

CAN IMPRESSION MANAGEMENT MODERATE THE RELATIONSHIP BETWEEN FINANCIAL PERFORMANCE AND COST OF EQUITY?

Arif Santoso¹
Selvia Rahayu²
Puji Novita Sari³

Faculty of Economics and Business, Universitas Sebelas Maret, Indonesia¹
Faculty of Economics and Business, Universitas Negeri Semarang, Indonesia²
Faculty of Teacher Training and Education, Universitas Sebelas Maret, Indonesia³
arifsantoso@student.uns.ac.id¹

ARTICLE INFO

Article history:
Received: 15 April 2024
Revised: 25 May 2024
Accepted: 28 May 2024

JEL Classification: G32, G41, M41



Keywords:

independent board; financial performance; impression management; cost of equity; South East Asia

DOI:

<https://doi.org/10.33508/rima.v7i1.5507>

ABSTRACT

Stock market financing access plays an important role in sustainable business resilience and financial performance. In the Covid-19 pandemic, the banking sector has the potential to bear high equity costs commensurate with the risk. Impression management as a corporate communication strategy can maintain shareholder perception of corporate risk. The study aims to examine the effect of impression management in moderating the relationship between financial performance and cost of equity. The study consists of 228 bank-year observations on the Southeast Asian stock exchanges for 2020-2022. Data was obtained from the Annual Report, Integrated Report, and Form 56-1 One Report. This study examines separate companies that use one-tier and two-tier board systems. The findings indicate that improvements in financial performance had a negative impact on equity costs in Indonesia but a positive impact in Thailand, Singapore, Malaysia, and the Philippines. ROA and ROE only had a beneficial influence on Indonesia. The independent Board's relationship to the cost of equity was not demonstrated. This study supports the idea that impression management improves the relationship between pandemic-related changes in financial performance and the cost of equity. The practical implications are that companies with negative changes in performance that also have proper impression management can attract investors with lower equity costs.

INTRODUCTION

Access to low-cost external financing plays an important role in business growth and company performance sustainably. Generally, corporate external financing comes from debt (bank loans and debt markets) and capital markets by issuing stocks. Both have characteristics that affect the complex corporate capital structure (Orlova et al., 2020). In a crisis like the Covid-19 pandemic, where financial performance is highly fluctuating, accessing capital from investors is a better option. This

is because the cost of equity tends to be non-fixed, unlike the debt cost, which tends to be fixed and must be paid periodically. Where dividends during the crisis and the COVID-19 pandemic tend to decrease (Viviers et al., 2023). However, a company must show good performance to obtain capital from investors. Moreover, the investor's assessment of governance, the company's financial performance, and risk will determine the level of cost of equity to be borne by the company.

Corporate governance and the role of the Board of directors have been the subject of increasing supervision over the last few years. Corporate governance plays an important role in shaping corporate behaviour and performance (Santoso, 2024a), and the Board of directors are at the forefront of governance practice. In this context, the Board's independence has gained significant attention as a factor that affects the company's performance and shareholder values and can reduce conflicts between shareholders and managers (Putra, 2023). So, more and more independent directors are expected to be more investor-protected. This will ultimately shape the company's strategic direction and risk management.

Board independence refers to the composition of the Board of Directors, some of whose members are independent directors who are not affiliated with the company or management. The independent Board is expected to bring objectivity, impartiality, and diverse perspectives to board discussions, oversight, and decision-making processes. Their primary responsibility is to protect the interests of shareholders and ensure that management actions align with the interests of the shareholders and the company's long-term goals. The existence of impressive and negative tone management of the independent Board raises doubts about its functioning and effectiveness. Nair et al. (2021) mention that Chairman Statements advance positive image and impression management to cover up poor performance. Moreover, impression management reduces business failure (Alo et al., 2023; Santoso et al., 2023).

Impression management, defined by an independent board, includes collective attitudes, communication styles, and ethical standards demonstrated by the independent director during his responsibilities. Such impression management can affect the board culture, processes, decision-making (including investors), and corporate governance

practices. Impression management is a corporate communication strategy (Santoso & Setiawan, 2023; H. Wang et al., 2022).

The banking industry in Southeast Asia was used as a sample in this study, with corporate governance features and financial performance as factors believed to determine the level of equity costs of companies. Corporate governance is projected proportionately to independent boards (independent commissioners in a tier system). On the other hand, financial performance is an essential measure of corporate success and value creation. Financial performance is measured separately through return on assets (ROA), return on equity (ROE), and change in financial performance. These factors provide insight into the company's profitability, efficiency, and growth prospects.

Previous research examined the factors that influence the cost of equity. A company's cost of equity is influenced by good corporate governance (Hashmi et al., 2023; Ismail et al., 2020; K. T. Wang et al., 2021; Zandi et al., 2022), ownership concentration (Hashmi et al., 2023; Solikhah & Jariyah, 2020), enterprise risk management (Shad et al., 2022), institutional, family, and foreign ownership (Boonlert-U-Thai & Sen, 2019; Hajawiyah et al., 2019; Muslim & Setiawan, 2021), assets turnover (Foong & Goh, 2013), investor protection and director assurance (Chen et al., 2016; K. T. Wang et al., 2021), accrual quality (Le et al., 2021), ROA (Al-shiblawi et al., 2023), financial constraint (Syarif et al., 2019), business sustainability initiatives (Lau, 2019), corporate disclosure (Nuseir, 2016), board co-option (Bhuiyan et al., 2022), information asymmetry (Muslim & Setiawan, 2021), Board of directors (Falatifah & Hermawan, 2021), conservatism (Solikhah & Jariyah, 2020), political connection (Joni et al., 2020), and women on Board (Sarang et al., 2022; Srivastava et al., 2018). Jun et al. (2023) have proven that the Board of directors and financial performance influence the cost of

equity. However, his previous research has not tested the relationship between changes in financial performance and cost of equity and impression management in moderating the relationship of financial performance to cost of equity. The independent Board has demonstrated independence in overseeing and evaluating the executive director's performance, as shown in its report. Besides, there is a gap where the previous research sample removes the banking sector from the research samples. This research fills that gap by looking at equity costs in the banking sector. Although impression management has been studied in many European and American countries, there is still a gap in Southeast Asia. Thus, Southeast Asia offers an optimal setting for evaluating the impact of impression management on moderating the relationship between financial performance and cost of equity.

