Firm reputation and the cost of bank debt

Ye Wang[1]

University of Arizona

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Abstract

This paper examines whether firm reputation impacts borrowing costs and thus investment. Using unique data from *Fortune's* Most Admired Companies surveys, I find that reputable borrowers enjoy lower borrowing costs and better loan contract terms: Relative to otherwise similar loans, loans initiated after a firm being recognized as Most Admired Companies are associated with 15% lower borrowing costs, 6% fewer financial covenants, and 7% lower likelihood of collateral requirements. My identification strategy is based on propensity score matching, a regression discontinuity design, and clean reputation measures removing the impact of prior financial performance. Further evidence suggests that banks reward reputable firms with better contract terms because this reputation proxy contains incremental information on borrower future performance and credit risk. Last, firms increase capital expenditures and R&D after receiving the Most Admired designation, consistent with reputable firms exploiting their lower cost of capital and with reputation having real effects on firms' investment policies.

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[1] Eller College of Management, University of Arizona, 1130 E Helen St, Tucson AZ 85721. ywang123@email.arizona.edu. I am very grateful for the helpful comments from my dissertation committee members, Alice Bonaimé (Chair), Mitch Towner, Ryan Williams, and Tiemen Woutersen. I would also like to thank Benjamin A. Jansen (discussant), Sandy Klasa, Yi Shen (discussant), seminar participants at the University of Arizona, and conference participants at the 2019 Southwestern Finance Association and the 2019 Eastern Finance Association for their helpful comments.

1. Introduction

While public debt remains a significant source of financing, private debt is an even more crucial component of corporate capital structures. With less than 20% of public firms have public debt, over 80% use private debt in the form of bank credit lines (Faulkender and Petersen, 2006; Sufi, 2009). Furthermore, the value of new issues of private debt — mainly bank debt — is more than double the value of new issues of public debt (Bradley and Roberts, 2015). It is therefore important to understand the underlying factors affecting the cost of bank debt as well as the real effects of bank debt on firms' investment decisions.

Diamond (1989; 1991) hypothesizes access to the capital market and the cost of capital relate to firm reputation. Reputable firms should enjoy rents in the form of access to capital markets at relatively lower costs. Indeed, reputable firms enjoy lower costs of equity and public debt (Cao et al., 2014; Anginer et al., 2015). Despite the increasing importance of bank debt in firms' capital structure, there is no prior research addressing the effect of reputation on the bank debt market. Bank debt is unique because — unlike equity market and public debt market participants — banks have privileged access to borrowers' inside information and show superior information processing skills to evaluate borrowers' credit risk (Fama, 1985; Rajan, 1992; Cole, 1998; Denis and Mihov, 2003). Moreover, banks are more effective monitors than other lenders due to their closer relationships with borrowers (e.g., Fama, 1985; Diamond, 1984; 1991) and their ability to design and redesign contracts according to borrowers' performance (Bharath et al., 2008). Consequently, it is less clear whether banks incorporate external reputation signals into their evaluation of borrowers and reward reputable firms with better loan contract terms.

This paper examines the relation between reputation and bank debt. Specifically, I seek to answer three questions. First, is firm reputation priced in the bank debt markets? Second, does firm

reputation signal useful information about borrower credit risk? Finally, what are the real effects of firm reputation on investment activities?

I measure firm reputation using survey scores from *Fortune*'s America's Most Admired Companies. *Fortune*'s Most Admired list is the most widely used measure of firm reputation in both finance and accounting research. It covers a large sample of companies and allows for easy comparison across U.S. borrowers by quantifying firm reputation. *Fortune*'s survey aggregates opinions from various industry experts and assesses both financial and non-financial aspects of reputation — from financial soundness to social responsibility to community and environmental issues. It is unlikely firms can influence this ranking because reputation building is costly and time-consuming and because the identity of survey respondents is private. For these reasons, *Fortune*'s Most Admired list presents a suitable reputation proxy to test the relation between firm reputation and the cost of bank debt.

I begin by regressing the cost of bank debt on reputation, controlling for firm and loan characteristics and including firm and year fixed effects. I find that among all bank loans activated by the same borrowing firm, those activated after the borrowing firm being recognized as *Fortune*'s Most Admired Companies are associated with 15% lower interest rate. For the average loan in my sample, this reduction translates into a $5.5 million savings in interest per loan facility. Results are robust to using survey scores and ranks instead of the binary Most Admired designation: A one standard deviation increase in Most Admired score (rank) leads to a 10% (11%) decrease in the cost of bank debt relative to its mean.

I next investigate how reputation impacts loan covenants and securitization. Loans initiated by more reputable firms tend to be larger, mature sooner, and have fewer covenants. They are also

more likely to be syndicated and less likely to be secured by collateral. Overall, the evidence is consistent with reputable firms enjoying a lower borrowing cost and receiving better contract terms.

Yet, it could be that borrowers recognized as Most Admired Companies have better financial performance and lower credit risk. Univariate statistics indeed indicate that Most Admired borrowers differ from other borrowers along many observable dimensions: Most Admired firms tend to be larger, older, and more profitable than other firms. To alleviate endogeneity concerns, I conduct three additional tests. First, I propensity score match Most Admired "treatment" firms with control firms based on industry, year, and firm characteristics. The propensity score matching analysis continues to support a significant negative relation between firm reputation and the cost of bank debt. Next, to eliminate the impact of potential correlated omitted factors, I conduct a regression discontinuity design (RDD). Using the industry median score as the cutoff, I cleanly identify counterfactual firms that would have earned the Most Admired designation if their scores had been only slightly different from the observed scores. Relative to firms just below the cutoff, firms just above the cutoff enjoy about 20% lower spreads associated with their newly originated loans. Last, because Most Admired scores (ranks) are highly correlated with financial performance, I remove the financial performance effect from Most Admired scores (ranks) following Brown and Perry (1994). Using the clean Most Admired scores and ranks, the main results still hold. Overall, my identification strategy based on propensity score matching, regression discontinuity design, and clean reputation measures supports firm reputation having a causal negative impact on the cost of bank debt.

My findings suggest that banks indeed incorporate external reputation signals into their evaluation of borrowers. It is only optimal for banks to incorporate reputation into loan contracts if reputation provides incremental information about future borrower quality. Thus, I next test

whether firm reputation predicts future firm performance or risk. Using the clean Most Admired scores and ranks, I find higher reputation scores (ranks) predict higher future operating cash flows, lower stock return volatility, and lower probability of violating bank loan covenants. The evidence suggests that reputation status contains incremental information about future borrower quality. This information contained in reputation status spurs banks to reward Most Admired firms with a lower borrowing cost.

To conclude, I examine whether the lower borrowing costs and better contract terms associated with firm reputation have real effects on investment activities. Because lower borrowing costs and better contract terms result in marginally unprofitable investments becoming profitable, I expect a positive relation between firm reputation and investment spending. Indeed, Most Admired recognition produces a 0.183% increase in capital expenditure scaled by total assets and a 0.268% increase in R&D spending scaled by total assets, equivalent to a 5% and an 18% jump from their means. Similarly, a one standard deviation increase in Most Admired scores (ranks) produces a 0.384% (0.137%) increase in capital expenditures to total assets and a 0.252% (0.168%) increase in R&D spending to total assets. Overall, the results are consistent with firms exploiting the lower cost of capital afforded by their good reputation to increase investments.

This paper contributes to several strands of literature. First, it relates to the large literature examining the determinants of the cost of bank debt. Whereas prior studies explain the differences in firms' borrowing costs using firm and industry characteristics such as firm size, leverage, and industry competition (e.g., Bhojraj and Sengupta, 2003; Klock et al., 2005; Chava et al., 2009; and Cremers et al., 2007), this paper identifies an increasingly important — yet unexplored — determinant of firms' borrowing cost: reputation. Second, this study contributes to the banking literature by providing evidence that, although banks have advantages in producing private

information about the borrowing firms (see, e.g., Leland and Pyle, 1977), broad reputation proxies such as *Fortune*'s Most Admired list still provide valuable information about borrowers, which banks price into loan contracts. Finally, this paper adds to a growing body of research that investigates the economic consequences of firms' intangible assets, in this case firm reputation. To the best of my knowledge, there is no study providing direct evidence on how firm reputation affects investment activities. My evidence suggests borrowers take advantage of their good reputation status by increasing future spending on investments. The findings have implications for managers weighing the costs and benefits of building or maintaining their firm's reputation.

The rest of the paper is organized as follows. Section 2 reviews the literature and develops the main hypotheses. Section 3 explains the data and presents summary statistics. Section 4 presents the analysis on the impact of firm reputation on both monetary and non-monetary loan contract terms. Section 5 provides the identification strategies that I use to establish causal relation between firm reputation and the cost of bank debt. Section 6 investigates the potential channels through which firm reputation affects firms' borrowing cost. Section 7 documents the real effects of firm reputation on firms' investment activities, and Section 8 summarizes the main findings.

2. Literature review and hypotheses development

In this section, I first review the literature on reputation that motivates this study. Then, I develop the main hypotheses on how firm reputation impacts the cost of bank debt as well as the information channels through which reputation affects bank loans. Finally, I provide empirical predictions.

2.1 Literature on bank loan contracting

The banking literature considers one of the primary determinants of loan contracting to be the borrower's credit risk. To evaluate credit risk, banks analyze the borrower's financial characteristics. These characteristics include size, leverage, and profitability, which are associated with financial distress (e.g., Barclay and Smith, 1995; Stohs and Mauer, 1996; and Dennis et al., 2000); financial restatements and corporate misreporting (e.g., Graham, Li, and Qiu, 2008); and real asset illiquidity (e.g., Ortiz-Molina and Phillips, 2014). Banks factor these characteristics into the price and non-price terms of loan contracts.

A growing area of banking research studies how banks evaluate credit risk using the borrower's *non*-financial characteristics, such as corporate social responsibility investments (Goss and Roberts, 2011), supply chain stability (Cen, Dasgupta, Elkamhi, and Pungaliya, 2015), prior lending relationships (Bharath, Dahiya, Saunders, and Srinivasan, 2011), product market competition (Valta, 2012), political connections (Houston, Jiang, Lin, and Ma, 2014), and takeover risk and shareholder rights (Chava, Livdan, and Purnanandam, 2009). These studies suggest banks can assess risk by analyzing the borrower's non-financial profile. This study provides empirical evidence that banks value firm reputation, a combination of financial and non-financial information, and price it into loan contract terms.

2.2 Literature on firm reputation

Firm reputation is the accumulated public recognition of firm quality. A growing research linking firm reputation to profitability (Roberts and Dowling, 2002), stock market returns, and financial reporting quality (Cao et al., 2012) suggests that firm reputation provides positive signals about future performance. Since reputation building is costly, Diamond (1989; 1991) predicts that reputable firms will enjoy rents in the form of access to capital markets at relatively lower costs.

