation on all aspects of business activities in order to achieve profit goals. However, emerging market studies on the impact of corporate reputation have mainly focused on marketing or management. Meanwhile, its effects on financial indicators, especially the cost of equity which has always been regarded as "the single most important number in financial economics" (Welch, 2000), are scant or mainly studied in developed countries (Smith et al., 2010; Cao et al., 2015; Pfister et al., 2020). Prior research results show that firms with higher reputation have a lower cost of equity. Nonetheless, as an emerging market, information asymmetry and non-transparency in information disclosure are very common in Vietnam. In that context, behavioral finance factors, especially the managers' psychology and attitude can easily affect business operations. Specifically, Malmendier & Tate (2005) point out

that an overconfident CEO has a great influence on the corporate investment decisions. However, Aghazadeh et al. (2018) find that the association between CEO overconfidence and the cost of equity is nonlinear. As a result, these issues raise the question of whether the effect of corporate reputation on the cost of equity is altered by the occurrence of managerial overconfidence in emerging markets, where the researches are often focused on the impact of either corporate reputation (Nguyen et al., 2021) or CEO characteristics on business performance (Jardine & Duong, 2021)? Therefore, this paper examines the relationship between corporate reputation, managerial overconfidence, and the cost of equity among 391 listed non-financial firms in Vietnam, a rapidly expanding emerging market. The results from multivariate regression models indicate that corporate reputation, as well as a positive change in corporate reputation, have a negative effect on the cost of equity. Furthermore, CEO overconfidence moderates the impact of corporate reputation on the cost of equity capital.

This study makes three contributions to the literature. First, the study provides additional evidence in the emerging market to reinforce the negative association between corporate reputation and the cost of equity for Smith et al. (2010); Cao et al. (2015); Pfister et al. (2020). Besides, this study shows new evidence to conclude that changes in corporate reputation, especially when the reputation is improved, will also reduce the cost of equity. Second, the study finds new empirical evidence on the relationship between corporate reputation, managerial overconfidence, and the cost of equity the study. Results show that firms operated by overconfident managers can promote the negative effect between corporate reputation and the cost of equity. Third, the study applies Principal Component Analysis (PCA) to measure the corporate reputation score with 9 different factors of Baruah and Panda's model (2020), replacing the use of Fortune's ranking of the most admired companies in America used by previous studies.

The remainder of this paper is organized as follows. Section 2 reviews the literature and proposes the research hypotheses. Section 3 discusses research

design. The empirical results and discussion are reported in Section 4. Finally, Section 5 summarizes major findings and provides some recommendations.

## II. Literature Review and Hypotheses Development

Studies on the impact of corporate reputation on business performance further reinforce the importance of reputation. Dowling (2006) concludes that corporate reputation can enhance a business's intrinsic value and market capitalization. Research by Keh & Xie (2009) also supports this notion, indicating that companies with good reputation benefit from building customer trust and awareness, thereby fostering strong customers loyalty. However, evidence of the impact of corporate reputation on the cost of capital equity is limited. Smith et al. (2010) and Cao et al. (2015) found a negative effect of corporate reputation on the cost of equity in the US. Considering that using Fortune's "Most Admired Companies in America" list for research was not an appropriate representation of a company's reputation, Pfister et al. (2020) used the results of a market survey conducted every six months in Germany from November 2005 to November 2011 for their study. Recently, Houque et al. (2024) used a global sample across 20 countries to indicate that corporate reputation leads to a reduction in the cost of capital, including the cost of equity and cost of debt, for reputable firms. Therefore, prior research results also suggest that corporate reputation has a negative impact on the cost of equity. In addition, agency theory states that firms' managers are expected to possess more information than external stakeholders (Fama, 1980). Meanwhile, firms holding more private information have a higher cost of capital due to the associated risk of uninformed stockholder (Easley & O'Hara, 2004). External parties are highly concerned about information asymmetry, especially for firms with lower reputation. Meanwhile, increased disclosure

to reduce information asymmetry seems to be an effective mechanism for lowering the cost of equity (Easley & O'Hara, 2004; Hwang et al., 2013; Core et al., 2015). Research by Beyer et al. (2010) and El Ghoul et al. (2011) indicates that firms that pursue a reputation management strategy are likely to disclose more information in an attempt to reduce principal-agent conflict, thereby building confidence among external stakeholders.