By providing empirical evidence about the potential of impression management in moderating financial performance and equity costs, the study aims to contribute to the literature on corporate governance, financial performance, corporate valuation, and cost of equity. The findings of this research will have practical implications for the Board of directors, corporate decision-makers, and regulators. Understanding the moderation impact of impression management on the relationship between financial performance and cost of equity can inform governance practices aimed at increasing shareholder value and fostering a culture of transparency, accountability, and long-term sustainability of the company.

LITERATURE REVIEW

The agency theory argues that conflicts of interest arise between the principal shareholder and the management because of different purposes, so managers tend to act in their best interests (Jensen & Meckling, 1976; Kalbuana et al., 2022). It indicates the need to create an environment with proper monitoring to safeguard the interests of shareholders. Under these conditions, the

Board's independence gets more attention as the key to good governance practices.

Board independence refers to the composition of the Board of Directors, some of whose members are independent directors free from conflict of interest and not affiliated with the company or management. Independent directors play an important role in ensuring objective decision-making, monitoring executive action, and safeguarding the interests of shareholders. Thus, the proportion of independent boards is one of the key factors of good governance (Alves, 2023; Bravo & Alvarado, 2017; Croci et al., 2023; Hammond et al., 2023; Singh & Sharma, 2023), so the cost of equity is smaller. The relationship between the independent Board and equity costs has also been studied by Am-ugsorn et al. (2022), Viviers et al. (2023), and Doku et al. (2023) and found the opposite results.

In Southeast Asia, there are two board systems used: one-tier (such as Thailand, Singapore, Philippines, and Malaysia) and two-tier (Indonesia). In the one-tier system, the supervisory and executive functions are placed on the same Board of directors, including the executive and non-executive boards. In the two-tier systems, there are two boards: the Board of Directors and the Board of Commissioners as supervisors. Kopyrina & Stepanova (2023); Supriyono et al. (2015). Supriyono et al. (2015) found different results on the one-tier and two-tier systems. Moreover, Kopyrina and Stepanova (2023) tested the independent Board's influence separately between states with one-tier and two-tier systems.

Good corporate governance will improve the company's financial performance. (Kiptoo et al., 2021; Puni & Anlesinya, 2020). Thus, financial performance is one of the determining factors of the cost of equity. The financial performance in this study uses ROA, ROE, and performance changes. High corporate ROA indicates that a company can make efficient use of assets. A company that can use its assets well indicates lower levels of risk so that shareholders demand low

returns. Foong and Goh (2013) found that high asset turnover would reduce the equity cost. Similarly, performance changes in high ROAs indicate that companies can use their assets efficiently during the period, while high corporate performance changes suggest that corporate efficiency can become one of the competitive advantages, lower operational risk levels, and signal that the corporate financial performance will sustain. This makes the shareholders judge that the risk for the company is getting smaller and demanding a lower return. The company's ROE shows the level of profitability. The higher the ROE means that the company can generate a higher return for the shareholder on the equity invested.

Signal theory suggests that companies use a variety of signals to convey information to stakeholders (Ross, 1977). Impression management can be seen as a signalling mechanism (Al-Sayani et al., 2020), where the independent Board presents and frames information strategically to signal positive performance and reduce perceived risks, thereby affecting the cost of equity. Singh & Sharma (2023) found that CEO duality had a negative impact on company performance. The existence of an independent board reinforced the negative relationship of CEO duality. Saini & Singh (2023) found different results, such as independent boards weakening the positive relationship of CEO confidence to company performance, as independent boards tend to take important positions and reject CEO proposals.

The independent Board is the party the shareholders trust to fight the shareholder's interests over the management's interests. The independent Board annually produces a report on the implementation of its responsibilities that can be used as a signal of the effectiveness and performance of the company. The information is complementary, financial and non-financial (Pizzi, 2018) and may influence the shareholders' decision (Santoso, 2024b; Soheilrad et al., 2017). Impression management or tone management attached

by an independent board will determine whether the information is useful or somewhat biased because the independent Board seeks to cover up the company's poor performance and try to show the existence and positive image. Thus, it is presumed that impression management can strengthen the relationship between change in financial performance and the cost of equity.

The hypothesis is formed as follows.

- H1. An independent board has a negative influence on equity costs.
- H2. ROA has a negative influence on the cost of equity.
- H3. ROE has a positive influence on the cost of equity.
- H4. Changes in financial performance have a negative influence on the cost of equity.
- H5. Impression management reinforces the negative impact of changes in financial performance on the cost of equity.

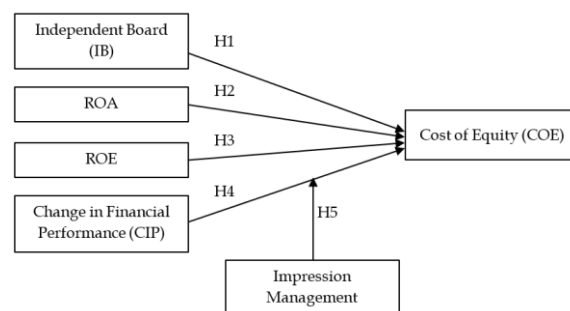


Figure 1. Study Framework

RESEARCH METHOD

The research gathers data from the Annual Report, Integrated Report, Form 56-1 One Report, and websites (the stock exchange and webfx.com). Between 2020 and 2022, there are 76 banking companies listed on the Southeast Asian Stock Exchange (IDX, SET, SGX, PSE, and Bursa Malaysia). After removing the unique characteristics, the final sample of this study was 189 units of analysis. Sampling uses purposive sampling, considering the availability of data. This data uses panel data, quantitative design methods, and Eviews 12 is used to analyze the data.

