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THE IMPACT OF CORPORATE REPUTATION ON MARKET VALUE, EMPIRICAL EVIDENCE FROM TURKEY

Abstract: The high profitability expectation of the past is replaced with the advantage of sustainable competition in today's business world. The boundaries of companies and their effects on society have expanded dramatically because of globalization and developments in information technologies, which has in turn raised society's expectations of companies. For this reason, investors expect the companies to be sensitive to social issues besides having a high financial performance. The issue of corporate reputation has been discussed by many different disciplines through the years. Most of these studies consider corporate reputation as a strategic asset, and claim that it leads to sustainable competition by increasing financial performance. On the other hand, financial performance recognizes as a part of corporate reputation in some other studies. As a result, the concept of corporate reputation has now become essential for business.

This study aims to examine whether the corporate reputation has significant effect on market value of companies. In literature, there are many studies about corporate reputation and financial performance relations. Many studies have demonstrated that there is a positive relationship between corporate reputation and financial performance. This has raised the problematic question of how reputation should be measured. Especially in developed countries, reputation indices are common indicators of reputation. But in Turkey, there are limited studies because of inadequacy of long-term database and measurement scales. In this study, corporate reputation is considered as an intangible asset, shaped by the perceptions of all internal and external stakeholders of corporations which can affect corporate value. To measure corporate reputation, a scale which is composed of 58 different criteria and formed by previous scales has been used. The full sample includes 99 listed companies and 1,188 firm years for 2006-2017. Panel data regression analysis has been used to test the relationship between corporate reputation and market value. The results are consistent with the past studies that highly reputable firms have high market value.

Keywords: Corporate reputation, market value, financial performance, reputational performance, emerging market, Turkey.

JEL Classification: L25, M14, M49

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ВПЛИВ КОРПОРАТИВНОЇ РЕПУТАЦІЇ НА РИНКОВУ ЦІННІСТЬ, ЕМПІРИЧНІ ДОКАЗИ НА ПРИКЛАДІ ТУРЕЧЧИНИ

Анотація: Очікування високої рентабельності в минулому замінено перевагою стабільної конкуренції в сучасному діловому світі. Ліміти компанії та їх вплив на суспільство різко поширилось через глобалізацію і розвиток інформаційних технологій, що, в свою чергу, підвищило очікування суспільства компаній. З цієї причини інвестори

очікують, що компанії будуть чутливими до соціальних питань, наряду з тим, що вони мають високі фінансові показники. Питання про корпоративну репутацію піднімалося протягом багатьох років в різних дисциплінах. Більшість цих досліджень розглядають корпоративну репутацію як стратегічний актив, і стверджують, що це призводить до стійкої конкуренції за рахунок збільшення фінансової продуктивності. З іншого боку, в деяких інших дослідженнях фінансові результати розглядаються як частина корпоративної репутації. Як наслідок, концепція корпоративної репутації стала важливою для бізнесу.

Це дослідження має на меті вивчити чи має корпоративна репутація значний вплив на ринкову вартість компаній. У літературі є багато досліджень про корпоративну репутацію та фінансові бізнес-відносини. Багато досліджень продемонстрували, що є позитивні відносини між корпоративною репутацією та фінансовою продуктивністю. Це поставило проблемне питання про те, як можна виміряти репутацію. Особливо в розвинених країнах репутаційні показники є загальними показниками репутації. Але в Туреччині існують обмежені дослідження через неспроможність довгострокової бази даних і вимірювальної шкали. У цьому дослідженні корпоративна репутація вважається нематеріальним активом, сформованим усвідомленням всіма внутрішні та зовнішніми стейкхолдерами корпорацій, які можуть впливати на корпоративне значення. Для вимірювання корпоративної репутації використовується шкала, яка складається з 58 різних критеріїв і сформована попередньою шкалою. До повного зразка входять 99 компаній та 1188 фірм з 2006 по 2017 років. Здійснено аналіз регресії даних на панелі даних для перевірки зв'язка між корпоративною репутацією та ринковою вартістю. Результати узгоджуються з минулими дослідженнями, де фірми з високою репутацією мають високу ринкову вартість.

