

**CORPORATE REPUTATION AND FINANCIAL PERFORMANCE OF FIRMS IN  
TURKEY**

**Serpil TOMAK\***

**ABSTRACT**

Identifying the relationship between corporate reputation and business performance is important for an economy. As corporate reputation becomes critical, then firms have to give more emphasis on sound risk management practices and corporate credibility. Most research suggest that good or strong corporate reputation have a positive impact on firm financial performance in developed markets. However, empirical surveys in an emerging economy context by using different financial measures produce controversial results. This study analyzes the financial performance of reputable Turkish firms comparatively by nonreputable firms registered in Turkish Stock Exchange Market (BIST 30) over the period 2008 to 2012. The results indicate that there isn't enough evidence for firms with high reputation exhibit greater performance than nonreputable firms. The question of whether good corporate reputation increases firm performance in emerging markets like Turkey is not clear enough.

**Keywords:** Corporate Reputation, Reputational Risk, Corporate Valuation Model

**JEL Classifications:** G32; G34

**INTRODUCTION**

Financial scandals, business practices causing loss of investor confidence have increased the importance of a positive corporate reputation. There is a strong impetus to examine corporate reputation both in developed and emerging markets. Building a good reputation is seen as the route to sustainable prosperity and wealth in today's business. Researches on reputation literature can be discussed under two topics. Most surveys based on the influence of corporate reputation on business performance, but few of them is considered the influence of corporate reputation on firm risk. Within this context, primarily conceptual dimension of reputational risk and corporate reputation should be identified.

The most prominent formal definition of reputation risk comes from FED (1995) and Basel Committee on Banking Supervision (1997). Federal Reserve System's (1995) regulatory definitions of Reputational risk "is the potential that negative publicity regarding an institution's business practices, whether true or not, will cause a decline in the customer base, costly litigation, or revenue reductions." As can be seen from the definition, reputation risk emanates from the difference between the actual and perceptual performance of the firm. It may be better or worse than the actual position.

According to the first formal definition of Basel Committee on Banking Supervision (1997), "Reputational risk arises from operational failures, failure to comply with relevant laws and regulations, or other sources. Reputational risk is particularly damaging for banks since the nature of their business requires maintaining the confidence of depositors, creditors and the general marketplace."

Basel Committee (2009) redefined reputational risk as "the risk arising from negative perception on the part of customers, counterparties, shareholders, investors, debt-holders, market analysts, other relevant parties or regulators that can adversely affect a bank's ability to maintain existing, or establish new, business relationships and continued access to sources of funding (eg through the interbank or securitisation markets).

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\* Vocational School of Social Sciences, Department of Management and Organization,MMersin University, Turkey, tomakserpil@gmail.com

The major sources of reputational risk are as follows (Eccles et al,2007):

- *Reputation-reality gap*: Reputation risk arises from the difference between reputation and reality. When the reputation of a company is more positive than its underlying reality, this gap reveals a substantial risk.
- *Changing beliefs and expectations*: The changing beliefs and expectations of stakeholders create reputational risk.
- *Weak internal coordination*: Poor coordination of the decisions made by different business units and functions create reputational risk. If one group creates expectations that another group fails to meet, the company's reputation can be adversely affected.

Taking and managing risks are fundamental to activities of both financial and non financial firms. In this sense, companies not practicing risk management activities are exposed to crisis management (Cherchiello,2011).When a firm loses its reputation, it is a harmful effect on the firm's relations with customers, suppliers, creditors, investors, employees, and others. Eccles et al (2007) states that a positive reputation among stakeholders (investors, customers, suppliers, employees, regulators, politicians, nongovernmental organizations, the communities in which the firm operates) across multiple categories (product quality, corporate governance, employee relations, customer service, intellectual capital, financial performance, handling of environmental and social issues) will result in a positive reputation for the company overall.

There is not a consensus on the definition of reputation in literature as a multidisciplinary concept and vary with different stakeholder groups (Burke, 2011). Fombrun and Van Riel (1997) outline and define corporate reputation from the perspective of six distinct academic subject areas as economics, strategy, marketing, organizational behavior, sociology, and accountancy.

From the accounting perspective reputation viewed as "an intangible asset and one that can or should be given financial worth" (Fombrun and Van Riel,1997).

Most notable definition of Fombrun and Shanley's (1990) reputation is "a perceptual representation of a company's past actions and future prospects that describes the firm's overall appeal to all its key constituents when compared to other leading rivals".

