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THE ANALYSIS OF IMPACT OF THE RATING SCORES OF FIRMS IN BORSA ISTANBUL CORPORATE GOVERNANCE INDEX ON BRAND VALUE

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ABSTRACT

The aim of this study is to analyze the impact of the corporate governance rating scores and performances of the firms in Borsa Istanbul Corporate Governance Index on their brand value. Measured in the scope of corporate governance rating, shareholders, public disclosure & transparency, stakeholders, board of directors and overall score for corporate governance are analyzed individually in order to find out the impact on brand value.

The result of this study shows that shareholders and public disclosure & transparency ratings have significant and positive effects on brand value.

KEYWORD - Brand Value, Brand Valuation, BIST Istanbul Corporate, Corporate Governance, Governance Index

Introduction

Many regulations have been enacted throughout the world in order to eliminate the deficiencies of capital markets. After the publication of OECD's corporate governance principles, these principles constitute the basis of the corporate governance practices for many countries. Due to globalization, these arrangements are deemed necessary in order to protect investors because of the scandals that took place in global markets in the past. While investment has become easy and widespread, corporations also have an increased possibility to find investments and opportunities to create value.

With this perspective in this research, the impact of the corporate governance rating scores of the firms in Borsa Istanbul Corporate Governance Index on brand value is analyzed. The data is gathered through the firms' corporate governance reports that are written by the independent auditing firms. In these reports, there are four rating scores, which are shareholders, stakeholders, board of directors and public disclosure & transparency scores of the firms and there is another score for overall rating of these scores therefore changes over time of these ratings are analyzed individually in order to measure the effect of them on brand value.

With these analyzes, it is aimed to enlighten the managers about the potential outcomes of corporate governance applications. In addition, it is aimed to contribute to the development of corporate governance practices in Turkey by evaluating the effects and analyzing the results which will lead corporations and managers.

1. Definition, Emergence and Development of Corporate Governance

1.1. Definition of Corporate Governance

As a result of developing communication technologies, international funds have the ability to invest in overseas countries easily. These opportunities bring some problems, which can be caused from communication and management of investors. In order to solve these problems, the need of an internationally compatible management system is emerged (Sermaye Piyasası Kurulu, 2005, s. 1-2). As a result, corporate governance concept is formed, which is defined as regulating relationships of managers, shareholders and stakeholders of the firm (Jesover & Kirkpatrick, 2005, s. 2). If corporate governance is executed well, it can help to improve credibility of local and foreign investors, and then facilitate finding long-term investment and investors.

1.2. Development of Corporate Governance and Regulations

Corporate governance had not been popular until mid-1970s when Watergate scandal took place. Before that, it was examined under corporate law and execution methods but later it became an important topic itself. In the ongoing "Takeover era" in the 80s, irregularities that occur in mergers and acquisitions and regulations enacted after informal arrangements have been provided a basis for corporate governance (Shleifer&Vishny, 1991; Veasey, 1993, s. 1267). After the crisis in Southeast Asia in 1997, international organizations took a step about corporate governance and started to develop common principles that will prevent companies from causing similar crisis (Gürbüz & Ergincan, 2004).

The first regulations on corporate governance came into force in the UK in 1992, was the report prepared under the chairmanship of Sir Adrian Cadbury. While committee was working in progress, BCCI and Maxwell companies collapse. As a result, there was a serious public pressure due to the probability of companies hiding their poor financial conditions lead to similar scandals which discredit the country's economic confidence (Cadbury, 2000, s. 7).

Then in April 1998 the OECD Council gathers the member states, relevant international organizations and private sector representatives together in order to develop principles for corporate governance and as a result non-binding principles has revealed. For OECD members and non-member countries, these principles give opportunity to the authorities to evaluate and develop them, considering laws, customs and regulations (OECD, TÜSİAD, 2000, s. 7).

The Sarbanes-Oxley law which enacted after the Enron and WorldCom scandals in the United States is an important regulation of the early 2000s.This study is seen as the most radical and detailed arrangements among corporate governance arrangements since securities laws in the United States and has brought quite a voice in public (Harshbarger & Jois, 2007).

2. Brand and Brand Valuation Methods

Brand can be defined as a name, term, sign, symbol, design or a mixture of these, which identifies the seller or producer of product or service. In consumers' perception, brand has significant role for product which makes it possible to add more value than it has to the product (Kotler & Armstrong, 2004, s. 285).

Brand value is created by a long term perspective, consumer knowledge, brand name, brand strength, product innovation, brand quality, brand extension, brand identity, brand advertising, brand promotion and the most important knowledge formed by effective brand governance all of which gives sense of differentiation over consumer (Arora, Raisinghani, Arora, & Kothari, 2009).

