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The Effect of Business Strategy and Firm Reputation on Financial Performance and Its Implications for Shipping Companies' Stock Returns

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Abstract: - The purpose of this research is to analyze the impact of business strategy and firm reputation on financial performance and its implication for stock return shipping companies. Important stock return to investors requires improvement through the business strategy, firm reputation, and financial performance. The research used a quantitative method and the data analysis used descriptive statistics and path analysis with the SmartPLS3 application. The total sample is 45 consisting of 9 companies with a 5-year observation period taken by purposive sampling technique and was listed on the Indonesian Stock Exchange between 2015 and 2019. The result of the research shows, that there is a direct impact of business strategy on financial performance, there is no direct impact of firm reputation on financial performance, there is no impact of business strategy on stock return, there is a direct impact of firm reputation on stock return, and there is no direct impact of financial performance on stock return. Companies must be able to implement appropriate business strategies by taking into account their internal and external conditions to improve their financial performance. They also have to consistently maintain and enhance their firm reputation by continuously improving the whole organization's performance so that the capitalization of the stock market will increase as well.

Key-Words: - Business strategy, Firm reputation, Financial performance, Stock return, Shipping companies.

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1 Introduction

Transportation has a very vital role in the economy of a country. Therefore, the transportation sector develops in line with economic growth, [1]. Transportation consists of land, air, and sea transportation. Sea transportation or shipping also develops along with the implementation of the cabotage principle. Presidential Instruction of 2005 concerning the Empowerment of the National Shipping Industry emphasizes that the cabotage principle is carried out consistently by involving parties with authority. The enactment of the Law of 2008 concerning Shipping reaffirms the state's commitment to the application of the cabotage principle, which is reflected in Article 8 that domestic sea transportationactivities are carried out by national sea transportation companies, with Indonesian-flagged vessels and manned by Indonesian citizens. The successful application of the cabotage principle, which is marked by the increasing number of national commercial fleets controlling the inter-island shipping market in Indonesia, has the potential to help increase supervision of Indonesia's territorial waters.

The success of the cabotage principle is also expected to increase the performance of shipping companies, especially shipping companies listed on the Indonesia Stock Exchange. The condition of the Stock Exchange is one indicator of a country's economic success, [2]. If the stock exchange conditions are good, then the economy will be in a positive state. However, the share price of shipping companies listed on the Indonesia Stock Exchange has decreased from year to year so stock returns have also decreased. Return of shares is very important for investors who put their funds in stock investment as income received when the shares are sold back, [3]. Stock return indicates the success of the firm in managing its business and that the Firm has good prospects in the future. The combination of funding sources to finance capital-intensive projects in recent times is very important and will give a direct impact on the cost of capital,

[4], [5].

Business strategy is a tool for integrating and coordinating the commitment and actions designed to exploit the core competencies to raise the competitive position of the company's products and services in certain market segments. Therefore, if the company does not implement the appropriate business strategy, it may decrease the stock return. Shipping companies are capital intensive industry. Thus, a cost leadership strategy can be implemented by reducing costs relatively compared to the competitors so that they can sell at low prices. If a company fails to implement cost efficiency then it will lose in the competition with others. Meanwhile, from the business strategy of the shipping companies listed on the Indonesia Stock Exchange with the indicator of decreased efficiency ratio, it is concluded that the companies do not succeed to make efficiency in asset utilization. Research by Shin and Shin, [6] found that shipping companies are expected to actively introduce and utilize more modern technology in response to environmental changes and to turn the organizational strategy into a prospector strategy.

A good firm's reputation can increase stock return and on the contrary, a bad firm's reputation can lower stock return. From the available data, the capitalization of the stock market as a reputation indicator of shipping companies listed on the Indonesia Stock Exchange decreases. The result of the research done by Delgado-Garcia et a., [7] states that the accumulation of ownership in a few major stockholders will lower the firm reputation. Burke et al., [8], and Wheelen and Hunger, [9], state that reputation needs to be maintained for the company's benefit and it can become a strategic resource. The company's financial report does not reflect the real condition, it will affect the company's reputation, [10]. Financial performance is an assessment of the company's financial condition carried out based on the analysis of the company's financial ratios so that the degree of the company's success in its operation can be known, which reflects the performance in a certain period. Decreased financial performance can lower the firm reputation and stock return and also affects the success of the business strategy. Financial performance is also regarded as the company's ability to meet its financial objectives, [11], [12], [13]. The company's performance may also determine its social contribution and can be measured in the company's profitability, [14], [15].