In Vietnam, there has not been any official ranking of listed firms' reputation. Until now, only a few organizations have created ranking lists based on their criteria, including the "List of 50 Best Listed Companies" from Forbes or the "List of 100 Best Places to Work in Vietnam" from Anphabe. Among these studies, the influence of company reputation on business operations only emphasizes assessing the impact on firm performance or corporate social responsibility (Nguyen et al., 2021). The link between corporate reputation and the cost of equity in emerging markets such as Vietnam remains largely unresolved. However, given the importance of the cost of equity capital to firms in developing countries, we still expect that a good corporate reputation will reduce the cost of equity. Following the aforementioned argument, we propose the first hypothesis as follows:

**Hypothesis 1:** Firms with higher corporate reputation have a lower cost of equity than firms with lower corporate reputation.

Referring to the association between managerial overconfidence and the cost of equity, Aghazadeh et al. (2018) indicate that the linkage between CEO overconfidence, as measured by a common factor based on three options-based variables, and the cost of equity is nonlinear. Meanwhile, Sanoran (2022) proves that stock options can increase the cost of equity significantly. However, when another factor is added, the effect of managerial overconfidence on the cost of equity can be altered. Results from Tseng & Demirkan (2021) reveal that for the firms operated by CEOs with greater overconfidence, investors charge lower cost of equity if CSR activities involve less managerial discretions. Therefore, replacing

CSR with any other factor raises the question of whether that factor changes the relationship between managerial overconfidence and the cost of equity. Though it is theorized that corporate reputation may reduce the cost of equity (Smith et al., 2010; Cao et al., 2015; Pfister et al., 2020), there has been no research showing whether this effect changes in companies with overconfident managers.

In Vietnam, where information asymmetry often occurs as indicated by Fosu et al. (2016) that this issue is about 4 times higher than in the UK, behavioral finance factors like managers' characteristics are more likely to affect investors' decision. Based on the above discussion, we expect that in an emerging market like Vietnam, although managerial overconfidence has no effect on the cost of equity, in firms with overconfident managers, the negative association between corporate reputation and the cost of equity will be enhanced. Therefore, our second hypothesis is developed as follows:

**Hypothesis 2:** The negative relationship between corporate reputation and the cost of equity is more affected in firms operated by overconfident managers.

Several previous studies have shown that company reputation is significantly driven by its industry environment (Shamsie, 2003; Brammer & Pavelin, 2006). In addition, corporate reputation takes a long time to build but can be destroyed quickly. Therefore, the consequences of reputational damage are inevitable for the business. Furthermore, prospect theory predicts that investors are not averse to losses and are very sensitive to profits (Coval & Shumway 2005) so they will immediately respond to a decline in reputation by demanding a higher risk premium and vice versa. On the other hand, Ngobo et al. (2012) have shown that stock prices react quickly to corporate signals, especially good news. These conclusions have led us to question whether businesses can take the benefits of the fluctuations of the company reputation to maximize profits and optimize costs. Cao et al. (2015) indicate that changes in reputation are related to changes in the company's investor base as well

as reputation rankings, which influences investor recognition and boosts risk sharing. However, in the research of Pfister et al. (2020), they found no evidence about the relationship between corporate reputation changes and the future cost of equity. Currently, in the context of Vietnam, an emerging market, where the level of information disclosure is still low and the information asymmetry is high, investor confidence is often affected by the corporate reputation. Hence, we expect that when corporate reputation changes, especially increase more, it will affect both firm performance or business risk, thereby signalling to investors about the company's developing prospect and affecting the cost of equity. Specifically, an increase in corporate reputation leads to a decrease in the cost of equity and vice versa. Therefore, we formulate the third following hypothesis:

**Hypothesis 3:** Changes in corporate reputation negatively affect the cost of equity, with a positive change being inversely associated with the cost of equity, while a negative change leads to an increase in the cost of equity.

### III. Research Design

#### A. Data and Sample Selection

Our initial sample includes all listed firms on the Hanoi Stock Exchange (HNX) and Ho Chi Minh Stock Exchange (HOSE) from 2011 to 2020 in Vietnam. We eliminate financial companies, banks, insurance, investment funds and securities companies due to their differences in the field of business as well as the management policies of the State. All firms that do not have enough data to apply our research model are also excluded. In addition, a research model is carried out on the influence of changes in corporate reputation on the cost of equity, which requires that firms have data for at least 3 consecutive years. Following these procedures, the final sample comprises 391 companies with a total of 3088 observations (Table 1). However, in order

to ensure that the research results are not biased, before performing the regression, we use the Winsorization command at 1% on STATA to completely exclude the outliers that affect the data.