Supporting this prediction, Cao et al. (2014) and Anginer et al. (2015) provide empirical evidence that firms recognized as *Fortune*'s America's Most Admired Companies receive lower costs of equity and public debt, respectively. Less is known about how reputation impacts bank debt. Because bank debt has emerged as the predominant source of external financing, it is thus worthwhile to study the underlying determinants of the cost of bank debt. Specifically, I study whether reputation reduces the cost of bank debt for large U.S. firms.

2.3 Hypotheses development

As discussed above, firms benefit from the public recognition of reputation in public debt and equity markets. However, whether banks value external reputation signals about borrowers is less clear. To investigate the relation between firm reputation and the cost of bank debt, I develop two hypotheses: the *Informed Lender Hypothesis* and the *Information Asymmetry Hypothesis*.

The *Informed Lender Hypothesis* posits that banks have access to private information about borrowers and superior information processing skills to evaluate borrowers' credit risk (Fama, 1985; Rajan, 1992; Cole, 1998; Denis and Mihov, 2003). If banks are already aware of the private information contained in firms' reputation status, they will not reward reputable borrowers with better loan contract terms. The *Informed Lender Hypothesis* thus predicts reputable borrowers do not receive better loan contract terms, i.e., interest rates, loan covenants, and securitization, than other borrowers do.

Alternatively, the *Information Asymmetry Hypothesis* posits that even with access to inside information, banks cannot entirely overcome problems related to borrowers' information opaqueness (e.g., Bharath, J. Sunder, and S. Sunder 2008; Graham, Li, and Qiu 2008; Costello and Wittenberg-Moerman 2011; Kim et al. 2011a.). Broad reputation proxies such as *Fortune*'s Most Admired Companies list, which aggregates opinions on financial and non-financial performance

from various industry experts, can therefore provide banks with new information through a collective intelligence. For example, surveyed industry experts may better evaluate management quality, product quality, social responsibility, innovativeness, as well as the ability to attract talent. If so, banks gain valuable information from firms' reputation status and thus incorporate it into loan contract terms. This hypothesis predicts that reputable borrowers receive better contract terms in the form of lower interest rates, fewer covenants, and less collateral. In addition, because lower borrowing costs and better contract terms make marginally unprofitable investments, i.e., capital expenditure and R&D, becoming profitable, this hypothesis also predicts that firms invest more in capital expenditure and R&D after being recognized as Most Admired Companies.

To verify if it is optimal for banks to incorporate external reputation signals into their evaluation of borrowers, I further develop two hypotheses: the *Informed Signaling Hypothesis* and the *Noisy Signaling Hypothesis*. The *Informed Signaling Hypothesis* posits that reputation contains information about borrowers' future credit risk; alternatively, the *Noisy Signaling Hypothesis* posits that reputation signals past firm quality but provides little information about future credit risk.

Information risk and default risk are two main components of credit risk. Specifically, information risk is the risk associated with the imperfect information that banks use to estimate borrowers' future operating cash flows (e.g., Bharath et al., 2008; Graham et al., 2008; Kim et al., 2011a), and default risk is the risk associated with borrowers not being able to meet their loan obligations, such as interest payments and principal repayment at maturity. Therefore, if reputation serves as a credible signal for borrowers' future credit risk, the *Informed Signaling Hypothesis* predicts that reputable firms have higher future cash flows, lower stock returns volatility, cash flow volatility, and debt violation probability. Alternatively, the *Noisy Signaling Hypothesis* predicts no

relation between firm reputation and future cash flows, stock returns volatility, cash flow volatility, or debt violation probability.

3. Sample selection and data sources

3.1 Firm reputation data

Barnett, Jermier, and Lafferty (2006) define firm reputation as "observers' collective judgment of a corporation based on assessments of the financial, social, and environmental impacts attributed to the corporation over time." This definition assumes that firm reputation is based on long-term firm behavior and cannot be manipulated by firms' short-term actions. *Fortune's* Most Admired (MA) scores fit that assumption.

I measure firm reputation using scores from *Fortune's* America's Most Admired Companies list, collected from print editions of *Fortune* magazine from 2001 to 2012.[2] *Fortune* magazine creates the MA scores from a survey questionnaire. Since 1983, the Hay Group, on behalf of *Fortune*, has sent out surveys to senior executives, outside directors, and financial analysts from different industries in the U.S. and, on average, the response rate is around 50%. The rated firms come from the *Fortune 1000* list and for each industry the top 10 firms based on revenue are identified for ranking. If fewer than 10 firms appear on the *Fortune 1000* list for a given industry, then all firms in the industry are eligible for ranking. Each survey respondent rates the 10 largest firms from her own industry from 1 (poor) to 10 (excellent) on eight attributes: ability to attract and retain talented people; the quality of management; the quality of products or services; innovativeness; long-term investment value; financial soundness; the wise use of corporate assets; and social responsibility to the community and to the environment.

[2] Fortune stopped publishing the Contenders, firms that have been rated but not recognized as Most Admired Companies, online or in the magazine since 2013.

For each attribute, the firm ranked first receives a score of 10 and the worst firm receives a score of 1. A firm's overall MA score is the equally weighted scores of the eight attributes. Although *Fortune* publishes both scores and ranks of the 10 largest firms in each industry, a firm's MA score must rank in the top half of its industry to be recognized as Most Admired Companies that year. The remaining firms that have been rated but not recognized as Most Admired Companies are referred as Contender. Each year, the MA list features about 300 firms in more than 20 industries; *Fortune* magazine publishes scores and ranks the first quarter of the subsequent year. I create two indicator variables for reputation based on MA scores. *Most Admired* equals one if a firm's MA score ranks in the top half of its industry. *Contender* equals one if a firm's MA score ranks in the bottom half of its industry and thus not being recognized as Most Admired Companies.

Fortune's MA scores have several advantages over other possible reputation measures. First, consistent with the theoretical concept of firm reputation, the reported MA scores are based on various aspects of firm performance—from financial soundness to social responsibility to community and environmental issues. In addition, since building reputation is both costly and time-consuming, it is unlikely that firms can influence inclusion in this ranking. Last, given that the identity of survey respondents is not publicly available, it is unlikely that firms influence survey responses.

Table 1 reports the distribution of reputation proxies for my sample of 6,502 firm-year observations with MA scores. The average number of firms in the ranking each year from 2001 to 2012 is 542. The mean (median) MA score is 6.05 (6.07) and ranges from 3.04 to 8.83, suggesting that the sample has considerable variation in the firm reputation measure. Among these ranked firms, 54% are recognized as *Most Admired* and 46% are listed as *Contender* firms.

3.2 Bank loan data and descriptive statistics

I collect bank loan data from Dealscan. To minimize any potential simultaneity biases, I measure firms' reputation in a given year and then assess the association between reputation and bank loan contracting terms one year later. Thus, the loan data are from 2002 through 2013. Since the reputation data are only available for U.S. firms before 2009, I limit the sample to loans issued by U.S. commercial banks and activated by U.S. firms. Dealscan provides loan data such as the interest charged, the fee structure of the loan, the loan covenant information, the size and maturity of the loan, as well as other dimensions of the loan. The basic unit of the analysis here is a loan, also referred to as a "facility" on the Dealscan database. Following prior literature, I calculate the cost of the bank loan as the natural logarithm of loan spread. Loan spread, shown as the Dealscan data item all-in-spread drawn (AIS drawn), is the amount the borrower pays in basis points over LIBOR for each dollar drawn. This measure adds to the borrowing spread any relevant fees associated with the credit facility. Then, for each loan facility, I collect non-price terms including loan maturity, loan size, the number of financial covenants, the number of lenders, whether it is secured by collateral, whether it is syndicated, loan types, loan purposes, and whether it uses performance pricing. All variables are defined in the Appendix.

I obtain firm-level accounting information from Compustat, stock price information from CRSP, and institutional ownership data from Thomson Financial. I use a matching dataset provided by Michael Roberts to merge Dealscan and Compustat/CRSP data.[3] Then, I manually match firm reputation data with the newly created loan dataset using firm name. I include firm-year observations if the borrower firm has at least one of the reputation measures available, bank loan data from Dealscan, firm specific data from Compustat, institutional ownership data from

[3] I thank Michael Roberts for sharing the Dealscan-Compustat link data.

Thomson Financial, and stock return data from CRSP. These limitations result in a full sample of 20,095 firm-year observations.

Panel A of Table 2 presents summary statistics of debt contract terms during 2002 to 2013, and univariate comparisons of these terms between Most Admired borrowers (N=2,183) and other borrowers (N=17,921). Given firms typically obtain multiple loan facilities every year and not all Most Admired firms have bank loan, the sample size changes from that in Table 1. The mean loan spread increases from 129.23 basis points over LIBOR for reputable U.S. borrowers to 228.49 basis points for non-reputable borrowers. The average loan size is bigger for reputable firms ($1.123 billion) than that of non-reputable firms ($373 million). The average loan maturity increases from 42 months for reputable firms to 48 months for non-reputable firms. In addition, I also find that loans activated by reputable borrowers are more likely to be syndicated (0.99 vs. 0.97), less likely to be collateralized (0.21 vs. 0.59), and associated with higher annual fees (32.98 basis points vs. 17.28 basis points) but lower upfront fees (26.87 basis points vs. 49.57 basis points). Lastly, I compare the number of financial covenants and the number of lenders between reputable and non-reputable firms and find that reputable borrowers have fewer financial covenants and more lenders for each of their loans than non-reputable borrowers (0.82 vs. 1.47 and 9.91 vs. 5.44). Larger loans are associated with more lenders and reputable borrowers' loans are on average almost four times as large non-reputable borrowers' loans. All the above differences between reputable and non-reputable U.S. borrowers are statistically significant at 1% level. Overall, this evidence suggests that firm reputation has a significant impact on both price and non-price loan contract terms.

Panel B of Table 2 summarizes firm characteristic for Most Admired borrowers (N = 2,183) and other borrowers (N = 17,912) and shows univariate comparisons across the two groups. Most

Admired borrowers tend to be larger, older, and more profitable, which may reflect the coverage in *Fortune's* MA list being limited to the largest firms measured by sales. Compared to other firms, Most Admired firms have greater growth opportunities, fewer tangible assets, and lower sales growth rates. In addition, the capital structure of Most Admired firms also differs from that of other firms: Most Admired firms hold less cash and have lower leverage ratios, suggesting that reputable borrowers may have greater financial flexibility than less reputable firms. Lastly, Most Admired firms' average Z-score is higher and their cash flow volatility is lower, suggesting that Most Admired firms have more stable financial conditions and face lower bankruptcy risk.

