Corporate Reputation and Financial Performance: Evidence from Turkey

Esra Nemli Caliskan
Department of Business Administration, Istanbul University
Beyazit Campus, Istanbul, Turkey
E-mail: enemli@istanbul.edu.tr
Tel: +90-212-4400000

Basak Turan Icke
Department of Business Administration, Istanbul University
Beyazit Campus, Istanbul, Turkey
E-mail: batu@istanbul.edu.tr
Tel: +90-212-4400000

Yusuf Ayturk
Department of Business Administration, Istanbul University
Beyazit Campus, Istanbul, Turkey
E-mail: yayturk@istanbul.edu.tr
Tel: +90-212-4400000

Abstract

Good corporate reputations are very important because of their potential for value creation and intangible characteristics which make replication by other firms more difficult. A positive relationship between corporate reputation and corporate financial performance has been confirmed by some empirical research. However, the literature about the relationship between corporate reputation and financial performance does not indicate any certain direction of effect from one variable to another implying that corporate reputation may affect performance, or performance may affect reputation. There exists a problem of causation between corporate reputation and corporate financial performance.

This study examines the relationship between corporate reputation and corporate financial performance in Turkey for the period between 2000 and 2010. The corporate reputation rankings from *Capital Magazine*'s Turkey's the Most Admired Companies List are used to proxy for corporate reputation. Both market-based performance measure of market-to-book value (MBV) ratio and accounting-based performance measures of return on assets (ROA) and return on equity (ROE) ratios are used as corporate financial performance measures. This study is the first to directly investigate the relationship between corporate reputation and corporate financial performance in Turkey. The results of this study indicate that there is no casual relationship between corporate reputation and corporate financial performance measures of MBV and ROA. The results also indicate that although corporate reputation does not impact performance measure of ROE, ROE improves corporate reputation.

Keywords: Corporate Reputation, Corporate Financial Performance, Turkey.

1. Introduction

The concept of corporate reputation was perceived to be of peripheral concern to senior management in the not too distant past. Typically, it was seen as the province of the public relations department and design consultants. Today, however, an increasing number of astute executives recognize them as critical corporate assets directly linked to competitive success. In recent years, building a good corporate reputation is increasingly on the firms' agendas since the relationship between reputation and a sustained competitive advantage is widely acknowledged in the literature. Research into factors affecting corporate success shows a growing interest in intangible assets. Hall (1993) for instance, lists the reputation of products and company as one of the intangible resources of any firm and he found that CEOs consistently ranked corporate reputation as the most important key intangible resource. Reputation signals publics about how a firm's products, jobs, strategies, and prospects compare to those of competing firms (Fombrun and Shanley, 1990). The role of reputation is becoming increasingly important in increasingly competitive markets (Abimbola and Vallaster, 2007). A growing body of literature has been concerned with organizational reputation as a valuable resource and its association with financial performance (Roberts and Dowling, 2002; Rose and Thomsen, 2004; Eberl and Schwaiger, 2005; Inglis, Morley and Sammut, 2006; Zhang and Rezaee, 2009).

Corporate reputation is defined as *"A perceptual representation of a company's past actions and future prospects that describes the firm's overall appeal to all of its key constituents when compared with other leading rivals"* (Fombrun, 1996, p.72). A growing body of research argues that good corporate reputations have strategic value for the firms that possess them (Roberts and Dowling, 2002). According to Walker (2010), a good reputation can lead to several strategic benefits such as lowering firm costs; enabling firms to charge premium prices; attracting applicants, investors, and customers; increasing profitability and creating competitive barriers. A positive reputation increases the likelihood that stakeholders will contract with a given firm. Economic rents are earned on reputation and provide continued incentives for firms to sustain and invest in their reputation. Much of the current work on reputation has focused on establishing that reputation is a valuable intangible asset by showing its effects on corporate financial performance (Rindova et al., 2010).

More reputable firms can charge a premium, which will in turn attract investors. A positive reputation will attract employees and promote lower employee turnover, improve customer attitudes, lower a client's perceived risk, increase the propensity to joint venture and create higher credibility. Accordingly, it may be said that reputation is then a potential source of competitive advantage (Davies et al., 2010). Not behaving reliably or honestly can have immediate and long-term consequences, for instance a decrease in positive reputation may affect the future actions of other players toward a firm. As long as the "present value of future income exceeds the short-term profit" of dishonesty, firms will be honest and invest in their reputations (Fang, 2005).

Capital Magazine as one of the most widely known monthly magazines in Turkey publishes reputation rankings of Turkish companies depending on top managers' perceptions since 2000. This survey is based on "*Fortune*'s Most Admired Companies" list. This study links corporate reputation, measured by *Capital Magazine*'s Turkey's the Most Admired Companies List, with corporate financial performance to investigate whether there is any relationship between reputation and financial performance in Turkish listed companies. The study is the first to directly investigate the relationship between corporate reputation and corporate financial performance in Turkey. After a brief literature review on corporate reputation and the relationship between reputation and financial performance, data set and research methodology used in the study are described. The results and the implications of the research results are then presented in the last section.

