An Investigation of the Relationship Between Corporate Brand Value and Future Stock Returns in the Listed Companies in Tehran Stock Exchange (TSE)

Afsaneh Ebrahimpour

Department of Humanities Sciences, Isfahan (Khorasgan) Branch, Islamic Azad University, Isfahan, Iran
Af.ebrahimpour@gmail.com

Saeid Aliahmadi

Department of Humanities Sciences, Isfahan (Khorasgan) Branch, Islamic Azad University, Isfahan, Iran
saeidaliahmadi@yahoo.com

Doi:10.5901/mjss.2015.v6n3p20

Abstract

Competition has gained a major increase, and global market has came into spot light. In so happening, the national industries have to add to their competitive advantages. Brand value is one of the strategic tools which will bring commitment, repeated use, adding to the economic value for the shareholders and increases the domain of economical activities in the different geographical locations. From the investment domain, the most important factor for an investor is the stocks returns. Stock returns means all the cases earned because of stock keeping along with the capital gain. This study was aimed at investigating the relationship between companies brand value and stocks' future returns in the accepted companies of Tehran's stock exchange during the years of 2005 to 2012. The population under study was consisted of all the accepted companies of Tehran's stock exchange. 80 companies were selected for the purpose of this study. The sampling method was based on systematic deletion.The data of the study was of a compound type. In order to test the hypothesis of the study, the multiple regressions were used. The results of the study showed that there is a negative and significant relationship between brands' value and stocks' future returns.The results showed that among the variables such as company size, book value ratio, and market Value ; the only statistic which was positive and meaningful was the statistics of book value to market Value . This shows the positive effect of this variable on the stocks' future returns.

Keywords: *Brand value, Future stock returns, Firm size, Book value to market value ratio.*

1. Introduction

In recent decades, the role and importance of intangible assets have increased as the level of competition among the companies has also increased. Brand value as an intangible asset is one of the most important factors in making a distinction in a company, and creating competitive advantage. The performance of a brand value has a direct relationship with the performance of an organization. In this way, the constant evaluation of that can be regarded as a powerful management tool which helps the managers toward reaching their general and strategic objectives in an organization. One of the greatest mistakes that a company may commit is name limitation, commercial notation, and running the company as a part of the marketing management duties. In this way, in most companies (especially the accepted companies of stock exchange which are working at two fields of marketing and finance for the purpose of financially supporting and receiving people's capital and one of the important duties of them is to facilitate the procedure of capital allocation) the discussions about the companies' name, and commercial notation is being regarded as one of the most important intangiblae assets. From the view point of investment, the most important case is stock returns. returns means the result of all the earned cases which were the result of keeping shares along with the capital gain. Investors have always been searching for the type of information which can help them toward predicting the future returns of their share. In other words, the most important factor which is into the investors spot light and the users of financial information is stock returns. That is why predicting the future returns of the shares is of great important at the time of decision making. In recent years, the great amount of the finance related researches and accounting investigations have been done around the issue of share returns and the effective factors on it. In this study, the aim was to investigate the relationship between commercial name, and the future returns of the shares in the accepted companies of Tehran's stock exchange. The main question of the study is: is the value of commercial name (brand is the true English equivalent for this word. In some texts commercial name is used) effective on the future returns of the shares?