4. Multivariate analysis

4.1 Effect of reputation on the cost of bank debt

Table 2 shows the many differences in firm characteristics between reputable and non-reputable firms. To control for differences in borrower characteristics that may affect the cost of bank debt as well as other debt contract terms, I estimate multivariate regressions of the cost of bank debt on firm reputation, controlling for other loan terms and firm characteristics. The main empirical model is as follows:

$$Cost\ of\ bank\ debt_{i,s,j,t} = \alpha_1 + \alpha_2 Reputation_{i,j,t-1} + \alpha_3 Firm\ characteristics_{i,j,t-1} + \alpha_4 Loan\ characteristics_{s,t} + \delta_t + \gamma_i + \epsilon_{i,j,t}$$

Each observation represents a single loan, where *Cost of bank debt* is the natural logarithm of the loan spread for the loan that is initiated after *Fortune* published the America's Most Admired Companies list. I measure firm reputation using *Fortune's* MA list one year before the loan is initiated. If reputable firms enjoy rents in the form of lower cost of bank debt (Diamond

1989;1991), I expect the coefficient on α_2 to be negative. All standard errors are clustered at the firm level.

I add important determinants of cost of bank debt documented in prior literature (Bharath et al., 2007; Graham et al., 2008). Firm-level controls include size, age, growth opportunities, leverage, asset tangibility, profitability, sales growth, institutional ownership, cash flow volatility, and Altman's Z-score, and loan-level controls are maturity, size, collateral, the number of covenants, the number of lenders in the syndicate, a performance pricing clause indicator, and loan type and purpose indicators. I compute firm characteristics using financial and accounting information from the closest prior fiscal year end to the loan initiation year.

In addition, firm and year fixed effects control for potential endogeneity and unobservable heterogeneity that could cause a spurious relation between firm reputation and cost of bank debt. Therefore, any omitted variable in the model would have to be an idiosyncratic, time-invariant firm or loan characteristic unrelated to the firm and loan controls described above. I am unaware of such a variable.

Table 3 reports the results. The dependent variable is *Cost of bank debt*, the natural logarithm of loan spread. The coefficient on *Most Admired* in Model (1) is -0.160 with a t-statistic of -5.564, suggesting that being recognized as Most Admired Companies reduces a firm's borrowing cost by 15% in the subsequent year. For the median loan in my sample, this translates into a reduction of loan spread by about 30 basis points.[4] Given the loan size and the time to maturity in the sample, on average, are $454.62 million and around 48 months, respectively, the reduction will translate into $5.5 million interest payment per loan facility. Because firms being rated are the largest firms from each industry, I then study the reputation effects among these

[4] The median loan spread is 200 basis points.

industry leaders by focusing only on firms with MA scores. Models (2) to (4) report the results. The coefficient on *Most Admired* in Model (2) is -0.155 with a t-statistic of -3.733, suggesting that being recognized as Most Admired Companies indeed reduces firms' borrowing cost by 14% and that this reputation effect holds among industry leaders. The negative coefficient on *Score* in Model (3) suggests that compared to loans activated in a firm's low-score years, loans activated during the firm's high-score years are associated with lower costs of bank debt. A one standard deviation increase in the MA score leads to a 10% decrease in the cost of bank debt. Similarly, the negative coefficient on *Rank* in Model (4) suggests that a one standard deviation increase in the MA ranking leads to an 11% decrease in the cost of bank debt. Taken together, results from Table 3 consistently show that reputable firms incur lower borrowing costs.

The coefficient estimates of the control variables take on the expected signs. Mature, profitable firms, and firms with lower financial risk, measured by Z-score and leverage, receive lower cost of bank debt. The coefficient on *Maturity* is positive and statistically significant, consistent lenders demanding a liquidity premium for loans with longer maturity. Similarly, *Loan Size* is negatively related to the *Most Admired* dummy, consistent with economies of scale (that borrowers with larger loans receive favorable interest rates). Last, the borrowing cost is significantly lower for loans with a performance-pricing clause.

4.2 Effect of reputation on other loan contract terms

Banks adjust non-price loan contract terms to mitigate the risks they face (Strahan, 1999). Moreover, compared to the dispersed public bondholders, banks have superior information from the borrower, face lower renegotiation costs, and thus have greater incentives to use "detailed and tailor-made contracts" (Bharath, Sunder, and Sunder, 2008). For example, Graham, Li, and Qiu

(2008) and Hasan, Hoi, Wu, and Zhang (2014) find that banks impose more stringent collateral and covenant requirements when lending to firms with greater risks.

Accordingly, if banks perceive firms' reputation concerns as constraining moral hazards in debt contracting, or banks trust good-reputation firms more, one would expect that banks impose less stringent non-price loan terms, i.e., fewer collateral and covenants requirements, when lending to good-reputation firms.

4.2.1 Financial covenants

To estimate the impact of firm reputation on the covenant intensity of a loan, I regress the average number of financial covenants included in loan contract on firm reputation and other control variables that could correlate with the covenant intensity in an OLS model in Table 4. The estimated coefficient on *Most Admired* in Model (1) indicates that even to the same borrower, lenders would have different covenant requirements depending on its reputation status: a firm would be asked to provide 6% fewer financial covenants for its newly activated loans if it has been recognized as Most Admired Companies the previous year. Then, I test whether this reputation effect still holds among firms with MA scores. The coefficient estimates on *Most Admired*, *Score*, and *Rank* are all significantly negative, consistent with firms receiving better reputation scores and ranks being considered safer borrowers and thus receiving fewer loan restrictions.

4.2.2 Loan securitization

Employing the OLS model, I further study the impact of firm reputation on the likelihood of a loan being secured by collateral in Table 5. The dependent variable is *Loan securitization*, which equals one if the loan is secured by collateral and zero otherwise. The coefficients on *Most Admired* in Models (1) and (2) both suggest that firms are less likely to provide collateral to secure their loans after they are recognized as Most Admired Companies. The effects of control variables

on the likelihood of the loan being collateralized are also intuitive: firms with higher cash flow volatility have higher default risk and thus are associated with a higher probability of a loan being secured. The estimated coefficients on both *Score* and *Rank* imply that the likelihood of a loan being secured is lower when borrowers received higher MA scores and ranks; a one standard deviation increase in a firm's MA scores (ranks) reduce the likelihood of having a secured loan by 4% (3%).

5. Identification strategy

The evidence so far suggests reputable borrowers benefit from their good reputation, enjoying a lower cost of bank debt and receiving better loan contract terms from their lenders. One potential concern is the endogenous nature of the MA scores. Common factors could lead to both a good reputation and lower borrowing costs for Most Admired firms. Thus, I conduct three different analyses to address the potential endogeneity problem and establish causality between firm reputation and the cost of bank debt.

5.1 Propensity score matching

Univariate statistics indicate that America's Most Admired firms differ from other firms along many observable dimensions. To avoid estimating biased treatment effects, I create a propensity score matched sample where firms have similar covariates but differ only on the reputation status. In my context, I consider "treatment" to be firms recognized as *Fortune's* Most Admired Companies. I start by matching each treatment firm to the closest control firms from the pool of *Contender* firms, first exactly on year and three-digit SIC and then on the closest propensity score arising from a logistic regression on firm size, firm age, market-to-book, tangibility, z-score, profitability, cash, sales growth, institutional ownership, and leverage. Control firms are drawn

with replacement. The treatment and matched control groups do not differ in any of the matching characteristics or propensity scores (Panel A Table 6).

Panel B of Table 6 reports the average treatment effect on the treated, i.e., the difference in the cost of bank loans or other debt contract terms between *Most Admired* firms and similar untreated *Contender* firms. Specifically, *Most Admired* borrowers receive 6% lower cost of bank debt, provide 17% fewer financial covenants, and are 6% less likely to provide collateral to secure their loans than otherwise similar Contender firms. Overall, the results are consistent with firms benefiting from their good reputation with lower bank debt costs and better contract terms.

5.2 Regression discontinuity analysis

Another potential endogeneity concern is that an omitted variable may correlate with both firm reputation and the cost of bank debt. As further strengthen identification, I conduct a regression discontinuity (RD) analysis to exploit locally exogenous changes around the threshold. The advantage of a regression discontinuity (RD) design is that it cleanly identifies counterfactual firms that could have entered the MA list if their MA scores had been only slightly different from those observed, and thus mitigates endogeneity concerns.

According to the methodology provided by *Fortune* magazine, a firm's MA score must rank in the top half of its industry to be recognized as *Fortune's* America's Most Admired Companies. The remaining firms that have been rated but not recognized as Most Admired Companies are referred as Contender. Therefore, I choose the industry median score as the cutoff that separates Most Admired firms from Contender firms.[5] I assign positive (negative) sequence numbers to firms whose scores are above (below) their industry median and set the cutoff as zero.

[5] Prior studies that also use America's Most Admired Companies list to measure firm reputation usually choose a rank of 100 as the cutoff, arguing that firms that are outside the rank of 100 do not advertise their MA ranks (Focke, Maug, and Niessen-Ruenzi, 2017). However, the number of firms being ranked may vary across different industries, resulting more/fewer than ten firms shown on the MA list for a given industry.

Figure 1 presents the relation between firms' cost of bank debt and rankings relative to the cutoff of industry median. Firms not recognized as Most Admired Companies are to the left of the threshold, and firms recognized as Most Admired Companies are to the right. Firms ranked zero receive MA scores just above the industry median. Each dot represents the average loan spread within each bin, and the range around each dot represents the 95% confidence interval. The figure shows that within the proximity of the zero-cutoff point, the cost of debt decreases significantly once a firm receives a good reputation of Most Admired Companies. This finding suggests a causal impact of firm reputation on the loan spread.

Next, I implement the polynomial regression for the RD analysis using the following equation:

$$Cost\ of\ bank\ debt_{i,s,j,t} = \alpha_1 + \alpha_2 Most\ Admired_{i,j,t-1} + \alpha_3 (Relative\ Rank - 0)_{i,j,t-1} + \alpha_4 Most\ Admired_{i,j,t-1} * (Relative\ Rank - 0)_{i,j,t-1} + \alpha_5 Controls_{s,t} + \delta_t + \gamma_j + \epsilon_{i,j,t}$$

The dependent variable is the cost of bank debt, the natural logarithm of the loan spread for the loan activated one year after the MA list is published. The variable *Most Admired* equals one if a firm is recognized as Fortune's Most Admired Companies. *Relative rank* is the within-industry rank relative to the industry median rank of zero. For example, Most Admired firms with the lowest score within the industry have *Relative rank* of zero and other firms that receive the highest scores will have *Relative rank* of negative one. In addition, I include controls for firm characteristics and loan characteristics. Note that I include industry and year fixed effects in Models (1) to (4) to catch the MA recognition effect for any firms that are around the cutoff, and firm and year fixed effects in Models (5) and (6). The inclusion of firm fixed effects means that I

get identification only from firms that actually switched from MA list to the other over the course of the sample period, rather than just any firm that was ever "close" to the threshold. Standard errors are clustered at the firm level.