If brand becomes valuable in the eyes of customer, company gets many competitive advantages. A powerful brand means it has high brand awareness and high brand loyalty. Thus, consumer's demand for the product rises and product starts to be needed and demanded in the market. Therefore company gains competitive advantage with distribution channel. Moreover, the high reliability of the product makes it easy to extend the brand and launch new products to the market (Kotler & Armstrong, 2004, s. 292).

Companies want to show their brand value realistically in their balance sheet and prevent the negative impacts of unexpected devaluations on investors (Brand Finance, 2000, s. 3).

Accordingly, mixed brand valuation methods (financial and behavioral) which are developed by consulting firms are basically calculated by present value of potential future cash flows of the brand. Interbrand and Brand Finance are the firms, which measure brand values according to this method.

Brand Finance prefers preparing its brand valuation method according to the predicted future income method. In order to find true results, predicted income needs to be calculated precisely and reliably. This method has 3 steps, financial prediction, analysis of the brand's contribution to demand and determination of the risk attached to future earnings.

Among this information, there should be an investigation including competitor brands, corporate strategy, market research and marketing department. Then, in order to understand the effects of inner factors determined by brand to the market parameters, the relations between marketing operations, pricing decisions and sales should be understood. Lastly, confronted cost of capital, current and expected future operational costs can be segmented according to geographic, customer or product groups then Economic Value Added calculated. Generally, predictions are prepared for 3 to 5 years, which is the same as company's future plans.

Another factor in valuation is brand's contribution to demand. In order to measure effects of this factor on consumer, a large-scale research is needed. Therefore, brand's role in demand can be seen and also brand's strength over consumer, compared to other factors can be measured.

While measuring the risk factor of brand, Brand Finance uses their own method, ßrandßeta® analysis. This analysis has some minor factors which are time in the market, distribution, market share, market position, sales growth rate, price premium, price elasticity, marketing spend, advertising awareness and brand awareness.

Brand's economic value added is degraded by both brand's contribution to demand and risk factor. As a result of this calculation, brand value is found (Haigh, 2000, s. 11-17).

3. Data Set

Data of this research are compiled from Corporate Governance Association of Turkey and Brand Finance Corporation. Corporate governance ratings belonging to the period of 01.01.2009-31.12.2013 are compiled from the reports of licensed independent institutions, which are published by Corporate Governance Association of Turkey. Also, brand values are compiled from Brand Finance's annual reports on Turkey's Most Valuable Brands. As of 31.12.2013, there are 48 publicly traded companies in BIST Corporate Governance Index. Among these, 22 of them have brand values in Brand Finance's reports. Therefore, there are 22 corporations whose both corporate governance ratings and brand values for given time period are available and they constitute the data set of the study. For some reasons like joining corporate governance index later than the beginning of given time period, unwilling to measure the brand value in some period or delisted from the most valuable **100** corporations report because of the low brand value causes some gaps in the horizontal sections of the data set. Our data set consists of annual observations and it covers the time between 2009 and 2013. Because of the missing data, this set evaluated in the systematic of Unbalanced Panel Data. The data set has 5 dimensions of time and 22 horizontal-sections.

4. Methodology

In this research, corporations' brand value, variables that affect the brand value and the magnitude of this affect examined. Therefore, the effect of overall score of corporate governance rating and the effect of scores of four categories that is examined under corporate governance are examined and their effects on brand value are predicted separately. The predictions are made by using current and previous year's variables, and these variables' effects are examined both together and separately. For variables, econometric logarithmic conversion has been found suitable. With this operation, the percentage change in the effect on the variables can be seen as percentage. Estimated slope parameter is also elastic modulus for independent variables. Lack of time dimension and cross-sectional data in the data structure leads us to use the least squares estimation technique.

Used panel data regression models are shown below.

$$\ln y_{it} = \ln a_0 + a_1 \ln x_{it} + u_{it}$$

$$\ln y_{it} = \ln b_0 + b_1 \ln x_{it-1} + v_{it}$$

$$\ln y_{it} = \ln c_0 + c_1 \ln x_{it} + c_2 \ln x_{it-1} + z_{it}$$

In these models u_{it}, v_{it} and z_{it} are error terms that have white noise features. The estimation results are presented in Table 1. Here, some abbreviations have been used. MD is brand value, GO is overall rating, YK is board of directors, KA is public disclosure and transparency, MS is stakeholders and PS is shareholders.

Table1: Estimation Results* (Dependent Variable: Brand Value)

Coefficients in bold are significant at 10% confidence level.

