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Analyzing Impact of Brand Value and Advertising Costs on Financial Performance of Accepted Companies in the Stock Exchange Organization of Tehran from Viewpoint of Shareholders

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ABSTRACT

Advertising is a common motion for companies and each year a lot of capitals to be sent in order to reinforcing the importance of brand (trademark) and companies expect that spending such capitals will lead to more profit and investment return rate. Therefore, aim of researchers in this study is to analyze the impact of brand value and advertising costs on financial performance of companies listed in Tehran Stock exchange from the viewpoint of shareholders. The population of this study is shareholders of Tehran Stock exchange and ultimately 246 individuals selected as statistical sample randomly. In order to collecting data, an author-developed questionnaire was used. Also validity and reliability of it, confirmed by advisor`s and Cronbach`s Alpha, respectively. In this study for testing hypotheses, descriptive statistics (frequencies, percentages and cumulative percentages) and inferential statistics (regression, t test for independent groups and ANOVA) was used (with spss18 software). This research used a Structural Equation Modeling (SEM) to test the causalities in the proposed model.
Results of this study indicated that advertising costs and brand value have been impact on financial performance. In respect of the impact of brand and advertising costs on financial performance of companies, didn`t observe any significant difference between the views of shareholders with regard to social class and educational level of them.
KEYWORDS: Stock Exchange, brand values, advertising costs, financial performance.

INTRODUCTION

Study on concrete measure of brand value appropriation and financial consequences of advertising and brand value is limited. Mizik and Jacobson (2008) submitted that marketing managers are under increasing pressure to justify advertising and marketing expenditures. Quantifying the returns to advertising and marketing activities in financial terms is one of the greatest challenges facing marketing, brand managers and corporations. According to Rust et al. (2004, p. 76), marketing managers have not been held accountable to demonstrate the effect of advertising and marketing on shareholder value. The marketing decisions of a company can have serious implications on the company’s operational and its financial performance. Marketing expenditures accounts
for a significant component of a corporation cost structure (Eng and Keh, 2007). Yet, despite such expenditures, there has been a notable lack of literature as to the effectiveness and efficiency of these expenditures on the company’s financial bottom line (Herremans, Ryans, & Aggarwal, 2000). In this study, the researcher will examine the joint effects of advertising and brand value on financial performance.

Miller (1998) showed brand have value, particularly from the Viewpoint of brand-owner, and brand equity must be collectively identified by a groups of consumers some studies as too simple have criticized collective sharing of mind among brand –owner s as to the value of brand (Arvidsson, 2006). Consumers try to make Confidence that a brand enters inconsumer’s attitude in different ways that what they act with it, and how they have experiment doing things with it, adds to its brand equity” (Arvidsson, 2006, p. 190).A review of the related literature showed that one of the major contributors to brand equity is advertising (Aaker & Biel, 1993; Cobb-Walgren, Ruble, & Donthu, 1996; Eng & Keh, 2007; Prentice, 1991; Ryan, 1991). It has been a common trend for companies to spend huge amounts every year on advertising in order to create or strengthen their product’s brand equity or brand value. Such expenditures, of course, are coupled with the company’s expectation that such advertising spending will results in greater returns and profits. The literature reviewed however has shown that

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higher advertising spending does not always automatically translate to stronger brand equity for a corporation. According to the research of Eng and Keh (2007), advertising contributes to the creation of brand value since brand-based advertising allows a company's product to be differentiated from its competitors. It makes it harder to imitate the company's product, for instance, because such brand-based advertising provides a comparative advantage for the company. It is not easy to copy or imitate a company's brand equity. Eng and Keh provided that advertising influences value creation in a firm by acting as an appropriate mechanism to build brand names and erect market barriers deterring competitor entry" (p.91). The authors emphasized that the main role of advertising is that it creates brand equity for a company's product through the promotion of ideas, goods, or services.The present study contributes to the prior research in several ways. This study helps to understand better the extent to which advertising investments play a role in firm valuation in the in the Stock Exchange. The results of this study improve our understanding of the gap between market value and book value by focusing on intangible assets (advertising and brand value), which do not appear on financial statements. By providing empirical evidence on the information content of advertising expenditures, this study alleviates some of the ambiguity associated with prior research and provides more comprehensive understanding of the issue. The remainder of this paper attempts to answer these questions in four parts. The first explores in more depth the academic literature that provides the bases for these questions and develops the general hypotheses. The second part describes the data and methodology that are used to investigate these hypotheses. The third part reports our findings, namely. The fourth part sums up and discusses both implications of findings in order to place them in their proper context. We also propose areas for future research. This research used a Structural Equation Modeling (SEM) to test the causalities in the proposed model

LITERATURE REVIEW

Ukiwe (2009) research investigated Joint Impact of Brand Value and Advertising on Corporate Financial Performance and on Stock Return. The study used panel data modeling and time series of cross section analysis. Results showed positive correlation between ROA and Brand Value, and between AER and Brand Value. The association between brand value and ROA, even after accounting for the effect of advertising expenditure and the interaction effect between brand value and advertising expenditure, was statistically significant.

