THE VALUE OF CORPORATE REPUTATION FOR SHAREHOLDERS: EVIDENCE FROM GERMANY FOR DAX 30 COMPANIES

Sascha Raithel, Ludwig-Maximilians-University Munich, Germany

INTRODUCTION

Looking for sources of unique and imperfectly imitable competitive advantage both, researchers and practitioners, have turned in the last decade their focus towards the examination of intangible assets (Lehmann 2004). In the quest for achieving sustained superior financial performance management of corporate reputation as a strategic intangible asset can be crucial for the long-term success of a corporation (Hall 1992). Reputation as relational asset facilitates a closer relationship between the corporation and its stakeholders. Hypothesizing reputation is meeting the propositions for market-based assets (Srivastava et al. 1998), it can be assumed the expected stock returns are higher for stocks of firms with higher reputation than for stocks of firms with lower reputation. Surveying the literature, it can be stated that only a handful of scientifically founded studies examined the relationship between corporate reputation and stock market performance (Black et al. 2000; Jones et al. 2000; Srivastava et al. 1997; Shefrin and Statman 1995). Consistent with recent definitions corporate reputation is considered as an attitude-related construct. Extending prior research, this study examines the roles of its cognitive ("competence") dimension and, in contrast to many other measurement approaches, affective ("likeability") dimension (Schwaiger 2004) in explaining stock market performance of German DAX firms.

METHODOLOGY AND DATA

Brown and Perry (1994) observe for the Fortune reputation scale a so called "financial halo effect": past financial outperformance is highly correlated with subsequently high reputation scores. In order to control for a potential financial halo effect in this study the difference between the actual competence respectively likeability scores and their predicted scores from two regressions with five factors (management efficiency, value characteristics, size, growth, and risk) identified by Brown and Perry are used as halo-removed scores. These idiosyncratic scores are used to study the influence of "non-financial" competence/likeability on future performance. In the next step the calendar-time portfolio approach is applied to test for abnormal stock returns. This method is suited as it eliminates the problem of cross-sectional dependency by aggregating the sample firms into specific portfolios (Lyon et al. 1999). The surveyed stocks are divided into groups with high respectively low idiosyncratic competence/likeability to be able to test differences in abnormal stock returns depending on the group-level of competence/likeability. To compute the abnormal returns, the standard three factor Fama-French financial benchmark model (Fama and French 1993) controlling for the market, size, and book-to-market risk factors is augmented with a fourth risk factor (Carhart 1997) to control for the momentum anomaly (Jegadeesh and Titman 1993). The regarded securities market consists of all firms who were between 30th December 2005 and 25th November 2008 member of the Deutsche Aktienindex (DAX) as the major German stock market index consisting of the securities of the 30 leading German corporations. The financial market data is obtained from DATASTREAM. The reputation data is based on six consecutive surveys between 2005 and 2008 of representative samples of the German public (N ranges from 1,251 to 2,465).

RESULTS

Results show that only 3.5% of the variance of the competence dimension and 14.1% of the variance of the likeability dimension are explained by the financial halo effect. After decomposing the variances of the reputation dimensions the idiosyncratic competence and likeability scores are used to form the portfolios. To avoid the problem of biased confidence intervals a "heteroscedastic-consistent" OLS estimation procedure is applied (Long and Erwin 2000; MacKinnon and White 1985). The low competence and low likeability portfolios are performing worse than the DAX (used as market benchmark): the low competence portfolio's abnormal return (α_P = -.64%; $p < .10$) and the low likeability portfolio's abnormal return (α_P = -.73%, $p < .05$) are statistically significantly smaller than zero. However, the intercepts of the high competence and high likeability portfolios are not statistically significantly different from zero. Different kinds of market benchmarks (MSCI Germany, MSCI Europe, and MSCI World) and periods (bull vs. bear market) are used for robustness tests in order to substantiate the results. In summary, this study is able to provide empirical evidence for the assertion corporate reputation is a strategic intangible asset generating value for shareholders. This study also provides evidence that these expectations are basically equally driven by facts (competence, expertise) and emotions (likeability, sentiment). This makes a strong point in favor of a multi-dimensional view of corporate reputation.

References Are Available on Request.