

The impact of corporate reputation on credit rating quality in an Asian market: the moderating role of economic policy uncertainty

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Abstract

Purpose – The present study aims to investigate the impact of corporate reputation (CREP) on credit rating quality (CRQ) and the moderating role of economic policy uncertainty (EPU) for companies listed on the Tehran Stock Exchange (TSE).

Design/methodology/approach – This study analyzed data from 191 companies from 2014–2023. Brand equity scales were used to measure CREP. Brand equity was calculated using the corporate brand success approach. In addition, the CRQ was determined using the technique for order of preference by similarity to ideal solution method and the entropy weighting method. Economic growth and inflation rate were used to calculate EPU.

Findings – The results showed that CREP has a significant positive effect on CRQ. EPU significantly lowers the positive impact of CREP on CRQ. These results remained robust even after several robustness tests.

Originality/value – The concept of CREP is still being developed, with researchers working on improving its theoretical foundations and measurement methods. Presumably, companies with good reputations are less risky and more likely to receive higher credit ratings. However, previous research has not addressed this issue. Decision-making on credit is filled with uncertainties, and the concept of credit rating was developed to make these uncertainties more manageable. The present study provides evidence to support the validity of theoretical predictions which have not received attention in previous studies. The present findings can help companies obtain better credit ratings, especially during times of high policy uncertainty.

Keywords Corporate reputation, Credit rating quality, Economic policy uncertainty, Economic growth, Inflation rate

Paper type Research paper

1. Introduction

Credit rating quality (CRQ) entails the evaluation of creditworthiness and the capacity to settle debts (Montes *et al.*, 2016). Investors and stakeholders in the debt market regard CRQ as very significant since alterations in credit ratings considerably influence stock and bond prices (Bhandari and Golden, 2021). While the core metric that underpins credit rating construction remains unchanged, recent years have seen a significant underestimation of corporate risk, prompting a reevaluation of rating methodologies (Pertaia *et al.*, 2022).



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Managers must not only modify their capital structure to prevent credit rating reductions but also work toward enhancing their credit rating (Graham *et al.*, 2005).

While the reputation mechanism is a well-recognized and comprehensively understood idea at a theoretical level (Fehr and Zehnder, 2009), and compelling empirical evidence highlights the existence of long-term relationships in credit markets (Fehr and Zehnder, 2009; Kaur *et al.*, 2024), there has been less research on how reputation formation influences market outcomes (Fehr and Zehnder, 2009) particularly in developing economies (Kaur *et al.*, 2024). The existing literature on corporate reputation (CREP) is also fragmented and lacks a concise definition (von Berlepsch *et al.*, 2024), and the extensive and varied nature of the literature makes it challenging to review as corporate image is examined in different areas of management research, using different theoretical foundations and approaches (Kaur *et al.*, 2024; Veh *et al.*, 2019). As a result, the hypothesis that reputational issues necessarily have a negative impact on the capital market does not always hold true (Baghai *et al.*, 2014). These issues have motivated the present research to test the impact of CREP on CRQ, largely under-researched in the literature. This study is a preliminary attempt to link two strands of research about CREP and CRQ in the Iranian context as an Asian market.

Research has shown that credit rating calculations tend to be more skeptical when evaluating debt issues at a higher risk. This cautious approach is driven by the desire to avoid high-profile failures that could severely damage a company's reputation and harm its business (Rand, 2023). A robust CREP can enhance credit ratings by boosting perceived stability and reliability; however, economic policy uncertainty (EPU) tends to introduce risks that may weaken this relationship and result in lower credit ratings. While businesses frequently face challenges in precisely evaluating credit ratings amid high policy uncertainty, potentially affecting the overall quality of these ratings, there exists another viewpoint suggesting that elevated credit ratings serve as an indicator of safety, thus lowering ex ante uncertainty (An and Chan, 2008). Therefore, the interactive influence of EPU and CREP on CRQ is a multifaceted relationship that emphasizes how external economic factors and internal corporate views can affect credit rating evaluations. To the authors' best knowledge, there is presently no clear insight into how EPU influences the connection between CREP and CRQ. Consequently, this study intends to tackle the second gap concerning the interactive influence of EPU and CREP on CRQ.

The present study makes several contributions to the literature. First, previous research has primarily focused on CREP, bankruptcy risk and firm risk (e.g. Góis *et al.*, 2020; Bakhsh *et al.*, 2019). However, the perception is that companies with good reputations have lower risks and are more likely to receive higher credit ratings. Surprisingly, none of the previous studies have addressed this issue. Therefore, this research examines the impact of CREP on CRQ, a less explored topic in the literature.

Second, decision-making on credit is filled with uncertainties, and the concept of credit rating was developed to make these uncertainties better manageable (Carruthers, 2013). However, the common belief is that policy uncertainty can result in more conservative credit ratings, as lenders and investors may be less willing to take risks in uncertain environments. In addition, increased policy uncertainty may be linked to lower rating standards, as rating agencies may face conflicts of interest and struggle to provide accurate evaluations of a company's creditworthiness (Attig *et al.*, 2021). A strong reputation can act as an indicator of high credit ratings and diminish ex ante uncertainty (Kaur *et al.*, 2024). The present study pioneers in investigating these interactions and the moderating role of EPU in the relationship between CREP and CRQ. The present findings can assist companies in improving credit ratings, particularly during times of heightened policy uncertainty.