Eng and Keh's (2007) research showed that key intangible assets like brand value, product differentiation, and goodwill are the outcomes of investing in advertising for a company. In their research, the authors stressed that it is important to analysis the impact of advertising expense on the company's short-term or immediate profits but, more importantly, to examine its "lagged effects" These lagged effects pertain to the company's future operating and market performance.

Madden et al (2006) explore yet another aspect of the relationship between Interbrand's estimates and contemporaneous fiscal performance. Drawing on the Fama-French model of financial literature, they demonstrate that firms with brands included on Interbrand's list of World's Most Valuable Brands provide greater shareholder return (measured through increased stock price) at a lower level of risk than firms without such brands. They reason that if brand values are intrinsically linked to shareholder values, marketers may finally have their metric for showing the payoff of their investments.

In another study, Shah and Stark (2005), by employing valuation models and using major media advertising expenditure data of a balanced panel of 35 UK firms (who are persistent major-media advertisers) over the period 1990 to 1998, examine the valuation relevance of advertising expenditures. They investigate whether advertising expenditures help in forecasting future earnings and are associated with market value. They find major media advertising expenditures valuation relevant and useful in predicting future values of earnings.

Shah and Stark (2004) investigate the value relevance of the advertising expenditures of UK firms as captured by ACNielsen MEAL4 for the period 1990-1998. The results of the study show a significant positive influence of advertising expenditures on the market value of firms. Shah and Stark also investigate the effects of firm size and sector by splitting their pooled sample into sub-samples of small and large firms and of manufacturing and non-manufacturing firms. They find advertising expenditures to be valuation relevant for large and non-manufacturing firms.

The study by Herremans, Ryans, and Aggarwal (2000) examined the link between advertising and brand value.In their research, the authors focused on the advertising turnover factor and how this may or may not translate to profits for a company. The authors acknowledged that, based on past research and trends, companies do actively invest in advertising, marketing and promotions in order to boost company brand equity. Growing awareness in the Importance of brand management has had corporations recognizing that the value of a company's brands or, in other words, its brand equity, is one of its most important assets.

Conceptual framework and hypothesis development

Figure 1 shows the research framework for this paper and illustrates three variable s namely brand value , dvertising cost and financial performance. In this study has been attempted to consider factors that influence formation of financial performance among the shareholders of Tehran stock change and for this purpose is used the model that Ukiwe have proposed for Corporate Financial Performance (Ukiwe,2009) but the model is adjusted for the implementation with respecting view of shareholders and the method of this study is different .we used questionnaires for gathering data.

We generated 3 hypotheses based on this framework to test the influence of each independent variable on financial performance.

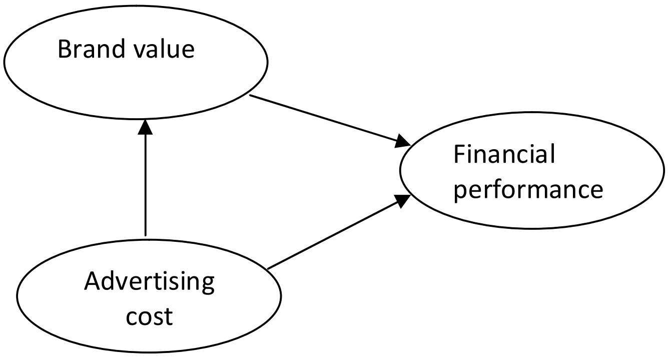

Figure 1.research model

Brand value: "In financial terms, the value of a brand, like the value of any asset, is determined by assessing the present value of future returns associated with that asset" (keller,2003) Taken from this view, "returns" is interpreted as the cash flows or operating income of the company (Schultz, 2003).Brand value, as one of the key intangible assets of a company, has significant impact on the perception of the company and product by its customers, competitors, and the public in general. brand value creation is a good thing. However, a mere knowledge of the effect of brand value on purchase intent is inadequate (soh,2005). Greater understanding of the financial implications of brand value and a concrete measure of brand value appropriation (financial benefit from brand value) is important (Fehle, 2008).Advertising cost has a positive effect on the making of brand value in long times (Eng & Keh, 2007). Advertising also makes great advantage for organizations until it prepares for product differentiation and avoids competitor entry. Advertising measures the efficiency and effectiveness of cost of advertising to positive and Stable brand value for a company (Herremans, Ryans, & Aggarwal, 2000).

