IMPACT OF BRAND VALUE ON MARKET CAPITALIZATION

A STUDY OF BANKING SECTOR

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Abstract

Branding as a source of value is based on the creation and valorization of brand equity.Brand-building is connected to the surpluses generated by the labor of user-consumers as well as the designers and producers of branded products and services; the realization of surplus through control of revenues derived from sales of these products and services and the appropriation of surpluses, including the conversion of brand equity into brand value after deduction of costs. Branding is very essential in service sector because service industry demands differentiation which can be possible only through branding. Investment in branding is related to the financialization of brands as intangibles that make a growing contribution to market capitalization. Brand value put a significant impact on market capitalization. The current study examined the relationship between brand value and market performance of banks by using the market capitalization of global bank brands to test whether strong brands outperform the market The data of Brand value and market capitalization has been collected from the report of Brand Finance Banking 500 published in 2013. Correlation and Regression analysis was applied to analyze the relationship between branding and market capitalization. Correlation and Regression analysis was applied to analyze the relationship between branding and market capitalization. It is concluded that Brand value has significant impact on market capitalization of banks. Market Capitalization is indispensable in banking business because it is an effective measure to transmit information to the investors about the stock volatility

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Introduction

Brand valuation is a versatile strategic tool for business. Strong brands enhance business performance primarily through their influence on three key stakeholder groups: (current and prospective) customers, employees, and investors. Strong brands also create continuity of demand into the future, thus making expected returns more likely – or less risky. Brands, therefore, create economic value by generating higher returns and growth, and by mitigating risk. The need for brand valuation arose in 1980s when the wave of brand acquisitions resulted in large amount of goodwill. There is no accounting criterion to deal with the increased value of intangible assets. As a result, companies were penalized for such value enhancing acquisitions. They either had to write off the amount to reserves or to suffer huge amortization charges which resulted in lower asset base than before the acquisition. The countries like UK, France, Australia and New Zealand recognized the value of acquired brands as intangible assets and reflect these on the balance sheet of the acquiring company. In the mid-1980s, Reckitt & Colman, a UK-based company, placed a value on its balance sheet for the Airwick brand that it had recently bought; Grand Metropolitan did the same with the Smirnoff brand. Therefore brand valuation has gaining importance from 1980's but still it is in infancy stage.

Service Branding is relatively a new phenomenon in the service sector which can enhance the corporate brand value. When we talk about service sector, banking sector is the most influential segment. Banks can leverage their brand value through focusing on market performance which can be determined by their market capitalization. **Market capitalization** (or **market cap**) is the total value of the issued shares of a publicly traded company; it is equal to the share price times the number of shares outstanding. As outstanding stock is bought and sold in public markets, capitalization could be used as a proxy for the public opinion of a company's net worth and is a determining factor in stock valuation. The size of firm is determined by its market capitalization. In the form of mega cap, large cap, mid cap, small cap, micro cap, nano cap etc. It reflects the stock value of the company. A common misconception is that the higher the stock price, the larger the company's profitability. A share price is the price of a single share of a number of saleable stocks of a company, derivative or other financial asset. In layman's terms, the stock price or the value of a company is the present value of its future cash flows. Stock price, however, may misrepresent a company's actual worth. Taking the case of two fairly large companies, IBM and Microsoft. On February 15, 2013 their stock prices were reported at $199.98 and $28.05 respectively. Although IBM's stock price was higher, but MSFT's market cap of $234.6 billion was actually larger than IBM's $225.1 billion. If we compared the two companies by solely looking at their stock prices, we would not be comparing their true values, which are affected by the number of outstanding shares each company has. So market capitalization is a better measure to analyze the market performance. Market capitalization also allows investors to gauge the growth versus risk potential. Historically, large caps have experienced slower growth with lower risk. Meanwhile, small caps have experienced higher growth potential, but with higher risk. Understanding the market cap is an important issue for stock market investors, mutual fund investors etc. as this gives the middle ground of the fund's equity investments, letting investors know if the fund primarily invests in large-, mid- or small-cap stocks.

Most of the companies determine their brand value as a percentage of market cap inorder to determine where the risk and stock growth opportunities lie. The size of the stock put significant impact on firm' brand value, Madden (2002). Hence the impact of branding on market cap is studied in the current research. Therefore, in the current study, data of brand values are taken from the Brand finance banking report 2013.

The current study examines the relationship between brand value and market performance of banks by using the market capitalization of global brands to test whether strong brands outperform the market. A bank is considered a brand if it is included in the annually published Brand finance Top 100 Brands ranking list. Several studies on brand valuation (Kerin et al., 1998; Kallapur and Kwan, 2004) indicated that the values allocated to brands by independent brand agencies are dependable. This research investigates whether numeric brand values have an effect on the market capitalization of banks. Market capitalization is used as a proxy for bank's market value in the current study.

Objective Of The Study

The main objective of the study is to analyze the impact of brand value on market capitalization of top100 banks around the world.