2 Literature Review

2.1 Stock Return

Stock return is very important for investors who invest their funds in the form of stock as revenue if it is sold. The stock return also indicates the success of a company in managing the business and the company has good prospects in the future. If the stock return is low, investors will not invest in the company's stock so the price of its stock will not increase and consequently the company owner's wealth will not increase either. Stock return is the difference between the amount received and the amount invested divided by the amount invested, [16]. The stock return consists of two components, namely Capital Gain and Yield. For the listed shipping companies, their stock return increases with the exposure diversified to their businesses, [17]. The charter strategy the shipping companies implement in a long-term contract succeeds to reduce the impact of short-term evolution from the delivery index at the stock price, [18]. According to Thalassinos et al, [19], if the stock price decreases continuously, it will lower the prestige of the firm in the eyes of investors or prospective investors. Thus, the stock return can be synthesized as the result obtained from stock investment in the form of realized return that has occurred or an expected return that has not occurred yet but is expected to occur in the future.

2.2 Business Strategy

Strategy according to Pearce II et al, [20], is a plan on a big scale, oriented to the future, to interact with the competitive condition to achieve the company objectives. Strategy is the focus on achieving a certain objective by involving resources and implies consistency, integration, or cohesiveness of decision and action, [21]. Hubbard and Beamish, [22] define a competitive strategy as the effort of an organization to position its business to be more competitive than its competitors. Competitive strategy is also a strategy to fight all competitors with advantages. According to Porter, there are three generic strategies in business units that can be selected by companies from various industries to gain a competitive advantage for the firm'sbusiness, [23]. Thus, it can be concluded that business strategy is a tool for integrating and coordinating commitment and action designed to exploit the core competencies to raise the competitive position of the company's products and services in certain market segments with the research variables are cost leadership strategy, differentiation strategy, and focus strategy.

2.3 Firm Reputation

A firm reputation is several perceptions and company evaluations concerning the relevant stakeholders and specific supporting potentials that describe the whole company when compared with its competitors. Apart from Indonesia Stock Exchange being influenced by business strategy, stock returns can also be influenced by a firm reputation. Sivertzen et al., [24] define a firm's reputation as an integral part of a firm's social characteristics, determined by the actions that the firm has taken and its possible future. Buss, [25], and Gonzalez-Perez and Leonard, [26], say that a firm reputation is several company perceptions and evaluations concerning the relevant stakeholders and specific supporting potentials such as purchase, word of mouth, and defense against criticism. In addition, Shaw, [27], also argues that a good reputation results in benefits and is more valuable, that is the company is at a controlled risk. More complex is a belief about how other people see the firm. Abeyesekere, [28], explains that the dimensions of reputation variables among others are long-term investment, firm reputation, policy on assets, management quality, quality of products or services, innovation, responsibility for the community and environment, as well as company growth. In addition, a firm reputation consists of two attributes: (1) the stakeholder's perception of the ability of a company to produce quality products, and (2) the company's advantages. Eisend, [29], says there are four dimensions of firm reputation necessary to be handled, namely: (1) credibility (2) trustworthiness, (c) reliability, and (4) responsibility. Whereas Martin-de Castro, [30], argues that firm reputation is divided into three main dimensions, namely: (1) managerial reputation; (2) financial reputation, and (3) product reputation.

Thus, it can be concluded that firm reputation is the company's perception and evaluation concerning the relevant stakeholders and specific supporting potentials that describe the whole company when compared with its competitors, with the dimension of firm reputation variable as the market capitalization counted by multiplying the closing price of the stock by the volume of outstanding stocks.

2.4 Financial Performance

Apart from Indonesia Stock Exchange being influenced by the firm's business strategy and reputation, stock returns can also be influenced by financial performance. Through financial performance, assets and equity can be managed, [31], [32]. [33], [34], [35]. Financial performance will show how effectively and efficiently a company achieves its objectives and the financial statement issued will represent the company's financial performance, [36]. Financial performance control according to Iskandar et al.,[37], must be done so that the company will be efficient to get maximum profit. According to Endri et al., [38], financial performance is the combination of the organization's financial health, ability to fulfill the commitment, and long-term financial obligations to provide services in the future. Financial performance measurement is carried out to know the success of a company in achieving its target based on the company's financial report. The indicators of financial performance are among others Return on Asset (ROA), Return on Equity (ROE), and Net Profit Margin (NPM). Thus, financial performance can be synthesized as the assessment of a company's financial condition based on the analysis of financial ratios to know the success of a company in its operation which reflects its performance in a certain period, with the dimension of research variable being ROE [39].