## B. Variables Definitions

### 1. Measure of Corporate Reputation

We measure corporate reputation score following the 10-factor model of Baruah and Panda (2020), in which we use both financial and non-financial

factors to quantify in order to improve the reliability and objectivity of the measurement. However, because R&D expenditure is not disclosed in Vietnam, our study must omit innovation factor in the Baruah and Panda's model. In addition, Ethics and transparency factor is also replaced by corporate governance score. Therefore, our model to measure corporate reputation comprises 9 elements including (1) Quality of management (QM); (2) Financial soundness (FS); (3) Global competitiveness (GC); (4) Use of corporate assets (CA); (5) Quality of marketing (QMR); (6) Long-term investment value (LTIV); (7) Quality of products or services (QPS); (8) People practices and

**Table 1.** Sample selection

	Number of firms	Number of observations
Initial sample (2011-2020)	760	7600
(1) Less banks, investment funds, financial or insurance companies	148	1480
(2) Less missing or invalid values	221	3032
Final sample	391	3088

**Table 2.** Elements of our corporate reputation model<sup>1)</sup>

No	Element	Equation
1	Quality of management (QM)	$\frac{\text{Managerial salary}}{\text{Total salary}}$
2	Financial soundness (FS)	$\frac{\text{Net income}}{\text{Total asset}}$
3	Global competitiveness (GC)	$\frac{\text{Export revenue}}{\text{Total revenue}}$
4	Use of corporate assets (CA)	$\frac{\text{Net sales}}{\text{Average total asset}}$
5	Quality of marketing (QMR)	$\frac{\text{Total revenue}}{\text{Marketing expenditure}}$
6	Long-term investment value (LTIV)	Log (Market capitalization)
7	Quality of products or services (QPS)	Equal 1 if firm has ISO qualification, otherwise 0
8	People practices and talent management (PPTM)	$\frac{\text{Total income} - \text{total expenditure} + \text{employee cost}}{\text{Employee cost}}$
9	Corporate governance (CG)	$CG = 0.151INS + 0.144MNG + 0.093BMEET + 0.148BSIZE + 0.151EDR + 0.162WSIZE + 0.151CEOD$

1) CG is also computed by PCA method including institutional ownership (INS), managerial ownership (MNG), the number of board meetings (BMEET), the size of board of directors (BSIZE), the ratio of executive directors to the number of board members (EDR), the number of women in the board of directors (WSIZE) and CEO duality (CEOD)

talent management (PPTM) and (9) Corporate governance (CG) as presented in Table 2.

Based on those elements, we apply the PCA method to measure corporate reputation score as computed in the Eq. (1) below. Accordingly, the higher the CRS, the better the corporate reputation.

$$\begin{aligned} \text{CRS} = & 0.097\text{QM} + 0.131\text{FS} + 0.122\text{GC} + 0.145\text{CA} \\ & + 0.1\text{QMR} + 0.124\text{LTIV} + 0.001\text{QPS} \\ & + 0.150\text{PPTM} + 0.131\text{CG} \end{aligned} \quad (1)$$

## 2. Measure of Managerial Overconfidence

Similar to Malmendier & Tate (2005) and Nguyen et al. (2020), we measure managerial overconfidence using Net Buyer proxy. In particular, the measure of overconfidence is based on Net Buy position which means the difference between the total number of shares purchased and the total number of shares sold by all members of the Board and CEO in the company they are managing. Managerial Overconfidence (MO) takes the value of 1 if the number of years in a net buy position is more than the number of years in the net sale position in the period of 2011-2020 and 0 otherwise.

## 3. Measure of the Cost of Equity

Based on the research carried out by Francis et al. (2004), Basiruddin et al. (2014), Eliwa et al. (2016), Le et al. (2021), we decide to compute the cost of equity based on the industry adjusted P/E ratio. This formula has been used quite widely and help capture industry growth and risk factors. In addition, because listed companies in Vietnam must disclose audited financial statements within 90 days from the end of the fiscal year (December 31), we use the closing price of the last trading day of March (March 31<sup>st</sup>) in year t+1 and earnings per share (EPS) for year t to measure industry adjusted P/E ratio. However, stocks with negative EPS will be discarded because when earnings per share are negative, the P/E value will not be meaningful. Non-financial companies will be grouped into 8 industries according to Fiinpro's sub-sector including (1) Technology, (2) Industrials,

(3) Oil and gas, (4) Consumer Services, (5) Health Care, (6) Consumer Goods, (7) Basic Materials, (8) Utilities. Then, we can compute the median P/E of firms in the same industry in a given year. Finally, the firm's cost of equity is calculated by measuring the difference between the company P/E and the industry median P/E.