2. Literature Review

A growing body of research argues that good corporate reputations have strategic value for the firms that possess them (Roberts and Dowling, 2002). According to the resource-based view of the firm, the

firm is a nexus of resources and capabilities that are not freely bought and sold in the spot market. To the extent that these firm-specific resources and capabilities yield economic benefits that cannot be perfectly duplicated through competitors' actions, they may be potent sources of sustained competitive advantage (Lado and Wilson, 1994). Within the resource-based framework, firms with assets that are valuable and rare possess a competitive advantage and may expect to earn superior returns. Those whose assets are also difficult to imitate may achieve sustained superior financial performance (Barney, 1991; Grant, 1991). Parallel to this reasoning, intangible assets—such as good reputations— are critical because of their potential for value creation, but also because their intangible character makes replication by competing firms considerably more difficult.

A good reputation can lead to numerous strategic benefits. Firstly, a good reputation can lead to lowering firm costs (Deephouse, 2000; Fombrun, 1996). A firm with a good reputation may possess a cost advantage because, ceteris paribus, employees prefer to work for high-reputation firms, and should therefore work harder, or for lower remuneration. At the same time, because suppliers are less concerned about contractual hazards when transacting with high-reputation firms, good reputations should also lead to lower contracting and monitoring costs (Roberts and Dowling, 2002). A good reputation can increase profitability (Roberts and Dowling, 2002). A good reputation can enable firms to charge premium prices (Deephouse, 2000; Fombrun and Shanley, 1990). Because reputation serves as a signal of the underlying quality of a firm's products and services, consumers may pay a premium for the offerings of high-reputation firms (Roberts and Dowling, 2002). A good reputation may create competitive barriers (Fombrun, 1996). Since reputation is one of those intangibles that are extremely hard to imitate, it is a valuable source of competitive advantage (Eberl and Schwaiger, 2005). A well-known corporation can easily attract applicants (Fombrun, 1996), investors (Srivastava et al., 1997) and customers (Fombrun, 1996). It is generally argued that employees prefer to work for highly reputed firms (Eberl and Schwaiger, 2005). Greyser (1999) asserts that when several companies' products or services are similar in quality and price, customers have a preference in doing business with a company if its corporate reputation is good. Higher customer retention, thus increasing repurchases and leading to higher product prices are also mentioned by Eberl and Schwaiger (2005). Lastly, a good corporate reputation supports a company in times of controversy (Greyser, 1999).

In order to examine corporate reputation, it is important to include a discussion of two related constructs: organizational identity and organizational image. The three concepts of corporate reputation, organizational identity and organizational image are generally confused and some studies in the literature use them interchangeably. Identity and image are sometimes treated as the same as reputation, a part of reputation, or conceptually different than reputation. For the purposes of this study, it is necessary to differentiate between these concepts.

Organizational identity has been defined in different ways. Some researchers argue that organizational identity refers to what an organization is (Gray and Balmer, 1998). This definition often includes the mission, vision, culture, business strategy and organizational design of the organization. Other researchers define organizational identity as how an organization focuses on the creation, expression and management of explicit corporate values concerning what the organization is and what it stands for as compared with others, emphasizing the visual and aesthetic modes of expression (Schultz and Ervolder, 1998). Organizational image, on the other hand, has been described as the internal collective state of mind that underlies its corporate communications efforts to communicate itself to others (Bromley, 2001). Another definition states that organizational image is what organizational agents want their external stakeholders to understand most central, enduring, and distinctive about their organization (Whetten and Mackey, 2002). Specifically, a corporation's image includes the perceptions of all stakeholders such as; suppliers, customers, shareholders, employees and the community, noticing that each stakeholder needs to be addressed separately through the firm's communication strategy (Rose and Thomsen, 2004).

An organization's reputation is said to affect the competitive positioning of an organization, thus it is important for researcher and practitioners to better understand how to examine and evaluate

the reputation of the organization, and how to build, maintain, and defend those reputations (Hall, 1992). Despite the number of articles defining organizational reputation, many scholars have adopted the definition of reputation similar to that advanced by Fombrun (1996). Fombrun (1996) defines corporate reputation as follows, *"A perceptual representation of a company's past actions and future prospects that describes the firm's overall appeal to all of its key constituents when compared with other leading rivals"* (Fombrun, 1996, p.72). This definition emphasizes three key attributes: (1) reputation is based on perceptions; (2) it is the aggregate perception of all stakeholders; and (3) it is comparative. In addition to these three attributes, two additional ones are often mentioned in the literature to define corporate reputation: it can be positive or negative, and it is stable and enduring (Walker, 2010).

In their literature view, Gotsi and Wilson (2001) also define the corporate reputation as *"a corporate reputation is a stakeholder's overall evaluation of a company over time. This evaluation is based on the stakeholder's direct experiences with the company, any other form of communication and symbolism that provides information about the firm's actions and/or a comparison with the actions of other leading rivals".* A corporation's reputation may simply reflect people's perceptions. These perceptions are created by the firm's history from past actions. Walker (2010) summarizes the differences between organizational identity, organizational image, and corporate reputation as reported in Table 1.