Based on those research problems, it can be concluded that the aims of this research are as follows; (1) to know and analyze the contribution of business strategy to the financial performance of the shipping companies listed on the Indonesia Stock Exchange (IDX), (2) to know and analyze the contribution of firm reputation to the financial performance of the shipping companies, (3) to know and analyze the contribution of business strategy to the shipping companies' stock return, (4) to know and analyze the contribution of firm reputation to the shipping companies' stock return, and (5) to know and analyze the contribution of financial performance to the shipping companies' stock return.

Based on the literature review and previous research, the following hypotheses can be proposed (Figure 1).

H1: There is an impact of business strategy on financial performance.

H2: There is an impact of a firm reputation on financial performance.

H3: There is an impact of business strategy on stock return.

H4: There is an impact of firm reputation on stock return.

H5: There is an impact of financial performance on stock return.

H6: There is an indirect impact of business strategy on the stock return through the mediation of financial performance
H7: There is an indirect impact of a firm reputation on the stock return through the mediation of financial performance.

3 Research Methods

This research uses Path Analysis with the analysis tool Partial Least Square (PLS) through the SmartPLS3 application. The research sample is as many as 45 port service users consisting of nine shipping companies listed on the Indonesia Stock Exchange in the period 2015-2019. Then to examine the significance of the path coefficient, the t-test is used, and the obtained value of the t-statistic is compared with the value of the t-table. In the path analysis, the influence of independent variables on the dependent variable can be direct. In another word, multiple regression analysis takes into account the existence of direct influence. In this research business strategy, and firm reputation are independent variables, and stock return is the dependent variable whereas financial performance is the intervening variable.

4 Results

The path coefficient of the impact of business strategy on the financial performance obtained in the direct influence of business strategy on financial performance is 0.256. The path coefficient has a positive value, indicating that the improvement of business strategy can improve financial performance.