Third, Iran is an Islamic country recognized as a secondary economy and the biggest emerging market in the Middle East (Mehrabanpour *et al.*, 2020), and the development of Iran's capital market mirrors that of numerous developing capital markets in Asia and Latin America (Rotaru, 2016). Nonetheless, the economic conditions in Iran, particularly the capital market, have consistently been open to discussion in the international community because of the existing political and social circumstances (Ahmad and Wu, 2022). Western economic sanctions on Iran have greatly influenced the nation's financial markets and capital market, as well as the conduct of the Iranian capital market (Tehrani *et al.*, 2024). At present, the worldwide stock markets are negatively affected by the Israel–Iran conflict, with developing and emerging markets, as well as the Middle East and Asia stock markets, facing detrimental effects (Pandey, 2025). Iran as a developing country is comparatively new to credit risk management practices (Anagnostopoulos and Abedi, 2016). There are also different perspectives on reputation, and developing countries need to work even harder to gain a reputation compared to their counterparts in developed countries (Romiani *et al.*, 2024). The impact of these consequences can always be investigated, especially in emerging economies and developing countries. Hence, Iran is a suitable environment for conducting this research, and Iran's challenges provide valuable insights and lessons for other nations.

The results showed that CREP has a positive effect on CRQ. Furthermore, EPU significantly weakens the positive impact of CREP on CRQ. These results remained robust even after several robustness tests. The present findings will not only assist company managers in developing countries but also benefit managers in developed countries and the global community. There is a dearth of similar research in the existing literature in this regard.

The remainder of the paper is organized in multiple sections. Section 2 presents a literature review as well as the hypothesis formulation. The research method is presented in Section 3. The empirical results are analyzed in Section 4. In Sections 5 and 6, the discussion and conclusion are presented, respectively.

2. Literature review and hypothesis formulation

2.1 Credit rating quality

Credit rating plays a crucial role in making credit decisions, like extending credit and/or determining its cost (interest rate). The credit decision generally relies on a rating classification (Chen *et al.*, 2024). A key role of CRQ is to enhance the efficiency and transparency of capital markets by reducing the information asymmetry between borrowers and lenders (Tran, 2022). However, the accuracy of credit ratings tends to decrease when financial information is disclosed (Vanhaverbeke *et al.*, 2024). In addition, CRQ is influenced by geopolitical risks, which can lead to optimistic credit ratings during times of uncertainty (Singhal *et al.*, 2024). The importance of credit ratings is so great that currently machine learning and artificial intelligence are used to enhance forecasting precision (Chen *et al.*, 2024). Hence, it is important to explore the factors that impact CRQ (Arianpoor and Yazdanpanah, 2023).

2.2 Corporate reputation and credit rating quality

One of the most interesting and challenging topics in today's business world is company reputation which has attracted the attention of various academic disciplines (Chun, 2005). The increasing focus on CREP opens up new research opportunities that can be explored and differentiated to encompass the perceptions held by both internal and external stakeholders of a company (Arduini *et al.*, 2024). Aramburu and Pescador (2019) shed light on the different definitions of CREP that arise from its multidisciplinary and multidimensional nature. They explain that CREP definitions intersect on two main points: "reputation" which relates to social cognition, and the social cognitions (i.e. knowledge, impressions, perceptions and beliefs) that

exist in external observers' minds. Hence, CREP relies on stakeholders' perception and evaluation of a company in comparison to peers, known as social cognition (King and Whetten, 2008). This perception plays a crucial role in increasing a company's competitive advantage by increasing its CREP, which is considered an invaluable intangible asset (Clarke, 1988; Hall, 1992; Ponzi *et al.*, 2011).

Several theoretical studies have examined credit rating bias and emphasized reputational concerns as a driving force (e.g. Bouvard and Levy, 2018; Mariano, 2012). In situations where reputation is compromised, future financial resources may not be adequate for effective disciplinary measures (Angerer *et al.*, 2022). Furthermore, the rating industry's need for reputation and competitiveness compels rating agencies to issue ratings that are effective based on the available information during the rating process (Galil, 2003). Moreover, the excessive conservatism hypothesis suggests that credit ratings become stricter in uncertain times because of concerns about reputation (Singhal *et al.*, 2024). Studies show that companies with a robust CREP usually face reduced bankruptcy risks, thereby improving their creditworthiness. This is linked to the trust associated with a strong reputation, which fosters assurance among investors and creditors, thus enhancing the company's capacity to fulfill its obligations (Góis *et al.*, 2020). An in-depth examination of the elements affecting credit ratings reinforces the idea that worries about reputation harm the precision of ratings (Vanhaverbeke *et al.*, 2024). As discussed above, *H1* can be formulated as follows:

H1. Corporate reputation has a positive impact on credit rating quality.