Waddock (2000, p. 323) stated that reputation is the "organization's perceived capacity to meet its stakeholders' expectations".

Barnett et al. (2006) posited that corporate reputation is the "observers' collective judgments of a corporation based on assessments of the financial, social, and environmental impacts attributed to the corporation over time".

According to Eccles et al (2007), firms with high reputation make numerous benefits as more loyal customers, better employees, more sustained earnings, higher future growth and lower costs of capital. Today, most firms know the importance of their companies' reputations.

Most researches on corporate reputation demonstrate that good corporate reputation effects companies performance (on sales and costs) in several ways (Dowling, 2006; Zhang and Rezaee, 2009):

- Reputation increases sales revenue,
- Corporate reputation also help enhance sales growth,
- Favorable corporate reputation also helps lower sales variance,
- Decreasing contracting costs by allowing a firm to negotiate better terms of trade than a less well-respected competitor,
- Spending less on marketing and on launching new products and services by enabling the establishment of relationships with distributional channel members or brand name recognition among target consumers,

- Getting access to more capital resources at a lower cost as firms with good reputation are always considered to be less risky entities for investment and enjoy high credit rating. This can further decrease firms' cost of capital as banks and other lenders are more willing to lend money and to charge lower rate for firms with higher credit ratings.

The main argument is the economic effects of corporate reputation means whether firms do or do not receive measurable economic benefits (Wang and Smith,2008:1). If there is a benefit of firms with good corporate reputation, then firms should operate in a way that enhances their reputation in a positive way. Extensive studies on the companies of developed economies have shown that corporate reputation have a positive impact on the business performance. Very few studies on emerging countries indicate that the relation between strong reputation and good financial performance is not clear enough.

The second important debate about the corporate reputation is the direction of causality between profits or financial performance and corporate reputation which means that a good reputation leads to better profits, or do better profits lead to a good corporate reputation? Sabate and Puente (2003) postulate that the main reason for this drawback is the inadequacy of a theoretical explanation of cause and effect. There are three views on the direction of causality between corporate reputation and corporate financial performance have been tested empirically (Surroca et al, 2010):

- *the view that stakeholder management (reputation) positively influences (financial performance):* The main argument is that good management implies positive relationships with key stakeholders, which in turn enhance financial performance. The basic assumption behind this theory, grounded in a resource based theory logic, is that corporate reputation may be an intangible asset that leads to more effective use of resources which has a positive impact on financial performance.
- *the view that (financial performance) positively influences (reputation):*The second approach proposes that financial performance influences corporate reputation. The main argument in this literature, called the slack resources hypothesis, is that better financial performance results in a surplus of resources that provides firms with the financial wherewithal to consider social issues and to do something about them.
- *the view defining a recursive relationship between both constructs:* Accordig to third reconciled view by Waddock and Graves (1997), who suggested that there is a synergistic relation with financial performance and corporate reputation. Corporate reputation is both a predictor and a consequence of financial performance, thereby forming a virtuous circle. Financially successful companies can afford to spend more money on social issues, but corporate reputation also helps availability of internal funds is expected to stimulate the development of intangibles, which may be drivers of further improvements in corporate reputation.

There isn't enough empirical study on the relationship between corporate reputation and business performance in Turkey. The question of whether good corporate reputation increases business performance in emerging markets like Turkey is not clear enough. The aim of this study is to contribute reputation literature on emerging economies in terms of Turkey.

## **1. MEASURING CORPORATE REPUTATION**

Intangible components of reputation (public opinion, perception, reliability, merit) make it complicate to define and consequently to measure and to monitor the correlated risk of reputation (Cherchiello,2011). A variety of measurement tools have been produced to

measure corporate reputations. Corporate reputation measurement systems discussed under two topics (Trotta and Cavallaro, 2012):

- 1- *Qualitative methods*, based on the assessment of corporate reputation. This methods used as preventive measurement tools to support the minimization of the causes of reputational risk.
- 2- *Quantitative methods*, used generally to measure the causes (risk) and effects of reputation losses.