Table 1. Variable Measurement

Variable	Measurement	Source
Cost of Equity (COE)	$= \frac{EPS}{Share\ Price} - EP\ Country$	
Independent Board (IB)	$= \frac{Independent\ Board}{Number\ of\ Board\ Member} \times 100$	Annual Report, Integrated Report, and Form 56-1 One Report
Return on Assets (ROA)	Return on Assets	
Return on Equity (ROE)	Return on Equity	
Change in Financial Performance (CIP)	$ROA_t - ROA_{t-1}$	
Impression Management	Flesch-Kincaid Readability Index (KINCAID) Flesch-Kincaid Grade Level (FLESCH) Gunning-Fog Readability Index (FOG) Simple Measure of Gobbledygook (SMOG) Coleman-Liau (COLEMAN) (Jones et al., 2020; Pombinho et al., 2024)	Report of the Board of Commissioners (Two-Tiers) and Non-Executive Board Report (One-Tiers). The index was measured through webfx.com.

The study measured the impact of corporate financial performance and governance on equity costs and the influence of impression management on moderating the relationship between financial performance changes and the cost of equity. The measurements used in this study can be seen in Table 1. Readability can indicate impression management (Pombinho et al., 2024). We measure the readability index using webfx.com (McGrath et al., 2022). A lower score in impression management suggests that the Board's report is too complicated to be readable and can create bias. This can obscure important information so often that investors ignore information about negative performance. Therefore, most managers deliberately publish vague information to hide their poor performance (Arianpoor & Sahoor, 2023).

Here is the model used in this study.

Model 1

$$COE_{it} = \alpha - \beta_1ROA + \beta_2ROE - \beta_3CIP + e$$

Model 2

$$COE_{it} = \alpha - \beta_1IB - \beta_2ROA + \beta_3ROE - \beta_4CIP + e$$

Model 3:

$$(3a) COE_{it} = \alpha - \beta_1CIP + \beta_2KINCAID + \beta_3CIP1 + e$$

$$(3b) COE_{it} = \alpha - \beta_1CIP + \beta_2FLESCH + \beta_3CIP2 + e$$

$$(3c) COE_{it} = \alpha - \beta_1CIP + \beta_2FOG + \beta_3CIP3 + e$$

$$(3d) COE_{it} = \alpha - \beta_1CIP + \beta_2SMOG + \beta_3CIP4 + e$$

$$(3e) COE_{it} = \alpha - \beta_1CIP + \beta_2COLEMAN + \beta_3CIP5 + e$$

Description: COE= Cost of Equity; IB= Independent Board; ROA= Return on Assets; ROE= Return on Equity; CIP= Change in Performance; KINCAID= Flesch-Kincaid Readability Index; FLESCH= Flesch-Kincaid Grade Level; FOG= Gunning-Fog Readability Index; SMOG= Simple Measure of Gobbledygook; COLEMAN= Coleman-Liau; CIP1= CIP*KINCAID; CIP2= CIP*FLESCH; CIP3= CIP*FOG; CIP4= CIP*SMOG; CIP5= CIP*COLEMAN.

RESULT AND DISCUSSION

The results of the descriptive statistical analysis can be seen in Table 2. In Panel A, the average cost of equity for banking companies in Indonesia is 0.0183 or 1.83% of the share price. ROA has an average of 0.5637, with the smallest value of -14.7500 and the largest value of 11.4300. Changes in financial performance (CIP) have an average of 0.0562, which shows that banking financial performance in Indonesia is quite good during the Covid-19 pandemic. ROE has an average value of 0.6361 with a minimum value of -95.4400 and a maximum value of 25.6400. Independent boards (IB) have an average of 57,6941, the smallest IB is 25%, and the largest is 100%, which shows that independent boards dominate the Board of Commissioners in Indonesia. So, using the Board of Commissioners' report as impression management becomes relevant. KINCAID has an average value of 30.5651, FLESCH has an average value of 14.4310, FOG has an average of 16.3566, SMOG has an average of 13.7140, and COLEMAN has an average of 15.3868, which shows that the report or information submitted by the Board of Commissioners is quite difficult to read, understand, and have considerable potential to create bias for shareholders.

In Panel B, the average cost of equity is 0.3689 or 36.89% of the company's share price. ROA has an average value of 1.1617. CIP has an average value of -0.1722, which shows that the average performance of companies in Thailand, Singapore, the Philippines, and Malaysia worsened during the COVID-19 pandemic. ROE has an average value of 7.7351. IB has an average value of 51.9147 with a minimum value of 25 and a maximum value of 80, which shows that independent boards dominate the boards of directors in Southeast Asian companies that use a one-tier system. This indicates that using non-executive Board reports is relevant for measuring board impression management. KINCAID has an average value of 34.9081, FLESCH has an

average value of 14.2505, FOG has an average value of 13.2051, SMOG has an average value of 13.2051, and COLEMAN has an average value of 14.5384 which shows that the report or information submitted by the Board (non-executive) directors are still difficult to read, understand, and have great potential in creating information bias for shareholders.

In this research, tests were carried out to select the optimal model for research. Based on the Chow Test, Hausman Test, and LM Test, the best estimation model in Panel A is the Random Effect Model (Model 1, Model 2, and Model 3a) and Fixed Effect Model (Model 3a-d), while in Panel B it is the Random Effect Model (Model 1) and Fixed Effect Model (Model 2 and Model 3). Table 3 (Panel A) shows that independent commissioners have a positive influence and a probability value of 0.8765, and in Panel B, the independent Board has a negative influence and a probability of 0.3961, so the first hypothesis is rejected. These results complement the findings Am-ungsorn et al. (2022), Viviers et al. (2023), Doku et al. (2023), dan Solikhah & Jariyah (2020) that found that an independent board did not affect the cost of equity. These results contradict agency theory. Agency theory states that an independent board can reduce agency conflicts between shareholders and managers (Jensen & Meckling, 1976; Putra, 2023), so an independent board can reduce the cost of equity. This is because shareholders still have doubts about the effectiveness of the existence of an independent board. Doku et al. (2023) state that an independent board (outside Board) and an internal company board increase information asymmetry between the two. On the other hand, Saini & Singh (2023) also mentioned that independent boards sometimes tend to lack the required business knowledge and reject proposals from the CEO, potentially negatively impacting long-term company performance.