2.3 Economic policy uncertainty, corporate reputation and credit rating quality

EPU has been on the rise worldwide in recent decades and severely affected macroeconomic and firm performance (Jo and Lee, 2024). Strong shocks in the international environment can cause significant uncertainty in national economic policies worldwide (Deng and Li, 2024). At present, the worldwide stock markets are negatively affected by the Israel–Iran conflict, with developing and emerging markets, as well as those in the Middle East and Asia, facing detrimental effects (Pandey, 2025). The information advantage hypothesis suggests that credit ratings become less reliable during difficult times (Singhal *et al.*, 2024). Several studies (e.g. Attig *et al.*, 2021; Boumparis *et al.*, 2017) have shown that CRQ decreases when there is high EPU. When EPU is high, managers are more likely to meet or slightly beat their earning targets, indicating that EPU contributes to managers' short-term behavior, which undermines companies' long-term value (Jo and Lee, 2024). This issue can provide a cover for corporate fraud, which can besmirch a company's reputation (Ning and Qi, 2023).

EPU can increase the volatility of investment returns, which further increases managers' concerns about reputation (Hou *et al.*, 2022; Pfister *et al.*, 2020; Wang, 2018). These conditions result in a reputation cost due to the potential loss of future business (Wang, 2012). Analysts face the greatest reputational risks when they are unable to accurately predict defaults (Xia, 2014). In times of high EPU, firms frequently face more restrictive financing conditions. This may result in higher capital costs and limited funding opportunities (Farooq *et al.*, 2022), which can negatively impact the ability to sustain or enhance credit ratings. Companies might need to alter their financial strategies more quickly due to these pressures, potentially jeopardizing their operational stability and future planning. In addition, in situations where economic policies are unpredictable, companies with solid reputations might encounter difficulties in sustaining good credit ratings because of the rising perception of risk. This ambiguity may result in more careful lending behaviors, causing even well-regarded companies to struggle to obtain advantageous financing terms, which in turn can harm their creditworthiness. Based on these arguments, *H2* can be formulated as:

H2. Economic policy uncertainty significantly weakens the positive impact of corporate reputation on the credit rating quality.

3. Research method

The research population consisted of all firms listed on the Tehran Stock Exchange (TSE) for a period of 10 years, from 2014 to 2023. The reason for selecting the TSE is the availability and reliability of the data it provides. The selected firms were required to meet specific criteria, such as no affiliation with investment firms, financial intermediaries, holdings, banks or leasing companies. Furthermore, the firms were not allowed to change their fiscal year or core activities. Taking into account these criteria, as well as the availability of the necessary data, a total number of 191 firms were selected for the study.

3.1 Model specifications

Equations (1) and (2) are used to test H1 and H2, respectively:

$$\begin{aligned} CRQ_{i,t} = & \beta_0 + \beta_1 CREP_{i,t} + \beta_2 LOSS_{i,t} + \beta_3 ROA_{i,t} + \beta_4 GROWTH_{i,t} + \beta_5 SIZE_{i,t} \\ & + \beta_6 MTB_{i,t} + \beta_7 LEV_{i,t} + \beta_8 CFO_{i,t} + \beta_9 AGE_{i,t} + \beta_{10} LIQ_{i,t} + ENDYEAR \\ & + INDUSTRY + YEAR + \varepsilon_{i,t} \end{aligned} \quad (1)$$

$$\begin{aligned} CRQ_{i,t} = & \beta_0 + \beta_1 CREP_{i,t} + \beta_2 EPU_{it} + \beta_3 EPU_{it} \times CREP_{it} + \beta_4 LOSS_{i,t} + \beta_5 ROA_{i,t} \\ & + \beta_6 GROWTH_{i,t} + \beta_7 SIZE_{i,t} + \beta_8 MTB_{i,t} + \beta_9 LEV_{i,t} + \beta_{10} CFO_{i,t} \\ & + \beta_{11} AGE_{i,t} + \beta_{12} LIQ_{i,t} + ENDYEAR + INDUSTRY + YEAR + \varepsilon_{i,t} \end{aligned} \quad (2)$$

3.1.1 Dependent variable. CRQ stands for credit rating quality. Previous researchers, such as Arianpoor and Yazdanpanah (2023) and Safari *et al.* (2011), have examined this topic using Iranian data. In this study, CRQ was assessed using the Technique for Order of Preference by Similarity to Ideal Solution (TOPSIS) and the entropy weighting method. The TOPSIS method determines the selected option's proximity to the positive ideal solution (profit indicators) and distance from the negative ideal solution (cost indicators). It assigns a value between zero and one, with a higher value indicating greater proximity to the positive ideal point and further distance from the negative ideal option.

The indicators listed below have been used to differentiate companies with a high CRQ from those with a low CRQ:

Here are the inputs that should be minimized as cost indicators:

- The ratio of short-term loans to total assets.
- The ratio of short-term loans to net sales.
- The ratio of total debts to total assets.

Outputs that should be maximized are (profit indices):

- The ratio of equity to total assets.
- The ratio of current assets to fixed assets.
- The ratio of net profit to total assets.

A higher rating of companies represents their higher credit, which is based on the above-mentioned factors. The results of the Shannon entropy test can be seen in [Table 1](#).

3.1.2 Independent variable. CREP, which refers to corporate reputation, was assessed using the Brand Equity Scales, as shown in previous studies by [Chun \(2005\)](#) and [Zimon et al. \(2022\)](#). In addition, corporate brand success (CBS), as established by [Ruenrom and Pattaratanakun \(2012\)](#) and further supported by [Zimon et al. \(2022\)](#), served as a measurement to determine the brand equity of companies. The calculation of CBS involved the use of [equations \(3\) and \(4\)](#), which incorporated the concepts of enterprise value and brand equity:

$$\text{Enterprise value} = \text{Market capitalization} + \text{Total debts} - \text{Cash} \tag{3}$$

Market capitalization is the company’s value obtained by multiplying the company’s number of shares by its market value per share at the end of the fiscal year:

$$\text{Corporate brand value} = \text{Enterprise value} - (\text{Book Value of Total assets} - \text{Cash}) + \text{Goodwill} \tag{4}$$

The higher the reputation score (CREP), the greater the corporate reputation.