## C. Empirical Models

To assess the relationship between the level of corporate reputation and the cost of equity (Hypothesis 1), we execute regression analyses for Eq. (2) as follows:

$$\begin{aligned} \text{COE}_{it} = & \beta_0 + \beta_1\text{CRS}_{i,t-1} + \beta_2\text{IA}_{it} + \beta_3\text{MTBV}_{it} \\ & + \beta_4\text{AGE}_{it} + \beta_5\text{BETA}_{it} + \beta_6\text{GASSET}_{it} \\ & + \beta_7\text{LEV}_{it} + \beta_8\text{PS}_{it} + \varepsilon_{it} \end{aligned} \quad (2)$$

Where subscript i and t indicate the firm and year, respectively. In addition to CRS, we also include some firm-level controlling variables such as MTBV, AGE, BETA, GASSET, LEV, PS as described in Table 3.

To test hypothesis 2 referring to the effect of both corporate reputation and managerial overconfidence, we center corporate reputation variable before generating the interaction variable (CRS x MO) between corporate reputation (CRS) and managerial overconfidence (MO) in Eq. (3) as below:

$$\begin{aligned} \text{COE}_{it} = & \beta_0 + \beta_1\text{CRS}_{i,t-1} + \beta_2(\text{CRS}_{i,t-1} \times \text{MO}_{it}) \\ & + \beta_3\text{MO}_{it} + \beta_4\text{IA}_{it} + \beta_5\text{MTBV}_{it} + \beta_6\text{AGE}_{it} \\ & + \beta_7\text{BETA}_{it} + \beta_8\text{GASSET}_{it} + \beta_9\text{LEV}_{it} \\ & + \beta_{10}\text{PS}_{it} + \varepsilon_{it} \end{aligned} \quad (3)$$

Next, we analyze the effect of changes in corporate reputation on the firm's cost of equity (Hypothesis 3). Based on the study of Ngobo et al. (2012), Cao et al. (2015), Pfister et al. (2020), our study uses the main independent variable as the difference in reputation between year t-2 and reputation year t-1 as the following Eq. (4):

**Table 3.** Definitions of the controlling variables

Variables	Explanation	Calculation
IA	Information Asymmetry	IA = 0 if $\log(\text{total asset company } i) > \log(\text{total asset industry median})$ IA = 1 if $\log(\text{total asset company } i) \leq \log(\text{total asset industry median})$
MTBV	Market to book ratio	$\frac{\text{Market value of shares}}{\text{Book value of shares}}$
AGE	Number of years of establishment	$\text{Log}(\text{Number of years of establishment})$
BETA	Systematic risk	$\frac{\text{Covariance}(\text{Portfolio return}, \text{Market return})}{\text{Variance}(\text{Market return})}$
GASSET	Growth of total asset	$\frac{\text{Total asset year } t}{\text{Total asset year } t-1} - 1$
LEV	Leverage	$\frac{\text{Total debt}}{\text{Total asset}}$
PS	Price/Sales per share	$\frac{\text{Market capitalization}}{\text{Net sales}}$

Notes: Table 3 presents the detailed calculations for each variable identified in our models as discussed in the (Empirical Models) section above.

$$\begin{aligned} \text{COE}_{it} = & \beta_0 + \beta_1 \Delta \text{CRS}_{i,t-1} + \beta_2 \text{IA}_{it} + \beta_3 \text{MTBV}_{it} \\ & + \beta_4 \text{AGE}_{it} + \beta_5 \text{BETA}_{it} + \beta_6 \text{GASSET}_{it} \\ & + \beta_7 \text{LEV}_{it} + \beta_8 \text{PS}_{it} + \epsilon_{it} \end{aligned} \quad (4)$$

Where subscript  $i$  and  $t$  indicate the firm and year, respectively. After determining the impact of changes in corporate reputation on the cost of equity, we still continue to investigate whether positive and negative changes in reputation are differentially associated with the cost of equity or not. To address this question, we use dummy  $\Delta \text{CRS}_{i,t-1}^{\text{Gain}}$  (a positive change in reputation) and  $\Delta \text{CRS}_{i,t-1}^{\text{Loss}}$  (a negative change in reputation). Thereby, we run regression for Eq. (5) as follows:

$$\begin{aligned} \text{COE}_{it} = & \beta_0 + \beta_1 \Delta \text{CRS}_{i,t-1}^{\text{Gain}} + \beta_2 \Delta \text{CRS}_{i,t-1}^{\text{Loss}} + \beta_3 \text{IA}_{it} \\ & + \beta_4 \text{MTBV}_{it} + \beta_5 \text{AGE}_{it} + \beta_6 \text{BETA}_{it} \\ & + \beta_7 \text{GASSET}_{it} + \beta_8 \text{LEV}_{it} + \beta_9 \text{PS}_{it} + \epsilon_{it} \end{aligned} \quad (5)$$

Along with independent variables, all controlling variables are presented in Table 3.