We can list the most common qualitative approaches employed in actual corporate contexts as (Cherchiello,2011):

- 1- Reputation Quotient,
- 2- Reputation Index,
- 3- Rep Track.
- 4- Fortune's Most Admired Companies,

The Reputation Quotient of Harris-Fombrun take into account how corporate stakeholders (consumers, investors, competitors, employees) perceive the reputation of the company. Six categories of drivers (corporate appeal, products&services, financial performance, vision&leadership, workplace environment and social responsibility) and twenty attributes. Criticism of this model is the static measurement of the reputation and the absence of adjustable weights for the opinions of different stakeholder groups (Cherchiello, 2011).

Reputation Index model of Cravens et al (2003) is mainly based on internal assessment of non-quantitative factors and does not rely on market values or asset values. Instead, the components of corporate reputation are evaluated on the basis of internal and external information. There are three internal index (products&services, employees, upper management) and sixteen external (suppliers, partners, competitors, investors, environment, society, innovation, investors, environment, society, innovation, value creation, financial strength, strategy, culture, intangible liabilities) components of reputation. The main criticism of this approach is to comprise high levels of subjectivity and hard to management of components (Cherchiello, 2011).

Rep Track Index created by the Reputation Institute is performed through the online interviewing and survey-based data collection. The strenght of this model is to consist of cognitive components of performance and capture large dimension of the sample. Moreover, the model allow to make cross-national measurement of reputation. The Rep Track measure include items on emotional appeal, financial performance, products&services, social performance, vision&leadership and workplace environment (Ponzi et al, 2011).

The most reputable measurement tool is based on the annual rankings of most admired and respected companies through media survey. Fortune magazine survey based on the following nine attributes of reputation: innovation, financial soundness, people management, use of corporate assets, community and environment, quality of management, long-term investment, quality of products and services and global competitiveness. Some consultants or media sources are generally used as a proxy of corporate reputation in over 38 countries (Ponzi et al, 2011). Examples include Fortune in USA, Management Today in UK, Manager Magazin in Germany, Berlingske Nyhedsmagasinet in Denmark, Economic Observer Magazin in China, Clarin Magazine in Argentina, Carta CapitalMagazine (TNS Inter Science) in Brazil, Business World in India, Merco Index in Spain, Capital Magazin in Turkey.

Media analysis is especially important because the media can shape the perceptions and expectations of all stakeholders. However, the validity of current ranking system has been criticized in some respects. First, the measure reflects the thoughts and perceptions of

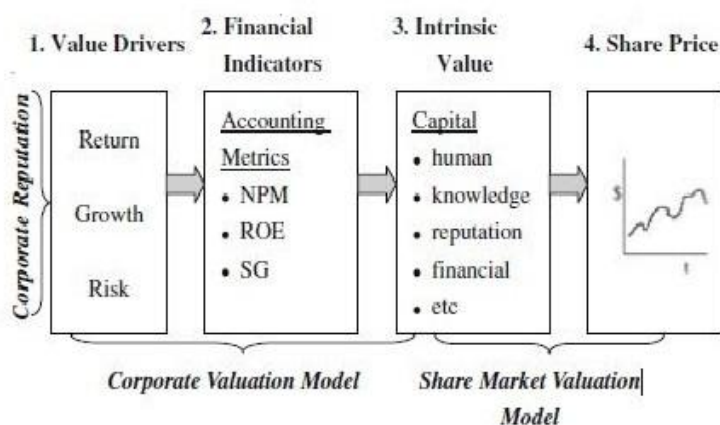
high level executives about companies in business world and their rivals in their own sectors. The sample includes executives, managers and financial analysts of each sector who are familiar with the companies that are being evaluated. It therefore has a strong financial halo and familiarity bias (Brown and Perry, 1994; Fryxell and Wang, 1994). Second, it has been criticized for failure in methodological accuracy and comprise of sample bias. (Brown and Perry, 1994; Fryxell and Wang, 1994). The model do not incorporate multistakeholder vision. Third, by virtue of the scales and content alter in the number and as of sampling frames, it is impossible to make cross-national measurement of reputation (Fombrun, 2007).

As stated previously, quantitative methods emerge as to overcome the weaknesses of the qualitative approaches. Three common quantitative approaches are employed (Cherchiello, 2011):

- 1- *Intellectual Capital approach* is based on the forecast of five dimensions as trademark, service marks, copyrights, authorizations and exclusive rights. Since the relative values are traceable along the balance sheets, it is feasible to calculate the amortization quotas. However, different balance sheets and accounting practices limit the comparison among several companies. Besides, sudden events can damages the reputation which are not covered in this model.
- 2- *Marketing approach* is based on the measurement the brand of a company. The more objective method considers the royalties a company can gather by conferring its brand. The main criticism of this approach is that the brand covers only one dimension and thereof can not explain all the aspects related to the reputation concept.
- 3- *Accounting approach* is based on the evaluation and analysis of intangible assets, thus it is necessary to introduce criteria for fair value assessment.

