ARTICLE IN PRESS

North American Journal of Economics and Finance xxx (2016) xxx–xxx

Contents lists available at ScienceDirect

North American Journal of Economics and Finance

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

Doing good or choosing well? Corporate reputation, CEO reputation, and corporate financial performance

Pei-Shih Weng *, Wan-Yi Chen

National Dong Hwa University, Taiwan

ARTICLE INFO

Article history:
Available online xxxx

JEL:
G30

Keywords:
Corporate reputation
CEO reputation
Corporate financial performance

ABSTRACT

Using data from Taiwan's top 150 listed companies over the period 2003 to 2014, our study explores the influence of CEO reputation and corporate reputation on the financial performance of companies. The analysis focuses especially on the interaction between CEO reputation and corporate reputation to identify which dimension of reputation is more relevant to firm performance. We show that, though both corporate reputation and CEO reputation have an individual impact that benefits the financial performance of the company, the impact of CEO reputation is more persistent across different time periods and more comprehensive across different industries. Furthermore, we find that CEO reputation still has a positive impact on firm performance when corporate reputation is poor, indicating that CEO reputation is more important to firm performance. To pursue better financial performance, should a company make greater effort to build a good corporate reputation, or merely recruit a CEO with a good reputation? Our suggestion here is simple: "choosing well" is better than "doing good."

© 2016 Elsevier Inc. All rights reserved.

1. Introduction

Stock selection is relevant to investment. Investors are eager to know how to select good stocks for their portfolios since picking a "good" stock is often difficult. Since investors, particularly individual investors, are well known for paying limited attention to their choice of stocks, they rely on shortcuts to construct their valuation of companies. A convenient shortcut may be the "reputation" of the company. A survey conducted in 2004 by the World Economic Forum, based on more than 1500 participants from different industries, shows that about 60% of the respondents recognize that the reputation or the brand of a company represents more than 40% of its value. Furthermore, 77% of the respondents feel that the importance of reputation is increasing. In addition, Laurence (2004) states that an important lesson investors learned from the Enron scandal in 2001 is that managers of companies have to act aggressively in considering the market's interest in social responsibility and business reputation. Thus, the reputation of a company can be viewed as an intangible asset that affects the value of the firm. Since reputation has become a relevant component in the composition of value, analysts should consider it to be as important as other traditional financial indicators (John Graham, 2004).[1]

* Corresponding author at: Department of Finance, National Dong Hwa University, No. 1, Sec. 2, Da-Hsueh Rd., Shoufeng, Hualien 97401, Taiwan.
E-mail address: psweng@mail.ndhu.edu.tw (P.-S. Weng).

[1] John Graham is the CEO of Fleishman-Hillard Corporation.

http://dx.doi.org/10.1016/j.najef.2016.10.008
1062-9408/© 2016 Elsevier Inc. All rights reserved.

Please cite this article in press as: Weng, P.-S., & Chen, W. Y. Doing good or choosing well? Corporate reputation, CEO reputation, and corporate financial performance. *North American Journal of Economics and Finance* (2016), http://dx.doi.org/10.1016/j.najef.2016.10.008

ARTICLE IN PRESS

Indeed, a few studies observe that reputation affects value and firm risk. For instance, Cao, Myers, Myers, and Omer (2014) find that corporate reputation is related to the cost of equity capital for a company. Francis, Huang, Rajgopal, and Zang (2008) show that CEO reputation has a positive influence on a firm's earnings quality. Interestingly, the studies mentioned above show that the concept of reputation generally consists of two different dimensions: CEO reputation and corporate reputation. Their findings motivate our study to explore the relation between firm performance and reputation. First, does CEO reputation or corporate reputation really matter to the performance of the company? Second, can CEO reputation and corporate reputation represent each other or do they have separate impacts on the performance of the firm? Finally, is CEO reputation or corporate reputation more relevant to firm performance? To the best of our knowledge, the existing studies do not directly compare CEO reputation and corporate reputation. Several studies examine either CEO reputation or corporate reputation, while others treat CEO reputation and corporate reputation as identical dimensions.[2] Our study addresses this gap in the literature and may serve a reference for corporate operations and market investors.