## IV. Empirical Results and Discussion

### A. Descriptive Statistics

We present the descriptive statistics in Table 4. It can be seen that the cost of equity (COE) value fluctuates with a large standard deviation because our final sample includes non-financial listed firm operating in many different industries, structures and capital structures. Regarding the COE variable, Kido Group Joint Stock Company (KDC) has the highest cost of equity with 63.3153. It can be explained that in 2020, KDF (Kido Foods) merged with KDC and the effect of this merger has made the stock pair KDC and KDF increase sharply. Besides, KDC is also planning to merge Tuong An Vegetable Oil Joint Stock Company (TAC) and Vietnam Vegetable Oil Industry Corporation (VOC) as well as deciding to return to the confectionery business (which is the traditional strength of KDC). KDC has also boosted the share price from 14.400 VND on March 31, 2020 to 52.500 VND on March 31, 2021. This has caused the cost of equity to increase significantly. In addition, the outbreak and spread of the epidemic in 2020 has changed the psychology, habits and consumption behaviors of customers quite a lot, and business faces

**Table 4.** Descriptive statistics for all variables

Variable	Observation	Mean	Std	Min	Max
COE	3088	5.4805	9.5618	0.0000	63.3153
CRS	3088	0.2747	0.0270	0.2277	0.3581
MO	3088	0.4858	0.4999	0	1
CRSMO	3088	0.1323	0.1374	0	0.4091
$\Delta$ CRS	3088	0.0015	0.0085	-0.0244	0.0297
$\Delta$ CRSgain	3088	0.0037	0.0061	0.0000	0.0297
$\Delta$ CRSloss	3088	-0.0022	0.0045	-0.0244	0.0000
IA	3088	0.4931	0.5001	0.0000	1.0000
MTBV	3088	1.3044	0.9706	0.2553	5.8551
AGE	3088	1.3927	0.2346	0.8450	1.7853
BETA	3088	0.3939	0.5527	-1.1121	1.9994
GASSET	3088	0.1073	0.2300	-0.3197	1.1771
LEV	3088	0.4852	0.2159	0.0473	0.9185
PS	3088	0.8920	1.2836	0.0348	7.8706

Note: Table 4 presents descriptive statistics of the variables used in the study. The definitions of these variables are provided in Table 3.

many risks. Therefore, businesses and investors have been forced to recalculate their operating strategies, investment and capital use accordingly. The corporate reputation score (CRS) variable has an average value of 0.275 while the range is (0.228-0.358), showing that most listed firms in our sample have a medium reputation according to the scale of Baruah and Panda (2020). Regarding Managerial Overconfidence (MO), the mean value of 0.4858 indicates that the number of firms operated by overconfident managers is less than the remainings.

## B. The Relationship between Corporate Reputation, Managerial Overconfidence, and the Cost of Equity

Table 5 reports the regression results for the effects of corporate reputation on the cost of equity in Vietnam with the most suitable regression model Robust FEM. The coefficient on corporate reputation variable (CRS) is negative and significant at the 5% level. The results suggest that corporate reputation has a negative relationship with the cost of equity. This findings also support the hypothesis 1 that listed

firms in Vietnam with higher corporate reputation have a lower cost of equity than firms with lower corporate reputation. Indeed, firms with good reputation signal a quality management system and products, a sustainable development strategy, and ethical, talented and capable employees and administrators, thereby increasing their shareholders' expectations. Vietnam is a developing country whose financial market is gradually improving. Therefore, investors are relatively sensitive to information about enterprises, especially the evaluation of enterprises before making investment decisions. Corporate reputation in this study includes both financial and non-financial factors. So, a business with a good reputation builds the trust and expectations of the market and investors about the firm performance and the ability to achieve profits in the future. Besides, a good reputation also helps to reduce information asymmetry information between firms and investments as well as among investors (according to agency theory), thereby not incurring abnormal costs and helping to reduce the cost of equity. These results align with previous studies of Smith et al. (2010), Cao et al. (2015) and Pfister et al. (2020) carried out in the developed markets.

The variable AGE is positively correlated with the cost of equity at the significance level of 1%. This is contrary to our expectation, but it can also be explained that the larger the firm size and duration of the business, the more investment and business activities, projects as well as strategies need to be implemented. Therefore, the cost of equity will be less incurred for small and medium enterprises as well as newly established enterprises. In addition, the faster the firm's total assets increase and the better its ability to pay interest is a signal for the strong operating ability and growth of the enterprise. The

variable LEV has a positive relationship with the cost of equity as expected. High financial leverage means that the proportion of liabilities is larger than the proportion of equity, making the ratio of profit after tax to equity (ROE) very sensitive to the change of profit before tax and interest. Therefore, the high financial leverage is a signal that ROE is not sustainable, risk-tolerant at the end of the industry cycle. Because of that risk, investors have to be more careful and demand a higher rate of return, increasing the cost of equity. This finding is in line with the conclusion from Cao et al. (2015).