This study give an emphasis on the accounting approach. There are two kinds of valuation approaches measuring the effect of corporate reputation on financial performance. One method is the use of accounting-based measures and past returns. Second, is the use (forecast) of future stock performance (Copeland et al,2000). The most well known method followed in understanding the role of corporate reputation in creating financial value is the four-stage valuation model based on Copeland, Koller and Murrin (2000) (See Figure 1).

**Figure. 1 Four-Stage Model of Valuation**



**Source:** Dowling, 2006:136; Zhang and Rezae, 2009:224

*Stage 1: Corporate value drivers*

Value driver is any variable that affects the value of the company (Copeland et al, 2000). Three essential parts of corporate value drivers are investing to achieve a return in excess of the cost of capital (Return), growing the business (Growth), and managing risk (Risk) (Dowling, 2006). The Discounted Cash Flow (DCF) approach argue that these three value drivers of financial value are best measured by cash flow for a given time period with given cost of capital (Copeland et al, 2000). A good corporate reputation can improve company value drivers by (1) increasing sales from current markets, (2) fueling future growth by helping the company expand into new markets, (3) lowering the risk of doing business with the company and (4) creating options by helping the company to test the viability of new business ventures (Dowling, 2006; Zhang and Rezaee, 2009).

*Stage 2: Financial indicators*

Copeland et al (2000) suggest that “company value is determined by its discounted future cash flows and value is created by only when companies invest capital at returns that exceed the cost of that capital”. Companies create value when they earn a return on their investment in capital greater than their opportunity cost of capital. However, return on investment or growth alone does not determine value. Both growth and return on invested capital should drive value. Following Copeland et al (2000), three accounting metrics are defined as financial indicator; Net profit margin (NPM), return on equity (ROE), and sales growth (SG).

*Stage 3: Intrinsic value*

The intrinsic value of a company is consist of various types of capital that it acquires, develops and uses. The DCF approach focuses mainly on financial capital. However, in the “new economy” companies give an emphasis on other types of capital as human capital (employees), organizational capital (databases, trademarks, intellectual property), customer capital (brands, customer base) and stakeholder capital (corporate reputations). All these capital components are viewed as the primary source of competitive advantage for companies in resource-base theory (Dowling,2006).

*Stage 4: From corporote value to share price*

In the finance literature, stocks have two types of valuations. In one approach, share prices are the best guide to a companys’ intrinsic value known as the efficient market hypothesis (EMH). Efficient marketers state that the market price at any one time represents the best estimate of the true value of the firm. In the EMH view, the capital markets will factor any investment that increases reputation capital into the price of the company’s shares. Second approach of corporate valuers are divided into two sub-groups as technical analysts and fundamental analysts.

In the view of fundamental analysis, stock valuation is based on predictions of the future cash flows and profitability of the business. This group benefit from tools like financial ratio analysis (such as Price to Earnings Ratio) and DCF (discounted cash flow) analysis to forecast corporate value.

In the view of technical analysis, stock valuation is based on the forecasting the direction of prices through the study of past market data, primarily price and volume. Technical analysis is driven by the expectations and emotions of investors. A good reputation can play a role by enhancing positive emotions. A good corporate reputation is a part of the company’s intrinsic value that is then factored into company’s share price. Both

two methods of share price valuation can accommodate the effects of a good corporate reputation (Damodaran, 1994; Dowling, 2006; Zhang and Rezaee, 2009).

## **2. LITERATURE REVIEW**

Studies on corporate reputation has two notable aspects. First, most surveys based on the influence of corporate reputation on business performance, but few of them is considered the influence of corporate reputation on firm risk. Second, while most surveys has been exercised on developing countries, but few of them is for emerging economies.