Ключові слова: корпоративна репутація, ринкова вартість, фінансові показники, репутаційні показники, нові ринки, Туреччина
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ВЛИЯНИЕ КОРПОРАТИВНОЙ РЕПУТАЦИИ НА РЫНОЧНУЮ СТОИМОСТЬ, ЭМПИРИЧЕСКИЕ ДОКАЗАТЕЛЬСТВА НА ПРИМЕРЕ ТУРЦИИ

Аннотация: цель исследования изучение влияния корпоративной репутации на рыночную стоимость компаний. В литературе имеется много исследований о корпоративной репутации и финансовые бизнес-отношения. Многие исследования показали, что положительные отношения между корпоративной репутацией и финансовой производительностью. Это поставило проблемный вопрос о том, как можно измерить репутацию. Особенно в развитых странах репутационные показатели являются общими показателями репутации. Но в Турции существуют ограниченные исследования из-за неспособности долгосрочной базы данных и измерительной шкалы. В этом исследовании корпоративная репутация считается нематериальным активом, сформированным сознанием всеми внутренними и внешними стейкхолдерами корпорацій, которые могут влиять на корпоративное значение. Для измерения корпоративной репутации используется шкала, которая состоит из 58 различных критериев и сформирована предыдущей шкале. До полного образца входят 99 компаний и 1188 фирм с 2006 по 2017 лет. Осуществлен анализ регрессии данных на панели данных для проверки связи между корпоративной репутацией и рыночной стоимостью. Результаты согласуются с предыдущими исследованиями, где фирмы с высокой репутацией имеют высокую рыночную стоимость.

Ключевые слова: корпоративная репутация, рыночная стоимость, финансовые показатели, репутационные показатели, новые рынки, Турция.
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Introduction. Although the issue of corporate reputation has been widely examined in the literature, there is no common definition of the concept, with different views on what corporate reputation really is. On the other hand, image and identity are two generally accepted key elements of the concept. The term “identity” was transferred into the organizational theory by Albert and Whetten (1985) who describe it as essential, distinctive, and enduring characteristics of firms [1, p. 302]. Fombrun (1996) describes identity as “the features of the company that appear to be central and enduring to employees” [2, p. 36]. On the other hand, the most common definition of “image” is “[the] summary of the impressions or perceptions held by external stakeholders” [3, p. 98]. While corporate identity expresses the self and unique characteristics of the firm, corporate image is the public impression of the corporation [1, p. 303]. In addition, while corporate identity answers the question of “who we are as a company, or rather shows what the company claims it is”, corporate image answers the question of “how others perceive a company” [4, p. 43]. The most frequently cited definition of corporate reputation is “a perceptual representation of a company’s past actions and future prospects that describe the firm’s appeal to all of its key constituents compared to other leading rivals” [2, p. 37]. Corporate reputation reflects companies’ past procedures and activities from stakeholder perspective. Stakeholders evaluate firms as bad or good based on their perceptions, so the term of reputation closely relates to business ethics and long-term sustainable performance [4, p. 43].

Recent research and problem definition. There are many studies about the relationship between corporate reputation and financial performance in literature. Because of this great attention that corporate reputation is usually considered as a strategic asset and an important component for sustainable corporate performance. Due to its non-financial character, the measurement of corporate reputation is one of the most difficult aspects of conducting research in this area. There are several methods in the literature for measuring corporate reputation. These methods split up into one- or multi-dimensional structure, reputation indices, questionnaire-based surveys and content analysis. One of the most common measurements of reputation is Fortune’s Most Admired Company Surveys. This annual survey ranks large corporations according to eight qualitative attributes. Although widely used, the validity of the Fortune survey is still criticized as being based on more financial performance criteria and heavily influenced by previous financial results, as well as to representing particular views of industry experts [5, 6, 2, 7]. Different from Fortune, many other magazine reviews search corporate reputation around the World [8, p. 56]. Besides magazine ratings, a number of other measurement approaches are used in the reputation literature [5, 9, 10], and some other authors also developed their own measurement model [8, 11, 12]. Charles Fombrun and the research company Harris Interactive (HI) developed the Reputation Quotient (RQ), which has a multidimensional structure to measure stakeholder perceptions. It is one of the most common tools used in recent studies to measure reputation [13]. Another of the most recent measurement methods is the RepTrack Model, developed by the Fombrun’s Reputation Institute.