Table 2. Descriptive Statistics

Variable	N	Mean	Maximum	Minimum	Std. Dev.
Panel A. Two-Tier Company					
COE	129	0.0183	0.3197	-0.7255	0.1269
ROA	129	0.5637	11.4300	-14.7500	3.4354
CIP	129	0.0562	15.6000	-14.9900	3.1929
ROE	129	0.6361	25.6400	-95.4400	19.6843
IB	129	57.6941	100.0000	25.0000	13.4932
KINCAID	129	30.5651	44.8000	17.1000	6.4255
FLESCH	129	14.4310	19.2000	10.6000	1.7548
FOG	129	16.3566	21.7000	11.1000	1.9506
SMOG	129	13.7140	17.4000	10.7000	1.3897
COLEMAN	129	15.3868	18.0000	12.5000	1.0293
Panel B. One-Tier Company					
COE	99	0.3689	11.8699	-0.4342	1.5397
ROA	99	1.1617	6.6000	-2.1900	1.1574
CIP	99	-0.1722	3.5700	-7.8400	1.3382
ROE	99	7.7351	19.9800	-20.2000	4.6214
IB	99	51.9147	80.0000	25.0000	15.4535
KINCAID	99	34.9081	58.4000	0.5000	11.8795
FLESCH	99	14.2505	23.7000	9.2000	3.0936
FOG	99	17.1667	27.1000	11.8000	3.2148
SMOG	99	13.2051	19.5000	9.2000	2.3061
COLEMAN	99	14.5384	18.4000	7.1000	1.7758

In Panel A, ROA has a negative influence with a probability value of 0.0143, so the second hypothesis is accepted. These results support the findings of Roiston & Harymawan (2022) and Surtoto (2013), which say that ROA has a significant effect on the cost of equity. Meanwhile, Panel B shows that ROA has a positive influence and the probability value is 0.9246 so that the second hypothesis is rejected. This means that ROA in companies in Thailand, Singapore, the Philippines, and Malaysia

does not determine the company's cost of equity. This result aligns with several previous studies which found the same results (Fanani & Merbaka, 2020; Harymawan & Roiston, 2022; Surtoto, 2014). A high ROA indicates that the company has succeeded in making efficient use of assets during that period, so asset turnover is also higher. Shareholders in Indonesia capture this by lowering the company's risk assessment so that it demands a lower rate of return.

Table 3. Regression Result

	Model 1	Model 2	Model 3				
			(a)	(b)	(c)	(d)	(e)
Panel A. Two-Tier Company							
IB		0.0001 (0.8765)					
ROA	-0.0113** (0.0143)	-0.0113** (0.0151)					
ROE	0.0069*** (0.0000)	0.0069*** (0.0000)					
CIP	-0.0081*** (0.0005)	-0.0081*** (0.0005)	0.0076 (0.5944)	-0.0035 (0.8784)	-0.0142 (0.5815)	0.0013 (0.9598)	0.0564 (0.2730)
KINCAID			0.0010 (0.6029)				
FLESCH				-0.0053 (0.4592)			
FOG					-0.0035 (0.5941)		
SMOG						-0.0026 (0.7779)	
COLEMAN							-0.0016 (0.8605)
CIP1			-0.0001 (0.8771)				
CIP2				0.0006 (0.6954)			
CIP3					0.0012 (0.4454)		
CIP4						0.0.0003 (0.8730)	
CIP5							-0.0033 (0.3247)
Adj. R2	0.5058	0.5019	0.5896	0.5914	0.5921	0.5887	0.0323
Prob F-statistic	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
N	129	129	129	129	129	129	129
Panel B. One-Tier Company							
IB		-0.0085 (0.3961)					
ROA	0.0173 (0.9276)	-0.0089 (0.9627)					
ROE	0.0064 (0.8045)	0.0129 (0.6323)					
CIP	0.1037**	0.0975*	0.7739***	-0.5540***	-0.7526***	-0.7845***	-1.7925***

	Model 1	Model 2	Model 3				
			(a)	(b)	(c)	(d)	(e)
	(0.0366)	(0.0506)	(0.0000)	(0.0046)	(0.0007)	(0.0011)	(0.0001)
KINCAID			0.0006 (0.9377)				
FLESCH				-0.0321 (0.2295)			
FOG					-0.0288 (0.2599)		
SMOG						-0.0448 (0.2688)	
COLEMAN							0.0435 (0.3699)
CIP1			-0.0152*** (0.0003)				
CIP2				0.0563*** (0.0005)			
CIP3					0.058*** (0.0001)		
CIP4						0.0776*** (0.0002)	
CIP5							0.1385*** (0.0000)
Adj. R2	0.0467	0.0435	0.9175	0.9166	0.9211	0.9195	0.9259
Prob F-statistic	0.0567	0.0851	0.0000	0.0000	0.0000	0.0000	0.0000
N	99	99	99	99	99	99	99

Significance levels: *10%, *5%, ***1%

ROE has a positive influence and a probability value of 0.0000 in Panel A, so the third hypothesis is accepted. Meanwhile, in Panel B, ROE has a positive influence and a probability value of 0.8045, so the second hypothesis is rejected in countries that use a one-tier system. However, statistical results show that ROE positively influences companies that use one-tier and two-tier systems. Pagano et al. (1998) said that one of the company's motivations for conducting an IPO (Initial Public Offering) was to disburse the funds and profits used in the company's operations. Shareholders invest in the company expecting a reward or return so that when the company shows that it has succeeded in doubling the funds that shareholders have invested, the

shareholders will claim their rights to these results.

On the other hand, Viviers et al. (2023) found that dividends during the 2008-2009 crisis and the Covid-19 pandemic tended to decrease. This condition is believed to cause the differences in results to occur. Even though Indonesia was affected by the pandemic, the government did not impose a lockdown so that business activities could run better than in Malaysia, Thailand, the Philippines, and Singapore, which had implemented lockdowns.