Table 7 presents the RDD estimation results. Model (1) includes *Most Admired* and *Relative rank* without the interaction term or control variables. The coefficient on *Most Admired* suggests a 22% fall in the cost of bank debt for loans activated by reputable borrowers whose MA scores just pass the industry median. The estimated coefficient on *Relative rank* is also negative and statistically significant, which is consistent with the view that firms with better reputation receive lower cost of bank debt. Model (2) includes the interaction of *Most Admired* and *Relative rank* to gauge the difference in the reputation effect between Most Admired borrowers and Contender borrowers. The coefficient on the interaction term is positive and statistically significant, suggesting that *Relative rank* matters less once a firm is recognized as Most Admired Companies. Models (3) and (4) include control variables known to affect firms' cost of bank debt. Both coefficients on *Most Admired* are negative and statistically significant. In Models (5) and (6), I replace industry fixed effect with firm fixed effect. This marginally increases the standard errors but does not meaningfully affect inference. The coefficients on *Most Admired* suggest a 20-22% fall in the cost of bank debt for loans activated after a firm being recognized as Most Admired Companies. Overall, the results provided in Table 7 are consistent with a causal impact of firm reputation on the cost of bank debt.

The regression discontinuity analysis relies on the "random assignment" assumption, which requires being just above or below the cutoff to be random. All factors other than the treatment variable should thus vary continuously at the cutoff. To verify the validity of this assumption, I perform two sets of tests to examine the distribution of ex ante firm characteristics

around the Most Admired resignation cutoff. First, I run a local linear model regressing each firm characteristic on *Most Admired*, *Relative Rank*, *Most Admired*Relative Rank*, and control variables. If the distribution of ex ante firm characteristics is smooth around the cutoff, none of the coefficient estimates on *Most Admired* should be statistically significant. Consistent with this expectation, Table 8 begins by showing that, for each characteristic, *Most Admired* is not statistically significant. Second, I compare the average values of each firm characteristic across the two closest firms around the cutoff. The remainder of Table 8 reports summary statistics as well as difference in means tests between the two closet firms around the cutoff (one on each side). The univariate tests again confirm the differences are insignificant between the Most Admired and other firms around the cutoff, suggesting that the predetermined characteristics of firms whose scores are just above and just below the industry median should have no systematic differences. The combined evidence is consistent with the random assignment assumption and suggests that the estimates from the RD analysis should be attributed to the causal effect of firm reputation.

5.3 Removing financial performance from MA scores and ranks

Another concern with using Fortune's MA scores to measure firm reputation is that they are heavily influenced by prior financial performance (Brown and Perry, 1994) and may simply proxy for financial performance or risk. Following Brown and Perry (1994), I create the financial halo index using five financial and operating variables: operating return on assets (contemporaneous and lagged one period), industry-adjusted market to book, sales growth, sales, and leverage.[6] Table 9 presents the correlation matrix of the financial halo index variables and firm reputation measures. Firm reputation status strongly correlates with the financial halo index

[6] I only include one lag of profitability as further lags are insignificant. I include no lags of growth, sales, market-to-book, and leverage because these are not statistically significant. Using further lags or no lags, as well as using just a subset of these variables, does not affect my findings.

variables: positively correlated with profitability, sales growth, market-to-book ratio, and sales, but negatively correlated with leverage ratio. To remove this financial halo effect, I follow Brown and Perry (1994) and estimate a model of MA scores (ranks) as a function of a halo index. The residual from the estimation model represent the intangible assets related to reputation effects that a firm has which cannot be obtained by analyzing financial statements and market data. I employ the residual from this model as the clean MA scores (ranks) and re-estimate the main model.

Table 10 presents the results. In Models (1) and (2), the dependent variable is *Cost of bank debt*, measured as the natural logarithm of the loan spread. Both estimated coefficients on *Clean MA score* and *Clean MA rank* are negative and statistically significant, confirming that firms with higher MA scores and ranks receive a lower borrowing cost. Models (3) and (4) test whether firms with better reputations secure loans with fewer covenants. The estimated coefficients on *Clean MA score* and *Clean MA rank* are -0.066 and -0.024, significant at the 10% level. This evidence confirms the main finding that reputable borrowers are considered safer borrowers and thus receive loans with fewer restrictions than less reputable firms. In Models (5) and (6), the dependent variable is *Loan securitization*, which equals one if the loan is secured by collateral and zero otherwise. The estimated coefficients on *Clean MA score* and *Clean MA rank* are negative and statistically significant, implying that reputable borrowers are less likely to be required to provide collateral against their loans than less-reputable borrowers are. Overall, after removing the financial performance halo from Fortune's MA scores (ranks), I still find consistent evidence that reputable firms benefit from their good reputation, incurring lower borrowing costs and receiving better loan contract terms from lenders.

6. Channels through which reputation affects the cost of bank debt

In this section, I examine the channels through which reputation benefits borrowing firms. On one hand, reputation can signal factors associated with firm quality, such as a high quality management team, innovation capability, talented employees, etc., which are important but difficult for potential lenders to measure. If reputation provides a positive, credible signal to lenders about borrower credit risk, I expect a positive relation between firm reputation and future performance and a negative relation between firm reputation and future credit risk. On the other hand, banks may perceive good-reputation firms more trustworthy simply because reputation building is complex (Reed and DeFillippi, 1990), time-consuming (Dierickx and Cool, 1989), and difficult to imitate (Barney, 1991). Additionally, banks may already have the information contained in firms' reputation since they have access to private information about the borrowing firms and a superior information processing skills to evaluate borrowers' credit risk (Fama, 1985; Rajan, 1992; Cole, 1998; Denis and Mihov, 2003). Therefore, firms' reputation status may show no relations with firm future performance and/or credit risk.

To test the above predictions, I regress future firm performance, measured by operating cash flow, and future credit risk, measured by cash flow volatility, stock return volatility, and loan violation probability, on *Clean MA score* and *Clean MA rank*. Using *Clean MA score* and *Clean MA rank* helps me address the concern that the financial performance component of the raw MA score/rank are correlated with firm future performance and/or credit risk. Any information contained in *Clean MA score* and *Clean MA rank* should be new information that banks cannot obtain by analyzing financial statements and market data.

Table 11 reports the results. The positive coefficients on *Clean MA score/rank* in Models (1) and (2) show the incremental information contained in firms' reputation status predicts future

operating performance: A one standard deviation increase in *Clean MA score* (*rank*) produces a 0.7% (0.2%) increase in future operating cash flow, equivalent to a 6% (2%) increase from the mean.[7]

Then, I test whether reputable firms have lower idiosyncratic risk, measured by the standard deviation of a borrower's daily stock return over the two fiscal years after a firm receives the MA score/rank (Campbell and Taksler, 2003). Estimation results in Models (3) and (4) show that Clean MA score and Clean MA rank are significantly negative related to future stock return volatility, suggesting that reputable borrowers having lower idiosyncratic risk and thus incurring a lower cost of bank debt. In terms of economic magnitude, a one standard deviation increase in *Clean MA score* (*rank*) is associated with a 0.5% (0.1%) lower return volatility, equivalent to 5% (1%) lower than the mean.[8]

Next, I test whether reputation predicts future cash flow volatility. Cash flow volatility, measured as the standard deviation of quarterly cash flows from operations over the three years after *Fortune's* MA list is published, proxies for earnings risk and is expected to be an important factor for lenders when evaluating loans. If reputation predicts earnings risk, I expect a significantly negative relation between firm reputation and future cash flow volatility. The coefficients on clean reputation measures in Models (5) and (6) are not significant, suggesting that the incremental information that banks obtain from reading borrower's reputation status does not help them to predict borrower's future earnings risk.

Finally, I examine whether reputable firms have a lower probability of debt covenant violation in a given issuance year (Demerjian and Owens, 2016). The dependent variable, *Probability of Covenant Violation*, is the aggregate probability of covenant violation across all

[7] The mean ratio of operating cash flow to total assets is 12%.
[8] The mean ratio of stock return volatility is 10%.

covenants included on a given loan package. If a borrower's reputation status predicts loan covenant violation, I expect a negative relation between firm reputation and *Probability of Covenant Violation*. Models (7) and (8) report the results. The estimated coefficients on *Clean MA score and Clean MA rank* are both negative and statistically significant, suggesting that firms with higher *MA* scores and ranks are less likely to violate their loan covenants.

Overall, although firms' reputation status has no predictive power on future earnings risk, reputable firms do have better future operating performance, lower idiosyncratic risk, and lower loan violation probability. The evidence is consistent with reputation status containing incremental information about future firm quality, and lenders thus rewarding reputable borrowers with lower interest rates and better loan contract terms.

7. The real effects of firm reputation

Credit constraints have real effects on firms' day-to-day operations. For example, Chava and Roberts (2008) identify debt covenants as a channel through which financing frictions may affect firms' investment activities; they find firms reduce capital expenditures after a covenant violation. Focusing on the financial crisis, Campello et al. (2010) show that constrained firms suboptimally cut investments while unconstrained firms cut investments significantly less. I have shown that firms with good reputations indeed enjoy lower borrowing costs and better contract terms. If the "America's Most Admired Companies" label helps firms obtain lower borrowing costs and better contract terms, I expect reputation to translate into more investment the next year. Therefore, in this section, I test the real effects of reputation on investment activities.

Following Chava and Roberts (2008), I first test how a firm's reputation affects its capital expenditures. I regress capital expenditure, scaled by total assets, on reputation measures. I control

for firm characteristics that may influence investment decisions, including firm size, age, market-to-book, asset tangibility, Z-score, cash, sales, sales growth, and leverage. All controls are scaled by total assets. I also include firm and year fixed effects to control for time-invariant heterogeneity across firm and time, and I cluster standard errors at the firm level. Table 12 presents the results. The *Most Admired* coefficient estimate in Model (1) is significantly positive, suggesting that firms tend to increase capital expenditures the year they receive *Fortune's* America's Most Admired Companies recognition. Using alternative reputation proxies, I find similar—if not stronger—results for this positive relation, confirming that during the year higher rank (score) a firm is assigned, the greater the capital expenditures it spends. Being recognized as Fortune's Most Admired Companies in a given year increases a firm's capital expenditure by 0.183% in the same year, equivalent to a 5% jump from the mean. A one standard deviation increase in MA scores (ranks) produces a 0.384% (0.137%) increase of capital expenditure in total assets, equivalent to a 10% (3.6%) increase from the mean.