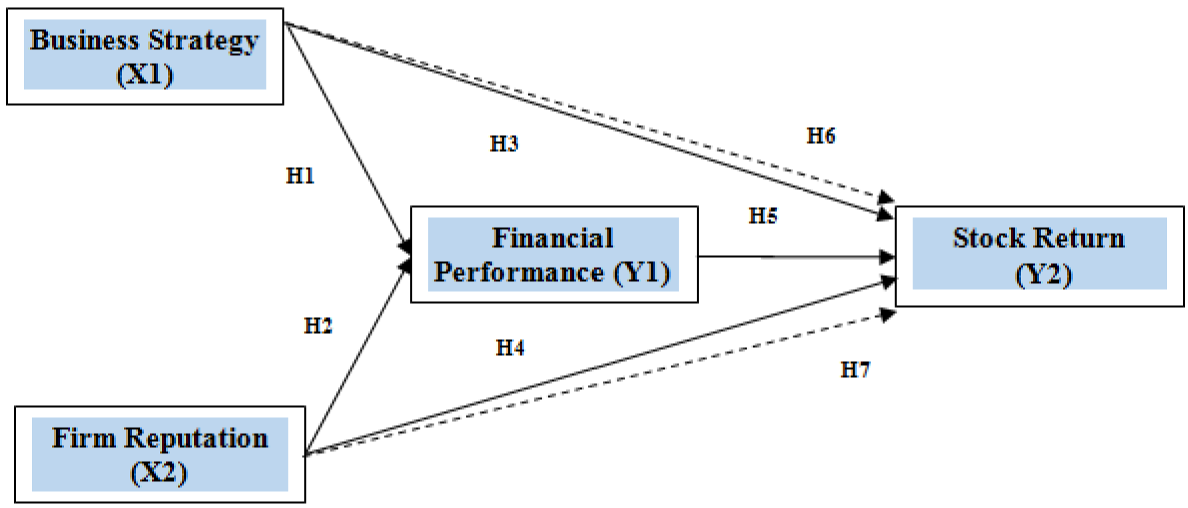

Fig. 1: Conceptual Framework

Meanwhile, the value of the t-statistic obtained is 1.925, so it can be concluded that business strategy has a direct impact on financial performance. The path coefficient of the impact of firm reputation on the financial performance obtained in the direct influence of firm reputation on financial performance is 0.065. The path coefficient has a positive value, indicating that the improvement of a firm reputation can improve financial performance. Meanwhile, the value of the t-statistic obtained is 0.708, so it can be concluded that a firm reputation does not influence financial performance. The path coefficient of the impact of business strategy on stock return obtained in the direct influence of business strategy on stock return is -0.248. The obtained path coefficient is negative, indicating that a poor Business Strategy can lower the stock return. The value of the t-statistic obtained is 1.588, so it can be concluded that business strategy does not directly influence stock return. The path coefficient of the impact of firm reputation on stock return obtained in the direct influence of firm reputation on stock return is 0.148. The path coefficient has a positive value, indicating that a good firm's reputation can increase the stock return. The value of the t-statistic obtained is 1.683, so it can be concluded that a firm reputation has a positive direct impact on stock return. The path coefficient of the impact of financial performance on stock return obtained in the direct influence of financial performance on stock return is 0.067. The path coefficient has a positive value, indicating that good financial performance can increase the stock return. The value of $t_{he\ t\text{-statistic}}$ obtained is 0.974, so it can be concluded that financial performance does influence stock return.

The path coefficient of the indirect Impact of business strategy on stock return mediated by financial performance obtained in the indirect influence of business strategy on stock return mediated by financial performance is 0.017. The path coefficient has a positive value, indicating that the business strategy supported by financial performance can increase the stock return. Meanwhile, the value of $t_{he\ t\text{-statistic}}$ obtained is 0.442, so it can be concluded that business strategy does not indirectly influence stock return with the mediation of financial performance. The path coefficient of the indirect impact of a firm reputation on stock return with the mediation of financial performance is 0.004. The path coefficient has a positive value, indicating that the firm reputation supported by financial performance can increase the stock return. Meanwhile, the value of $t_{he\ t\text{-statistic}}$ obtained is 0.251, so it can be concluded that a firm reputation does not indirectly influence stock return with the mediation of financial performance.

All the path coefficients and the results of the t-test concerning the influence of ownership structure and financial performance on investment (Table 1).

Table 1. Summary of Path Coefficients

Path	Path Coefficient	$T_{statistic}$	t_{table}	
			α= 0.05	**α=0.01**
X1 – Y1	0.256	1.925*	1.67	2.41
X2 – Y1	0.065	0.708^{ns}	1.67	2.41
X1 – Y2	-0.248	1.588^{ns}	1.67	2.41
X2 – Y2	0.148	1.683*	1.67	2.41
Y1 – Y2	0.067	0.974^{ns}	1.67	2.41
X1 – Y2 – Y1	0.017	0.442^{ns}	1.67	2.41
X2 – Y2 – Y1	0.004	0.251^{ns}	1.67	2.41

* Significant path coefficient ($t_{statistic}$> t_{table} at α = 0.05)
^{ns} Path coefficient is not significant ($t_{statistic}$ <t_{table} at α = 0.05)

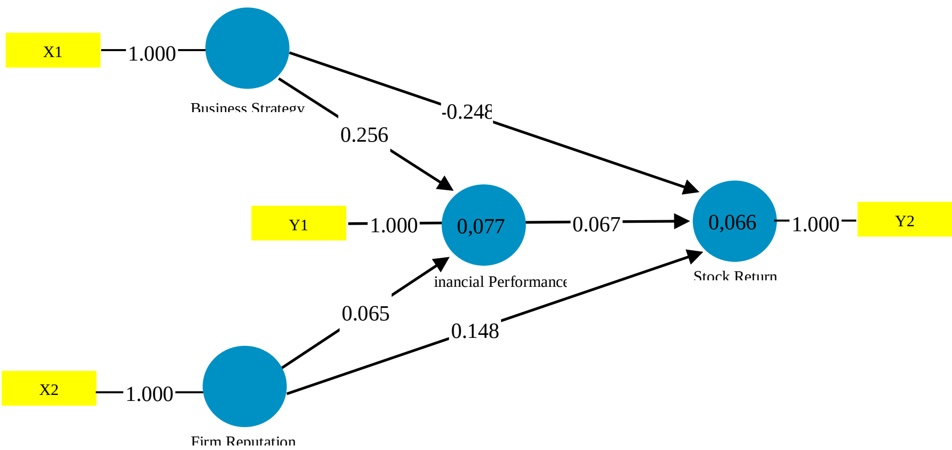

Fig. 2: Path Coefficients of the Impact of Business Strategy and Firm Reputation on Financial Performance and Stock Return

The results of this research show that business strategy directly and positively influences financial performance, firm reputation does not influence financial performance, the business strategy does not influence stock return, firm reputation directly and positively influences stock return, financial performance does not influence stock return, the business strategy does not indirectly influence stock return with the mediation of financial performance, and firm reputation does not indirectly influence stock return with the mediation of financial performance.