2. Theoretical Framework and Literature Review

Brand or the so called commercial name has changed into one of the hot topics in the field of marketing. In the decisions related to buying the issue of brands value setting is of great importance. Sometimes the estimated value of the brand of a company comprises the significant value of the physical properties of a company. Brand is effective in the thinking style and the view point of the user. A suitable brand is the reason of growth is a company. In this way, evaluating a brand is a highly value task (Interband, 2011). Brands are important intangible assets which can be effective in the performance of a company (Morgan & Rego, 2009). Park, MacInnis and Priester studies in 2006 show that brands can be useful in decreasing the uncertainty level in the people's lives as a manageable issue. It also enables people to effectively control the gaining of expected results. Hence, they believe that brands can carry an effective sense which helps the people to do their daily activities in a better way (Loken and colleagues, 2002). Brand name is the most valuable intangible asset of a company. The main priority of the managers in the companies has been to expand the brand name. This has been their priority for over 1 decade. The concept of the value of the brand name has been included in some features such as having information about the brand name, fidelity to the brand name, perceived quality, and the symbol of the brand name. The especial value of a brand name is regarded as a key concept in creating competitive advantages in a company. That is why the value of a brand name is important in the process of future earnings (Hsu et al., 2013). In evaluating a brand there are two dimensions to be talked about. One is the internal dimension and the other is external. In naming the external dimensions one can refer to tax, balance sheet, authorization, mutual funds, bankruptcy, funding, integration, possession and its relationship with investors (Interbrand, 2011). In naming the internal dimensions these can be named: brand monitoring, budget allocation for the marketing activities, domestic licensing, portfolio management of a brand, and much more. Brand value can be analyzed from 2 perspectives; Marketing, and financial. The especial value of a brand means the value added which is received by a brand. Aaker has defined the brand value as: the collection of assets and liabilities which are related to brand, and is added to the value of the good or product of a company or is deleted from the value of that product in a company. These are also mentioned by Azizi and colleagues, 2011. Most marketing managers know about the brand, marketing concepts, customers' needs, advertising and the related issues; they also have a great experience in performing them, but what is making problem for them is their inability in making use of the marketing concepts for the purpose of promoting the brand value. All of such problems are because they don't truly know about the brand value as one of the most important intangible assets of a company. What these people know is the tangible properties of a company. This issue can also be observed in the type of companies which are trying to receive financial support and advantage by means of offering their shares at financial markets. These days the existing companies of stock exchange try to sell their shares by means of underwriting contract. It is clear why most people go toward the type of companies which are more well-known and are more reliable (Qanvati, 2009). Hsu and colleagues (2003) had a research investigation which was titled as "the effect of brand names on the financial performance". They sought 100 well-known brands in all around the world during the years of 2001 to 2010. The researchers used s&500p index to measure their data. The results showed that there was a positive and significant relationship between brand value and the financial performance of the companies. Belo and colleagues (2013) had an investigation named as "brand or commercial names as the wealth and value of a company". They investigated the type of companies which receive fees for their advertisements. They showed that the companies which have had more investments regarding their brand have moderately received more returns in their shares. In contrast, the companies which have had fewer investments on their brands have moderately received lesser amount of returns during a year. The results showed there is a strong relationship between advertisement fees and shares' returns in a business company.

Chemmanur and Yan (2011) in a research which was named as "advertisement, knowing about the investor, and share returns" tested Merton's (1987) theory of knowing the investor in a new field. The new field was the effect of advertisement on shares' returns. In this study the effect of size, book and market Value and others were of controlled variables. The results showed that customers' knowledge (gained by advertisement) will lead to promotion in shares' returns in the advertisement year. In contrast, it will bring decrease in shares' returns in future years (the years after the advertisement year). Qasemi and colleagues (2014) in a study named "the common effect of brand value and advertisement in cash flow statement of the accepted companies of car making and its accessories" investigated brand values and advertisement fees of 5 companies which were in the name list of Tehran's stock exchange during the years of 2001 to 2010. The information related to cash statements were elicited from financial bills. Linear regression was used for the purpose of analyzing the data. The results of the study showed that there is a relationship between the dependent variable (cash flow) and the common effect of the brand value and advertisement. Brand value had a positive effect on cash flow statements. There was also a negative effect on advertisement, the common effect of advertisement and brand value and on cash flow statements. Ukiwe (2009) in a study named as " the common effect of advertisement costs and brand values on the financial performance of the companies" investigated the effect of brand on shares' returns and ROA of 17 international computer companies in the annual list of inter brand. They sought the years of 2000 to 2007. The data was including: the advertisement costs and brand value of these 17 companies and their ROA and shares' returns which was elicited from the Morning Star Financial Reports. The results of this study showed that there is a positive relationship between ROA, brand value, and the advertisement costs. Madikizela (2007) in a study named "on the investigation of the especial value of a brand on the ROA of southern Africa companies" studied a sample of 21 brand names in different industries such as banks, long and short term insurances, food industries and many more. They sought the years of 2003 to 2006. In 2006, among the brands the Markinver brand was named as the top brand. Linear regression and correlation was used. The results showed that the relationship between brand value, ROA, and shares' prices was acceptable in some industries.

3. Population and Sample

The population under study was consisted of all the accepted companies of Tehran's Stock Exchange. The sampling was done based on systematic deletion. The selected samples were supposed to have one of these features.