I next examine the relation between firm reputation and research and development expenses (R&D). The returns to R&D projects are skewed and highly uncertain; R&D projects have a low probability of financial success (Mansfield et al., 1977; Harhoff et al. 1999). With limited access to debt, firms may find R&D investments suboptimal. If reputation allows firms to obtain bank loans with lower costs and better contract terms, one may expect that after being recognized as *Fortune's* Most Admired Companies, firms will increase their capital spending in R&D projects. Consistent with my expectation, the evidence suggests a positive relation between firms' MA scores (ranks) and R&D expenses. Compared with the R&D spending in years that a firm is not recognized as Most Admired Companies, R&D spending in years with Most Admired recognition increases 0.268%, which is equivalent to an 18% jump from its mean. A one standard

deviation increase in MA scores (ranks) produces a 0.242% (0.054%) increase of R&D in total assets, or a 16% (4%) jump from the mean. Overall, the results are consistent with the prediction that good-reputation firms receiving lower borrowing costs tend to take advantage of their reputation to invest more on both capital expenditures and R&D.

8. Conclusion

Firm reputation has attracted attention from both investors and academia during the past several decades, motivating research on whether establishing a good reputation creates value for shareholders, especially through financing activities. In a similar vein, Anginer et al. (2011) show that reputable firms receive lower financing costs when they issue equity, and Cao et al. (2015) find that establishing a good reputation can lower the cost of public bonds. Their focus on public equity and public debt leaves an open question on whether similar results hold for bank debt, which has become more important in corporate capital structures over recent decades.

This study adds to the growing body of literature on the effects of firm reputation, the determinants of the cost of bank debt, and the determinants of firms' investment activities. I provide empirical evidence that reputable firms enjoy lower borrowing costs and receive better debt contract terms: Reputable firms' loans are larger, mature sooner, are associated with lower fees, have fewer covenants, and are less likely to be secured. I further show that reputation status is positively associated with future operating cash flows. This evidence suggests that firms' reputation status contains important, private information about future firm quality and that lenders reward reputable borrowers with a lower interest rate. Last, I document the real effects of reputation on investment activities: Reputable firms take advantage of their lower cost of capital to invest more in both physical assets (capital expenditures) and intangible assets (R&D).

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Appendix: Variable Definitions

Variables	Definitions	Source
Firm characteristics:		
Firm size	The natural log of the book value of total assets.	Compustat
Firm age	The number of years since a firm first appeared in CRSP as of the end of year t.	Compustat
Market-to-book	Total assets less book value of equity plus market value of equity scaled by total assets.	Compustat
Leverage	The ratio of the book value of total debt to the market value of equity plus the book value of total debt.	Compustat
Profitability	Operating income before depreciation (EBITDA) scaled by total assets.	Compustat
Cash	Cash and cash equivalent holdings scaled by total assets.	Compustat
Capital expenditure	Capital expenditure scaled by total assets.	Compustat
R&D expenses	Research and development expense scaled by total assets.	Compustat
Tangibility	Net property, plant and equipment scaled by total assets.	Compustat
Sales	Sales in current year.	Compustat
Sales growth	Sales in current year minus sales last year over sales last year.	Compustat
Institutional ownership	The fraction of shares outstanding owned by institutions.	Thomson Reuters
Z-score	Modified Altman's (1968) Z-score ¼ (1.2 working capital+1.4 retained earnings+3.3 EBIT+0.999sales)/total assets. I use a modified Z-score, which does not include the ratio of market value of equity to book value of total debt, because a similar term, market-to-book, enters the regressions as a separate variable.	Compustat
Cash flow	Cash flow is measured as annual sales minus cost of goods sold, general and administrative expense, and changes in working capital, scaled by total assets.	Compustat
Cash flow volatility	Standard deviation of quarterly cash flows from operations over the 36 fiscal quarters after a firm being recognized by *Fortune's* MA list scaled by total assets.	Compustat
Reputation measures:		
Most Admired	Dummy variable equal to one if the firm has been recognized as "America's Most Admired Companies" in current year and zero otherwise.	*Fortune*

Contender	Dummy variable equal to one if the firm has been rated but *NOT* recognized as "America's Most Admired Companies" in current year and zero otherwise.	*Fortune*
Score	The overall mean of a firm's scores on eight reputation attributes in current year.	*Fortune*
Rank	Firm's score-based rank within its industry in current year multiply by negative one.	*Fortune*
Clean MA score	The residual from the estimation model that regresses raw MA score on five financial and operating variables: operating return on assets (contemporaneous and lagged one period), industry-adjusted market to book, sales growth, sales, and leverage.	*Fortune; Brown and Perry (1994)*
Clean MA rank	The residual from the estimation model that regresses raw MA rank on five financial and operating variables: operating return on assets (contemporaneous and lagged one period), industry-adjusted market to book, sales growth, sales, and leverage.	*Fortune; Brown and Perry (1994)*
Loan characteristics:		
Loan spread	All-in spread drawn, defined as the amount the borrower pays in basis points over LIBOR or LIBOR equivalent for each dollar drawn down. (For loans not based on LIBOR, LPC converts the spread into LIBOR terms by adding or subtracting a differential which is adjusted periodically.) This measure adds the borrowing spread of the loan over LIBOR with any annual fee paid to the bank group.	Dealscan
Cost of bank debt	Natural log of loan spread.	Dealscan
Loan size	Natural log of the loan facility amount. Loan amount is measured in millions of dollars.	Dealscan
Maturity	Natural log of the loan maturity. Maturity is measured in months.	Dealscan
Security	Dummy variable equal to one if the loan facility is secured by collateral and zero otherwise.	Dealscan
Number of lenders	Total number of lenders in a single loan.	Dealscan
Performance pricing dummy	Dummy variable equal to one if the loan facility uses performance pricing.	Dealscan
Number of financial covenants	Total number of financial covenants in a single loan.	Dealscan
Loan type	Indicator variables for types of loans including term loan, revolving loan less than one year, revolving loan greater than one year, 364-day facility, and bridge loan separately	Dealscan

Loan purpose	Indicator variables for purposes of loans such as corporate purposes, working capital, LBO, debt repayment, takeover, leveraged buyouts, et cetera.	Dealscan
Syndicate	An indicator variable, which is one if a loan is syndicated, and zero otherwise.	Dealscan
Probability of Covenant Violation	The aggregate probability of covenant violation across all covenants included on a given loan package	Demerjian and Owens, 2016

Figure 1: RD plots of loan spread on firms' reputation status

This plot presents the relation between the cost of bank debt and firms' reputation status measured by rank relative to the industry median score. Firms whose MA scores are greater than or equal to the industry median score, i.e., America's Most Admired Companies, receive a non-negative sequence number starting with zero, and these MA firms are shown on the right of the figure. Firms whose MA scores are less than the industry median score receive a negative sequence number stating with negative one, and these non-MA firms are shown on the left of the figure. The size of the bin in all plots is one. Each dot represents the average of the natural logarithm of the loan spread for loans activated after MA list publication, and the range of each dot represents the 95% confidence interval. The solid lines represent the fitted values of a second-degree polynomial of Relative Rank to Industry Median on the interval of -5 to 4.

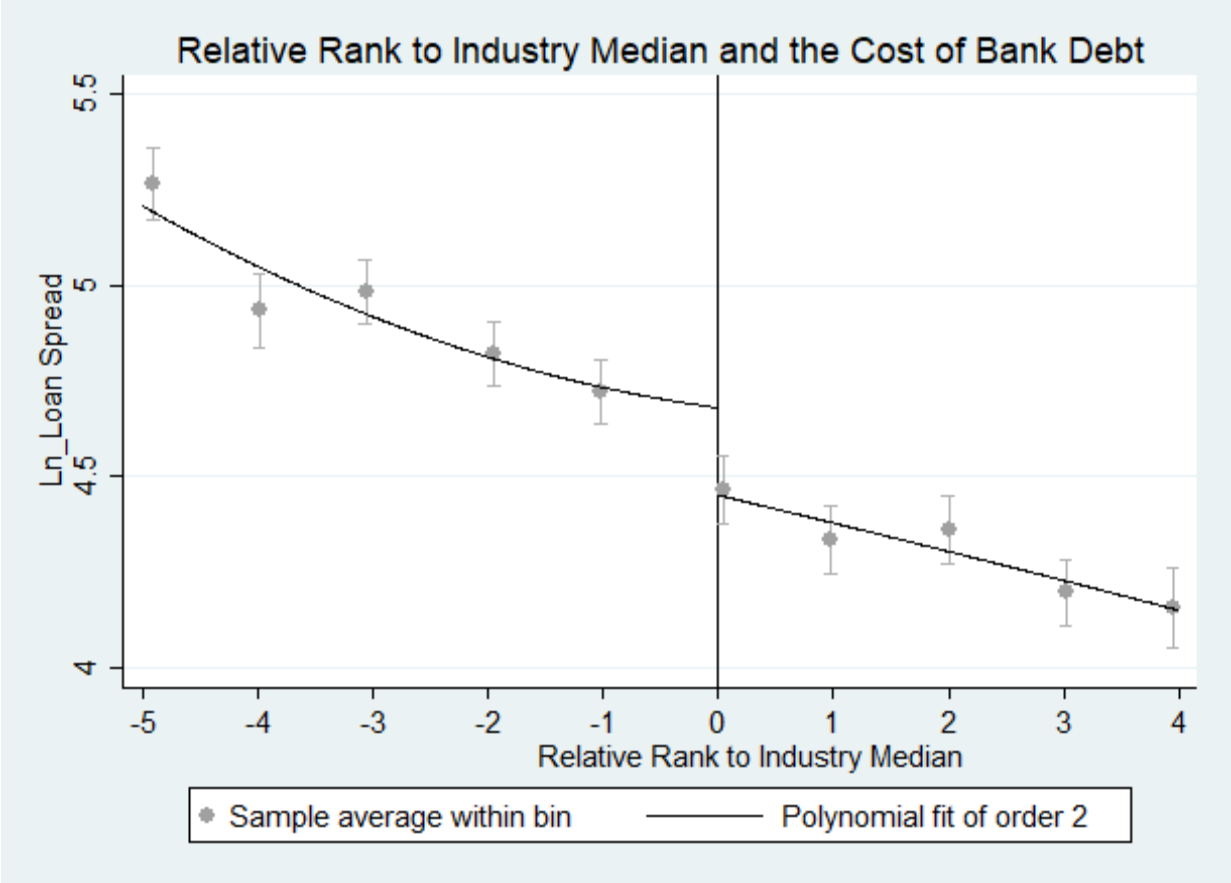

Table 1: Reputation summary statistics

This table presents summary statistics for this study's main reputation proxies. The sample includes 6,502 unique firm-year observations for firms in *Fortune's* list of America's Most Admired (MA) Companies for the years 2001-2012. *Most Admired* is an indicator variable equal to one if a firm appears on the MA list and zero otherwise. *Score* is the overall mean of a firm's scores on eight reputation attributes in current year. *Rank* is a firm's score-based rank within its industry in current year.