3.1.3 The moderator variable. EPU is economic policy uncertainty. EPU has been found to have a negative impact on gross domestic product (GDP) ([Tunc et al., 2022](#)). Therefore, in this study, GDP is used to measure EPU, as shown by some previous research conducted by [Arianpoor and Eslami Khargh \(2025\)](#). GDP serves as the primary indicator of assessing and analyzing economic performance. The data for this variable are obtained from the Central Bank of Iran, and the calculation method relies on the comparison of the growth rate of GDP between the end and beginning of a given year. Here is the equation used to calculate economic growth ([equation \(5\)](#)):

$$\Delta \text{Economics growth} = \frac{\text{GDP}_t - \text{GDP}_{t-1}}{\text{GDP}_{t-1}} \tag{5}$$

3.1.4 Control variables. The present study examines a range of control variables that have shown to consistently influence CRQ, as well as the variables commonly used in the literature. LOSS is a binary variable that takes a value of 1 if a company’s income before extraordinary items is negative in the current and previous fiscal year and, otherwise, 0. It has been found that companies experiencing loss are more likely to have credit rating downgrades ([Lee et al., 2021](#)). Conversely, high profitability increases the likelihood of a

Table 1. Results of Shannon entropy

Indicators	Shannon entropy value	Weight	Degree of deviation of each indicator	The rank of each indicator
Ratio of short-term loans to total assets	0.93967	0.228057	0.06033	3
The ratio of short-term loans to net sales	0.917246	0.312826	0.082754	1
The ratio of total debts to total assets	0.98869	0.042755	0.01131	5
The ratio of equity to total assets	0.99092	0.034323	0.00908	6
The ratio of current assets to fixed assets	0.917966	0.310106	0.082034	2
The ratio of net profit to total assets	0.980971	0.071933	0.019029	4
K value			0.13164	

Source(s): Authors’ own work

company relying on internal funds rather than external funds (Nejad and Wasiuzzaman, 2015), which in turn can reduce credit risk and improve credit ratings (Gupta, 2023). ROA, or return on assets, is calculated by dividing income before extraordinary items by total assets. Companies with higher ROA are more likely to have higher credit ratings (Chodnicka-Jaworska, 2016). GROWTH represents sales growth, measured as changes in annual sales divided by the sales in the previous year. Higher sales can enhance a company's creditworthiness by improving its ability to generate profits, repay debts and maintain a strong financial position, thereby positively influencing credit ratings. It is expected that GROWTH will be positively correlated with credit ratings (Adams *et al.*, 2003; Al-khawaldeh, 2013). SIZE, as measured by the natural logarithm of a company's asset book value, refers to the company size. Larger companies generally have an advantage in obtaining credit ratings compared to smaller companies, as they typically have more financial data available and a better-established track record, making it easier to assess their creditworthiness. SIZE has the greatest impact on credit ratings (Gupta, 2023). MTB, or market-to-book value ratio, is associated with an increased likelihood of securing a higher credit rating (Ben Saad *et al.*, 2024). LEV, which stands for leverage, is calculated by dividing the book value of debts by the total assets. A higher leverage indicates a riskier position for the company and is, therefore, expected to have a negative effect on credit ratings (Grassa, 2016; Murcia *et al.*, 2014). CFO, or operational cash flow, is estimated by dividing operational cash flow by the stock capital at the beginning of year (Vijayakumaran, 2021). It has been found that operating performance and cash flow are significant determinants of credit ratings (Gupta, 2023). AGE represents the age of company measured as the natural logarithm of the time between the company's initial establishment and the date of the investigation. Older firms may have a better-established track record, financial stability and reputation, which can positively affect their credit ratings (Huo and Gong, 2022). LIQ represents liquidity and is proxied by the current ratio (current assets divided by current liabilities). Higher liquidity indicates a company's better ability to cover short-term liabilities with current and liquid assets, and is expected to be positively associated with credit ratings (Feki and Khoufi, 2015). Finally, ENDYEAR is a control variable that captures the financial year-end. For most TSE-listed companies, the fiscal year aligns with the Iranian calendar year, with the fiscal year ending around March 20. Therefore, ENDYEAR takes a value of 1 if a firm's fiscal year-end is March 20, otherwise, 0.

4. Empirical findings

4.1 Descriptive statistics and correlation analysis

The descriptive statistics of main variables are presented in Table 2. The results show that the mean CREP is 4.562. The higher the CREP, the higher the corporate reputation. Moreover, the mean CRQ is 0.544. If this value is close to 1, the credit rating is good, and if it is close to zero, the credit rating is unfavorable. The results of this study show that the mean CRQ for the surveyed companies is medium.