Table 1: Differentiating Organizational Identity, Organizational Image, and Corporate Reputation

	Organizational identity	Organizational image	Corporate reputation
Stakeholders: Internal or external	Internal	External	Internal and external
Perceptions: Actual or desired	Actual	Desired	Actual
Emanating from inside or outside the firm	Inside	Inside	Inside and outside
Positive or negative perception of the firm possible	Positive or negative	Positive	Positive or negative
Relevant question	"Who / what do we believe we are?"	"What / who do we want others to think we are?"	"What are we seen to be?"

Source: Walker, K., 2010. "A Systematic Review of the Corporate Reputation Literature: Definition, Measurement, and Theory, *Corporate Reputation Review* 12, p. 367.

The corporate reputation is a perceptual representation of a company's past actions and future prospects that describe the firm's overall appeal to all its key constituents when compared to other leading rivals (Fombrun, 1996). Recent theory and evidence suggests that firms with better reputations are more likely to experience sustained superior financial performance. In other words, a review of the literature clearly suggests a positive relationship between corporate reputation and different aspects of firm performance (Roberts and Dowling, 2002). Benefits of possessing a good reputation which can be associated with increased financial performance include: providing an indicator of product quality when consumers are faced with a choice between competing products (increased sales, premium prices and customer retention) (Shapiro, 1983); the attraction of higher calibre staff and higher staff retention rates (reduced organizational costs) (Roberts and Dowling, 2002); reduction of supplier and buyer exchange uncertainty (increased sales, reduced transaction costs) (Kotha et al., 2001); and providing a reserve of goodwill (strategic intangible asset) as a competitive "barrier" in challenging operating times (maintaining sales) (Michalisin et al., 2000).

Although reputation may be strongly influenced by corporate members' ethical behavior, it seems that a major factor affecting a firm's reputation is its financial performance. When earnings and stock price have outperformed those of other corporations in the industry and the broader market, the firms is more likely to have a favorable reputation in the eyes of business people and consumers than if its financial performance has lagged the market. On the other hand, poor performance leads to financial problems and loss of key employees and customers (Vergin and Qoronfleh, 1998).

McGuire and Branch (1990) examine the relation between firm quality and firm performance by using data from *Fortune Magazine*'s survey of corporate reputation. They investigate mainly two issues: (1) the degree to which perceived firm or management quality influences the subsequent corporate financial performance, and (2) the degree to which historical measures of corporate financial performance forecast future perceptions of corporate or management quality. They find that financial measures of both risk and return influences perceptions of firm quality. They also find that perceptions of firm quality though correlated with the subsequent performance of specific financial measures, are generally more closely related to prior financial performance than to subsequent performance.

Herremans et al. (1993) investigate whether large US manufacturing companies with better reputations for social responsibility outperform companies with poorer reputation during the six year period. They measure corporate financial performance using accounting indicators which are (1) operating margin (operating profit before depreciation, as a percentage of sales), (2) net margin (after-tax profit as a percentage of sales), (3) ROA (operating profit as a percentage of the net book value of assets), and (4) ROE (after-tax profit as a percentage of the book value of stockholders' equity). Within the scope of this study, there are 21 manufacturing industries included in the *Fortune* corporate reputation survey for the period 1982 and 1987. The results are consistent with the hypothesis that companies' reputations for corporate social responsibility and their performance, as reflected by accounting measures of profitability, are expected to be positively associated.

Hammond and Slocum (1996) examine the impact of prior firm financial performance on subsequent corporate reputation. They find that financial performance measures of market return of the firm and return on sales moderately affects the subsequent corporate reputation by using *Fortune* the Most Admired Companies list for the period 1981 and 1993.

Dunbar and Schwalbach (2000) investigate the relationship between corporate reputation and financial performance of 63 German firms over the period 1988 and 1998. They find that prior financial performance has a strong effect on subsequent reputation. Many German firms have relatively stable reputations. As a result of the study, a corporate reputation is positively related to overall financial performance in Germany. Financial performance has both an immediate and a year-delayed impact on corporate reputation of German firms.

Roberts and Dowling (2002) investigate the relationship between corporate reputation and superior financial performance. Their data sample is based on a sample from 1984-1998 of *Fortune*'s report of America's Most Admired Corporations. This paper examines whether a good reputation allows a firm to achieve persistent profitability, or sustained superior financial performance. They use yearly observations on firm profitability, market-to-book value and firm size for each firm. They find that firms with superior corporate reputations have a greater chance of sustaining superior financial performance over time.

According to Sabate and Puente (2003), the relationship between corporate reputation and financial performance involves answering two questions; whether the relationship sign as positive or negative and whether corporate reputation has an influence on financial performance or vice versa. They noted that for developed countries the positive influence of corporate reputation on financial performance has always been validated, despite studies' using various methodologies and using data of heterogeneous nature, both for measures of corporate reputation, of financial performance, and of using several different lags.