The partial effect of changes in financial performance is negative, and the probability value is 0.0005, so the fourth hypothesis is accepted for companies in Indonesia. In

Panel B, changes in financial performance are positive with a probability value of 0.0366, so the fourth hypothesis, which states that changes in financial performance have a negative effect on the cost of equity, is rejected. However, in Malaysia, Thailand, the Philippines, and Singapore, the effect of changes in financial performance is significantly positive on the cost of equity. Based on descriptive statistical analysis, the average change in financial performance of companies in Southeast Asia experienced a decline, while in Indonesia, they still managed to record positive changes in performance. This is one of the effects of the lockdown implemented in several Southeast Asian countries. Changes in financial performance in Indonesia, which are still positive, can create investor optimism in the banking sector so that investors lower their risk assessment and demand smaller returns so that the company's cost of equity can be smaller. This was also encouraged by various government policies during the pandemic, such as accelerating business recovery. Conditions are different in other Southeast Asian countries that have implemented lockdowns, increasing shareholder pessimism about the company's performance and risks, thereby demanding higher returns. In addition, these differences in results also indicate that shareholders may only tolerate a decline in performance at a certain threshold when assessing their investment risk.

Investors will become risk-averse when a company experiences a decline in overall performance, such as decreased profitability, increased financial risk, or unfavourable market sentiment (Ortmann et al., 2020; Talwar et al., 2021). As a result, they demand higher expected rates of return to compensate for the increased risk perceived by investors. This means that the company's cost of equity will be higher, ultimately affecting its capital structure's cost. The point is that worsening performance causes investors and other stakeholders unfavourable perceptions. This is a big challenge in increasing company capital and

overall business sustainability. Therefore, maintaining and improving performance is critical for companies that want to mitigate the negative impact of high equity costs on corporate finances and strategy. This also emphasizes impression management's importance in maintaining the company's reputation (Hassan et al., 2022).

In Indonesia, it was found that impression management could not moderate the relationship between changes in financial performance and cost of equity as indicated by a probability value > 0.05 on all impression management indices, so the fourth hypothesis was rejected. In contrast to other Southeast Asian countries, Panel B shows that impression management as measured using the FLESCHE, FOG, SMOG, and COLEMAN indexes can strengthen the negative relationship between changes in financial performance on the cost of equity with a probability value of < 0.05 , so the fourth hypothesis is accepted. This indicates that when changes in a company's financial performance tend to be positive, impression management is not necessary. However, when changes in financial performance are negative, impression management is needed to keep the company's cost of equity at a threshold that the company can handle.

This highlights important aspects of corporate communication and financial management, especially regarding the role of impression management in responding to changes in declining financial performance. When a company successfully improves their financial performance, it is often characterized by healthy profits, strong cash flow, and positive financial market perceptions. In this condition, there is harmony between the company's financial reality and the positive impression conveyed to investors and other stakeholders. The need for aggressive impression management diminishes as the company's financial performance speaks for itself. Investors and other stakeholders tend to be satisfied and confident with their investments, resulting in a lower cost of equity. In this case, companies can focus on

maintaining positive trends and strengthening trust through transparent communication and responsible financial management.

On the other hand, when a company faces a decline in financial performance characterized by profitability ratios and the challenges of crisis economic conditions, the company enters a critical phase where impression management becomes very important (Im et al., 2021). In this scenario, there is a gap between the company's financial health and stakeholder perceptions. A decline in financial performance can cause investors and other stakeholders to perceive that risk has increased, thereby demanding a higher rate of return. Companies employ impression management to bridge this perception gap and mitigate a company's cost of equity. This can include proactive communication, a clear recovery strategy, and a risk mitigation plan. By managing impressions effectively, companies aim to reassure stakeholders and mitigate negative impacts on their cost of equity.

While impression management can be a strategic response to declining financial performance, there is a fine line between responsible communication and manipulation, so ethical leadership is important (Abbasi et al., 2022; Lu et al., 2019). Companies must balance the need to convey accurate information and ensure that the information conveyed does not create bias and doubt among investors and other stakeholders. Ethical considerations are paramount, as misrepresentation of financial performance and information can lead to worse legal and reputational consequences. Therefore, the company should focus on transparent communications that acknowledge the challenges while articulating realistic recovery plans.

In countries that use a one-tier board system, when only considering changes in financial performance during the pandemic, it will positively affect the cost of equity. This means that the higher the change in financial performance (positive), the cost of

equity will increase. This may be because shareholders demand high returns and ask for their rights to compensation for the risks borne by shareholders during the pandemic. This is also possible because banking companies in Malaysia, Thailand, the Philippines, and Singapore are public companies, unlike in Indonesia, which still tend to be family companies. However, when impression management is used, the effect of changes in financial performance on the cost of equity becomes significantly negative. This condition occurs because shareholders in these countries believe in the independence of the Board and the Board's non-executive functions and, therefore, believe that their existence will reduce agency conflicts and information asymmetry. This is the effect of impression management, thereby improving the image of the Board for shareholders. This is in line with previous studies, which found that impression management is a communication strategy that can influence shareholder image and decisions (H. Wang et al., 2022).

Impression management can strengthen the negative relationship between financial performance changes and equity cost. When negative changes occur in a company's financial performance, the cost of equity required to fund the company's investments tends to increase. However, if independent boards succeed in establishing effective impression management, the negative influence of changes in financial performance on the cost of equity can be amplified. In this case, proper impression management can provide confidence and trust to investors that the company has the ability and strategy to overcome challenges and improve financial performance. As a result, investors may be more motivated to invest in the company and be willing to accept lower returns.

In a practical context, this could mean that a company with a negative change in financial performance and a non-executive board with good impression management may be able to attract investor interest with

a lower-than-expected cost of equity. Proper impression management can build a positive perception of the company in the eyes of investors so that they are more willing to invest even if the company experiences a decline in financial performance.

CONCLUSIONS

This research examines the influence of impression management in moderating the relationship between changes in financial performance and the cost of equity. This research also examines the partial influence of financial performance, which consists of ROA, ROE, and changes in financial performance and corporate governance as proxied by an independent board on the cost of equity. The research results confirm that ROA, ROE, and changes in financial performance significantly affect the cost of equity. However, this research has not been able to prove the influence of an independent board on the cost of equity of banking companies in Southeast Asia during the 2020-2022 pandemic. The results of this study also confirm that impression management can strengthen the negative relationship between changes in financial performance and the cost of equity in the banking sector.