The impact of corporate reputation on firm risk has received little attention in literature (Srivastava, McInish, Wood and Capraro, 1997; Gregory, 1998; Jones, Jones and Little, 2000; Delgado-García et al, 2013). The main argument behind this approach is that economic performance depends not only on high financial returns, but also on low risk. Therefore, the consideration of the implications of corporate reputation may be incomplete without examining its effects on firm risk. Few studies on the effect of reputation on firm risk of US market demonstrate that good reputation reduces firm risk (Srivastava, McInish, Wood and Capraro, 1997; Gregory, 1998; Jones, Jones and Little, 2000). Recent studies on Spanish firms maintained by Delgado-García et al (2013) indicate that the effect of corporate reputation on a firm's unsystematic risk compensates its adverse effect of increasing systematic risk, so that corporate reputation reduces firm's total risk.

As stated above, research has traditionally focused on the effects of corporate reputation on business financial performance. Antunovich and Laster (1999) evaluate the stock abnormal returns and their persistency over five years based on the list of "America's Most Admired Companies" published annually by Fortune magazine for the period of 1982-1995. A portfolio of the most admired decile of firms earns an abnormal return while the least admired decile of firms earns a negative abnormal return. Their results indicate that there is a positive relationship between corporate reputation and investment attractiveness.

Chung et al (1999) investigate the relationship between a firm's equity performance and reputation ratings published in the Economist (U.K.) and Fortune (U.S.) magazine for the period of 1990-1999. They find that high-reputation firms outperform those of low-reputation firms both in the year prior and following the 'reputation' reporting month. As for other studies, the results indicate that the size of a firm's market capitalization positively affect the firm's reputation. Unlike previous studies, this study shows that it is primarily a firm's equity performance in the pre-survey and survey period that affects the published ranking of the firm's reputation and the published ranking has little impact on the firm's future risk-adjusted equity return.

Dunbar and Schwalbach (2000) examine the reputations of 63 German firms over the period 1988 to 1998. Analysis results indicate that there is a positive relation with firm reputation and financial performance. In addition, findings show that there is little financial halo in the German reputation data. Financial halo is "a tendency among assessors to appraise individuals consistently with an overall impression rather than on each aspect of performance." (Caruana and Chircop, 2000). Finally, large firm size in itself has a significant and favourable impact on firm reputation. As ownership is concentrated, this also influences reputation positively.

Rose and Thomsen (2004) investigate the relationship between a firm's reputation and financial performance based on the Berlingske Nyhedsmagasin in Denmark for the 5-year period from 1996 to 2001 of 62 firms. They conclude that corporate reputation does not impact firm value (the market to book value of equity) whereas corporate financial

performance improves corporate reputation. In consequence, the relation between reputation and performance is not as straightforward as argued in the literature. They stress that it may influence stock market performance via profitability and growth rather than having a direct impact on the stock markets.

Anderson and Smith (2006) test stock performance of firms based on the list of Fortune's Most Admired list. They found that a portfolio of these stocks outperformed the market by a substantial and statistically significant margin. This means that higher reputation firms have a high stock performance.

Brammer et al (2006) examine the relationship between a firm's reputation and the returns on its shares with the Management Today in UK for the 10-year period from 1994 to 2003. They find that highly rated firms yield abnormal returns. However, even low scores firm exhibit abnormal returns in both short and long run.

Wang and Smith (2008) used as a proxy for reputation measure is the "America's Most Admired Companies" published annually by Fortune magazine. These firms are compared to a sample of control firms (matched on size and industry). Their findings demonstrate that high reputation firms experience superior financial performance, higher market value and lower cost of capital. These findings support the theory of Enterprise Risk Management (ERM) and reputation management activities.

Zhang and Rezaee (2009) examine the relationship between corporate credibility and firm performance in China based on a four-stage valuation model. Their results confirm that firms with high credibility indicate better financial and market performance at least in the following 3 years.

Delgado-García et al (2011) investigate the influence of corporate reputation on firm's systematic risk, unsystematic risk and total risk. These relationships are analysed by using a panel data method for a sample of Spanish quoted firms in the period 2001–2007. The second analyses the impact of corporate reputation for the sub-sample of MERCO index of most reputable firms. Their findings show that being reputable reduces a firm's unsystematic risk and total risk, but increases systematic risk. In addition, firm size weakens these influences of corporate reputation on firm risk. However, among the most reputable firms, differences in reputation score have a lower effect on risk. Specifically, the corporate reputation level only influences firm unsystematic risk. They conclude that what matters is not the degree of corporate reputation, but whether being or not being reputable is the question in terms of risk.