Model No	Independent Variable	Coefficient Estimation	*T*-Value	*P*-Value
1	GO	0.794803	0.245589	0.8067
2	GO(-1)	**1.091742**	26.22135	0.0000
3	GO	3.085872	1.163397	0.2501
	GO(-1)	-2.526417	-0.776375	0.4411
4	YK	0.192383	0.523241	0.6029
5	YK(-1)	0.138531	0.285843	0.7766
6	YK	0.138765	0.390929	0.6983
	YK(-1)	0.122864	0.445066	0.6591
7	KA	**0.616831**	4.011686	0.0002
8	KA(-1)	0.545405	0.128045	0.8986
9	KA	2.612635	0.286017	0.7760
	KA(-1)	-3.117070	-0.397125	0.6928
10	MS	0.468534	0.361275	0.7189
11	MS(-1)	2.420024	1.385310	0.1713
12	MS	-2.288565	-0.373321	0.7105
	MS(-1)	4.484014	0.657693	0.5137
13	PS	**1.000372**	1.978407	0.0515
14	PS(-1)	**1.788467**	9.656706	0.0000
15	PS	**0.541598**	5.668771	0.0000
	PS(-1)	**0.896477**	5.460771	0.0000
16	MD(-1)	**0.379936**	3.927958	0.0004

Estimation results reveal interesting findings. Accordingly, the impacts of shareholders and public disclosure variables on brand value statistically are significant and coefficients have positive signs as well. Companies' brand values change with these variables correspondingly. The positive efforts carried out in information sharing with the public; create value in the period in which they are made. Information sharing will be applied in the process of value creation in time for the effect of these arrangements is reduced.

Information is valuable in the process of public disclosure; value created in time from the effect of these arrangements reduces. The effect of shareholders is positive and significant for the two periods. This positive impact is above 1%. As a result of improvements to be made in relations with company's shareholders, the brand value will increase. With these improvements, potential investors are attracted, long-term funding obtained and capital investment costs can be lowered. Therefore brand investments have the opportunity to be enriched and strengthened. The impact of the previous period's brand value of the company on the current period's brand value is quite significant and positive.

The previous period brand value of the company (t-1) has an impact on period t brand value and this impact is quite significant and positive. Accordingly, the strong brand value in the past leads to strong brand value in the future. Brand creation process is a long-term process and it requires stable operations. In this process, increase in each year's brand value resulting in an increase in value of the next year's brand value. Therefore, brand value is a factor that is strongly affected by the increase of the previous year's brand value. Similar results are also valid for the overall average. Increase in the overall average of the *t-1* period leads to a significant increase in period *t*. More precisely if the overall average of *t-1* period increases 1%, overall average of *t* period will increase 1.09%.

Conversely, the results reveal some statistically non-significant relations. This situation can be relevant to the insufficient size of the time dimension and presence of missing data in the data set. However, in these relations, the impacts on brand value of the independent variables are also observed to be positive. For example, in Turkish market, it is estimated that the structure, composition and functioning of the board of directors have a statistically non-significant but positive effect on the brand value.

In many studies it is observed that sound corporate governance practices lead to increase in the performance and the value of the company. In addition it has been found in many studies that, in the perspective of many investors, the company is expected to create value for shareholders. At the same time, this value is expected to be sustained by corporate governance practices. In some studies, long-term investment, independent members of the board and directors are found to have an effect on accelerating the increase in brand value; conversely the lack of sound management and supervision has negative effect on brand value.

5. Conclusion

In August 2007, BIST Corporate Governance Index was started to be calculated with 5 firms; today there is 48 firms included in this index.

Because Turkey still has an emerging capital market structure, investment culture and habits are dominated by short and medium-term-oriented investors rather than a long-term perspective. This situation makes it more difficult to get satisfactory results related to corporate governance practices in short-term.

With the findings of this study, some suggestions can be made to various parties:

- In today's market, one of corporations' value creation implementations, according to the research, should be protecting and assuring the rights of company's shareholders in accordance with the corporate governance principles. When suitable conditions are provided by the owners of the company, investors who take position for long-term will be an important asset. This will also have the increasing effect on the brand value. In addition, this increase in brand value leads to increase in the coming periods and will play a role in promoting sustainability.
- Improvement of the public disclosure within corporate governance framework affects the brand value positively by making it easy to reach information about the company. Accordingly, public disclosure and transparency improvements to be made within the same period will lead to an increase in brand value.
- Each improvement in the corporate governance practices of the company will create positive foundations for corporate governance rating of the next period. There will be an increasing trend in each year's ratings in the independent audit reports. Accordingly, good beginnings in defining corporate governance policies make it possible to continue their way easily.
- Some results obtained in this study have inadequate reliability therefore data set needs to be extended. In subsequent years, after corporate governance practices become more widespread as the requirements of the capital market, repetition of this study will allow researchers to obtain more reliable findings.

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