**Table 5.** Regression results for the effects of corporate reputation on the cost of equity and the moderating role of managerial overconfidence in firms listed on the Vietnam stock market

Variables	OLS	FEM	REM	Robust FEM	OLS	FEM	REM	Robust FEM
	Model (2)				Model (3)			
CRS	-26.59*** (-3.67)	-37.62** (-2.32)	-28.37*** (-2.77)	-37.62** (-2.41)	-39.638*** (-2.83)	-61.154*** (-2.89)	-39.638*** (-2.83)	-61.154*** (-2.51)
MO					-5.638 (-1.08)	-12.035* (-1.70)	-5.638 (-1.08)	-12.035 (-1.34)
CRSMO					17.589 (0.93)	37.776 (1.45)	17.589 (0.93)	37.776 (1.22)
IA	0.466 (1.19)	-0.00531 (-0.01)	0.226 (0.42)	-0.00531 (-0.00)	0.363 (0.61)	0.034 (0.04)	0.363 (0.61)	0.034 (0.03)
MTBV	0.448** (2.05)	0.715** (2.20)	0.604** (2.27)	0.715 (1.49)	0.329** (1.28)	0.385 (1.22)	0.329 (1.28)	0.385 (0.84)
AGE	-0.154 (-0.21)	14.94*** (5.19)	1.652 (1.39)	14.94*** (3.46)	1.913 (1.49)	14.876*** (4.82)	1.913 (1.49)	14.876*** (3.36)
BETA	0.0843 (0.26)	0.118 (0.35)	-0.0345 (-0.11)	0.118 (0.26)	0.270 (0.97)	0.406 (1.38)	0.270 (0.97)	0.406 (0.86)
GASSET	-1.121 (-1.38)	-2.506*** (-3.08)	-2.065*** (-2.69)	-2.506*** (-2.88)	-0.734** (-2.16)	-0.869** (-2.46)	-0.734** (-2.16)	-0.869*** (-3.20)
LEV	2.631*** (2.79)	4.064** (2.09)	2.690** (2.05)	4.064* (1.79)	3.492** (2.49)	4.479** (2.12)	3.492** (2.49)	4.479* (1.68)
PS	1.022*** (6.19)	0.918*** (3.12)	0.959*** (4.39)	0.918 (1.44)	1.239*** (7.70)	1.317*** (6.71)	1.239*** (7.70)	1.317** (2.29)
Constant	9.986*** (4.26)	-8.556 (-1.55)	8.401** (2.52)	-8.556 (-1.37)	22.099** (2.55)	-1.418 (-0.21)	11.099** (2.55)	-1.418 (-0.17)
N	3088	3088	3088	3088	3088	3088	3088	3088
R-sq	0.125	0.128	0.132	0.135	0.169	0.119	0.169	0.119
Prob>chi2 = 0.0000 Select FEM					Prob>chi2 = 0.0000 Select FEM			
Prob>chi2 = 0.0000 There is a heteroscedasticity					Prob>chi2 = 0.0000 There is a heteroscedasticity			

Note: Table 5 shows the regression results for the effects of corporate reputation on the cost of equity in Eq. (2) and the effects of managerial overconfidence on the association between corporate reputation and the cost of equity in Eq. (3). The definitions of these variables are provided in Table 3. The symbols \*, \*\*, \*\*\* indicate statistical significance at 10%, 5%, and 1%, respectively.

The results from estimating Eq. (3) for the effects of managerial overconfidence on the relationship between corporate reputation and the cost of equity are also presented in Table 5 above. It shows that there is no relationship between the managerial overconfidence variable (MO), the interaction variable CRSMO and the cost of equity. This means that managerial overconfidence does not affect the cost of equity capital. This findings align with the study of Aghazadeh et al. (2018). In Vietnam, although information asymmetry makes investors sensitive to both private and public information, investors are only interested in managers' characteristics instead of managers' behaviors. This can be explained because

managers' characteristics are easy to find and collect compared to computing managers' behaviors. Therefore, it can be understandable that managerial overconfidence has no impact on the cost of equity. Nevertheless, we continue to find evidence for the negative impact of corporate reputation on the cost of equity capital at a very high statistical significance 1%, which once again confirm our hypothesis 1 that good corporate reputation can decrease the cost of equity. In particular, this effect is stronger in firms with overconfident managers than that in firms without managerial overconfidence because the correlation coefficient of CRS in model (3) is twice as high as that in model (2). Overconfident managers