- The information which was related to advertisement costs was supposed to be along with the financial lists.
- The information which was related to financial lists and their further information notes was supposed to be continually at hand during the time of the study.
- The shares of these companies must have been activated in the stock exchange during the years of 2005 to 2012. In the case of suspension, the suspension time must not be more than 3 months.
- Their fiscal year must end to 29th of Esfand (20th of March) in each year.
- The data must not be from banks, investments, leasing, and financial intermediation industries. This is because the nature of their activities is different.

Based on the mentioned features, a sample of 80 companies was chosen from the accepted companies of Tehran's stock exchange during the years of 2005 to 2012. The data were elicited from: financial lists, some soft wares (such as Tadbir Pardaz, Rah Avard e Novi), the web site of securities and exchange organization (SEO),. In order to analyze the data and elicit the required results EXCEL and Eviews 7 was used.

3.1 Research hypothesis

The main hypothesis: brand value has effect on the shares' returns of the accepted companies of Tehran's Stock Exchange.

Hypothesis 1: Company size has an effect on stocks future returns in the accepted companies of stock exchange.

Hypothesis 2: the ratio of book value to market Value is effective on the stocks future returns of the accepted companies of stock exchange.

3.2 Methodology

It is a practical research study with a descriptive type of information. Correlation method was used to analyze the data. In order to test the models of the study the following model was used:

Equation 1: $\mathrm{R}_{i,t+1} = \alpha + \alpha_1 \mathrm{size}_{i,t} + \alpha_2 \mathrm{BM}_{i,t} + \alpha_3 \mathrm{CBv}_{i,t} + e_{i,t}$

In this equation:

$\mathrm{R}_{i.t+1}$: the future returns of the I company in the period of t+1

$\mathrm{CBv}_{i,t}$: The change inbrand value

$\mathrm{size}_{i,t}$: The size of I company:

$\mathrm{BM}_{i,t}$: the ratio of book value to market Value of each share of the I company in the t year

$e_{i,t}$: Total waste

α : the coefficient is on the model

3.3 Variables of the study

Brand value: in 1989 brand value was defined as: The increase in value due to the performance of marketing activities by a firm. This value added can be regarded as the financial property and a collection of good behaviours which is defined by customers and other members. (Marvati et al., 2012; p.8).Value added of a company is computed as the following: based on Park and MacInnis (Stated in Davis 2006 in page 240).

Equation 2: A change in brand value including groth growth rate

$CBV_{gr}=\frac{Me*R}{1+(1+gr)*Me}$

gr= Is the growth rate which is computed by Equation 3:

gr =ROE *(1- d%)

$ROE = \frac{\text{Net Income}}{\text{The Market Value of The Shere Owners right}}$

d% = $\frac{DPS}{EPS}$

Me = Is the marketing efficiency which is computed by Equation 4:

$\frac{R}{C_m}$ Me =

Cm = Marketing costs

R= Is the total sales which is computed by Equation 5:

R=P*Q

P Selling price = = Q Amount of Selling

3.4 Company size

Company size is defined through different measures. It can be market Value value, asset value, amount of sales,... logarithm of net sales recorded in profit and loss is regarded as a measure for company size and is computed based on equation 6:

company size in the year of t= log(amount of net sales of a company at the end of t year)

3.5 Company Value

Company value is composed of two sections. First section, is the book value at the t time. And second section, the measured value of the net income is defined as: "the value which is because of future economical results. (Wang, 2008). The criterion of evaluating this variable is the ratio of book value to market Value . In order to compute the company value, the book value of each share of the i company, and the data related to market Value of each share of the i company in the year of t which was collected by means of Tadbir software was entered into Excel. Then, it is computed based on equation 7.

Equation 7:

$\frac{\text{Book Value Of Each Share}}{\text{Market value Of Each Share}} =)\frac{B}{M}($

Stock Returns:

The returns of one investment on the common stock includes the cash dividend which is paid in year. And is any type of change in the market Value value which is shown at the end of the year. (Dastgir, 2008, p.232).

Equation 8: $R_{it}=\frac{P_{it}-P_{it-1}+D_{it}}{p_{it-1}}$

R_{it}: The rate return on stock of i in t period

P_{it} : The price of the share i in t period

P_{it-1}: The price of the share i in t-1 period

D_{it} : divided per share of i in t period which is given to the share owner.

4. Results of the Study

The regression model of the study was analyzed based on compound data. Based on the usage of the compound data and for the purpose of selecting between panel and compilation data in analyzing the model, the F.Lymr model was used. The probability amount of F.Lymr was computed as 0.333 and because this was more than 0.05, the compilation method of analyzing the data was used.