Rose and Thomsen (2004) examine the relationship between a firm's reputation and financial performance on Danish firms for the period 1996 and 2001. They find that corporate reputation does not impact firm value (the market-to-book value of equity) whereas corporate financial performance improves corporate reputation.

According to Neville et al. (2005), a firm's financial performance will be directly and significantly related to corporate reputation. Moreover, they suggest that the positive relationship between corporate reputation and a firm's financial performance will strengthen, as competitive intensity increases. In terms of relationship among stakeholder power, corporate social performance

and corporate financial performance, they argue that the positive relationship between corporate reputation and a firm's financial performance will strengthen as stakeholder power increases.

Eberl and Schwaiger (2005) investigate the relationship between corporate reputation and the firm's future financial performance by means of a more differentiated concept of reputation than the one commonly used in literature by using German firms' data. They find two important conclusions. The first one is that superior financial performance in the past is only one component of a company's reputation. The second one is that reputation's "cognitive component" has a positive impact on future financial performance while there is strong evidence that the "affective component" has a negative impact.

Inglis, Morley and Sammut (2006) test the relationship between corporate reputation and financial performance by using Australian data for the period 2003 and 2004. Following Rose and Thomsen's (2004) methodology (ROA, ROE and ROIC), they find no causal relationship between corporate reputation and financial performance in either direction for Australian firms in sample period.

Sanchez and Sotorrio (2007) empirically test the relationship between corporate reputation and financial performance of the 100 most prestigious companies operating in Spain in 2004. They find that there exists a strong and nonlinear relationship between business reputation and the financial result of the company.

Zhang and Rezaee (2009) examine the relationship between corporate credibility and firm performance in China. In their research, they used both accounting-based and stock market-based measures. Net profit margin, ROE, and sales growth rates are the accounting-based financial performance measures; market-adjusted return and total returns are stock market-based corporate financial performance measures. In addition, they also considered other financial performance measures such as assets, capital, and growth of profit before tax, ROA, and cost of capital. They find that firms with high credibility have more low cost implicit claims than other firms, thus exhibiting higher financial performance.

Studies of the relationship between corporate reputation and performance are relatively scarce although in recent years several studies investigate this relationship. However, in Turkey, there is no such a study on the relationship between corporate reputation and corporate financial performance. Traditionally, Turkish firms did not consider corporate reputation to be something of major importance. They were much more focused on objective measures of financial performance. To the extent they considered reputation at all; they related it to how they personally might be assessed in markets that compared them with other corporate executives. Recently, however, Turkish managers have come to recognize corporate reputation as something that is distinct, significant and important even though it remains an intangible asset. As to the reasons behind this change, increasing global competition may be one strong force that helped firms realize the importance of competing through intangible resources. As international competitors can usually easily reproduce tangible products, it is often intangible company-specific, difficult to imitate resources that become important (Dunbar and Schwalbach, 2000). These may include intellectual property rights, unique competence and most likely corporate reputation (Hall, 1992). Such unique factors constitute a base from which firms can build unique and sustainable competitive advantage.

3. Data Description and Research Methodology

This study parallels with the recent investigation by Roberts and Dowling (2002), Rose and Thomsen (2004) and Inglis, Morley and Sammut (2006) on the impact of corporate reputation on financial performance. In their analysis Rose and Thomson (2004) used public image ratings of leading Danish companies formulated from questionnaire of Danish business managers. Inglis, Morley and Sammut (2006) used a reputation ratings index on Australian firms produced based upon ratings from a range of

community and business groups on four dimensions (corporate governance, workplace practices, social impact and environmental impact).

In this study, two types of data are used. First one is corporate reputation ratings from a Turkish business periodical, *Capital Magazine* which each year rates the corporate reputation of leading Turkish companies based on a questionnaire sent to Turkish business managers. Similar corporate reputation ratings are undertaken by business magazines across the world.

In literature, there are a number of approaches on measuring corporate reputation. The approaches researchers adopt depend on their background (e.g. marketing, strategy, organization theory or consultant), their school of thought or epistemological basis (Chun, 2005). One of the most established measures of reputation is that of ranking by media. *Fortune*'s AMAC annually surveys CEOs and analysts on their views about *Fortune 500* companies (since 1984) and *Fortune 1000* companies (since 1995). The *Financial Times*' World's the Most Respected Companies rankings also represent the perception of peer CEOs. In Turkey, a similar media ranking is "Turkey's the Most Admired Companies List" conducted by *Capital Magazine* since 2000. In academic literature, media rankings data are often used to test the relationship between corporate reputation and corporate financial performance.