Need Of The Study

There is growing recognition that intangible assets are important determinants of Firm value. Examples of intangible assets include brands, technology, customer loyalty, human capital and commitment of employees. A corporate brand is regarded as most important intangible asset because it has direct impact on firm's market value. The relation between Brand value and firm value has been examined extensively in the finance literature by taking share prices, book value, return on assets, and return on investments etc. as an indicator of firm value. But none of the study has examined the relationship between brand value and market capitalization. Though Market capitalization is regarded as the true measure of firm market value and the brand's contribution to the market capitalization is also appreciated. The direct relationship between Market capitalization and Brand valuation is reflected in the theoretical framework but none of the study has estimated this theory empirically. There seems a research gap. Therefore the present study has focused on the direct relationship between brand value and market capitalization of the banks. The top 100 banks were selected on the basis of the best global brands of the world. (Brand Finance, 2013). The study tests the hypothesis whether the numeric brand value attached to the world's best global brands has any impact on their market value. Market cap is taken as dependent variable because the size of a firm/company/organization is determined through its market capitalization. The Big Five banks (*a name colloquially given to the five largest banks that dominate the banking industry of Canada)*,listed in order of market capitalization on the Toronto Stock Exchange as of December 31, 2011, with their current corporate brand names and corporate profiles according to their latest annual report. Therefore, Market capitalization is an important determinant of business value and hence the impact of branding on market capitalization is determined in the study.

Hypothesis

The benefit of a strong brand to firm performance is widely recognized in the marketing literature. Capraro and Srivastava (1997) studied the market-to-book ratios of Fortune 500 companies, with results suggesting that more than 70% of the market value of these companies lies in intangible assets. Lane and Jacobson (1995) suggested that intangible assets such as brands allow firms to create earnings beyond those generated by tangible assets alone. The brand equity models provide reasonable evidence that branding creates tangible financial outcomes that should have a positive effect on a company's market value. Madden et al. (2002) has revealed that the companies in the Best Global Brands (BGBS) accounted, on average, for approximately one quarter of the monthly market capitalization and also outperformed the market.

H1: There is positive impact of brand value on market capitalization of banks.

Research Methodology

A firm's brand is an intangible asset that cannot expressed on its balance sheet. The aim of this paper is to investigate the impact of brands on market value of banks. The study utilized secondary quantitative data. The top 100 global brands were selected from the annual survey of the brand finance in 2013.The data of Brand value and market capitalization was collected from the report of 100 Best Global Brands published by Brand finance 2013.Market capitalization is considered as a proxy of firm value. Firm value (FV) is an economic measure reflecting the market value of a whole business .A Firm's value can be calculated by its market capitalization. The market cap is found by multiplying the per-share price times the total number of outstanding shares. This number gives the total value of the company or stated another way; it would cost to buy the whole company on the open market. Due to this reason, market capitalization is stated as an indicator of firm's value. This study tests hypothesis relating to whether brand values estimated and published by well-respected intangible asset valuation consultancy reflect relevant information and are sufficiently reliable and timely to be reflected in firm value. Correlation and Regression Analysis was applied inorder to analyze the direct link between the brand value and market capitalization of global banking industry

RESULTS AND DISCUSSION

Correlation Analysis

In order to understand the relationships between brand value and market capitalization, the Pearson correlation technique was used in the study. Numerical value of the correlation coefficients reflects the degree of association between the variables. From table 1, correlation results show that there is a strong correlation between brand value and market capitalization (r = 0.812) at 1% significance level.

Table 1 Correlations

		BE	MC
BE	Pearson Correlation	1	.812**
	Sig. (2-tailed)		.000
	N	100	100
MC	Pearson Correlation	.812**	1
	Sig. (2-tailed)	.000	
	N	100	100

**. Correlation is significant at the 0.01 level (2-tailed).

Regression Analysis

Regression Analysis was applied to analyze the relationship between brand value and market capitalization. Market cap is treated as dependent variable and Brand value is taken as independent variable. The result of regression is depicted in Table 2.Overall R^2 for the estimated regression model was 0.659 i.e. 66% of variance in the market capitalization is determined by brand value.

Table 2 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.812[a]	.659	.655	25920.29932
a. Predictors: (Constant), BE				

As revealed in table 3, the value of the test for the data is F(1,98)=189.02. This table shows that F- Value is significant (p<.001).As the F is large, it is determined that the predictor Brand value is related to market capitalization.

Table 3 ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.270E11	1	1.270E11	189.021	.000[a]
	Residual	6.584E10	98	6.719E8		
	Total	1.928E11	99			
a. Predictors: (Constant), BE						
b. Dependent Variable: MC						

From the table 4, it is evident that brand value emerged as the strong predictor of market capitalization. Hence, it can be concluded that the higher the value of the brand, higher the market capitalization of banks.

Table 4 Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	5058.700	3913.931		1.292	.199
	BE	5.990	.436	.812	13.748	.000
a. Dependent Variable: MC						

Conclusion

The findings of the study have established a strong relationship between brand value and market capitalization in the banking sector. Higher the brand value, higher the market capitalization and thus it enhances the overall market value of banks. Hence, it can be concluded that banks need to conduct brand valuation so that they understand where their brands are valued relative to the competition. They also need to know whether their brand investments create any value and whether this value appreciates or depreciates over time. The findings revealed a strong positive relationship between brand value and market capitalization. Banks need to ensure that this relationship remains positive.

Implications of the Study

The current research has the following implications

- Banks can establish that what their strengths and weaknesses are and what needs to be done to build or maintain the equity.
- Banks will be more focused towards brand valuation methods inorder to enhance their market position as reflected in the study.
- As the study reflected the relationship between brand value and market capitalization so the banks could analyze the impact of brand value with other financial indicators.

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