Table 3 shows the correlation analysis of research variables. The results show that the correlation between CREP and CRQ is positive (coefficient: 0.172), which suggests that better CREP leads to higher CRQ. This result provides initial support for *H1*. In addition, EPU is negatively correlated with CRQ (coefficient: -0.214), which suggests that greater EPU leads to lower CRQ. Moreover, the correlation between EPU and CREP is negative (coefficient: -0.142). This correlation supports the argument that EPU can be used as a pretext for corporate fraud, which can adversely affect the company's reputation (Ning and Qi, 2023). These correlations can provide initial support for *H2*.

Table 2. Descriptive statistics of main variables

Variable	Mean	Median	SD	Min.	Max.	Skewness	Kurtosis
CRQ	0.544	0.548	0.106	0.207	0.766	− 0.172	− 2.286
CREP	4.562	1.362	1.721	0.821	12.152	0.625	2.232
ROA	0.168	0.139	0.151	− 0.327	0.661	0.411	1.225
GROWTH	0.375	0.285	0.554	− 0.909	4.651	0.688	2.112
SIZE	14.817	14.606	1.666	10.533	21.328	0.748	2.840
MTB	3.017	1.898	3.471	0.692	32.703	0.799	2.530
LEV	0.549	0.545	0.209	0.031	1.567	0.226	3.260
CFO	0.927	0.552	0.318	− 0.420	11.467	− 0.281	2.242
AGE	3.700	3.807	0.333	2.398	4.248	− 0.816	2.210
LIQ	1.715	1.287	6.016	0.215	27.095	0.421	3.463
LOSS	Score			Frequency		%	
	0			1726		90.37	
ENDYEAR	1			184		9.63	
	0			330		17.28	
	1			1580		82.72	

Source(s): Authors’ own work

4.2 Data analysis and main results

Before testing the hypotheses, the data were evaluated to confirm that they met the required statistical assumptions. All variables showed to be stationary, and any disruptive elements exhibited a normal distribution. The panel data were considered appropriate, and the fixed effects approach was used for hypothesis testing. No autocorrelation was detected in the study models. Nonetheless, there was heterogeneity in the variance, and to resolve this issue, the generalized least squares method was used to estimate the coefficients within the model.

Table 4 shows the statistical results of hypothesis testing based on the FGLS method. According to Table 4 based on regression 1, CREP has a significant positive effect on CRQ ($\beta = 0.083$ and $\text{sig} < 0.01$). Thus, $H1$ can be accepted.

A modified multiple regression method was used to test the moderating role of EPU. According to Table 4 based on regression 2, EPU significantly weakens the impact of CREP on CRQ ($| - 0.007 + 0.063 | < | 0.063 |$). Therefore, $H2$ could be accepted.

4.3 Additional analyses

4.3.1 Robustness test for endogeneity. The issue of endogeneity arises from unobservable heterogeneity, firm fixed effects and simultaneity dynamic endogeneity (Hussain et al., 2019; Ning et al., 2022). In the present study, the Durbin and Wu-Hausman tests and the generalized method of moments (GMM) were used to test the endogeneity. Durbin and Wu-Hausman test is a widely used specification test of endogeneity that maintains its size even in high dimensions (Guo et al., 2018). Durbin test results showed a χ^2 value of 1.658 and a p -value of 0.342. Similarly, the Wu-Hausman test yielded an F-value of 1.125 and a p -value of 0.329. Based on these results, which indicated p -values > 0.05 , it can be concluded that there was no evidence of endogeneity.

As an additional robustness check, the GMM takes into account unobservable firm-specific effects and offers improved control for the endogeneity issue (Blundell and Bond, 1998). The GMM estimator is deemed consistent without second-order serial correlation in the error term. In this study, the Arellano-Bond test indicated the existence of first-order serial correlation; however, no evidence of second-order serial correlation was found.

Table 3. Correlation analysis of research variables

Variable	CRQ	CREP	EPU	LOSS	ROA	GROWTH	SIZE	MTB	LEV	CFO	AGE	LIQ
CRQ	1											
CREP	0.172***	1										
EPU	-0.214***	-0.142***	1									
LOSS	-0.223***	-0.006*	0.068***	1								
ROA	0.325***	0.128***	-0.131***	-0.642***	1							
GROWTH	0.227**	0.198***	-0.289***	-0.121***	0.226***	1						
SIZE	0.089***	0.119***	-0.072***	-0.135*	0.273*	0.142***	1					
MTB	0.119***	0.455***	-0.071**	-0.077	0.103	0.097*	0.038*	1				
LEV	-0.513***	-0.037*	0.030	0.450**	-0.635***	-0.080*	-0.103**	-0.097*	1			
CFO	0.106***	0.062*	-0.051*	-0.257***	0.540*	0.023	0.190*	0.046**	-0.331*	1		
AGE	0.008*	0.067***	-0.040*	0.002	0.060*	0.086	0.068	0.012	-0.034	-0.019	1	
LIQ	0.008*	0.042**	-0.037*	0.014	0.025***	0.043*	0.011**	0.025	-0.091	-0.017	-0.032	1

Note(s): This table presents the correlations for the regression variables *, **, and *** indicate statistical significance at the 10, 5 and 1% levels, respectively

Source(s): Authors' own work

Table 4. FGLS regression for the impact of corporate reputation and economic policy uncertainty on credit rating quality