Capital Magazine's Turkey's the Most Admired Companies List is the only Turkish monitor to annually evaluate (since 2000) the reputation of the companies that operate in Turkey, as do those published by *Fortune* or *The Financial Times*. *Capital Magazine*'s Turkey's the Most Admired Companies List is elaborated from a survey of different Turkish managers. The survey asks the managers to evaluate different companies according to eighteen variables. These are investments in technology and know-how, service or product quality, financial soundness, new product development, management quality, social benefits and rights given to employees, wages policy, marketing and sales strategies, quality of labor, public relations, ethical behaviors towards competitors, employee satisfaction, consumer satisfaction, transparency in management and company, value creation, social responsibility, integration to international markets, value creation in economy. Each company in the ranking is evaluated directly by different managers and a list of the first 20 companies is ranked each year as Turkey's the Most Admired Companies.

The significance and precision of the data source used in this study may of course be criticized from several perspectives similar to the study of Rose and Thomson (2004). "*For example, the general population may perceive corporate reputation differently than the business community. The case for questioning business people rests on an assumption that they are better informed about other companies than the population at large, but it is clear that the causes and effects of general public image may be different and that this invites further research. A related issue is informativeness; since we do not know how well the respondents know the companies that they rate, which means that the depth of the corporate reputation ratings is to some extent uncertain*" (Rose and Thomsen, 2004, p.204). Moreover, there is only ordinal corporate reputation rankings (i.e. ranking of companies from rank no. 1,2,3...20 from best to worst) which implies some loss of information compared to cardinal measures.

As stated by Rose and Thomsen (2004) "*Although there are several questions involved in measuring corporate reputation, the reputation ratings provide one source of information, to our knowledge the only one publicly available, which can be used in examining the causal relationship between corporate reputation and corporate financial performance*" (Rose and Thomsen, 2004, p.205).

The second data used in this study is financial information. Hall (1993) asserts that corporate reputation as one of a number of intangible assets is reflected in the excess of the market valuation of publicly listed company over its accounting value of capital and reserves. The market-to-book value of equity (calculated as market value/book value of equity, MBV) measures the market's perception of the company. MBV is a well-known financial performance measure and preferred to other financial performance measures such as accounting profitability measures (ROE and ROA), because market

value is theoretically calculated based on the expected net present value of future dividends and it is a forward-looking variable. The market-to-book value of equity measure has been consistently used in studies examining the relationship between corporate reputation and financial performance (Roberts and Dowling, 2002; Rose and Thomsen, 2004; Inglis, Morley and Sammut, 2006) and MBV is also used in this study. Market-to-book value of equity ratios are calculated at the end of each year during the sample period 2000 to 2010. A few negative market-to-book values are deleted from the sample because of negative accounting equity.

Financial benefits of positive corporate reputation include increase in sales, profit and return on investment and these performance measures can be calculated from financial statements of companies. Despite the critics of traditional accounting measures of performance in terms of consistency in calculation and adherence to accounting regulations, accounting-based financial performance measures (return on assets – ROA and return on equity – ROE) are also used in this study. ROA and ROE ratios are calculated at the end of each year during the sample period 2000 to 2010. The data to calculate MBV, ROA and ROE is obtained from Istanbul Stock Exchange web site.

There are 41 different firms listed into *Capital Magazine* Turkey's the Most Admired Companies List from 2001 to 2010. However, 26 of these companies are listed in Istanbul Stock Exchange, and we have access only the data of these companies. The dataset consists of annual joint firm observations of corporate reputation rankings and MBV, ROA and ROE ratios of 26 firms.

The literature about the relationship between corporate reputation and financial performance does not indicate any certain direction of effect from one variable to another implying that corporate reputation may affect performance, or performance may affect reputation. (McGuire and Branch, 1990) Therefore, in this study, two hypotheses are proposed for testing consistent with Roberts and Dowling (2002), Rose and Thomsen (2004) and Inglis, Morley and Sammut (2006).

H$_1$: A higher (lower) corporate reputation leads to higher (lower) financial performance.
H$_2$: A higher (lower) financial performance leads to higher (lower) corporate reputation.
Following the specification of Rose and Thomsen (2004), two equations are estimated:

$$Q_i = \alpha_1 + \beta_1 I_i + \beta_2 Q_i^l + e_{1i} \qquad \text{(Model 1)}$$

$$I_i = \alpha_2 + \beta_3 I_i^l + \beta_4 Q_i^l + e_{2i} \qquad \text{(Model 2)}$$

where Q_i is the performance measure, in turn MBV, ROA and ROE; Q_i^l is the same performance measure lagged by one year (i.e., respectively, MBV$_{t-1}$, ROA $_{t-1}$ and ROE $_{t-1}$); I_i is the corporate reputation variable for each year and I_i^l is the lagged corporate reputation. This formulation is effectively setting up tests for Granger (1969) causality in which causality is ascribed if the values of a variable affect the subsequent values of another variable. That is, in this application, if $\beta_1 = 0$ and $\beta_4 = 0$ it would be inferred causality in the single direction of reputation affecting performance, but if $\beta_1 = 0$ and $\beta_4 \neq 0$ it would be inferred causality in the single direction of performance affecting corporate reputation. If $\beta_1 \neq 0$ and $\beta_4 \neq 0$ then it can be inferred causality running in both directions.