The practical implications of this research are significant. Companies can use impression management as a communication strategy to navigate economic crises and maintain investor trust, offering a means to influence the cost of equity beyond financial performance. This bridges behavioural finance and corporate finance theory, acknowledging that investor decisions are influenced by psychology and emotions, not just financial metrics. Additionally, the findings highlight the need for ethical communication practices in corporate governance. Companies must balance transparency with responsible impression management, and regulators should evaluate the role of independent boards in reducing agency conflicts and

information biases. Future research could explore the impact of board diversity on impression management and compare its effectiveness across different governance systems, considering variations in legal and business structures worldwide.

This research has several limitations: (1) the sample is limited to banking companies in Southeast Asia; (2) impression management measurement is restricted to board reports in English, excluding national languages; (3) the findings do not fully support the role of impression management in moderating the relationship between changes in financial performance and the cost of equity, particularly in Indonesia. Future research should address these limitations using different proxies, such as textual analysis of self-aggrandizement, accounting bias, self-defence, and board attractiveness. Additionally, incorporating corporate governance proxies and statistically examining differences between one-tier and two-tier board systems is recommended.

REFERENCE

- Abbasi, A. S., Rashidi, Z., & Ghani, U. (2022). Inclusive Leadership and Employees' Knowledge Hiding Behaviors: The Mediating Role of Interpersonal Trust and Affective Commitment as a Moderator. *Pakistan Journal of Commerce and Social Science*, 16(4), 452-471.
- Alo, O., Ali, I., Zahoor, N., Arslan, A., & Golgeci, I. (2023). Impression management and leadership in failing or failed business-to-business firms during and post-COVID-19: Empirical insights from Africa. *Industrial Marketing Management*, 113(May), 1-13. <https://doi.org/10.1016/j.indmarman.2023.05.018>
- Al-Sayani, Y. M., Mohamad Nor, M. N., & Amran, N. A. (2020). The influence of audit committee characteristics on impression management in chairman statement: Evidence from Malaysia. *Cogent Business and Management*, 7(1).

- <https://doi.org/10.1080/23311975.2020.1774250>
- Al-shiblawi, G. A. K., Union, A. H., Ali, M. N., & Hameedi, K. S. (2023). The impact of earning management, liquidity, and efficiency on the cost of equity of top ten organizations in the iraqi stock exchange. *International Journal of Economics and Finance Studies*, 15(1), 32–46. <https://doi.org/10.34109/ijefs>.
- Alves, S. (2023). CEO duality, earnings quality and board independence. *Journal of Financial Reporting and Accounting*, 21(2), 217–231. <https://doi.org/10.1108/JFRA-07-2020-0191>
- Am-ugsorn, S., Dampitakse, K., & Ngudgratoke, S. (2022). Mediating Effects of Accounting Conservatism on The Relationship Between Corporate Governance and Cost of Capital. *Central European Management Journal*, 30(3), 271–283. <https://doi.org/10.57030/23364890.cemj.30.3.24>
- Arianpoor, A., & Sahoo, Z. (2023). The impact of business strategy and annual report readability on financial reporting quality. *Journal of Asia Business Studies*, 17(3), 598–616. <https://doi.org/10.1108/JABS-10-2021-0439>
- Bhuiyan, M. B. U., Sangchan, P., & Costa, M. D. (2022). Do Co-opted boards affect the cost of equity capital? *Finance Research Letters*, 46(PB), 102491. <https://doi.org/10.1016/j.frl.2021.102491>
- Boonlert-U-Thai, K., & Sen, P. K. (2019). Family ownership and earnings quality of Thai firms. *Asian Review of Accounting*, 27(1), 112–136. <https://doi.org/10.1108/ARA-03-2018-0085>
- Bravo, F., & Alvarado, N. R. (2017). Do independent director's characteristics influence financial reporting quality? *Spanish Journal of Finance and Accounting*, 47(1), 25–43. <https://doi.org/10.1080/02102412.2017.1362200>
- Chen, Z., Li, O. Z., & Zou, H. (2016). Directors' and officers' liability insurance and the cost of equity. *Journal of Accounting and Economics*, 61(1), 100–120. <https://doi.org/10.1016/j.jacceco.2015.04.001>
- Croci, E., Hertig, G., Khoja, L., & Lan, L. L. (2023). Board characteristics and firm resilience: Evidence from disruptive events. *Corporate Governance: An International Review*, February, 1–31. <https://doi.org/10.1111/corg.12518>
- Doku, J. N., Abdul-Razak Borowa, H., Mohammed, I., & Attah-Botchwey, E. (2023). Impact of corporate board size and board independence on stock returns volatility in Ghana. *Cogent Business and Management*, 10(2). <https://doi.org/10.1080/23311975.2023.2204597>
- Falatifah, M., & Hermawan, A. A. (2021). Board of directors effectiveness, voluntary integrated reporting and cost of equity: Evidence from oecd countries. *International Journal of Business and Society*, 22(1), 443–460. <https://doi.org/10.33736/IJBS.3188.2021>
- Fanani, Z., & Merbaka, Z. R. (2020). The Effect of Managerial Ability and Tone of Earnings Announcements towards Market Reactions. *Jurnal Akuntansi Dan Keuangan*, 22(1), 10–17. <https://doi.org/10.9744/jak.22.1.10-17>
- Foong, S.-S., & Goh, K.-L. (2013). Determinants of cost of equity of Malaysian firms. *International Journal of Business and Society*, 14(3), 469–479. <https://www-scopus-com.unslib.idm.oclc.org/record/display.uri?eid=2-s2.0-84899412615&origin=resultslist&sort=plf-f&src=s&sid=a99a24856b9ea006a583c330c8d894ab&sot=a&sdt=cl&cluster=sc>