Dependent variable: credit rating quality (CRQ)	Regression 1 Coefficient (stat.)	Regression 2 Coefficient (stat.)
<i>Variable:</i>		
CREP	0.083 (9.410)***	0.063 (8.297)***
EPU ^a		− 0.054 (− 16.279)***
EPU ^a × CREP		− 0.007 (− 2.245)**
LOSS	− 0.023 (− 1.724)*	− 0.002 (− 1.397)
ROA	0.028 (2.780)***	0.067 (6.297)***
GROWTH	0.068 (7.921)***	0.011 (4.927)***
SIZE	0.064 (3.281)***	0.021 (2.423)**
MTB	0.026 (1.610)	0.009 (1.526)
LEV	− 0.061 (− 11.924)***	− 0.126 (− 23.424)***
CFO	0.084 (2.159)**	0.042 (2.076)**
AGE	0.032 (2.062) **	0.016 (2.467)**
LIQ	0.057 (1.826)*	0.043 (1.721)*
_cons	0.625 (18.116)***	0.682 (27.460)***
End year	Controlled	Controlled
Year fixed effect	Yes	Yes
Industry fixed effect	Yes	Yes
Observations	1910	1910
X ² Statistic	269.98 ***	394.36 ***
Durbin–Watson statistic	1.829	1.946

Note(s): *, ** and *** indicate statistical significance at the 10, 5 and 1% levels, respectively a: EPU proxied by GDP
Source(s): Authors’ own work

Furthermore, the Sargan test was performed to assess the validity of the overidentifying restrictions. The results of the Sargan test indicated that the overidentification restrictions were valid.

Table 5 shows the GMM results and indicates that CREP has a significant positive effect on CRQ ($\beta = 0.072$ and $\text{sig} < 0.01$). As shown in Table 5, EPU significantly weakens the positive impact of CREP on CRQ ($| - 0.016 + 0.051 | < | 0.051 |$). These results confirmed the previous research findings. While incorporating lagged dependent variables in GMM regression is not strictly necessary, such variables should be made according to the study’s theoretical framework and empirical assessments of their significance and relevance.

4.3.2 *Robustness test using alternative proxy and ordinary least squares regression.* In archival accounting studies, the most widely used method to test the relationship between a dependent variable and one or more independent variables is ordinary least squares (OLS) (Leone *et al.*, 2019). OLS linear regression can accurately show the spread of data points using a single line (Burton, 2021). Therefore, in this study, OLS was used to compare the results with previous methods. EPU calculation involves analyzing various economic indicators, such as GDP, inflation rates, interest rates and exchange rate indices. These indicators are used to create an EPU index to reflect the level of EPU in a given period (Javaheri *et al.*, 2022). In this research, the inflation rate has been used as an alternative proxy to calculate the EPU. The inflation rate is published by the Central Bank of Iran. In this study, changes in the inflation rate are calculated using equation (6):

Table 5. GMM regression for the impact of corporate reputation and economic policy uncertainty on credit rating quality

Dependent variable: credit rating quality (CRQ)	Regression 1 Coefficient (stat.)	Regression 2 Coefficient (stat.)
<i>Variable:</i>		
CREP	0.072 (7.425)***	0.051 (8.320)***
EPU ^a		− 0.072 (− 26.520)***
EPU ^a × CREP		− 0.016 (− 8.990)***
LOSS	− 0.011 (− 1.460)	− 0.001 (− 1.230)
ROA	0.063 (3.520)***	0.061 (4.450)***
GROWTH	0.052 (5.390)***	0.009 (2.150)**
SIZE	0.051 (12.870)***	0.014 (4.090)***
MTB	0.015 (1.490)	0.004 (0.690)
LEV	− 0.091 (− 9.070)***	− 0.121 (− 15.400)***
CFO	0.066 (2.040)**	0.032 (1.760)*
AGE	0.031 (4.250)***	0.026 (3.820)***
LIQ	0.043 (1.732)*	0.038 (1.745)*
_cons	0.231 (6.020)***	0.442 (5.945)***
End year	Controlled	Controlled
Year fixed effect	Yes	Yes
Industry fixed effect	Yes	Yes
Observations	1910	1910
X ² Statistic	257.16***	612.36***
Arellano-Bond test/ first-order autocorrelation: z (Prob > z)	− 12.223 (0.000)	− 8.417 (0.000)
Arellano-Bond test/ second-order autocorrelation: z (Prob > z)	− 1.417 (0.153)	− 0.984 (0.325)
Sargan Test: Chi2 (Prob > chi2)	21.113 (0.149)	220.43 (0.183)

Note(s): *, ** and *** indicate statistical significance at the 10, 5 and 1% levels, respectively a: EPU proxied by GDP According to the First-order autocorrelation of Arellano-Bond, the null hypothesis is rejected (There is a first-order serial correlation). According to the Second-order autocorrelation of Arellano-Bond, the null hypothesis is not rejected (There is no second-order serial correlation). Moreover, the Sargan test showed that the null hypothesis is not rejected (the instruments are valid)

Source(s): Authors' own work

$$\Delta \text{Inflation Rate} = \frac{\text{Inflation Rate}_t - \text{Inflation Rate}_{t-1}}{\text{Inflation Rate}_{t-1}} \quad (6)$$

Table 6 shows the OLS results using the inflation rate as EPU. The results show that CREP has a positive impact on CRQ ($\beta = 0.045$ and $\text{sig} < 0.01$). In addition, EPU significantly weakens the positive impact of CREP on CRQ ($| - 0.015 + 0.041 | < | 0.041 |$). Thus, hypothesis testing based on robustness checks confirmed previous findings.