4. Empirical Analysis and Results

Descriptive statistics for the variables used in this study are reported in Table 2. The survey measures range between 1 and 20 because of the way it is constructed. Normally complete sample of all ranked companies' reputation rankings would have a mean around 10 and a standard deviation of 5, but because only listed companies are included there are missing values. The mean in this sample is slightly less than 10 and standard deviation of slightly more than 5. The numbers of observations vary from 134 observations available for lagged corporate reputation values to 152 observations for current corporate reputation rankings. MBV values range from 0.1719 to 31.7053, ROA values range from -0.2179 to 0.2739 and ROE values range from -2.1125 to 0.4653 for the sample. Mean values of MBV, ROA and ROE respectively 2.7413, 0.0525 and 0.1064.

Table 2: Descriptive Statistics

Variable	N	Mean	Std. Dev.	Minimum	Maximum
REP_t	152	9.6776	6.1704	1.0000	20.0000
MBV_t	180	2.7413	3.3672	0.1719	31.7053
ROA_t	167	0.0525	0.0710	-0.2179	0.2739
ROE_t	164	0.1064	0.2638	-2.1125	0.4653
REP_{t-1}	134	9.4552	6.1199	1.0000	20.0000
MBV_{t-1}	160	2.8055	3.5210	0.1719	31.7053
ROA_{t-1}	167	0.0525	0.0710	-0.2179	0.2739
ROE_{t-1}	164	0.1064	0.2638	-2.1125	0.4653

Table 3 reports Pearson correlations among variables used in this study. Reputation values and performance measures are strongly correlated with their own lags. In addition, performance measures are correlated with each other. While MBV is negatively correlated with both ROA and ROE, ROA and ROE are positively correlated with each other. The results of this study for MBV, ROA and ROE can thus be expected to be similar. The correlation coefficients indicate that corporate reputation in period $t-1$ and MBV are significantly positively correlated which makes no sense since corporate reputation ranking is an ordinal measure implying that there seems to be a significantly positive relationship between prior period reputation and worse corporate reputation rankings. Except the correlation between REP_{t-1} and MBV, there is no statistically significant correlation between performance measures (ROA, ROE, ROA_{t-1} and ROE_{t-1}) and corporate reputation measures (REP and REP_{t-1}). There is a negative correlation between corporate reputation values and corporate financial performance measures of ROA_{t-1} and ROE_{t-1}, but correlation coefficients are not statistically significant. Further estimates by pooled linear regression must be conducted to robust the results of correlation analysis and to detect the direction of possible relationship between corporate reputation and corporate financial performance.

Table 3: Pearson Correlations Among Variables

	REP	MBV	ROA	ROE	REP_{t-1}	MBV_{t-1}	ROA_{t-1}	ROE_{t-1}
REP								
MBV	0.0375 ns							
ROA	-0.0552 ns	-0.1313 *						
ROE	-0.0553 ns	-0.4908***	0.6302***					
REP_{t-1}	0.7307***	0.2054**	-0.0099 ns	-0.0481 ns				
MBV_{t-1}	0.1052 ns	0.5852***	-0.1170 ns	0.1370 ns	0.0475 ns			
ROA_{t-1}	-0.0376 ns	-0.1418 *	0.5322***	0.3587***	0.0506 ns	-0.1313 *		
ROE_{t-1}	-0.0921 ns	0.1161 ns	0.3553***	0.2874***	-0.0015 ns	-0.4907***	0.6302***	

*: $p < 0.10$; **: $p < 0.05$; ***: $p < 0.01$; ns: not significant

The results and significance of four β coefficients from pooled regression estimations are reported in Table 4. In Model 1, other explanatory variables rather than the lagged dependent variables of MBV_{t-1} and ROA_{t-1} are not statistically significant. In Model 2, explanatory variables of MBV_{t-1} and ROA_{t-1} are not statistically significant, other explanatory variables of lagged ROE and corporate reputation are statistically significant at respectively 10% or 1% levels.

Table 4: Pooled Regression Results

Model 1 Q	β_1	β_2	R^2	N
MBV	0.0023 ns	0.3848***	0.3465	138

Table 4: Pooled Regression Results - continous

ROA	-0.0003 ns	0.4297***	0.4014	128
ROE	-0.0006 ns	0.1215 ns	0.3214	124
Model 2				
Q	β_3	β_4	R^2	**N**
MBV	0.8722***	0.1604 ns	0.8227	113
ROA	0.8753***	1.6972 ns	0.8099	117
ROE	0.8721***	-2.6676 *	0.8216	116

*: $p < 0.10$; **: $p < 0.05$; ***: $p < 0.01$; ns: not significant

The results of pooled regression analysis indicate that corporate reputation does not significantly affect financial performance measures of MBV and ROA, nor do financial performance measures of MBV and ROA significantly affect corporate reputation for Turkish firms. Because both β_1 and β_4 are not statistically different from zero for corporate financial measures of MBV and ROA, both H_1 and H_2 are thus rejected for corporate financial performance measures of MBV and ROA.