	N	Mean	Std	P25	Median	P75
Score	6,502	6.05	1.04	5.38	6.07	6.78
Rank	6,502	5.41	3.12	3	5	8
Most Admired "MA"	6,502	0.54	0.50	0	1	1
Contender	6,502	0.46	0.50	0	0	1

Table 2: Loan contract terms and firm characteristics summary statistics

This table presents summary statistics of loan contract terms and firm characteristics for the full sample as well as the two subsamples of *Most Admired* (MA) and non-MA firms. Panel A presents summary statistics of debt contract terms. Panel B provides summary statistics of firm characteristics. All variable definitions are in Appendix. Significance levels are denoted by *, **, ***, which correspond to the 10%, 5%, and 1% levels, respectively.

Panel A: Loan characteristics

	Full Sample N=20,104		MA firms N=2,183		Non-MA firms N=17,921		Difference	
	Mean	STD	Mean	STD	Mean	STD	Mean	t
Loan spread (basis points)	217.72	150.99	129.23	131.55	228.49	149.66	-99.27***	-29.63
Ln_spread	5.12	0.79	4.39	1.00	5.21	0.71	-0.83***	-48.70
Loan size ($millions)	454.62	964.42	1122.60	1788.88	373.26	769.92	749.35***	35.32
Maturity (months)	48.24	21.71	42.30	23.32	48.97	21.40	-6.66***	-13.60
Syndicate dummy	0.98	0.15	0.99	0.12	0.97	0.16	0.01***	3.17
Security dummy	0.55	0.50	0.22	0.41	0.59	0.49	-0.37***	-33.54
Annual fee (basis points)	18.98	55.84	32.98	59.08	17.28	55.19	15.71***	12.46
Upfront fee (basis points)	47.10	127.30	26.87	95.18	49.57	130.46	-22.70***	-7.88
Performance pricing	0.45	0.50	0.44	0.50	0.45	0.50	-0.01	-0.98
Number of covenants	1.40	1.35	0.82	1.03	1.47	1.37	-0.65***	-21.48
Number of lenders	5.93	7.27	9.91	9.56	5.44	6.78	4.46***	27.60

Panel B: Firm characteristics

	Full Sample N=20,095		MA firms N=2,183		Non-MA firms N=17,912		Difference	
	Mean	STD	Mean	STD	Mean	STD	Mean	t
Size	7.47	1.82	9.62	1.39	7.21	1.69	2.41***	63.94
Age	23.60	17.51	36.42	17.72	22.04	16.83	14.38***	37.47
M/B	2.64	4.01	3.43	3.71	2.54	4.03	0.89***	9.70
Tangibility	0.31	0.25	0.29	0.23	0.31	0.26	-0.02***	-3.88
Z-score	1.62	1.28	2.08	1.11	1.57	1.29	0.51***	16.49
Cash	0.07	0.08	0.06	0.06	0.07	0.09	-0.02***	-8.21
Profitability	0.02	0.10	0.05	0.07	0.02	0.10	0.03***	12.66
Sales growth	0.15	0.34	0.11	0.22	0.15	0.35	-0.05***	-5.83
Institutional ownership	0.75	0.33	0.80	0.25	0.74	0.34	0.06***	7.43
Leverage	0.38	0.24	0.36	0.18	0.38	0.25	-0.02***	-4.14
CF volatility	0.01	0.02	0.01	0.01	0.01	0.02	-0.01***	-16.77

Table 3: Firm reputation and the cost of bank debt

This table reports regressions of the cost of bank debt on lagged firm reputation. The dependent variable is the *Cost of bank debt*, defined as the natural logarithm of loan spread for each loan. *Most Admired* is an indicator equal to one if the firm ranks on the "Most Admired" list, and zero otherwise. *Score* is the overall mean of a firm's scores on eight reputation attributes. *Rank* is a firm's score-based rank within its industry multiply by negative one. The remaining variable definitions are in the Appendix. Robust standard errors are clustered at the firm level and t-statistics are in parentheses. Significance levels are denoted by *, **, ***, which correspond to the 10%, 5%, and 1% levels, respectively.

	Full sample	Most Admired sample		
	(1)	(2)	(3)	(4)
Most Admired dummy	-0.160***	-0.155***		
	(-5.564)	(-3.733)		
Score			-0.103***	
			(-4.210)	
Rank				-0.037***
				(-3.238)
Firm size	-0.033**	0.059	0.062	0.061
	(-2.005)	(1.061)	(1.139)	(1.072)
Firm age	-0.175**	157.487	133.903	149.666
	(-2.263)	(0.000)	(0.000)	(0.000)
Market-to-book	0.000	-0.003	-0.002	-0.003
	(0.102)	(-0.797)	(-0.679)	(-0.977)
Tangibility	-0.121	-0.014	-0.071	0.005
	(-1.126)	(-0.044)	(-0.237)	(0.016)
Z-score	-0.019**	-0.050*	-0.057*	-0.053*
	(-2.057)	(-1.658)	(-1.789)	(-1.723)
Profitability	-0.472***	-1.067***	-0.904***	-1.032***
	(-5.904)	(-4.268)	(-3.621)	(-4.068)
Cash	0.012	0.097	0.020	0.085
	(0.106)	(0.276)	(0.060)	(0.242)
Sales growth	0.012	0.045	0.056	0.043
	(0.717)	(0.812)	(0.982)	(0.776)
Institutional ownership	-0.098***	-0.107	-0.095	-0.103
	(-3.447)	(-1.352)	(-1.257)	(-1.342)
Leverage	0.241***	0.422**	0.379**	0.432**
	(4.881)	(2.503)	(2.335)	(2.579)
Performance pricing	-0.121***	-0.065**	-0.064**	-0.066**
	(-10.000)	(-2.049)	(-2.046)	(-2.092)
Maturity	0.092***	0.097***	0.094***	0.096***
	(9.344)	(5.627)	(5.395)	(5.557)
Loan size	-0.124***	-0.206***	-0.208***	-0.206***
	(-13.345)	(-10.237)	(-10.223)	(-10.192)
CF volatility	0.693*	3.872*	3.624*	3.761*
	(1.756)	(1.936)	(1.842)	(1.844)
Syndicate	0.042	0.092	0.111	0.107
	(1.213)	(0.852)	(1.025)	(0.977)
Loan Type	Yes	Yes	Yes	Yes
Loan Purpose	Yes	Yes	Yes	Yes
Firm FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
N	19,304	3,876	3,876	3,876
Adjusted R2	0.696	0.754	0.755	0.754

Table 4: Firm reputation and the number of covenants

The table presents regression of non-price terms on lagged firm reputation. The dependent variable is *Number of financial covenants*, defined as the total number of financial covenants required in the debt agreement. *Most Admired* is an indicator equal to one if the firm ranks on the "Most Admired" list, and zero otherwise. *Score* is the overall mean of a firm's scores on eight reputation attributes. *Rank* is a firm's score-based rank within its industry multiply by negative one. The remaining variable definitions are in Appendix. Robust standard errors are clustered at the firm level and t-statistics are in parentheses. Significance levels are denoted by *, **, ***, which correspond to the 10%, 5%, and 1% levels, respectively.

	Full sample	Most Admired sample		
	(1)	(2)	(3)	(4)
Most Admired dummy	-0.059*	-0.061*		
	(-1.815)	(-1.791)		
Score			-0.069**	
			(-1.983)	
Rank				-0.021**
				(-1.987)
Firm size	-0.067	-0.019	-0.003	-0.010
	(-1.328)	(-0.204)	(-0.029)	(-0.113)
Firm age	0.002	69.763	62.541	68.344
	(0.014)	(0.000)	(0.000)	(0.000)
Market-to-book	0.005	-0.003	-0.002	-0.003
	(1.141)	(-0.431)	(-0.276)	(-0.423)
Tangibility	-0.314	0.089	0.048	0.094
	(-1.230)	(0.179)	(0.097)	(0.189)
Z-score	-0.035*	0.026	0.039	0.033
	(-1.893)	(0.444)	(0.665)	(0.566)
Profitability	-0.420	-0.730*	-0.589*	-0.694*
	(-1.595)	(-1.874)	(-1.742)	(-1.879)
Cash	0.052	-0.528	-0.603	-0.547
	(0.176)	(-1.005)	(-1.165)	(-1.051)
Sales growth	-0.046	-0.042	-0.027	-0.039
	(-0.758)	(-0.477)	(-0.312)	(-0.442)
Institutional ownership	-0.076	0.095	0.105	0.099
	(-0.735)	(0.769)	(0.880)	(0.803)
Leverage	-0.009	0.055	0.006	0.047
	(-0.056)	(0.221)	(0.024)	(0.190)
Performance pricing	1.059***	0.940***	0.942***	0.940***
	(35.823)	(17.241)	(17.325)	(17.280)
Maturity	0.124***	0.056*	0.054*	0.056*
	(5.617)	(1.946)	(1.912)	(1.945)
Loan size	0.059***	0.031*	0.031*	0.032*
	(4.475)	(1.664)	(1.747)	(1.780)
CF volatility	-0.171	1.112*	1.333*	1.204*
	(-0.101)	(1.849)	(1.743)	(1.689)
Syndicate	0.167*	-0.027	-0.018	-0.022
	(1.858)	(-0.190)	(-0.127)	(-0.157)
Loan Type	Yes	Yes	Yes	Yes
Loan Purpose	Yes	Yes	Yes	Yes
Firm FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
N	19,304	3,876	3,876	3,876
Adjusted R2	0.549	0.582	0.583	0.582

Table 5: Firm reputation and loan securitization

The table presents regression of non-pricing terms on lagged firm reputation. The dependent variable is *Loan securitization*, defined as an indicator equal to one if the loan facility is secured by collateral and zero otherwise. *Most Admired* is an indicator equal to one if the firm ranks on the "Most Admired" list, and zero otherwise. *Score* is the overall mean of a firm's scores on eight reputation attributes. *Rank* is a firm's score-based rank within its industry multiply by negative one. The remaining variable definitions are in Appendix. Robust standard errors are clustered at the firm level and t-statistics are in parentheses. Significance levels are denoted by *, **, ***, which correspond to the 10%, 5%, and 1% levels, respectively.