- osubjabbr%2C%22ECON%22%2Ct%2C%22BUSI%22%2Ct%2Bscosubtype%2C%22ar%22%2Ct%2B
- Hajawiyah, A., Adhariani, D., & Djakman, C. (2019). The sequential effect of CSR and COE: family ownership moderation. *Social Responsibility Journal*, 15(7), 939–954. <https://doi.org/10.1108/SRJ-09-2017-0179>
- Hammond, P., Opoku, M. O., Kwakwa, P. A., & Berko, D. (2023). Comparison of going concern models with and without corporate governance. *Cogent Business & Management*, 10(2). <https://doi.org/10.1080/23311975.2023.2234152>
- Harymawan, I., & Roiston, T. A. (2022). Political Connection and The Readability of The MD&A Disclosure. *AKRUAL: Jurnal Akuntansi*, 14(1), 30–46. <https://doi.org/10.26740/jaj.v14n1.p30-46>
- Hashmi, M. A., Istaqlal, U., & Brahmana, R. K. (2023). Corporate governance and cost of equity: the moderating role of ownership concentration levels. *South Asian Journal of Business Studies*. <https://doi.org/10.1108/SAJBS-01-2021-0019>
- Hassan, M. U., Mahmood, Z., & Zaman, S. (2022). Linking CSR and Brand Performance through Customer Satisfaction, Brand Equity and Corporate Reputation: A Mixed Methods Study of Top Pakistani Banks. *Pakistan Journal of Commerce and Social Science*, 16(4), 498–529.
- Im, J., Kim, H., & Miao, L. (2021). CEO letters: Hospitality corporate narratives during the COVID-19 pandemic. *International Journal of Hospitality Management*, 92(September 2020), 102701. <https://doi.org/10.1016/j.ijhm.2020.102701>
- Ismail, A. M., Ismail, C. R., Sulaiman, S., & Daud, D. (2020). Corporate governance and firm risk: evidence from malaysian shariah compliance companies. *Humanities and Social Sciences Letters*, 8(2), 169–193.
- Jensen, M. C., & Meckling, W. H. (1976). Theory of firms: Managerial Behaviour, Agency Cost, and Ownership Structure. *Journal of Financial and Economics*, 3(4), 305–360.
- Jones, M. J., Melis, A., Gaia, S., & Aresu, S. (2020). Impression Management and Retrospective Sense-Making in Corporate Annual Reports: Banks' Graphical Reporting During the Global Financial Crisis. *International Journal of Business Communication*, 57(4), 474–496. <https://doi.org/10.1177/2329488417712010>
- Joni, J., Ahmed, K., & Hamilton, J. (2020). Politically connected boards, family and business group affiliations, and cost of capital: Evidence from Indonesia. *British Accounting Review*, 52(3), 100878. <https://doi.org/10.1016/j.bar.2019.100878>
- Jun, C., Qiyuan, L., Xiaofang, M., & Zhang, F. (Frank). (2023). Board gender diversity and cost of equity: Evidence from mandatory female board representation. *International Review of Economics & Finance*, 88(20), 501–515. <https://doi.org/10.1016/j.iref.2023.06.031>
- Kalbuana, N., Taqi, M., Uzliawati, L., & Ramdhani, D. (2022). The Effect of Profitability, Board Size, Woman on Boards, and Political Connection on Financial Distress Conditions. *Cogent Business and Management*, 9(1). <https://doi.org/10.1080/23311975.2022.2142997>
- Kiptoo, I. K., Kariuki, S. N., & Ocharo, K. N. (2021). Corporate governance and financial performance of insurance firms in Kenya. *Cogent Business and Management*, 8(1). <https://doi.org/10.1080/23311975.2021.1938350>
- Kopyrina, O., & Stepanova, A. (2023). The influence of ownership structure and

- board independence on the cost of debt in BRIC countries. *Economic Systems*, 47(2), 101097. <https://doi.org/10.1016/j.ecosys.2023.101097>
- Lau, C. K. (2019). The economic consequences of business sustainability initiatives. *Asia Pacific Journal of Management*, 36(4), 937–970. <https://doi.org/10.1007/s10490-018-9623-7>
- Le, H. T. T., Tran, H. G., & Vo, X. V. (2021). Audit quality, accruals quality and the cost of equity in an emerging market: Evidence from Vietnam. *International Review of Financial Analysis*, 77(May), 101798. <https://doi.org/10.1016/j.irfa.2021.101798>
- Lu, X., Zhou, H., & Chen, S. (2019). Facilitate Knowledge Sharing by Leading Ethically: the Role of Organizational Concern and Impression Management Climate. *Journal of Business and Psychology*, 34(4), 539–553. <https://doi.org/10.1007/s10869-018-9555-8>
- McGrath, L., Millar, B. C., & Moore, J. E. (2022). Using plain language to communicate with clinical trials participants: Comparison of readability calculators. *Contemporary Clinical Trials*, 123(November), 106995. <https://doi.org/10.1016/j.cct.2022.106995>
- Muslim, A. I., & Setiawan, D. (2021). Information asymmetry, ownership structure and cost of equity capital: The formation for open innovation. *Journal of Open Innovation: Technology, Market, and Complexity*, 7(1), 1–17. <https://doi.org/10.3390/joitmc7010048>
- Nair, R., Arshad, R., Abd Aziz, A. Z., & Muda, R. (2021). A critical reading of impression management in times of financial crisis and implications for business writing. *Journal of Education for Business*, 96(4), 230–236. <https://doi.org/10.1080/08832323.2020.1806017>
- Nuseir, M. T. (2016). Internet marketing and its impact on online communities. In *Journal of International Business and Economics* (Vol. 16, Issue 2). <https://doi.org/10.18374/JIBE-16-2.5>
- Orlova, S., Harper, J. T., & Sun, L. (2020). Determinants of capital structure complexity. *Journal of Economics and Business*, 110(August 2019), 105905. <https://doi.org/10.1016/j.jeconbus.2020.105905>
- Ortmann, R., Pelster, M., & Wengerek, S. T. (2020). COVID-19 and investor behavior. *Finance Research Letters*, 37(May), 101717. <https://doi.org/10.1016/j.frl.2020.101717>
- Pagano, M., Panetta, F., & Zingales, L. (1998). Why do companies go public? An empirical analysis. *Journal of Finance*, 53(1), 27–64. <https://doi.org/10.1111/0022-1082.25448>
- Pizzi, S. (2018). The relationship between non-financial reporting, environmental strategies and financial performance. Empirical evidence from milano stock exchange. *Administrative Sciences*, 8(4). <https://doi.org/10.3390/admsci8040076>
- Pombinho, M., Fialho, A., & Novas, J. (2024). Readability of Sustainability Reports: A Bibliometric Analysis and Systematic Literature Review. *Sustainability (Switzerland)*, 16(1), 1–21. <https://doi.org/10.3390/su16010260>
- Puni, A., & Anlesinya, A. (2020). Corporate governance mechanisms and firm performance in a developing country. *International Journal of Law and Management*, 62(2), 147–169. <https://doi.org/10.1108/IJLMA-03-2019-0076>
- Putra, A. A. (2023). Managerial ability and informative earnings management: the role of CEO-commissioner relationship and board independence. *Corporate*