For corporate financial performance measure of ROE, β_4 coefficient is statistically significant at only 10% level implying that $\beta_1 = 0$ and $\beta_4 \neq 0$. In this situation we can infer that corporate financial performance measure of ROE affects corporate reputation. While H_1 "A higher (lower) corporate reputation leads to higher (lower) financial performance." is rejected, H_2 "A higher financial performance leads to higher corporate reputation." cannot be rejected at 10% significance level for ROE corporate financial performance measure. Because we used the ordinal corporate reputation rankings, negative statistically significant of β_4 coefficient indicates that a higher financial performance measure of ROE leads to higher corporate reputation.

The results of this study seem somewhat different from conventional findings in the literature that corporate reputation improves financial performance, because it is found that corporate reputation does not affect financial performance, but on the other hand, H_2, i.e. corporate financial performance affects reputation, cannot be rejected for ROE financial performance measure. The implication of the results is that changes in accounting performance measures can cause changes in corporate reputation, while corporate reputation has no systematic effect on a company's accounting or financial market-based performance measures.

5. Conclusion

This study examines the relationship between corporate reputation and corporate financial performance in Turkey for the period between 2000 and 2010. The rankings from *Capital Magazine*'s the Most Admired Companies List are used to proxy for corporate reputation. Both market-based performance measure of market-to-book value ratio and accounting-based performance measures of return on assets and return on equity ratios are used as financial performance measures. This study is the first to directly investigate the relationship between corporate reputation and firm performance in Turkey.

The results of this study somehow seem to challenge conventional findings in the literature, since H_1 "A higher (lower) corporate reputation leads to higher (lower) financial performance." is not confirmed for all three corporate financial performance measures of MBV, ROA and ROE used in this study. While H_2 "A higher financial performance leads to higher corporate reputation." cannot be rejected only for corporate financial performance measure of ROE ratio at only %10 significance level for Turkish companies over the sample period 2000 and 2010. While the results of this study are not consistent with the findings of Roberts and Dowling (2002), they are consistent with the findings of Rose and Thomsen (2004) and Inglis, Morley and Sammut (2006) to a certain degree.

Similar to Inglis, Morley and Sammut (2006), this study raises questions about the reliability of associating measures of corporate reputation with organizational financial performance. As an intangible resource providing a positional capability differential (Hall, 1993), needs to be taken into consideration in such a way as to generate above-average profits and higher market values.

Although Capital Magazine's Most Admired Companies List is published in Turkey since 2000, corporate reputation was not considered very important by Turkish managers for years. Recently, however, Turkish managers have come to recognize the importance of corporate reputation as an intangible asset leading to sustainable competitive advantage. However, the results of this study show that in Turkish listed companies' case, generating above-average profits and higher market values using corporate reputations has not been achieved so far. Having the reputation is not enough; it needs to be managed well and it must be perceived by constituents as being as a significant differentiator from competitors.

References

[1] Abimbola, T. and C., Vallaster, 2007. "Brand, Organisational Identity and Reputation in SMEs: An Overview", *Qualitative Market Research: An International Journal* 10, pp. 341–348.

[2] Barney, J.B., 1991. "Firm Resources and Sustained Competitive Advantage", *Journal of Management* 17, pp. 99–120.

[3] Bromley, D.B., 2001. "Relationships Between Personal and Corporate Reputation", *European Journal of Marketing* 35, pp. 316–334.

[4] Chun, R., 2005. "Corporate Reputation: Meaning and Measurement", *International Journal of Management Review* 7, pp. 91–109.

[5] Davies, G., R., Chun, and M.A., Kamins, 2010. "Reputation Gaps and the Performance of Service Organizations", *Strategic Management Journal* 31, pp. 530–546.

[6] Deephouse, D., 2000. "Media Reputation as a Strategic Resource: An Integration of Mass Communication and Resource-Based Theories", *Journal of Management* 26, pp. 1091–1112.

[7] Dunbar, R.L.M. and J., Schwalbach, 2000. "Corporate Reputation and Performance in Germany", *Corporate Reputation Review* 3, pp. 115–123.

[8] Eberl, M. and M., Schwaiger, 2005. "Corporate Reputation: Disentangling The Effects on Financial Performance", *European Journal of Marketing* 39, pp. 838–854.

[9] Fang, L.H., 2005. "Investment Bank Reputation and the Price and Quality of Underwriting Services", *The Journal of Finance* LX, pp. 2729–2761.

[10] Fombrun, C.J. and M., Shanley, 1990. "What's in a Name? Reputation Building and Corporate Strategy", *Academy of Management Journal* 33, pp. 233–258.

[11] Fombrun, C.J., 1996. "Reputation: Realizing Value from Corporate Image", *Harvard Business School Press: Boston*, MA.

[12] Gotsi, M. and A.M., Wilson, 2001. "Corporate Reputation: Seeking A Definition", *Corporate Communications: An International Journal* 6, pp. 24–30.

[13] Granger, C.W.J., 1969. "Investigating Causal Relations by Econometric Models and Cross-Spectral Methods", *Econometrica* 37, pp. 24–36.