Gök and Özkaya (2011) find that a portfolio of highly admired firms (10-14 firms) in Turkey earns about 10 percent less than that market's overall portfolio annually for the period between 2003 to 2008. They conclude that a company's reputation might not guarantee stock market performance. Researchers should approach with a caution to reputation–performance relationships and generalizability of the positive findings mostly found in developed, big size and complex economies.

Arshad et al (2012) examine the relationship between corporate credibility and firm performance in Malaysia for 17 Islamic banks by practicing Rep Track Index measure. The results reveal that there is a significant and positive relationship between corporate reputation and firm performance.

Although the relationship between corporate reputation and business performance has been documented extensively for developed countries, surveys on developing countries is not satisfying enough. Studies on developed nations demonstrate that a strong corporate reputation, has both operational and financial value (McGuire et al,1990; Antunovich and Laster, 1999; Dunbar and Schwalbach,2000; Roberts and Dowling,2002; Brammer et



al,2006; Anderson and Smith,2006; Walter,2006; Wang and Smith,2008; Dube,2009; Kamiya and Schmit,2010; Gillet and et al,2010). It helps a company attain stronger earnings and sustain profitable growth. However, empirical surveys in an emerging economy context by using different financial measures produce controversial results. Despite the needs of extensive research for emerging countries, there have been only a few articles so far in reputation literature.

#### *Corporate Reputation in Emerging Markets*

It is argued that good corporate reputation leads to better recruitment/retention of employees, favorable coverage by stock market analysts and the media, a better relationship with State regulating agencies, leverage with source/partner/distributor networks, and a more saleable brand for consumers. However, building a positive corporate reputation involve some risks and costs. There have been limited studies carried out in emerging economies on corporate reputation. Very few findings indicate that corporate reputation does not always produce positive outcomes especially for emerging markets. Mitra et al (2013) state that various customs and practices in emerging economies restrain from firms to implement good reputation practices as:

- lack of engagement with sociohistorical specificities,
- corruption and instability,
- strict authoritarianism, and
- outlandish cultural customs.

There is a belief that management styles are profoundly influenced by the social cultures in which organisations operate. Emerging countries as having weak property and shareholders' rights, inadequate financial disclosure, inefficient judicial systems, weak market incentives, weak banking systems, and a high degree of corruption undermine the competitiveness of firms in the economic system and prevent firms from carry out international best business practices (Mitra et al,2013). Corruption and instability level in emerging economies are much higher than most developed economies.

Bureaucratic-authoritarianism varies both overtime and across countries. Higher levels of authoritarianism lead to a greatly enlarged role of technocrats in society both in the private and public sector. The technocrats have low level of tolerance for the ongoing political and economic crises and perceive high levels of popular sector politicization as an obstacle to economic growth (Collier,1979).

In the culture centered approach (CCA) of Mitra et al (2013) states that three main power of variables as culture, structure, and agency limit the subaltern possibilities of a country. Thus, an executive should understand local customs that effect the way of doing business and structural attributes to overcome potential conflicts.

### **3. DATA AND METHODOLOGY**

The reputation data comes from Capital Magazin's survey that is similar to the one compiled annually in the US by Fortune. The survey provides a measure of experts' perceptions of corporate quality. The results show that firm reputations change over time. It's survey is based on the following key attributes; 1) information and technology investments, 2) quality of service or product, 3) financial reliability, 4) new product development, innovation, 5) quality of management 6) social benefits and rights of employees, 7) payment policy and wage ranges, 8) improvement of employee qualifications, 9) marketing and sales strategies, 10) communications and public relations, 11) employee qualifications, 12) ethics in competitive behavior, 13) employee satisfaction, 14) customer satisfaction, 15) management and company transparency, 16) creating value

for the investor, 17) social responsibility, 18) integration into international markets, 19) investment contribution to the regional and the overall economy.

We use data from Capital Magazin's survey of Turkey's largest manufacturing and service firms. This survey is the Turkish equivalent to Fortune's Survey of the most admired US companies. Capital's "Survey of the Most Admired Companies in Turkey" assesses the thoughts and perceptions of high level executives about companies in the Turkish business world and their rivals in their own sectors. Capital announces the 20 most-admired companies each year. Firms which are not listed in Turkish Stock Exchange market (BIST- Borsa İstanbul) are excluded in this study.

Sample for most-admired companies consists of companies, varying between 13 to 15 companies each year (Table 1). Firms which are listed in BIST 30 Index but no reputation scores are included as controlled groups.