We collect data from open sources to construct two types of measures to proxy for corporate reputation and CEO reputation. For corporate reputation, we adapt the ranking of ''Excellence in Corporate Social Responsibility'' constructed by *CommonWealth Magazine* in Taiwan.[3] In addition, we use the list of "Branding Taiwan Top 20" as an alternative measure of corporate reputation. The Branding Taiwan Top 20 list is compiled by the Taiwan External Trade Development Council and Interbrand Corporation and supervised by the Taiwan Ministry of Economic Affairs. We assume that the companies appearing on the list of Excellence in Corporate Social Responsibility or Branding Taiwan Top 20 have a better corporate reputation than other companies. We then draw on the literature to calculate the media coverage (Milbourn, 2003) and industry-adjusted ROA (Rajgopal, Shevlin, & Zamora, 2006) as measures of CEO reputation. The advantage of using these measures is that they can be obtained or calculated using open data sources or financial statements, which means that public investors can easily access information on corporate reputation and CEO reputation and use it as a reference for stock selection. To evaluate the financial performance of the companies, we use three financial ratios, ROE, ROA, and EPS, because these measures are popular among market investors and directly related to a firms' financial performance.

In sum, we find the following. First, we show that both corporate reputation and CEO reputation have separate positive impacts on the financial performance of a firm, meaning that picking stocks with a good corporate reputation or CEO reputation is beneficial to investors. Second, CEO reputation tends to be more important to the value of a firm than corporate reputation. A company with poor corporate reputation but good CEO reputation performs better than a company with poor CEO reputation and good corporate reputation. Finally, we show that the influence of CEO reputation is more persistent across different industries and time periods.

Our findings have interesting implications for corporate management. For companies, earning a good corporate reputation or CEO reputation is a useful strategy for driving value increases. However, the advantages of corporate reputation and CEO reputation are somewhat different. If a company has a poor reputation, recruiting a CEO with a good reputation will help it to perform better. Conversely, if the CEO of a company has a poor reputation, the CEO's negative influence overwhelms the firm's good reputation. Therefore, ''choosing the CEO well'' tends to be more important for firm performance than ''doing good.''

The remainder of the paper is organized as follows. Section 2 briefly reviews the relevant literature, while Section 3 describes our data, main variables, and methodology. Section 4 presents all the findings and Section 5 concludes.

2. Literature review

The focus of this study is the influence of reputations on the financial performance of Taiwanese listed companies. Below we briefly review the literature on corporate reputation and CEO reputation.

2.1. Corporate reputation

Milgrom and Roberts (1986) state that companies that have a better reputation are able to increase their stock prices. Fombrun and Shanley (1990) find that if the brand name of a company is well known to the public, the company will become more competitive than its rivals. Similarly, Li, Hsieh, and Chang (2016) show that brand names of most Taiwanese banks involve a lucky number of total strokes since these bank owners believe designing lucky or positive symbol is vital to achieve better competitiveness. Cable and Turban (2001) argue that companies with a good reputation can attract good employees. Similarly, Kitchen and Laurence (2003) and Pharoah (2003) suggest that a good corporate reputation can affect the performance of a company and enable it to retain outstanding employees. Swift (2001) asserts that companies can convey a positive signal to market investors with a good corporate reputation, particularly when the company is in distress. Roberts and Dowling (2002) present empirical findings that companies that have a better financial performance are more likely to

[2] For instance, Schweizer and Wijnberg (1999) and Gomes (2000) contend that a firm's stock price should reflect the value of its reputation. However, the definition of reputation in these studies includes several dimensions, including the company and the managers of the firm.

[3] *CommonWealth Magazine* was the first financial magazine in Taiwan, founded in 1981. The founder, Yun-Pong Ing, used to serve as Taiwan's coordinator for the *Wall Street Journal*. *CommonWealth Magazine* began issuing its CSR ranking for listed companies in Taiwan in 2007, making it the first and only CSR ranking institution. A detailed discussion of the CSR rankings of *CommonWealth Magazine* is provided in Section 3.

Please cite this article in press as: Weng, P.-S., & Chen, W. Y. Doing good or choosing well? Corporate reputation, CEO reputation, and corporate financial performance. *North American Journal of Economics and Finance* (2016), http://dx.doi.org/10.1016/j.najef.2016.10.008

دریافت فوری ← متن کامل مقاله

ISIArticles
مرجع مقالات تخصصی ایران

- ✓ امکان دانلود نسخه تمام متن مقالات انگلیسی
- ✓ امکان دانلود نسخه ترجمه شده مقالات
- ✓ پذیرش سفارش ترجمه تخصصی
- ✓ امکان جستجو در آرشیو جامعی از صدها موضوع و هزاران مقاله
- ✓ امکان دانلود رایگان ۲ صفحه اول هر مقاله
- ✓ امکان پرداخت اینترنتی با کلیه کارت های عضو شتاب
- ✓ دانلود فوری مقاله پس از پرداخت آنلاین
- ✓ پشتیبانی کامل خرید با بهره مندی از سیستم هوشمند رهگیری سفارشات