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Exploring the value relevance of corporate reputation: A fuzzy-set qualitative comparative analysis☆

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ABSTRACT

Educators, administrators, and policy makers' interest in the concept of corporate reputation is growing. However, no researcher examines causal recipes for the value relevance of corporate reputation. This study therefore uses fuzzy-set qualitative comparative analysis (fsQCA) to explore the value relevance of corporate reputation for Taiwan listed companies over the period 2010–2013. The results show that corporate reputation adds to market value, even after controlling for earnings performance. These findings inform the affective component of corporate reputation is, at least, as important as the cognitive component. Furthermore, the findings extend previous research by showing that more than one casual combination of corporate reputation measurements is value-relevant. This study provides useful insights into the nature of corporate reputation.

1. Introduction

Organizations increasingly recognize the importance of corporate reputation to achieve business goals and remain competitive. Sobol and Farrelly (1988) indicate that a firm's reputation relates to the ability to sustain the competitive advantage. Companies as large and prominent as Arthur Andersen and Enron know how quickly a weak reputation can harm employee and customer loyalty, thus threatening a company's financial soundness and stability. Consequently, organizations need to build and maintain strong reputations.

Gotsi and Wilson (2001) state that corporate reputation is a perception of high esteem or respect for a firm's activities, strategies, and so forth. Shapiro (1983) argues that when the quality of a company's products and services is not directly observable, high-quality producers may invest in reputation-building to signal their quality. High-quality producers' investments in reputation-building allow them to charge premium prices and profit from the repeat purchases that their quality products generate.

Several studies examine the relationship between corporate reputation and financial performance. Fombrun and Shanley (1990) and Landon and Smith (1998) indicate that better corporate reputation leads to better financial performance. Roberts and Dowling (2002) argue that reputation is a source of persistent competitive advantage that can create company's market value.

Although corporate reputation is essential to maintain the firm's competitive position and ensure the firm's future viability, corporate reputation is an intangible asset that is not present in financial statements. The future benefits of corporate reputation are extremely difficult to quantify, thereby posing serious valuation problems (Black, Carnes, & Richardson, 2000). Consequently, financial statements are becoming less informative of firms' financial position because they provide reliable but not relevant estimates of the value of companies.

A reputation is an evaluation stakeholders make about an organization. Rindova, Williamson, Petkova, and Sever (2005) argue that corporation reputation encompasses different types of stakeholders' perceptions that may have different effects on economic outcomes. Coombs and Holladay (2006) also note that positive interactions between organizations and stakeholders build favorable reputations whereas unpleasant interactions lead to unfavorable reputations. However, no researchers examine causal recipes for the value relevance of corporate reputation. Therefore, this study adopts fuzzy-set qualitative comparative analysis (fsQCA) to examine the value relevance of corporate reputation in the "Most Admired Company" listed on the Taiwan Stock Exchange (TSE) over the period 2000–2013. The fsQCA is useful for phenomena that

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have complex explanations that depend on a combination of causes (Ragin, 2014). The findings offer useful guidance in developing effective business strategies for reputation building.

The remainder of the study proceeds as follows. Section 2 offers a review of the literature on the relationship between corporate reputation and firm value. Section 3 presents the data and research methods, and the section of empirical results follows. Finally, the last section offers a discussion of the results and conclusions.

2. Literature review

Fombrun and Van Riel (1997) define corporate reputation as a collective assessment of a firm's ability to deliver valued outcomes to multiple stakeholders. Corporate reputation is also a reflection of a firm's relative position both internally with employees and externally with stakeholders in competitive environments. Ali, Lynch, Melewar, and Jin (2015) use the meta-analytical approach and suggest that practitioners should be cautious when managing the reputation of their organizations through the use of research evidence with different stakeholder groups.

Ballen (1992) and Winfrey and Logan (1998) show that management quality is the main driver of reputation. Carmeli and Tishler (2005) analyze the complex set of relationships among organizational reputation, quality of products/services, customers' satisfaction, and multiple performance measures. Their findings show that customers' satisfaction is a mediator in the relationship between quality of products/services and reputation. Friedman (2009) suggests that human resources can indirectly help to improve corporate reputation. Therefore, corporate reputation represents the collective, stakeholder group-specific assessment of the firm's capability to create value (Mishina, Block, & Mannor, 2012).