- Governance*, 23(4), 742-765.
<https://doi.org/10.1108/CG-02-2022-0067>
- Roiston, T. A., & Harymawan, I. (2022). CEO Duality, Ownership, and Readability of Financial Statement Footnotes: Some Evidence from Indonesia. *Jurnal Dinamika Akuntansi Dan Bisnis (JDAB)*, 9(2).
- Ross, S. A. (1977). Determination of Financial Structure: the Incentive-Signalling Approach. *Bell J Econ*, 8(1), 23-40.
<https://doi.org/10.2307/3003485>
- Saini, D., & Singh, B. (2023). CEO confidence and firm performance: exploring the moderating role of board independence. *Managerial Finance*, 49(6), 975-991.
<https://doi.org/10.1108/MF-07-2022-0354>
- Santoso, A. (2024a). Insentif Perpajakan Selama Dua Dekade: Systematic Literature Review. *Jurnal Kendali Akuntansi*, 2(2).
- Santoso, A. (2024b). Menyeimbangkan Profit dan Planet: Environmental Management Accounting sebagai Strategi Keberlanjutan Perusahaan. *JURA: Jurnal Riset Akuntansi*, 2(2).
- Santoso, A., Aryani, Y. A., & Setiawan, D. (2023). Impression Management in Indonesia: A Critical Analysis and Area for Future Research. *Journal of Accounting and Business Education*, 8(1), 62-83.
- Santoso, A., & Setiawan, D. (2023). Akuntansi Air, Manajemen Impresi, dan Biaya Ekuitas: Studi Bibliometrik. *Jurnal Akuntansi Dan Bisnis*, 23(2), 189-204.
- Sarang, A. A. A., Rind, A. A., Al-Faryan, M. A. S., & Saeed, A. (2022). Women on Board and the cost of equity: the mediating role of information asymmetry. *Journal of Financial Reporting and Accounting*.
<https://doi.org/10.1108/JFRA-02-2022-0048>
- Shad, M. K., Lai, F. W., Shamim, A., McShane, M., & Zahid, S. M. (2022). The Relationship Between Enterprise Risk Management and Cost of Capital. *Asian Academy of Management Journal*, 27(1), 79-103.
<https://doi.org/10.21315/aamj2022.27.1.4>
- Singh, R. K., & Sharma, S. K. (2023). Performance and CEO duality in Indian public banks: a moderating role of board independence. *Journal of Accounting in Emerging Economies*.
<https://doi.org/10.1108/JAEE-11-2022-0320>
- Soheilrad, S., Sofian, S., Mardani, A., Zavadskas, E. K., Kaklauskas, A., & Darvishvand, J. M. (2017). The relationship between non-financial stakeholders and capital structure. *Engineering Economics*, 28(4), 363-375.
<https://doi.org/10.5755/j01.ee.28.4.16812>
- Solikhah, B., & Jariyah. (2020). Corporate governance attribute, blockholder ownership and accounting conservatism: Which aspects reduce the cost of equity? *Accounting*, 6(7), 1275-1284.
<https://doi.org/10.5267/j.ac.2020.8.024>
- Srivastava, V., Das, N., & Pattanayak, J. K. (2018). Women on boards in India: a need or tokenism? *Management Decision*, 56(8), 1769-1786.
<https://doi.org/10.1108/MD-07-2017-0690>
- Supriyono, E., Almasyhari, A. K., Suhardjanto, D., & Rahmawati, S. (2015). *The impact of corporate governance on corporate social disclosure: comparative study in South East Asia*. 8(2), 143-161.
- Suripto, B. (2013). Manajemen Laba Dan Manajemen Impresi Dalam Laporan Tahunan: Penelitian Strategi Pengungkapan Perusahaan. *Jurnal Akuntansi Dan Keuangan Indonesia*, 10(1), 40-59.
<https://doi.org/10.21002/jaki.2013.03>

- Suripto, B. (2014). Determinan Pengungkapan Informasi Atribusi Dan Dampaknya Terhadap Persistensi Laba. *Jurnal Akuntansi Dan Keuangan Indonesia*, 11(1), 78-98. <https://doi.org/10.21002/jaki.2014.05>
- Syarif, D. H., Wahyudi, S., & Pangestuti, I. R. D. (2019). Financial constraints and cost of equity: Empirical study of Shariah compliant firms in Indonesia. *Research in World Economy*, 10(3), 371-381. <https://doi.org/10.5430/RWE.V10N3.P371>
- Talwar, M., Talwar, S., Kaur, P., Tripathy, N., & Dhir, A. (2021). Has financial attitude impacted the trading activity of retail investors during the COVID-19 pandemic? *Journal of Retailing and Consumer Services*, 58(September 2020), 102341. <https://doi.org/10.1016/j.jretconser.2020.102341>
- Viviers, S., Kemp, N. M., Vuuren, M. J. van, & Shiel, T. (2023). Investigating the link between board independence and dividend distributions in South Africa. *South African Journal of Business Management*, 54(1), 1-11. <https://doi.org/10.4102/SAJBM.V54I1.3643>
- Wang, H., Jia, M., Xiang, Y., & Lan, Y. (2022). Social Performance Feedback and Firm Communication Strategy. *Journal of Management*, 48(8), 2382-2420. <https://doi.org/https://doi.org/10.1177/01492063211042266>
- Wang, K. T., Kartika, F., Wang, W. W., & Luo, G. (2021). Corporate social responsibility, investor protection, and the cost of equity: Evidence from East Asia. *Emerging Markets Review*, 47(September 2020), 100801. <https://doi.org/10.1016/j.ememar.2021.100801>
- Zandi, G. R., Shahzad, I. A., Bajaber, N., Nowodziński, P., & Shahid, M. S. (2022). Relationship Between Corporate Governance and Cost of Equity Capital. *Polish Journal of Management Studies*, 26(1), 386-406. <https://doi.org/10.17512/pjms.2022.26.1.24>