In the literature, there are many studies about the relationship between corporate reputation and financial performance. Some studies have mostly focused on the effects of corporate reputation on financial performance [14, 15, 16, 17], while other studies consider financial performance as a part of corporate reputation, similar to well-known reputation rankings like Fortune, Reputation Quotient and Global Reptrack Pulse. In many studies [14, 15, 18, 16, 19, 20, 21, 22, 23], a positive and significant relationship was determined between corporate reputation and financial performance, while some studies had negative [24] or mixed results [25], and others didn’t find any significant results [17].

The goal of research. This study aims to examine the impact of corporate reputation on market value in Turkish listed companies.

Hypotheses development and research results. According to Fombrun and Shanley (1990) corporations give some signals to stakeholders by their corporate activities [5, p. 235]. These

signals can be good or bad. Stakeholders take past signals, evaluate these and make assumptions about corporation's future behaviors. In short, the perception of stakeholders fueling from the corporation's past actions builds a strong or weak corporate reputation. Corporations not only practicing "doing good" but are also responsible for "avoiding bad". Corporate social responsibility (CSR), in terms of avoiding bad, can be explained as preventing irresponsible behavior for stakeholders and society as a whole [26, p. 188]. Diez and Sotorrió (2018) indirectly examine the impact of CSR on corporate reputation. They analyzed 22 Spanish listed companies during the period 2002-2015, and they evidenced this positive impact as their hypothesis [27]. Leiva et. all. (2016) analyzed 154 articles from four business ethics journals between 2002 and 2011 through the Web of Science platform and they mentioned that CSR is the most repeated proxy of corporate reputation [1]. Similarly, CSR is also considered as a key dimension of corporate reputation in many earlier studies [5, 3, 13].

In this study corporate reputation is considered to be the sum of companies' social and financial performance and CSR is regarded as a core dimension of corporate reputation. On the other hand, corporate reputation is also considered to be the sum of corporate image (external perception of stakeholders) and corporate identity (internal perception of stakeholders). After analyzing the early studies' methodologies and findings, the following hypothesis has been posed.

H1: There is a significant impact by prior corporate reputation on market performance.

Financial data was collected for 2006-2017 from the Bloomberg Database while corporate reputation data was extracted from firms' annual reports or non-financial reports by using content analysis. The sample was selected from listed firms in the İstanbul Stock Exchange. Financial industry firms were excluded because this sector is governed by different regulations. The full sample includes 1,188 firm years.

In Turkey, there is no long-term database or overall local reputation index. This problem limits the sample size and findings for academic research. Because of this problem a new scale which adapted from a reputation scale of Özbay and Selvi (2014) [28] is used for determining the score of corporate reputation. Corporate reputation is measured through 58 variables, including the criteria of employee rights, management structure, CSR policies, customer relations, suppliers, product and service quality, market awards and environmental effect. After given 0 to 2 points for each criterion, the total score for each firm normalized inclusion in the model. The market performance indicators include Market Capitalization (MCapt) and Market to Book Ratio (MtoB). Two models have been set for analyzing the hypothesis. Table 1 shows the estimated results for the measures of corporate reputation and market performance indicators.