[14] Grant R.M., 1991. "The Resource-Based Theory of Competitive Advantage: Implications for Strategy Formulation". *California Management Review* 33, pp. 114–135.

[15] Gray, E.R., and J.M.T., Balmer, 1998. "Managing Corporate Image and Corporate Reputation", *Long Range Planning* 31, pp. 695–702.

[16] Greyser, S.A., 1999. "Advancing and Enhancing Corporate Reputation", *Corporate Communications: An International Journal* 4, pp. 177–181.

[17] Hall, R., 1992. "The Strategic Analysis of Intangible Resources", *Strategic Management Journal* 13, pp. 135–144.

[18] Hall, R., 1993. "A Framework Linking Intangible Resources and Capabilities to Sustainable Competitive Advantage", *Strategic Management Journal* 14, pp. 607–618.

[19] Hammond, S.A. and J.W., Slocum, 1996. "The Impact of Prior Firm Financial Performance on Subsequent Corporate Reputation", *Journal of Business Ethics* 15, pp. 159–165.

[20] Herremans, I.M., P., Akathaporn, and M., McInnes, 1993. "An Investigation of Corporate Social Responsibility Reputation and Economic Performance" *Accounting, Organizations and Society* 18, pp. 587–604.

[21] Inglis, R., C., Morley, and P., Sammut, 2006. "Corporate Reputation and Organisational Performance: An Australian Study" *Managerial Auditing Journal* 21, pp. 934–947.

[22] Kotha, S., S., Rajgopal, and V., Rindova, 2001. "Reputation Building and Performance: An Empirical Analysis of the Top-50 Pure Internet Firms", *European Management Journal* 19, pp. 571–586.

[23] Lado, A.A. and M.C., Wilson, 1994. "Human Resource Systems and Sustained Competitive Advantage: A Competency-Based Perspective", *Academy of Management Review* 19, pp. 699–727.

[24] McGuire, J.B. and B., Branch, 1990. "Perceptions of Firms Quality: A Cause or Result of Firm Performance", *Journal of Management* 16, pp. 167–180.

[25] Michalisin, M., D.M., Kline, and R.D., Smith, 2000. "Intangible Strategic Assets and Firm Performance: A Multi-Industry Study of the Resource-Based View", *Journal of Business Strategies* 17, pp. 91–117.

[26] Neville, B.A., S.J. Bell, and B., Menguc, 2005. "Corporate Reputation, Stakeholder and the Social Performance Relationship", *European Journal of Marketing* 39, pp. 1184–1198.

[27] Rindova, V.P., I.O., Williamson, and A., Petkova, 2010. "Reputation as an Intangible Asset: Reflections on Theory and Methods in Two Empirical Studies of Business School Reputations", *Journal of Management* 36, pp. 610–619.

[28] Roberts, P.W. and G.R., Dowling, 2002. "Corporate Reputation and Sustained Superior Financial Performance", *Strategic Management Journal* 23, pp. 1077–1093.

[29] Rose, C. and S., Thomsen, 2004. "The Impact of Corporate Reputation on Performance: Some Danish Evidence", *European Management Journal 22,* pp. 201–210.

[30] Sabate, J.M.F. and E.Q., Puente, 2003. "In Practice Empirical Analysis of the Relationship Between Corporate Reputation and Financial Performance: A Survey of the Literature", *Corporate Reputation Review* 6, pp. 161–177.

[31] Sanchez, J.L.F., and L.L., Sotorrio, 2007. "The Creation of Value through Corporate Reputation" *Journal of Business Ethics* 76, pp. 335–346.

[32] Schultz, M. and L., Ervolder, 1998. "Culture, Identity and Image Consultancy: Crossing Boundaries between Management, Advertising, Public Relations and Design", *Corporate Reputation Review* 2, pp. 29–50.

[33] Shapiro, C., 1983. "Premiums for High Quality Products as Returns to Reputations", *The Quarterly Journal of Economics* 98, pp. 659–680.

[34] Srivastava, R.K., T.H., McInish, R.A., Wood, A.J., Capraro, 1997., "The Value of Corporate Reputations: Evidence from the Equity Markets", in: *Corporate Reputation Review,* 1, pp. 62–67.

[35] Vergin, R.C. and M.W., Qoronfleh, 1998. "Corporate Reputation and the Stock Market" *Business Horizons* 41, pp. 19–26.

[36] Walker, K., 2010. "A Systematic Review of the Corporate Reputation Literature: Definition, Measurement, and Theory, *Corporate Reputation Review*, 12, pp. 357–387.

[37] Whetten, D.A. and A., Mackey, 2002. "A Social Actor Conception of Organizational Identity and Its Implications for the Study of Organizational Reputation", *Business & Society*, 41, pp. 393–414.

[38] Zhang, R. and Z., Rezaee, 2009. "Do Credible Firms Perform Better in Emerging Markets? Evidence from China", *Journal of Business Ethics* 90, pp. 221–237.