Global Finance Journal xxx (2016) xxx–xxx

Contents lists available at ScienceDirect

Global Finance Journal

journal homepage: www.elsevier.com/locate/gfj

More on intangibles: Do stockholders benefit from brand values?☆

Adham Chehab *, Jeanny Liu, Yibo Xiao

College of Business and Public Management, University of La Verne, 1950 3rd Street, La Verne, CA 91750, United States

ARTICLE INFO

Article history:
Received 11 June 2015
Received in revised form 25 August 2015
Accepted 16 December 2015
Available online xxxx

JEL classification:
G14
M31

Keywords:
Intangibles
Market efficiency
Brand value

ABSTRACT

This paper analyzes the relationship between brand value and short and long-run stock performance. An equally-weighted portfolio of the American non-financial companies recognized by Interbrand as part of the 100 most valuable global brands earned an eleven-day cumulative abnormal returns (CARs) of 0.54% (17.79% annually) and a three-day CARS of 0.31% (37.97% annually) from 2001 through 2012. The four-factor monthly alpha averaged 1.1428% (13.7136% annually) over the risk-free rate and 1.3317% (15.9804% annually) over the S&P 500 index. Regression results show that the companies' brand values and capitalization were significant contributors to CARS. In addition, the average buy-and-hold return for a portfolio with annual rebalancing to include the recognized companies the preceding year was 15.29%. The annually rebalanced portfolio outperformed the industry average by 3.45% and the S&P 500 by 8.99%. All the above mentioned returns were significant at the 1% level. However, the data shows that consumer reaction to brand ranking is positive but not significant.

1. Introduction

Intangibles are important contributors to the company's value and stockholders' wealth. One such intangible is brand value. The marketing literature has concentrated on brand value and how brand affects consumer's response, attitude, and behavior (Aaker, 1991; Alba, Hutchinson, & Lynch, 1991; Keller, 1993; Krishnan, 1996). Brand value is the valuation of a product's ability to sell at a premium without an increased benefits or quality when compared with others. For example, BMW and Ford who were recognized by the Interbrand Company as two of the 100 most valuable global brands for several years would be able to charge

☆ The authors are grateful for comments from an anonymous referee that helped improve the paper; however, the authors remain solely responsible for all errors and omissions.

* Corresponding author.
E-mail addresses: achehab@laverne.edu (A. Chehab), jliu@laverne.edu (J. Liu), cxiao@laverne.edu (Y. Xiao)

http://dx.doi.org/10.1016/j.gfj.2015.12.001
1044-0283

a higher price for their vehicles versus another manufacturer with the identical quality product. This price premium represents a benefit to the company's stockholders. Since brand value is an intangible, does the stock market value it? Edmans (2011) studied the effect of employee satisfaction on the firm's stock performance by analyzing the market reaction to firms that were recognized one of the 100 best companies to work for. Edmans found that the financial markets undervalue intangibles and that there is an opportunity for arbitrage.

There are firms that estimate and publish brand values for what they label as successful products. The Interbrand Company estimates and publishes an annual report of the 100 most valuable global brands. This brand evaluation has generated interests from both marketing and finance academics. In this study, we examined the impact of Interbrand's recognition of American companies as part of the 100 most valuable global brands on their short and long-run stock returns for 2001 through 2012. We found that companies experienced statistically significant cumulative abnormal returns (CARS) in response to their brand valuation published by the Interbrand Company. These (CARS) were positively correlated to the Interbrand change in estimated value. Regression analysis also showed that brand value was a significant contributor to the magnitude of the CARS. Our results confirm that there is a benefit to stockholders by measuring the buy-and-hold returns for a portfolio which was rebalanced every January to include the companies that were recognized by Interbrand. We found that the annually-rebalanced portfolios significantly outperformed the matched industry portfolio and the S&P 500 index.

The rest of this paper is organized as follows. Section 2 provides the literature review and discusses brand value, how it is measured, and its potential benefit to the shareholders. Section 3 provides a description and a summary of the sample and the data sources utilized for this study. Section 4 presents the findings of the paper by describing the financial market reaction to brand recognition and the determinants of the stock market reaction. Finally, the summary and conclusion are presented in section 5.

2. Discussion and literature review

Brand value is an intangible asset a firm enjoys. It is derived from discounting the future premiums the consumers are willing to pay for product with a recognizable brand. The marketing literature argues that increased brand value leads to increased brand capital or equity. In the marketing literature, researchers spent much time building relationships between brand value, firm performance and financial returns. The literature emphasizes two perspectives for the importance of brand equity. One perspective studies the consumers' point of view of brand equity, whereas the other concentrates on the financial market reaction to brand value. It is generally claimed that a brand is a corporate asset with economic value that creates wealth for a firm's shareholders. The research focuses on the financial performance of brands, such as firm accounting performance, shareholder's value and abnormal return within the certain event window. Thus, firms with strong brand value imply to benefit from a competitive advantage that yields higher profit margin (Aaker, 1991).

Aaker and Jacobson (1994a) examined the associations between measures of brand quality and security returns. They used the EquiTrend measure of brand quality, which is based on national survey study of a sample of consumers from 1991 to 1993 to evaluate the quality of 100 major brands. Their study explored whether returns in the twelve months before each annual survey reflect the unexpected change from one survey to the next in the brand's quality measure. Their results confirmed that the relation between brand quality and returns is significantly positive. Lane and Jacobson (1995) used event study methodology to examine whether the stock market return associated with a brand extension announcement depended on brand equity components, namely brand attitude and brand name familiarity. They found that stock market return responded positively to brand extension components. Barth, Clement, Foster, and Kasznik (1998) used a sample from 1991 to 1996 to estimate the relation between the brand value estimates and share prices and the relation between year-to-year changes in brand value estimates and annual share returns. They found evidence that the brand value estimates are significantly correlated to both share value and annual returns. Their findings indicated that brand value estimates reflect relevant information to investors and, therefore, are reflected in stock prices and returns. Additionally, studies found positive market reaction to brand value (Hsu, Wang, & Chen, 2013; Madden, Fehle, & Fournier, 2006).

Kerin and Sethuraman (1998) built a theoretical argument to support an empirically validated positive relationship between a firm's accumulated brand value and market-to-book ratio. Their study described a rationale for, and identified, the statistical strength and functional form of a brand value and shareholder value relationship for publicly consumer goods companies. Ailawadi, Lehmann, and Neslin (2003) proposed using