5. Discussion

Although the fundamental metric that supports credit rating development has not altered, recent times have experienced a notable undervaluation of corporate risk, leading to a reassessment of rating approaches (Pertaia *et al.*, 2022). On the other hand, an all-encompassing strategy for mitigating financial risks includes enhancing the development of a strong reputation environment (Li *et al.*, 2024), which attracts attention of numerous academic fields (Chun, 2005). Theoretical research on the influence of reputation dynamics on credit ratings acts under the assumption that decision-makers are primarily driven by the desire to maximize their material gains, a concept

Table 6. OLS regression for the impact of corporate reputation and economic policy uncertainty on credit rating quality

Dependent variable: credit rating quality (CRQ)	Regression 1 Coefficient (stat.)	Regression 2 Coefficient (stat.)
<i>Variable:</i>		
CREP	0.045 (8.860)***	0.041 (7.848)***
EPU ^b		− 0.061 (− 10.020)***
EPU ^b × CREP		− 0.015 (− 2.335)**
LOSS	− 0.007 (− 1.170)	− 0.002 (− 1.815)*
ROA	0.043 (2.100)**	0.049 (2.931)**
GROWTH	0.036 (8.450)***	0.023 (9.420)***
SIZE	0.032 (3.250)***	0.009 (3.668)***
MTB	0.004 (1.130)	0.002 (1.220)
LEV	− 0.098 (− 22.750)***	− 0.078 (− 8.159)***
CFO	0.048 (2.150)**	0.036 (3.930)***
AGE	0.009 (2.060)**	0.014 (2.192)**
LIQ	0.036 (1.750)*	0.033 (1.715)*
cons_	0.641 (9.260)***	0.547 (11.534)***
End year	Controlled	Controlled
Year fixed effect	Yes	Yes
Industry fixed effect	Yes	Yes
Observations	1910	1910
X ² Statistic	726.18***	520.45***
R ²	0.489	0.462
Adjusted R ²	0.478	0.456
Durbin–Watson statistic	1.912	1.891

Note(s): *, ** and *** indicate statistical significance at the 10, 5 and 1% levels, respectively b: EPU proxied by inflation rate
Source(s): Authors' own work

rooted in psychology (Angerer *et al.*, 2022). Notably, empirical research (e.g. Bouvard and Levy, 2018; Mariano, 2012) highlighted reputational issues as an important driving factor. The findings of the present study indicated that CREP positively influences CRQ. In their research, Góis *et al.* (2020) showed when companies seek to win and maintain the approval of stakeholders, they simultaneously heighten the risk for that very reason. Nonetheless, this effect is offset by a positive reputation. Consequently, a company’s reputation functions as a vital strategic resource that can reduce perceived risks linked to the firm’s financial obligations and enables managers to enhance investor confidence, improve the firm’s credit standing and sustain the organization’s presence in the market. Conversely, when reputation is at risk, upcoming financial resources may be inadequate to execute appropriate disciplinary actions (Angerer *et al.*, 2022), and credit ratings often become stricter because of reputation worries (Singhal *et al.*, 2024). Concerns about reputational damage may compromise the reliability of credit ratings (Vanhaverbeke *et al.*, 2024). Hence, CREP plays a crucial role in determining CRQ, and their relationship underscores the strategic importance of reputation management for firms aiming to optimize their market position and financial health.

Research has shown that credit rating calculations under higher risk conditions can severely damage a company’s reputation and harm its business (Rand, 2023). While a robust CREP can improve credit ratings by increasing perceived stability and reliability, EPU often introduces risks that may weaken this relationship and lower the credit ratings. In this regard,

this research showed that EPU considerably diminishes the beneficial effect of CREP on CRQ. In times of elevated EPU, businesses frequently face more stringent financing conditions. It can result in elevated capital costs and limited access to financing (Farooq *et al.*, 2022), which negatively affects the ability to uphold or enhance credit ratings. Although a solid CREP typically enhances credit ratings, its effectiveness is reduced when EPU is high. When EPU is high, it encourages managers to focus on short-term behavior, which can undermine the long-term value of companies (Jo and Lee, 2024). This issue can provide a cover for corporate fraud, which can besmirch a company's reputation (Ning and Qi, 2023). On the other hand, credit rating agencies incorporate economic uncertainty into their assessments, often leading to more frequent rating downgrades during crises or uncertain periods (Hantzsche, 2018). This suggests that even well-reputed companies are not immune to the adverse effects of EPU. Hence, reputation might not completely protect companies from the negative impacts of policy uncertainty, as investors tend to prioritize short-term risks over long-term reputational advantages. Even companies with high reputations might experience declines in their credit ratings as they work to manage these difficult circumstances. In addition, during times of EPU, companies with solid reputations might still face difficulties in upholding positive credit ratings because of the general rise in perceived risk. This uncertainty may result in more conservative lending practices, causing even reputable companies to struggle in obtaining favorable financing terms, which in turn negatively affects their creditworthiness.