	Full sample	Most Admired sample		
	(1)	(2)	(3)	(4)
Most Admired dummy	-0.065***	-0.062**		
	(-3.668)	(-2.405)		
Score			-0.036**	
			(-2.403)	
Rank				-0.010**
				(-2.133)
Firm size	-0.060***	-0.065	-0.066	-0.066
	(-4.584)	(-1.520)	(-1.562)	(-1.570)
Firm age	0.041	20.884	13.797	16.730
	(0.610)	(0.000)	(0.000)	(0.000)
Market-to-book	0.000	-0.000	0.000	-0.000
	(0.041)	(-0.055)	(0.010)	(-0.149)
Tangibility	-0.144*	0.221	0.202	0.227
	(-1.932)	(0.984)	(0.897)	(1.026)
Z-score	-0.027***	-0.009	-0.009	-0.009
	(-2.590)	(-0.353)	(-0.350)	(-0.336)
Profitability	-0.238***	-0.404**	-0.351**	-0.392**
	(-3.923)	(-2.329)	(-2.019)	(-2.254)
Cash	0.016	0.095	0.070	0.092
	(0.180)	(0.401)	(0.302)	(0.390)
Sales growth	0.007	0.048	0.052	0.047
	(0.460)	(1.343)	(1.416)	(1.305)
Institutional ownership	-0.033	-0.015	-0.012	-0.014
	(-1.632)	(-0.354)	(-0.276)	(-0.328)
Leverage	0.115***	0.113	0.099	0.116
	(3.138)	(1.091)	(0.966)	(1.122)
Performance pricing	0.095***	0.012	0.012	0.012
	(10.398)	(0.605)	(0.627)	(0.589)
Maturity	0.087***	0.064***	0.063***	0.064***
	(12.917)	(6.079)	(5.931)	(6.033)
Loan size	-0.018***	-0.047***	-0.047***	-0.047***
	(-3.468)	(-4.522)	(-4.552)	(-4.516)
CF volatility	1.136**	3.705**	3.633**	3.665**
	(2.541)	(2.423)	(2.488)	(2.483)
Syndicate	-0.050**	-0.041	-0.033	-0.035
	(-2.074)	(-0.685)	(-0.569)	(-0.587)
Loan Type	Yes	Yes	Yes	Yes
Loan Purpose	Yes	Yes	Yes	Yes
Firm FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
N	19,304	3,876	3,876	3,876
Adjusted R2	0.564	0.553	0.553	0.553

Table 6: Propensity score matching

This table examines the difference in loan contract terms across firms with good reputations and similar matched less-reputable firms. Panel A tabulates the means of the matching variables and propensity scores for the treatment and control groups (the differences across the two groups are not statistically significant at the 1% significance level). Panels B presents differences in *Cost of bank debt*, *Number of financial covenants*, and *Loan securitization* means tests, respectively, controlling for firm characteristics using the nearest neighbor from a propensity score matching process based on logit regressions. The remaining variable definitions are in the Appendix. Robust standard errors are clustered at the firm level and t-statistics are in parentheses. Significance levels are denoted by *, **, ***, which correspond to the 10%, 5%, and 1% levels, respectively.

Panel A: Comparison of means across matched samples (Most Admired) in year t-1

	Treatment (Obs. =2,689)	Control (Obs. = 2,689)	Difference	T-statistics
Propensity score	0.62	0.62	0.00	0.31
Size	9.38	9.38	0.00	-0.11
Age	33.73	33.28	0.46	0.93
M/B	4.16	4.48	-0.32	-0.44
Tangibility	0.30	0.30	0.00	-0.14
Z-score	2.23	2.29	-0.06	-1.64
Cash	1830.00	1835.80	-5.80	-0.07
Profitability	0.06	0.05	0.01	1.49
Sales growth	0.09	0.09	0.00	0.49
Institutional ownership	0.78	0.75	0.02	1.28
Leverage	0.32	0.31	0.00	0.87

Panel B: Differences in means controlling for firm characteristics using propensity score matching

	Nearest one neighbor with common support			
	Treatment (Obs. =1,894)	Control (Obs. = 1,854)	Difference	T-statistics
Cost of bank debt	4.38	4.64	-0.26***	-8.38
Number of financial covenants	0.86	1.03	-0.17***	-4.95
Loan securitization	0.22	0.28	-0.06***	-4.50

Table 7: Regression discontinuity analysis

The table presents the effect of being recognized as America's Most Admired Company on the cost of bank debt in the following year using the regression discontinuity analysis. The dependent variable is the *Cost of bank debt*, defined as the natural logarithm of loan spread for each loan. *Most Admired* is an indicator equal to one if the firm ranks on the "Most Admired" list, and zero otherwise. *Relative rank* is the within-industry rank relative to the industry median rank of zero. *Most Admired*Relative rank* is the interaction term between *Most Admired* and *Relative rank*. All variable definitions are in the Appendix. Significance levels are denoted by *, **, ***, which correspond to the 10%, 5%, and 1% levels, respectively.

	(1)	(2)	(3)	(4)	(5)	(6)
Most Admired	-0.244***	-0.264***	-0.171***	-0.180***	-0.229***	-0.244***
	(-3.422)	(-3.591)	(-2.679)	(-2.800)	(-3.679)	(-3.992)
Relative rank	-0.063***	-0.089***	-0.037***	-0.053**	-0.017	-0.042*
	(-4.396)	(-4.428)	(-2.794)	(-2.534)	(-1.240)	(-1.760)
Most Admired*Relative rank		0.048*		0.028		0.042
		(1.669)		(1.091)		(1.556)
Firm size			-0.034	-0.035	0.036	0.041
			(-1.133)	(-1.177)	(0.535)	(0.605)
Firm age			-0.003*	-0.003*	-143.722	-131.225
			(-1.803)	(-1.849)	(-0.000)	(-0.000)
Market-to-book			-0.002***	-0.002***	0.000	0.000
			(-4.546)	(-4.630)	(0.529)	(0.368)
Tangibility			-0.414**	-0.427**	0.141	0.135
			(-2.008)	(-2.070)	(0.392)	(0.371)
Z-score			-0.071**	-0.072**	0.016	0.019
			(-2.399)	(-2.411)	(0.322)	(0.390)
Profitability			-1.407***	-1.392***	-0.737**	-0.706**
			(-4.483)	(-4.449)	(-2.284)	(-2.189)
Cash			0.180	0.164	0.105	0.058
			(0.528)	(0.475)	(0.264)	(0.148)
Sales growth			0.142**	0.145***	0.091*	0.093*
			(2.580)	(2.620)	(1.696)	(1.754)
Institutional ownership			0.008	0.006	0.000	-0.001
			(0.098)	(0.073)	(0.005)	(-0.014)
Leverage			0.693***	0.693***	0.567**	0.568**
			(3.506)	(3.497)	(2.478)	(2.474)
Performance pricing			-0.093***	-0.092***	-0.099***	-0.102***
			(-2.921)	(-2.907)	(-3.021)	(-3.087)
Maturity			-0.032	-0.032	-0.021	-0.021
			(-1.142)	(-1.153)	(-0.809)	(-0.813)
Loan size			-0.218***	-0.218***	-0.233***	-0.233***
			(-11.737)	(-11.754)	(-12.391)	(-12.393)
CF volatility			1.486	1.342	1.820	1.643
			(0.710)	(0.647)	(0.572)	(0.536)
Syndicate			0.081	0.082	-0.058	-0.055
			(0.517)	(0.523)	(-0.409)	(-0.390)
Loan Type	Yes	Yes	Yes	Yes	Yes	Yes
Loan Purpose	Yes	Yes	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes	No	No
Firm FE	No	No	No	No	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
N	3,851	3,851	2,623	2,623	2,565	2,565
Adjusted R2	0.475	0.476	0.686	0.686	0.780	0.780

Table 8: Validity tests for regression discontinuity analysis

The table shows that the distribution of firm characteristics is smooth around the MA cutoff. For each characteristic, the first column presents the results of a local linear regression of each firm characteristic on *Most Admired*, *Relative rank*, *Most Admired***Relative rank*, and control variables. The estimated coefficients on *Most Admired* are reported in the first column, and t-statistics are reported in parentheses. Subsequent columns present the means of each characteristic for the two firms around the industry median cutoff: *Relative rank*=-1 and *Relative rank*=0, as well as the number of observations in these intervals. The last column presents the *p*-values for the difference in means test. All variable definitions are in Appendix. Significance levels are denoted by *, **, ***, which correspond to the 10%, 5%, and 1% levels, respectively.

	RD Most Admired coefficient	Just below cutoff (Relative rank = -1)		Just above cutoff (Relative rank = 0)		Difference	p-value
		Mean	N	Mean	N		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Firm size	0.155	8.932	437	9.270	440	-0.338	-1.590
	(1.473)						
Firm age	0.051	35.947	437	34.584	440	1.363	1.142
	(0.036)						
Market-to-book	1.599	2.220	432	3.726	439	-1.505	-0.678
	(0.467)						
Tangibility	0.019	0.285	437	0.307	440	-0.022	-1.454
	(1.588)						
Z-score	-0.057	2.114	380	2.034	390	0.080	0.981
	(-0.833)						
Profitability	0.003	0.058	428	0.060	420	-0.002	-0.464
	(0.635)						
Cash	-0.005	0.048	433	0.038	439	0.010	1.540
	(-0.732)						
Sales growth	-0.004	0.099	425	0.099	436	0.000	-0.004
	(-0.136)						
Institutional ownership	0.021	0.805	358	0.816	347	-0.011	-0.545
	(0.829)						
Leverage	-0.028	0.379	389	0.375	399	0.005	0.351
	(-1.082)						
CF volatility	0.000	0.009	437	0.010	440	-0.001	-1.290
	(0.494)						

Table 9: Correlations of Halo Index Variables

This table presents pairwise correlation coefficients between major reputation measures and the financial halo index variables. *Most Admired* is an indicator equal to one if the firm ranks on the "Most Admired" list, and zero otherwise. *Score* is the overall mean of a firm's scores on eight reputation attributes. *Rank* is the negative value of firm's score-based rank within its industry. All variables are defined in the Appendix. Significance levels are denoted by *, **, ***, which correspond to the 10%, 5%, and 1% levels, respectively.