The results of statistical calculation with path analysis are processed using Smart PLS 3 application to become the research hypotheses with Path Coefficient and $T_{statistic}$ (Figure 2 and Figure 3).

The path coefficient of business strategy (X1) toward financial performance (Y1) is 0.256, meaning that business strategy positively influences financial performance. The path coefficient of firm reputation (X2) toward financial performance (Y1) is 0.065, meaning that firm reputation positively influences financial performance. The path coefficient of business strategy (X1) toward stock return (Y2) is -0.248, meaning that business strategy negatively influences stock return. The path coefficient of firm reputation (X2) toward stock return (Y2) is 0.148, meaning that firm reputation positively influences stock return. And the path coefficient of financial performance (Y1) toward stock return (Y2) is 0.067, meaning that financial performance positively influences stock return.

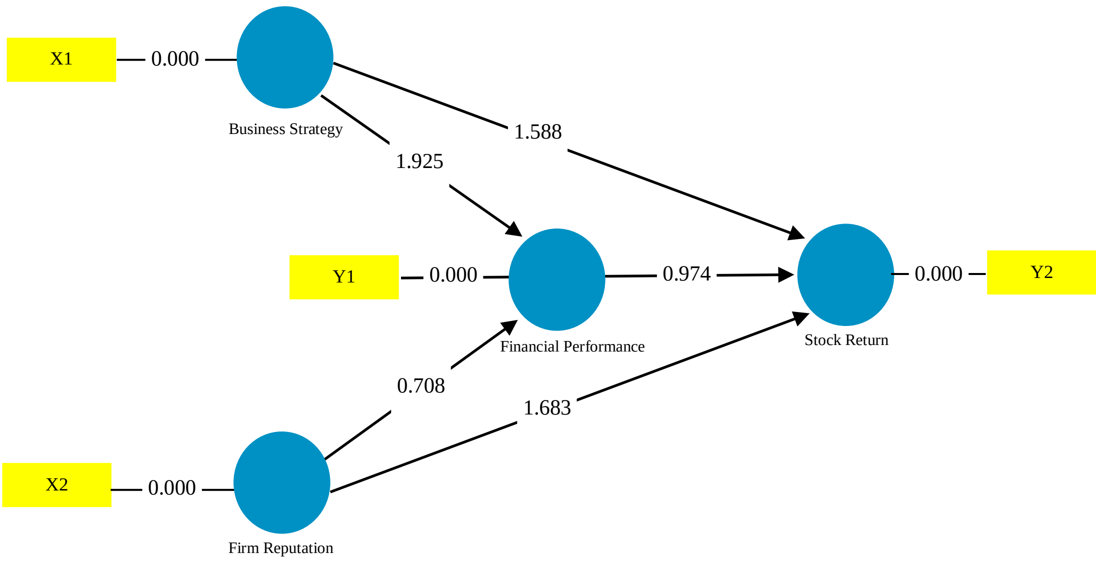

Fig. 3: $T_{statistic}$ of the Impact of Business Strategy and Firm Reputation onFinancial Performance and Stock Return

The $t_{\text{-statistic}}$ of business strategy (X1) toward financial performance (Y1) is 1.925, meaning that business strategy influences financial performance. The path coefficient of firm reputation (X2) toward financial performance (Y1) is 0.708, meaning that firm reputation does not influence financial performance. The path coefficient of business strategy (X1) toward stock return (Y2) is 1.588, meaning that business strategy does not influence stock return. The path coefficient of firm reputation (X2) toward stock return (Y2) is 1.683, meaning that firm reputation influences stock return. And the path coefficient of financial performance (Y1) toward stock return (Y2) is 0,974, meaning that financial performance does not influence stock return.