**Table 6.** Regression results for the effect of changes in corporate reputation on the cost of equity of firms listed on the Vietnam stock market

Variables	OLS	FEM	REM	Robust FEM
$\Delta$ CRS	-57.98*** (-2.91)	-54.17*** (-2.94)	-58.68*** (-3.25)	-54.17*** (-2.79)
$\Delta$ CRSgain	-47.87 (-1.61)	-53.91* (-1.84)	-60.36** (-2.14)	-53.91** (-2.17)
$\Delta$ CRSloss	-73.60* (-1.86)	-54.55 (-1.41)	-56.14 (-1.50)	-54.55 (-1.14)
IA	0.861** (2.26)	0.0189 (0.02)	0.543 (1.03)	0.0189 (0.02)
MTBV	0.167 (0.82)	0.690** (2.13)	0.440* (1.72)	0.690 (1.43)
AGE	-0.292 (-0.40)	12.96*** (4.63)	1.265 (1.07)	12.96*** (3.14)
BETA	0.00574 (0.02)	0.132 (0.40)	-0.0395 (-0.13)	0.132 (0.29)
GASSET	-1.036 (-1.28)	-2.543*** (-3.13)	-2.014*** (-2.63)	-2.543*** (-2.93)
LEV	3.269*** (3.54)	4.318** (2.24)	3.190** (2.47)	4.318* (1.94)
PS	1.090*** (6.66)	0.891*** (3.03)	0.979*** (4.50)	0.891 (1.37)
Constant	2.768** (2.23)	-16.15*** (-3.88)	1.025 (0.54)	-16.15*** (-2.64)
N	3088	3088	3088	3088
R-sq	0.124	0.129	0.132	0.129
Prob>chi2 = 0.0001 Select FEM				
Prob>chi2 = 0.0000 There is a heteroscedasticity				

Note: Table 6 shows the regression results for the effects of changes in corporate reputation on the cost of equity in Eq. (4) and Eq. (5). The definitions of these variables are provided in Table 3. The symbols \*, \*\*, \*\*\* indicate statistical significance at 10%, 5%, and 1%, respectively.

tend to invest in risky but highly profitable projects. They will also try to improve the corporate reputation and make investors more confident in their firm performance. Therefore, it comes as no surprise that for firms operated by overconfident managers, the impact of corporate reputation on the cost of equity is stronger.

### C. The effects of Changes in Corporate Reputation on the Cost of Equity

Our study also investigates the effects of changes in corporate reputation on the cost of equity. The results from running different regression models and tests are presented in Table 6. The table shows that the change in corporate reputation ( $\Delta CRS$ ) is statistically significant at 1% level and has a negative relationship with the cost of equity (COE). So, we find new evidence to prove for this relationship. This also means the larger corporate reputation fluctuates, the lower the cost of equity. This finding is inconsistent with the study of Cao et al. (2015) or Pfister et al. (2020) when they conclude that changes in corporate reputation has no effect on the cost of equity.

However, these fluctuations are both positive and negative changes in the corporate reputation. Meanwhile, Ngobo et al. (2012) prove that the market would react differently depending on the direction of the change of the index. Therefore, we divide corporate reputational changes into two groups comprising  $CRS^{gain}$  (companies with year t-1 increase compared to year t-2) and  $CRS^{loss}$  (companies with year t-1 decrease compared to year t-2) to further analyze this relationship.

The results in Table 6 show that positive and

negative changes in corporate reputation actually lead to different effects on the cost of equity. While a decrease in reputation is not significantly related to the cost of equity, a larger increase in reputation results in a smaller cost of equity (with statistical significance of 5%). This can be explained that the rapid improvement in reputation shows a positive sign of growth and development, manifested by increasing firm assets, stabilizing ROE via improving leverage, stock returns and other financial indicators. As a result, investors with a preference for and sensitivity to return will immediately react by appreciating the risk, requiring no high risk-return and premium, and appreciating the value of the business, having high expectations for the development of the business. In addition, the rapid increase in reputation also means that the information asymmetry is significantly reduced, making the costs of raising capital, agency costs and other marginal costs will be less or not incurred, leading to a rapid decrease in the cost of equity. In short, changes in corporate reputation have a direct effect on the cost of equity. In particular, the rapid increase in reputation acts as an initial signal of reducing the cost of equity in firms.