It is analyzed whether there is a direct link between financial performance and Reputation scores. In other words, reputation effect is measured by comparing coefficient differences of reputable and non reputable firms' financial performance. The models proposed included net profit margin, ROE, or sales growth as dependent variables.

**Table. 1 Number of Firms Analyzed**

Year	Number of Reputable Firms	Number of Control Firms
2008	13	18
2009	14	18
2010	15	18
2011	14	18
2012	13	19
Total	69	91

Net profit margin, ROE, and sales growth are used as financial measures.

H1,H2,H3: Firms with reputation score relatively better financial performance (Net Profit Margin, Return on Equity and Sales growth) than firms with no reputation score in Turkey.

Hypothesis H1, H2 and H3 are examined based on the following regression models.

$$(H1): NPM = \beta_0 + \beta_1 \text{Size}_i + \beta_2 D/A_i + \varepsilon_i$$

$$(H2): ROE = \beta_0 + \beta_1 \text{Size}_i + \beta_2 D/A_i + \varepsilon_i$$

$$(H3): SG = \beta_0 + \beta_1 \text{Size}_i + \beta_2 D/A_i + \varepsilon_i$$

Variable definitions are as follows:

NPM (Net Profit Margin), is calculated as net profits divided by sales.

ROE (Return on Equity), is calculated as net income divided by shareholder's equity.

SG (Sales growth), Sales growth =  $(\text{Sales}_t - \text{Sales}_{t-1}) / \text{Sales}_{t-1}$  as the measure of growth.

Size, The log form of total assets is recorded as a measure of size.

D/A (Debt-to-assets ratio), is calculated as total debts divided by total assets.

#### 4. EMPIRICAL RESULTS

Empirical findings are presented on Table 2, 3, 4, 5, 6, and 7. Table 2, shows the descriptive statistics for all dependent and independent variables used in this study. Descriptive statistics for the most admired (reputable) firms and nonreputable firms in our sample are shown in Table 3 and 4, respectively. As shown in Table 3 and 4, nonreputable firms have a higher mean value of Size, Debt-to-asset ratio, Net profit margin, Sales growth and Return on equity with respect to reputable firms. This means that nonreputable firms have higher debt-to-total asset ratio, higher size, and higher profitability ratio than reputable firms.

**Table. 2 Descriptive Statistics for All Variables**

Variable	N	Minimum	Maximum	Mean	Std. Deviation	Skewness	Kurtosis
Size	160	13.628	23.656	18.732	2.774	0.031	1.693
	160	-4.895	0.905	0.537	0.547	-7.464	69.389
NPM	160	-0.3374	0.616	0.134	0.152	0.644	3.799
SG	160	-15.03	0.8228	0.066	1.223	-11.839	146.630
ROE	160	-1.333	0.637	0.154	0.203	-2.362	20.656

**Table. 3 Descriptive Statistics for Reputable Firms**

Variable	N	Minimum	Maximum	Mean	Std. Deviation	Skewness	Kurtosis
Size	69	13.628	23.656	18.221	2.489	0.303	2.203
D/A	69	-4.895	0.889	0.527	0.791	-5.736	36.946
NPM	69	-0.119	0.446	0.128	0.124	0.694	2.801
SG	69	-15.03	0.791	-0.092	1.837	-7.962	65.277
ROE	69	-1.333	0.611	0.125	0.219	-4.471	30.568

**Table. 4 Descriptive Statistics for Nonreputable Firms**

Variable	N	Minimum	Maximum	Mean	Std. Deviation	Skewness	Kurtosis
Size	91	13.640	23.329	19.120	2.927	-0.204	1.559
D/A	91	0.108	0.905	0.552	0.227	-0.170	1.973
NPM	91	-0.337	0.616	0.140	0.171	0.562	3.608
SG	91	-0.7206	0.823	0.186	0.250	-0.106	4.473
ROE	91	-0.324	-0.637	0.176	0.187	0.227	3.453

Table 5, 6, and 7 shows the regression results comparatively. We use three dependent variables as a proxy for financial performance: NPM (Net Profit Margin), ROE (Return on Equity), and SG (Sales growth), respectively. There is statistically significant negative relationship with D/A and NPM in nonreputable firms. Besides, There is also statistically significant negative relationship with D/A and ROE. As the debt-to-asset ratio increases net profit margin and return on equity decreases in nonreputable firms.