5 Discussion

5.1 Impact of Business Strategy on Financial Performance

The results of this study empirically prove that business strategy has a positive and significant direct impact on financial performance. Business strategy is a means of integration and coordination of commitments and actions designed toexploit core competencies to enhance the competitive position of a firm's products or services in a particular market segment. When the business strategy is executed properly where the resources owned by the firm are used efficiently to increase the competitiveness of the product or service, this condition will increase the firm's sales. Business strategies with cost leadership implemented by the firm can increase firm profits. By reducing costs, the firm can sell its services cheaper to competitors so that firm revenue increases, which in turn can increase firm profits. With increased profits, it can improve financial performance, which is an assessment of the firm's financial condition based on an analysis of the firm's financial ratios so that it can be seen that the firm's success rate in carrying out its operational activities reflects work performance in a certain period, with an indicator of Return on Equity (ROE). The results of this study are in line with research by Gorondutse and Hilman, [40], who show that business strategy has an impact on performance. The survey conducted by Yuliansyah et al., [41], on 157 finance managers in Indonesia is used to examine the direct and indirect influence among the variables being hypothesized. The result of research by Suryatini et al., [42], indicates that both relations and competitive strategy influence financial performance. This research is in line with the study by Alexandrou et al., [43], explaining that shipping companies with proactive strategy have better financial performance. Their study contributes to the decision on the shipping companies' environmental management strategy to improve their financial gain. Thus, the findings of this study support the results of previous studies that business strategy has an impact on financial performance.

5.2 Impact of Firm Reputation on Financial Performance

The results of this study empirically prove that the firm's reputation does not have a direct impact on financial performance. The firm's reputation is several perceptions and evaluations of the firm related to relevant stakeholders and the specific potential that supports the firm as a whole when compared to its competitors. The firm's reputation with an indicator of stock market capitalization. The reputation of this firm is in the view of investors. According to investors, a high firm's reputation cannot affect financial performance. This condition means that the firm's reputation does not improve financial performance, namely an assessment of the firm's financial condition based on an analysis of the firm's financial ratios so that the firm's success rate in carrying out its operational activities can be seen, which reflects work performance in a certain period, with the Return on Equity (ROE). The results of this study are not in line with the research of Carroll and Shabana, [44], that a Firm reputation has an impact on financial performance. They emphasize that a firm reputation can help the organization achieve a robust competitive advantage, improving the performance of the stock market. The key finding of the research by Lee and Roh, [45], is that a firm reputation is significantly and positively related to most corporate financial performance. Whereas Shi, [46], re-examines the relations between reputation and financial performance and shows that the competition in the industry partly changes the dynamic between financial performance and firm reputation. However, based on the analysis of several state companies in Indonesia, especially from the investor's perspective, it is found that financial performance does not influence a firm reputation, [47]. The result of this research is in line with the research by Caliskan, [48], concluding that a firm reputation does not influence financial performance. Thus, the findings of this study support the results of previous studies because a firm reputation has no direct impact on financial performance.

5.3 Impact of Business Strategy on Stock Return

The results of this study also empirically prove that business strategy has no direct impact on stock return prices. Business strategy is a means of integration and coordination of commitments and actions designed to exploit core competencies to enhance the competitive position of a firm's products or services in a particular market segment. The business strategy carried out by the firm may not be well analyzed by investors. The business strategy adopted by the firm is not recognized by investors as outsiders. Investors do not consider the firm's business strategy in the share purchase decision. This condition will not affect stock returns, namely the results obtained from stock investments in the form of real return which has been already obtained, or in the form of expected return which has not been obtained yet but is expected to be obtained in the future. The previous research by Nocco and Stulz, [49], studies the relationship between the measurement of Business Strategy and the risk of falling stock price and shows that the companies being assessed have a too high risk -- on average, they have a higher risk of falling stock price. The finding by Fathony et al.,[50], explains that financial performance and ROA altogether affect a company's stock return. However, the other findings by Tanani and Mohebkhah, [51], and Razak et al., [52], indicate that there is no significant impact between corporate strategy and stock return. Thus, the findings of this study support the results of previousstudies because the business strategy has no direct impact on stock return prices.