	Most Admired	Score	Rank	Profitability	Sales growth	Leverage	Lag Profitability	Market-to-book	Sale
Most Admired	1.00								
Score	0.68***	1.00							
Rank	0.80***	0.78***	1.00						
Profitability	0.09***	0.12***	0.10***	1.00					
Sales growth	0.07***	0.15***	0.10***	0.14***	1.00				
Leverage	-0.12***	-0.23***	-0.16***	-0.19***	-0.13***	1.00			
Lag Profitability	0.10***	0.15***	0.12***	0.18***	0.13***	-0.08***	1.00		
Market-to-book	0.05**	0.07***	0.06***	0.04*	0.02	0.01	0.05***	1.00	
Sales	0.18***	0.21***	0.13***	0.04**	0.07***	-0.08***	0.04**	-0.01	1.00

Table 10: Removing financial performance from MA scores and ranks

This table reports regressions loan pricing on firm reputation using clean MA scores and ranks. The dependent variable is the *Cost of bank debt* in Models (1) and (2), *Number of financial covenants* in Models (3) and (4), and *Loan securitization* in Models (5) and (6). *Clean MA score* (*rank*) is the residual from the estimation model that regresses raw MA scores (ranks) on five financial and operating variables: operating return on assets (contemporaneous and lagged one period), industry-adjusted market to book, sales growth, sales, and leverage (Brown and Perry, 1994). All variable definitions are in the Appendix. Significance levels are denoted by *, **, ***, which correspond to the 10%, 5%, and 1% levels, respectively.

	Cost of bank debt		No. of financial covenants		Loan securitization	
	(1)	(2)	(3)	(4)	(5)	(6)
Clean MA score	-0.097***		-0.066*		-0.027*	
	(-3.039)		(-1.694)		(-1.688)	
Clean MA rank		-0.029***		-0.024*		-0.009*
		(-2.806)		(-1.871)		(-1.770)
Firm size	0.031	0.024	-0.025	-0.026	-0.007	-0.008
	(0.459)	(0.344)	(-0.234)	(-0.252)	(-0.151)	(-0.179)
Market-to-book	-0.001	-0.002	0.000	-0.000	0.001	0.001
	(-0.308)	(-0.483)	(0.058)	(-0.016)	(0.478)	(0.396)
Tangibility	0.075	0.108	0.171	0.206	0.167	0.179
	(0.202)	(0.281)	(0.290)	(0.349)	(0.635)	(0.685)
Z-score	0.045	0.045	0.114	0.119	-0.016	-0.015
	(0.904)	(0.881)	(1.600)	(1.639)	(-0.455)	(-0.427)
Profitability	-1.079***	-1.174***	-1.180*	-1.234*	-0.263	-0.287
	(-2.998)	(-3.099)	(-1.806)	(-1.920)	(-0.932)	(-1.031)
Cash	0.028	0.059	-0.588	-0.577	0.060	0.066
	(0.067)	(0.136)	(-0.951)	(-0.946)	(0.205)	(0.226)
Sales growth	0.134**	0.112*	0.025	0.011	0.068	0.062
	(2.064)	(1.824)	(0.223)	(0.097)	(1.382)	(1.267)
Institutional ownership	-0.038	-0.034	0.261	0.267	0.021	0.023
	(-0.422)	(-0.354)	(1.430)	(1.434)	(0.335)	(0.366)
Leverage	0.619***	0.634***	-0.031	-0.027	0.041	0.043
	(2.873)	(2.782)	(-0.091)	(-0.079)	(0.306)	(0.322)
Performance pricing	-0.091***	-0.093***	0.947***	0.946***	-0.002	-0.003
	(-2.623)	(-2.652)	(15.055)	(15.047)	(-0.105)	(-0.128)
Maturity	-0.019	-0.018	-0.024	-0.023	-0.014	-0.014
	(-0.705)	(-0.656)	(-0.638)	(-0.598)	(-0.777)	(-0.750)
Loan size	-0.250***	-0.249***	0.040**	0.042**	-0.058***	-0.058***
	(-12.062)	(-11.976)	(2.224)	(2.286)	(-4.743)	(-4.715)
CF volatility	2.395	2.562	1.584	1.667	3.207**	3.247**
	(0.721)	(0.751)	(0.653)	(0.683)	(2.116)	(2.125)
Syndicate	-0.035	-0.035	0.014	0.016	-0.041	-0.041
	(-0.240)	(-0.241)	(0.098)	(0.107)	(-1.069)	(-1.045)
Loan Type	Yes	Yes	Yes	Yes	Yes	Yes
Loan Purpose	Yes	Yes	Yes	Yes	Yes	Yes
Firm FE	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
N	2,615	2,615	2,615	2,615	2,615	2,615
Adjusted R2	0.774	0.773	0.621	0.621	0.558	0.558

Table 11: Reputation and future operating performance

The table presents regressions of future operating cash flows on firm reputation. The dependent variable is *Cash flow* in Models (1) and (2), *Stock Return Volatility* in Models (3) and (4), *Cash Flow Volatility* in Models (5) and (6), and the probability of loan covenant violation in Models (7) and (8). *Clean MA score* (*rank*) is the residual from the estimation model that regresses raw MA scores (ranks) on five financial and operating variables: operating return on assets (contemporaneous and lagged one period), industry-adjusted market to book, sales growth, sales, and leverage (Brown and Perry, 1994). The remaining variable definitions are in the Appendix. Robust standard errors are clustered at the firm level and t-statistics are in parentheses. Significance levels are denoted by *, **, ***, which correspond to the 10%, 5%, and 1% levels, respectively.

	Future Operating Cash Flow		Stock Return Volatility		Cash Flow Volatility		Loan Violation Probability	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Clean MA score	0.007***		-0.005***		-0.000		-0.034**	
	(5.255)		(-3.852)		(-0.247)		(-2.011)	
Clean MA rank		0.002***		-0.001**		-0.000		-0.013**
		(5.622)		(-2.459)		(-0.003)		(-2.027)
Firm size	-0.003	-0.002	-0.009***	-0.010***	-0.004***	-0.004***	0.009	0.008
	(-1.128)	(-0.872)	(-4.369)	(-4.870)	(-4.958)	(-5.042)	(0.404)	(0.337)
Firm age	0.000	0.000	-0.000***	-0.000***	0.000	0.000	0.000	0.000
	(0.892)	(0.848)	(-3.110)	(-3.086)	(0.193)	(0.185)	(0.029)	(0.116)
Market-to-book	0.002***	0.002***	-0.000	-0.000	0.000	0.000	0.006	0.006
	(4.876)	(4.846)	(-1.261)	(-1.428)	(1.133)	(1.121)	(1.402)	(1.362)
Tangibility	0.076***	0.078***	-0.016	-0.018*	-0.006	-0.006	-0.347**	-0.348**
	(5.447)	(5.581)	(-1.490)	(-1.657)	(-1.592)	(-1.611)	(-2.344)	(-2.383)
Z-score	0.000	-0.000	-0.000	-0.000	-0.000***	-0.000***	-0.029	-0.026
	(0.106)	(-0.140)	(-0.137)	(-0.213)	(-3.936)	(-4.056)	(-1.180)	(-1.110)
Profitability	0.331***	0.333***	-0.224***	-0.228***	-0.016***	-0.016***	-1.114***	-1.132***
	(14.275)	(14.372)	(-11.108)	(-11.192)	(-3.508)	(-3.536)	(-4.888)	(-4.938)
Cash	0.058***	0.056**	0.053***	0.055***	0.025***	0.025***	0.079	0.080
	(2.646)	(2.556)	(3.096)	(3.171)	(4.059)	(4.081)	(0.285)	(0.289)
Sales growth	0.024***	0.022***	-0.007	-0.005	-0.003	-0.003	-0.087	-0.100
	(3.698)	(3.530)	(-1.001)	(-0.794)	(-1.450)	(-1.439)	(-0.962)	(-1.093)
Leverage	-0.013	-0.013	0.052***	0.052***	0.001	0.001	0.300**	0.304**
	(-1.358)	(-1.344)	(5.063)	(5.056)	(0.291)	(0.302)	(2.344)	(2.408)
Loan controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Firm FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
N	4,727	4,727	4,727	4,727	4,727	4,727	1,271	1,271
Adjusted R2	0.544	0.545	0.565	0.562	0.225	0.225	0.438	0.440

Table 12: Firm reputation and investment activities

This table reports regressions of investment activities on lagged firm reputation. The dependent variable is *Capital expenditure* in Models (1) to (3), and *R&D* in Models (4) to (6). Both variables are scaled by total asset and multiplied by 100. *Most Admired* is an indicator equal to one if the firm ranks on the "Most Admired" list and zero otherwise. *Score* is the overall mean of a firm's scores on eight reputation attributes. *Rank* is a firm's score-based rank within its industry multiply by negative one. The remaining variable definitions are in the Appendix. Robust standard errors are clustered at the firm level and t-statistics are in parentheses. Significance levels are denoted by *, **, ***, which correspond to the 10%, 5%, and 1% levels, respectively.

	Capital Expenditure			Research & Development		
	(1)	(2)	(3)	(4)	(5)	(6)
Most Admired	0.183*			0.268**		
	-1.772			-2.077		
Score		0.370***			0.242***	
		-5.775			-3.116	
Rank			0.044**			0.054**
			-2.263			-2.034
Firm size	-0.303	-0.423*	-0.322	0.048	0.008	0.046
	(-1.187)	(-1.661)	(-1.255)	-0.479	-0.076	-0.458
Firm age	-0.250	-0.287	-0.246	-0.006	-0.006	-0.006
	(-0.243)	(-0.283)	(-0.240)	(-0.975)	(-1.068)	(-1.039)
Market-to-book	0.000	0.000	0.000	0.000	0.000	0.000
	-0.475	-0.477	-0.426	-0.552	-0.504	-0.502
Tangibility	13.610***	13.497***	13.597***	0.902	0.851	0.922
	-9.665	-9.801	-9.681	-1.272	-1.205	-1.304
Z-score	-0.014***	-0.012***	-0.014***	0.014*	0.016**	0.015**
	(-3.475)	(-3.269)	(-3.476)	-1.905	-2.12	-1.963
Profitability	0.413	0.321	0.418	-1.879*	-2.054**	-1.916**
	-0.855	-0.687	-0.869	(-1.950)	(-2.131)	(-2.009)
Cash	-1.474	-1.173	-1.480	6.890***	7.028***	6.913***
	(-1.615)	(-1.302)	(-1.623)	-3.306	-3.372	-3.315
Sales growth	-0.122	-0.130	-0.126	-0.139	-0.162	-0.149
	(-0.759)	(-0.814)	(-0.785)	(-0.912)	(-1.056)	(-0.973)
Leverage	-2.459***	-2.132***	-2.420***	-1.044*	-0.852	-1.000*
	(-4.949)	(-4.314)	(-4.927)	(-1.812)	(-1.499)	(-1.735)
Firm FE	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
N	5,021	5,021	5,021	5,111	5,111	5,111
Adjusted R2	0.782	0.785	0.782	0.577	0.579	0.578