The main hypothesis: the results showed that the significance level for brand was p=0.033. This means that there is a significant relationship between the future stock returns and this variable. In other words, there is a significant relationship between brand and the future stock returns at the certainty level of 95%. Though the relationship was significant, it was an inverse relationship.

Hypothesis 1: the results of the test of this hypothesis showed that the p value was 0.071 (higher than 0.05), so; the relationship was not significant. Therefore, this hypothesis is rejected.

Hypothesis 2: the results of this hypothesis showed that the significance level of the ratio of book value to market Value was p=0.000 which is lesser than 0.05. It shows the existence of a significant relationship and therefore, this hypothesis is confirmed.

Table 1: The summary of the results based on the regression model

$R_{i,t+1} = \alpha + \alpha_1 \mathrm{size}_{i,t} + \alpha_2 \mathrm{BM}_{i,t} + \alpha_3 \mathrm{Log\ CBv}_{i,t} + e_{i,t}$				
Sig-level	statistic t	index	sign	variable
0.169	1.375	0.219	α 0	intercept
0.071	1.803	0.270	SIZE	Company size
0.000	5.341	0.183	BM	The ratio of book value to market Value
0.033	-2.131	-.311	CBV	Change in Brand value
11.665	statistic F		0.059	The index of investigation R2
0.000	Sig level of F statistic F		1.910	Durbin-Watson statistic

Source: the results of the study

The investigation index shows that about 5 percent of the future stock returns is defined by the regression model. It shows that about 5 percent of the changes are depicted by the regression model.

5. Conclusion

In today's era an appropriate name has the ability to change the performance of a company. As an intangible asset, it is one of the most important properties of a company in a competitive economic system. Brands and investigating the amount of relationship between brands and performance indexes can be regarded as a criterion for benefactors of the organization such as shareholders, creditors, employees, and other people. In another way, it is important for investors who want to know about the measuring dimensions and identification aspects of a brand and other intangible assets which are advantages in financial statements. Keller says that there are 2 main motivations in studying about the brands: one is the financial motivation for the purpose of evaluating the brand value in the fiscal and calculation aims. The other is the elicited motivation for the purpose of Karater marketing. This begins by the common perceptions of the customers. In other words, brand equity is based on the user of a good. In this study, the financial dimension of the brand has been investigated. The results of the tests shows the reverse and significant relationship which exists between brand and the future stock returns. The probable reasons of this relationship could be that there are companies with fewer advertisement costs and they reveal fewer amounts of information to the investments. That is why the future returns of their stock is higher than those companies which reveal more information to their investors. The studies show that long term effects of advertisement have got negative effects on the brands. These are: the increase of costs, losing the brand value. Aker in 1996 proved that frequent advertisement will decrease the brand value in the long run, and this will have negative effects on the brand value. The results also showed that the only statistic which was positive and significant among all the mentioned variables was the ratio of book value to market Value . It shows that this statistic has an effect on the future stock returns.The results of this study also were similar with the findings of Chemmanur and Yan (2011). It was also in agreement with Belo et al., in 2013. The results of this study and the results of Yukio(2009) in computer industry which showed that brand value has got an effect on the stock future returns are in agreement with each other, but their coefficient of determination index was weak. The results are also in agreement with Madikizela (2007). Also the study is similar with the results of Qasemi et al., (2014).

6. Suggestions

6.1 Practical suggestions

- Investors are suggested not only to take care of the profiting companies but also to the brand and the amount of expanses which are spent for the purpose of advertisements in a company. It is because the brand values and the expanses spent on advertisement are effective on the stock returns.
- Marketing and financial managers are advised to closer their financial and strategic planning to each other for the purpose of planning and determining the objectives of the company. They are advised to have collaboration within these fields.

6.2 Suggestions for future research

- The results of this study are at the level of all of these companies. It means, small and large companies both were analyzed. It is probable that each of these small and large companies show different results when they are studied separately. The researchers are suggested to make use of the companies which are in a similar range. They are also advised to make use of other variables such as place, and advertisement method when computing the brand value of the companies.
- In this study, the relationship between marketing variables of the brand value and the financial variable of the future stock returns was analyzed. There are other marketing variables, too. And they are all effective in the financial performance of a company. It is suggested to study the effect of these variables, too.

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