5.4 Impact of Firm Reputation on Stock Return

The results of this study empirically prove that a firm reputation has no direct impact on stock return prices. A firm reputation is several perceptions and evaluations of the firm related to relevant stakeholders and the specific potential that supports the firm as a whole when compared to its competitors. When the firm reputation is good, it means that the Firm's condition and prospects are good when compared to its competitors. When the firm reputation is good, it means that the firm is in good shape as a whole and has good prospects for the future. With this condition, investors will respond by buying firm shares. High interest in buying stocks will increase stock prices from time to time, thereby increasing stock returns, namely the results obtained from stock investments in the form of real return which has been already obtained, or in the form of expected return which has not been obtained yet but is expected to be obtained on the future. Rose and Thomsen, [53], argue that reputation can affect stock returns in the future. The findings by Bravo, [54], indicate that future-oriented financial information has a significant impact on the capital market. In addition, the result of the research shows that a firm reputation affects the volatility of stock returns. The perceived reputation driven by nonfinancial aspects is more relevant in the future rather than the perceived reputation driven by previous financial performance, [55]. Although, the results of research by Gonzalez Sanchez and Morales de Vega, [56], show that there is a negative impact on a firm reputation on excess stock returns, which means that a good firm's reputation will reduce abnormal stock returns. Thus, the findings of this study support the results of previous studies that a firm reputation has no direct impact on stock return prices.

5.5 Impact of Financial Performance on Stock Return

The results of this study empirically prove that financial performance has no direct impact on stock return prices. Financial performance is an assessment of the firm's financial condition which is carried out based on an analysis of the Firm's financial ratios so that the Firm's success rate in carrying out its operational activities can be seen, which reflects work performance in a certain period, with an indicator of Return on Equity (ROE). Financial performance with the ROE indicator is not too volatile and low so investors are not too interested in investing their funds to buy stocks. This condition does not affect stock returns, namely the results obtained from stock investment in the form of realized returns that have occurred or expected returns that have not occurred but are expected to occur in the future. The result of research by Iwayan and Anom, [57], of several companies listed on the Indonesia Stock Exchange shows that Financial Performance such as Return on Investment (ROI) insignificantly affects stock return, Earning per share also insignificantly affects stock return, and operational cash flow negatively and significantly affects stock return. In addition, according to the study by Saleh, [58], in Pakistan, financial performance such as NPM and ROA also negatively affects stock returns. However, indeed in the previous research by Khan et al.,[59], and Nugroho, [60], find that the financial structure of a company like a book-to-market ratio positively and significantly affects stock return; Return on Assets (ROA), as a proxy of expected profitability, also significantly affects stock return. Thus, the findings of this study do not support the results of previous studies because financial performance has no direct impact on stock return prices.

5.6 Indirect Impact of Business Strategy on Stock Return mediated by Financial Performance

The results of this study empirically prove that business strategy has no indirect impact on stock return prices by mediating financial performance. Based on the research results, shows that business strategy has a direct impact on financial performance and financial performance does not directly affect the stock return price. This does not open the opportunity for an indirect impact of business strategy on stock returns by mediating financial performance.

5.7 Indirect Impact of Firm Reputation on Stock Return mediated by Financial Performance

The results of this study empirically prove that a firm reputation does not have an indirect impact on stock return prices by mediating financial performance. Based on the research results, shows that the firm's reputation has no direct impact on financial performance and financial performance does not directly affect the stock return price. This does not open the opportunity for an indirect influence of a firm reputation on stock return prices by mediating financial performance. Based on some theoretical discussions and by comparing some previous research, it can be explained that the four variables in this research, namely; Business Strategy, Firm Reputation, Financial Performance, and Stock Return can be regarded as a new combination of variables. This combination of variables has never been analyzed simultaneously especially related to stock return in several shipping companies. As another novelty, several hypotheses do not affect directly and positively as in the impact of Firm Reputation on Financial Performance, Business Strategy on Stock Return, Firm Reputation on Stock Return, and Financial Performance in Stock Return.

6 Conclusion

Indonesian shipping companies can improve their financial performance and stock return through the business strategy of cost leadership. They try to reduce their costs to be able to sell their services competitively so that they win the competition in the shipping industry. They must implement an appropriate business strategy while taking into account the company's internal and external conditions so that the implemented business strategy can improve the company's financial performance. They should always maintain and improve the firm reputation by continuously improving overall organizational performance so the capitalization of the stock market can be enhanced as well. They should also improve their financial performance and maintain its stability if they have achieved high financial performance by utilizing capital efficiently to make profits for the company so that investors are interested in investing their funds to buy the company's stock. It is recommended that further research extends the period of observation and uses other indicators, for example, Net Profit Margin (NPM) to study financial performance.

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