Although the nature of corporate reputation is not readily identifiable, many researchers show that favorable reputations are financially beneficial for corporations in that reputations reduce the mobility of industry rivals (Caves & Porter, 1977; Wilson, 1985), allow firms to charge premium prices (Milgrom & Roberts, 1986), and enhance firm access to capital markets (Beatty & Ritter, 1986). Antunovich and Laster (1999) provide evidence regarding the value-relevance of corporate reputation by showing that a portfolio of the top decile of Fortune's most-admired firms earns an abnormal return of 3.2% in the year after the survey and 8.3% over 3 years. Black et al. (2000) show that corporate reputation highly associates with market value, even after controlling for financial performance. Furthermore, Eberl and Schwaiger (2005) and Luchs, Stuebs, and Sun (2009) show that good reputation can create persistent and superior financial performance for firms.

Prior studies on the value relevance of corporate reputation largely examine the relationship between a summary measure of corporate reputation and financial performance (Sabate & Puente, 2003). However, no studies explore the value relevance of casual combinations of corporate reputation measurements. Therefore, this research extends the existing literature by adopting the Ohlson model (1995) and a fuzzy-set qualitative comparative analysis to examine the causal complexity of value relevance for the parameters of corporate reputation.

3. Research methods

This study adopts the Ohlson (1995) valuation framework to explore the value relevance of corporate reputation. Ohlson employs book value and abnormal earnings as accounting information and incorporates non-accounting information to evaluate equity value. Therefore, this study incorporates the non-accounting variable-reputation into the Ohlson valuation model to test incremental value-relevance effect.

This study collects reputation data from the CommonWealth Magazine's "Most Admired Company" listed on the Taiwan Stock Exchange (TSE). This reputation data set contains ten dimensions: (1) long-term investment value; (2) financial soundness; (3) operating performance; (4) community responsibility; (5) ability to foresee insight the firm's future development; (6) IT capabilities; (7) globalization; (8) employee treatment; (9) innovativeness; (10) quality of product or services. Fombrun (1996) notes that reputations reconcile the multiple images of firms among their stakeholders and signal firms' overall attractiveness to employees, consumers, investors, and local communities. Therefore, this study categorizes these ten dimensions into three measurements: instruments–shareholder performance (*SP*), quality of management (*QM*), and human resource (*HR*) to represent stakeholder interests. In addition, this study conducts a confirmatory factor analysis to verify the validity and reliability of the instruments. Accordingly, this study reconstructs the Ohlson valuation model as follows:

$$MV_{it} = \alpha_0 + \alpha_1 BV_{it} + \alpha_2 EPS_{it} + \alpha_3 SP_{it} + \alpha_4 QM_{it} + \alpha_5 HR_{it} + \varepsilon_{it} \qquad (1)$$

where MV_{it} is the common stock price at the end of year for firm i in year t.

BV_{it} is the book value of equity divided by the weighted average number of common shares outstanding for firm i in year t. EPS_{it} is the net income divided by the weighted average number of common shares outstanding for firm i in year t. SP_{it} is the sum of the products resulting from multiplying the dimension value of long-term investment value, financial soundness, and operating performance for firm i in year t. QM_{it} is the sum of the products resulting from multiplying the dimension value of community responsibility, ability to foresee the firm's future development, IT capabilities, and globalization for firm i in year t. HR_{it} is the sum of the products resulting from multiplying the dimension value of employee treatment, innovativeness, and quality of product or services for firm i in year t.

The classical statistical tests of relationships build on linear additive models that aim to measure the unique contribution of each independent variable to explaining the variation in a dependent variable. Such models focus on providing an analysis of net effects and are inadequate for measuring alternative complex causal recipes resulting in the same outcome condition (Woodside, 2010). The fuzzy-set qualitative comparative analysis is useful for phenomena that have complex causality that depend on a combination of causes, which researchers should study in conjunction with rather than in isolation of each other (Ragin, 2008). Because corporate reputation represents a collective and multidimensional construct, this study adopts the fsQCA to examine the value relevance of corporate reputation measurements.

4. Data and empirical results

This study identifies the sample from the CommonWealth Magazine's "Most Admired Company" listed on the Taiwan Stock Exchange (TSE) and GreTai Securities Market (GSM) over the period 2000–2013. The CommonWealth Magazine conducts the annual Most Admired Company Reputation Survey since 1994. The reputation survey covers CommonWealth 1000 firms and collaborates with peers and experts. This study obtains the reputation and financial data from CommonWealth Magazine's annual reputation survey report and the Taiwan Economic Journal (TEJ) database. After excluding financial firms and companies without financial data, the final sample consists of 652 observations. Table 1 presents the sample selection procedures.

Table 1
Sample selection.

Total number of most admired corporations from 2000 to 2013	751
Less:	
Non-listed firms	(40)
Financial firms	(53)
Missing data on financial variables	(6)
Final sample	652