Table 1

Descriptive Statistics for Models' Variables

Model 1					
Variable	Obs.	Mean	Std. Dev.	Min	Max
MtoB(t)	1017	2.266.921	4.657.824	0.1643	1.139.184
SRept(t-1)	1089	0.9822	0.550438	0	2.275.025
ROA(t-1)	1032	5.357.303	971.265	-488.035	703.713
Lvrg(t-1)	1030	3.410.665	1.104.021	10.221	2.936.922
Size(t-1)	1042	688.687	1.655.165	-4.422.849	1.123.507
Model 2					
Variable	Obs.	Mean	Std. Dev.	Min	Max
MCapt(t)	1024	2.843.389	1.645.215	-1.710.067	3.776.899
SRept(t-1)	1089	0.9822	0.550438	0	2.275.025
ROA(t-1)	1032	5.357.303	971.265	-488.035	703.713
Lvrg(t-1)	1030	3.410.665	1.104.021	10.221	2.936.922
Size(t-1)	1042	688.687	1.655.165	-4.422.849	1.123.507

Table 2 shows Pearson correlation coefficients for all variables. The SRept (corporate reputation performance score) is not significantly correlated with MtoB or MCapt. On the other hand, SRept is significantly and positively correlated with firm size, suggesting that larger firms have better reputations.

Table 2

Pearson Correlations						
	<i>MCapt(t)</i>	<i>MtoB(t)</i>	<i>SRept(t-1)</i>	<i>Lvrg (t-1)</i>	<i>ROA(t-1)</i>	<i>Size(t-1)</i>
<i>MCapt(t)</i>	1.0000					
<i>MtoB(t)</i>	0.2901*	1.0000				
<i>SRept(t-1)</i>	-0.0296	-0.0083	1.0000			
<i>Lvrg (t-1)</i>	-0.0071	-0.0485	0.0856*	1.0000		
<i>ROA(t-1)</i>	0.0348	-0.0370	0.0129	-0.1213*	1.0000	
<i>Size(t-1)</i>	-0.0605	0.0846	0.5443*	0.0284	0.0817*	1.0000

* significant at 0.05 level

To analyze the relationship between corporate reputation and firms' market performance, ROA (return on asset), Leverage and Size have been used as control variables like some early studies. ROA was measured as earnings before interest and taxes divided by lag total assets to control for issues related to current firm accounting performance. Size was measured as the natural log of lag total sales. Leverage was measured as total liabilities divided by lag total assets. To test the hypothesis, the Driscoll and Kraay standard error fixed effect (within) regression method has been used in Stata. Table 3 shows the results of the analysis.

Table 3

Panel Regression Results				
H1:	Model 1		Model 2	
Dependent Variables:	MtoB(t)		MCapt(t)	
Independent Variables	t	P>t	t	P>t
<i>SRept (t-1)</i>	3.03	0.003**	2.07	0.041*
<i>ROA(t-1)</i>	-2.09	0.040*	0.82	0.412
<i>Lvrg (t-1)</i>	1.37	0.173	0.34	0.734
<i>Size (t-1)</i>	3.27	0.001**	1.06	0.291
Cons.	-2.58	0.011	-0.73	0.470

*and **, represent statistical significance at 5 percent, and 1 percent levels, respectively.
SRept: Corporate reputation score.
Lvrg: Total liabilities divided by lag total assets.
Size: Log of lag total sales.
MtoB: Total price of the shares divided by the total book value of shares.
MCapt: Total market value of a company's outstanding shares.
ROA: EBIT (earnings before interest and taxes) divided by lag total assets.

Table 3 presents regression result for the variables in models 1 and 2. Prior period SRept has significant and positive impact on firms' MtoB ratio at 1 percent significance level. In addition, SRept also has a significant and positive impact on firms' current MCapt value at 5 percent significance level. On the other hand, while size has a positive impact on MtoB, ROA has

significant and negative impact on this ratio. This finding confirms Hypothesis 1, which predicted that a reputable firm is more likely to affect the firm's future market value positively.

Conclusion. In the literature, corporate reputation is commonly considered as an intangible asset shaped by the perceptions of all internal and external stakeholders about the corporation which can affect corporate value. These perceptions are influenced by the socially responsible corporate behaviors of the companies over a period of time. In this study corporate reputation is considered to be the sum of social and financial performance of companies and CSR is regarded as a core dimension of corporate reputation. To test the impact of corporate reputation on market value, the Driscoll and Kraay standard error fixed effect (within) regression method has been used. Findings support most previous studies that the prior corporate reputation has a significant and positive effect on the current market value of companies.

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