There is no significant relationship in reputable firms with regard to the all three dependent variables. There isn't enough evidence for firms with high reputation exhibit greater performance than nonreputable firms. Moreover, we might broadly say that nonreputable firms financial performance is better than the reputable firms. However, it is impossible to make strong inferences that nonreputable firms business performance is better than the well-reputed firms.

Antunovich and Laster (1999) explain the reasons for the lower performance of the most admired companies by behavioral biases. According to this view, irrational behavior of people or investors lead to biased investment decisions. For example, familiarity bias is the tendency of people to invest such an instruments which is familiar to themselves instead of making an assessment of the relative likelihood of events and their complements. The other reasons can be explained by the dynamics of emerging markets as we mentioned before. Mitra et al (2013) emphasize that various customs and practices in emerging economies prevent from firms to apply good reputation practices.

**Table. 5 NPM Difference**

Reputable Firms				Nonreputable Firms			
Dependent Variable: Net Profit Margin				Dependent Variable: Net Profit Margin			
Variables	Beta	T	Significancy	Variables	Beta	T	Significancy
Size	0.002	0.31	0.756	Size	0.002	0.24	0.814
D/A	0.027	1.39	0.169	D/A	-0.247	-3.06	0.003
Constant	0.077	0.68	0.500	Constant	0.245	1.65	0.103
R <sup>2</sup> = 0.0369 Adjusted R <sup>2</sup> = 0.0077 F= 1.26 Prob(F-statistic)= 0.2895 N= 69				R <sup>2</sup> = 0.1227 Adjusted R <sup>2</sup> = 0.1028 F= 6.15 Prob(F-statistic)= 0.0032 N= 91			

**Table. 6 ROE Difference**

Reputable Firms				Nonreputable Firms			
Dependent Variable: Return on Equity				Dependent Variable: Return on Equity			
Variables	Beta	T	Significancy	Variables	Beta	T	Significancy
Size	0.008	0.72	0.471	Size	-0.014	-1.87	0.065
D/A	- 0.055	- 1.56	0.125	D/A	-0.230	-2.53	0.013
Constant	0.006	0.03	0.975	Constant	0.561	3.35	0.001
R <sup>2</sup> = 0.0364 Adjusted R <sup>2</sup> = 0.0072 F= 1.25 Prob(F-statistic)=0.2945 N= 69				R <sup>2</sup> = 0.0752 Adjusted R <sup>2</sup> = 0.0541 F= 3.58 Prob(F-statistic)=0.0321 N= 91			

**Table. 7 SG Difference**

Reputable Firms				Nonreputable Firms			
Dependent Variable: Sales growth				Dependent Variable: Sales growth			
Variables	Beta	T	Significancy	Variables	Beta	T	Significancy
Size	0.038	0.40	0.689	Size	0.010	1.07	0.289
D/A	- 0.188	- 0.63	0.532	D/A	-0.159	-1.30	0.196
Constant	- 0.689	- 0.40	0.688	Constant	0.073	0.32	0.748
R <sup>2</sup> = 0.0067 Adjusted R <sup>2</sup> = -0.0234 F= 0.22 Prob(F-statistic)= 0.8013 N= 69				R <sup>2</sup> = 0.053 Adjusted R <sup>2</sup> = 0.0315 F= 2.46 Prob(F-statistic)= 0.909 N= 91			

## CONCLUSION

Corporate reputation is often regarded by academics and practitioners as indicative of a firm's current and future financial performance. Prior research suggests that corporate reputation is associated with firm financial performance in developed countries. Numerous studies on the companies of developed economies have shown that the most "admired" companies have much higher business performance than do the less "admired" companies. Corporate reputation is also becoming more critical in emerging markets. Very few studies on emerging countries demonstrate that the relation between strong reputation and good financial performance is controversial.

This study analyzes the financial performance of reputable and nonreputable Turkish firms comparatively registered in BIST 30 over the period 2008 to 2012. Similar to Gök and Özkaya's (2011) paper, our findings suggest that good reputation does not necessarily mean higher business performance. The results indicate that researchers or investors should approach precautionary to reputation and business performance relation.

It is obvious that strong corporate reputation increase firm performance in developed countries. However, the question of whether good corporate reputation increases firm performance in emerging markets like Turkey is not clear. More empirical studies are needed for emerging markets. These type of analysis results shape the behavior of firms that operate in these countries. As corporate reputation becomes critical, then firms give more emphasis on sound risk management practices and the ethical standards with relation to stakeholders.

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