Firms often reduce capital expenditures during periods of high EPU as they become risk-averse, which can hinder innovation and long-term growth strategies (Asimakopoulos *et al.*, 2024; Li, 2022). This reduction in investment can negatively affect a company's reputation as it may show stakeholders that the firm is not committed to growth or improvement. In summary, heightened EPU can overshadow the benefits of a strong reputation, and so, it can greatly diminish the positive impact of CREP on CRQ. This can occur by increasing perceived risks, encouraging conservative corporate behavior and negatively influencing stakeholder perceptions. As companies navigate uncertain economic environments, it becomes more challenging to maintain a strong reputation, which can ultimately result in negative consequences for their credit ratings. As a result, a downgrade can lead to decreased investor confidence and can further exacerbate the challenges. These arguments provide the basis for accepting the hypotheses of the current study. Firms must navigate these complexities carefully and manage their strategies in uncertain economic environments.

GDP and inflation rate were used to calculate EPU in this study. The application of GDP may not adequately capture immediate fluctuations in EPU, as estimating EPU through GDP necessitates a robust model that establishes a direct correlation between economic activities and policy changes, which can be complex. While inflation rates may illustrate the direct effects of economic policies on price levels, they represent a more sensitive measure of EPU. However, inflation can be influenced by various external factors, such as global oil prices and sanctions, which may undermine its effectiveness as an EPU measure. GDP and inflation rates can be used to calculate EPU in Iran; however, using the inflation rate may provide more timely insights into the effects of policy changes on economic conditions. Simultaneously, using both indicators may yield the most comprehensive understanding of EPU in Iran.

On the other hand, GMM and OLS are used in this research, and both present distinct advantages and disadvantages. The results produced by GMM are particularly effective when using overidentifying restrictions, whereas OLS results are reliable under conventional linear regression assumptions. Ultimately, a thorough understanding of the foundational principles of these methodologies, along with a comprehension of EPU, enables researchers

to make informed choices regarding the appropriate technique and measure to use based on their specific data characteristics and research objectives.

6. Conclusion

It is believed that firms with considerable reputation are perceived less risky and more prone to higher credit ratings. Nonetheless, earlier studies have not tackled this problem. The present research pioneers in associating two areas of inquiry about CREP and the credit ratings quality within the Iranian context as an Asian market. Moreover, making credit decisions is fraught with uncertainties, and the idea of credit rating was developed to help better manage the uncertainties. The interplay between EPU and CREP regarding CRQ is intricate, and presently, there is a lack of understanding of how EPU influences the connection between CREP and CRQ. This research gathered data from 191 companies listed on the TSE from 2014 to 2023 to fill the gaps. The findings showed that CREP positively affects the credit ratings quality. In addition, EPU significantly weakens the positive effect of CREP on the credit ratings quality. This evidence was still strong even following multiple robustness tests. The current research provides evidence that backs the validity of theoretical predictions largely overlooked in earlier studies.

The present study provides valuable insights into theoretical and practical policymaking. This study extends prior research and contributes to the literature on the role of social cognition (i.e. CREP) and the joint effect of CREP and EPU on CRQ. This study supports the claim that credit ratings are lowered in EPU times because of concerns about CREP.

The present study suggests that high-reputation firms tend to have a better CRQ. Given the significance of CRQ today and the influence of non-financial characteristics on organizational growth, these findings can support shareholders and investors in evaluating a company's capacity to fulfill its debt responsibilities. Investors and financial analysts are urged to consider the influence of CREP on credit ratings within their decision-making models and data analysis while also focusing on actions that improve CREP.

CREP can serve as a significant qualitative risk element for credit rating agencies and investors when assessing corporate credit risks and CRQ. Incorporating CREP into evaluations can encourage companies to engage in humanitarian efforts, such as social responsibility, to improve credit rating standards. Integrating CREP performance into credit risk evaluation allows financial authorities to enhance the precision of credit ratings and foster a more sustainable financial industry. On the other hand, managers must recognize that during periods of elevated EPU, the advantages of a robust CREP may not necessarily result in enhanced CRQ. This requires strategic adjustments in how reputation is managed and communicated to stakeholders.

The findings suggest that an increased level of EPU diminishes the positive effect of CREP on CRQ. To promote economic growth and improve CRQ, governments and policymakers should minimize shifts in economic policy. Policymakers should recognize that, even without influence over global EPU, it is still possible to mitigate domestic policy uncertainty. Such efforts can contribute to stabilizing financial markets and enhancing credit conditions. By cultivating a stable economic environment and implementing sound fiscal and monetary policies, policymakers can alleviate the adverse effects of EPU on credit ratings. This encompasses maintaining low inflation and promoting sustained economic growth.

Using various proxies to assess the quality of companies' credit ratings, CREP and EPU may produce different outcomes. Moreover, this study concentrated solely on Iranian companies; therefore, the results mainly represent the characteristics of Iran's economic and business landscape. The current results are confined to the selected variables and do not consider numerous internal and external elements that influence credit ratings. To tackle

these limitations, upcoming research should take into account additional factors. To broaden the research scope, it would help to incorporate financial markets from additional countries. Finally, this research does not consider the impact of a CEO's reputation. CREP and CEO reputation are closely linked, with the CEO's brand playing a substantial role in shaping the company's overall reputation. Hence, it suggests future studies to consider the influence of CEO reputation on different aspects of corporate financial status, particularly the CRQ.

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