### D. Robustness test

To test the stability of the models (2), (3), (4), we use another measure of the cost of equity variable (COE) by applying model of Easton (2004) as described in Eq. (6) below:

$$P_t = \frac{EPS_{t+2} - EPS_{t+1}(1 - COE_t \times DIV_{t+1})}{COE_t^2} \quad (6)$$

**Table 7.** Robustness test results on the relationship between corporate reputation, managerial overconfidence, and the cost of equity

	Model (2)	Model (3)	Model (4)
CRS	-23.63* (-1.66)	-42.30** (-2.23)	
CRSMO		14.82 (1.71)	

**Table 7.** Continued

	Model (2)	Model (3)	Model (4)
MO		-11.35 (-1.24)	
ΔCRS			-35.75* (-1.88)
IA	1.254 (2.61)	1.060 (2.21)	1.238 (2.56)
MTBV	0.836 (0.39)	0.836 (0.39)	0.463 (0.22)
AGE	9.875* (1.72)	9.850* (1.72)	9.229 (1.63)
BETA	0.177 (0.40)	0.169 (0.38)	0.197 (0.44)
GASSET	-0.274*** (-0.32)	-0.237** (-0.28)	-0.239** (-0.28)
LEV	0.329** (0.14)	0.265** (0.11)	0.677* (0.30)
PS	0.324 (0.54)	0.349 (0.59)	0.314 (0.52)
Constant	-10.49 (-0.52)	-5.195 (-0.25)	-11.77 (-0.58)
N	3088	3088	3088
R-sq	0.173	0.174	0.174
Prob>chi2 = 0.0000			
Select FEM			
Prob>chi2 = 0.0000			
There is a heteroscedasticity			

Note: Table 7 shows the robustness test results in Eq. (2); Eq. (3); and Eq. (4). The definitions of these variables are provided in Table 3 and the explanation above. The symbols \*, \*\*, \*\*\* indicate significance at 10%, 5%, and 1%, respectively.

Where  $COE_t$  = the cost of equity in year  $t$ ;  $P_t$  = the adjusted closing price at the end of year  $t$ ;  $EPS_{t+2}$  and  $EPS_{t+1}$  = Earnings Per Share in year  $(t+1)$  and  $(t+2)$ ;  $DIV_{t+1}$  = Dividend Payout in year  $(t+1)$ .

The results in Table 7 reinforce our findings in the main models. Firms with good reputations will have lower costs of equity than firms with poor reputations. In addition, the influence of corporate reputation on the cost of equity is greater in firms operated with overconfident managers. The robustness test findings also indicate that the more volatile corporate reputation, the lower the cost of equity.

## V. Conclusion and Recommendations

The paper examines the association between corporate reputation, managerial overconfidence, and the cost of equity on Vietnamese listed firms in the period of 2011-2020. Research results from four main models show that the higher the corporate reputation, the lower the cost of equity, which is similar to the results in developed markets (Smith et al., 2010; Cao et al., 2015; Pfister et al., 2020). Besides, by generating the interaction variable between corporate reputation and managerial overconfidence, we also indicate that the influence of the corporate reputation on the cost of equity will be greater in firms with

confident managers. Finally, this study provides evidence that an improvement in reputation has a more significant effect on the cost of equity than a decline in reputation. The conclusion about this change in reputation only half coincides with the study of Cao et al. (2015) and contrasts with the results of Pfister et al. (2020). It can be explained by the difference between developed market and developing market. Therefore, we can conclude that listed firms in Vietnam can reduce the cost of equity by increasing their corporate reputation and controlling managerial overconfidence, thereby helping to increase the recognition and expectations of investors, enabling efficient risk sharing.

Our study extends the literature review by providing new evidence for the relationship between corporate reputation, managerial overconfidence, and the cost of equity in an emerging market. On the basis of these results, we propose some recommendations to improve the efficiency of using equity, reputation management and control of managerial overconfidence including: improve the capital structure and dividend payment policy (Karpates & Viverita, 2022), perform the communication and promotion of business well, raise the employees' awareness of protecting corporate reputation, and proactively provide other information which is not required by law. However, enterprise risk management should be enhanced to not only maintain corporate reputation but also increase firm value, thereby reduces cost of equity (Hong, 2023). In addition, state agencies and other stakeholders can improve and manage the market more transparently and efficiently through improving the legal basis and inspection for information disclosure, supporting and providing information and orientation for businesses, learning and understanding legal regulations, assisting state agencies in monitoring information disclosure and corporate reputation. Aside from the accomplishments, research still contends with certain limitations, such as the indices used in gauging corporate reputation or the calculation of the cost of equity capital, which currently only hinges on variables like P/E or EPS. Future studies could explore alternative approaches to measure these

variables, thereby ensuring that the outcomes deliver value to diverse stakeholders.

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