Yet spending on marketing or advertising in order to create or strengthen brand value does not necessarily translate to higher return on assets or investments for a company (Eng & Keh, 2007). It does not necessarily mean sustained growth for the company; as such returns may be short-term. Triangulation of advertising expense, brand value, and financial return is important to management for long term strategic planning and sustainability. In order to link profitability and accountability, marketing should be more financially accountable (Mizik, 2003) Consequently, this paper examined the joint effects between of advertising expense and brand value on financial performance. Corporations have ignored the financial implications of marketing decisions and this is a serious form of marketing myopia (Danesi.2008). Similarly, although marketing expense accounts for significant component of a corporations cost structure ,there have not been serious efforts in addressing marketing efficiency, resulting in significant gap between the usefulness of information from the accounting systems and information useful for marketing decisions(Hsu and Jang 2007).Based on our literature review shown above, we have developed three hypotheses to test the impact of brand value and advertising cost on financial performance, as follows:

Hypothesis 1: Advertisement cost will have a positive influence on financial performance.
Hypothesis 2: brand value will have a positive influence on financial performance.
Hypothesis 3: advertising costs will have a positive influence on brand value.

RESEARCH METHODOLOGY

The questionnaire for this research is divided into two parts – part 1and 2. part 1of the questionnaire Included questions on the demographic profile section B of the questionnaire solicits responses on the key constructs of the research framework namely ,brand value , advertising cost and financial performance. The measurement for the conceptual variables was based on a fifth-point likert scale with scale anchors from"1" – strongly disagree to "5" – strongly agree. Previous researchers have also used similar measurement in their studies.

SAMPLE

The population of this study is shareholders of Tehran Stock exchange and ultimately 246 individuals selected as statistical sample randomly. In order to collecting data, A total of 260 self-administered questionnaires were distributed to shareholders. After eliminating surveys with incomplete and invalid answers, 250 valid questionnaires were collected. Table 1 shows demographic data. As it is shown, most of the respondents were male. Their level of education falls mostly on BA degree.

Table 1. Descriptive Statistics Results

Characteristics Description		Frequency	Percent %
Gender	Female	89	35.6
	Male	161	64.4
Age	20 to 30 years	53	21.2
	31 to 40 years	78	31.2
	41 to 50 years	55	22
	51 to 60 years	42	16.8
	More than 60 years	22	8.8
Education	Less diploma	53	21.2
	Advanced diploma	58	23.2
	Bachelor	69	27.6
	Master Degree	51	20.4
	PhD and above	19	7.6

Structural model

The data gathering instrument was a self administered questionnaire. All the items were measured using five-point Likert scale items with anchor points 1 = strongly disagree and 5 = strongly agree. To analyze the hypotheses of the study, one-sample τ-test has been used. To test the reliability of data gathering instrument, a preliminary study has been conducted with a sample of 30. The results of the primary sample show that Cronbach alpha (α) index is 0.84 that indicate a good reliability. Also for testing the existence of linear relations between variables, P.correlation was used. In this research we used Structural Equation Model (SEM) for testing hypothesis. For analyzing data we used the two steps Structural Equation model. For analyzing relation between constructs, in step one, we used Confirmatory factor analysis (CFA), and in other step Path Analysis have used. For determine that to what extent, indexes are acceptable for measuring patterns, first we must analyzing all of the measuring patterns separately. After review and confirmation pattern, for meaningful test of hypothesis we have used Critical Value (CV) index and P. Critical value is the ratio that resulted of dividing the "Regression Weight Estimation" on "Standard Error". According to meaningful level of 0.05, critical value must above 1.96. Below this value, the related parameter in pattern is not considered important. And values below 0.05 for P value have showed meaningful difference in accounted value for regression weights with value of 0 in meaningful level of 0.95

Table 2 presents General indexes of measuring patterns (CFA).Giving that for all of measuring patterns $p > 0.05$, could result that the ratio of χ^2(chi-square) is fit for measuring patterns. Goodness-of-fit index (GFI) for all measuring patterns is above 0.9 (GFI > 0.9), showed that data are fit to patterns. RMR for all measuring patterns is below 0.05 (RMR<0.05), showed that minimum error in patterns and acceptable fitness of them. Comparative fit index (CFI) for all measuring patterns except actual use is above 0.90 can be concluded that data clearly support measuring patterns. RMSEA index for measuring patterns is below 0.05 (RMSEA< 0.05), showed that data are fit to patterns. And eventually, given the above contents can be concluded that measuring patterns have a good fitness and in the other words, general indexes confirmed that data clearly support measuring patterns.

Table 2 General indexes of measuring patterns (CFA)

index	Brand value	Advertising cost	Financial performance
CMIN	88.582	36.888	9.87
DF	35	9	2
p	0.138	0.05	0.053
CMIN/DF	2.531	4.321	4.935
RMR	0.057	0.032	0.040
GFI	0.971	0.939	0.961
AGFI	0.924	0.886	0.890
TLI	0.960	0.954	0.915
CFI	0.979	0.771	0.960
RMSEA	0.035	0.029	0.050

Table 3 show general indexes that presented in path analysis. Giving that for mentioned pattern p> 0.05, could result that the ratio of x^2(chi-square) is fit for that pattern. Goodness-of-fit (GFI) for pattern is 0.993(GFI >0.9), showed that there is not little difference between reproduced and observed variance and co-variance, and it represented the good fitness of pattern. RMR for mentioned pattern is 0.006(RMR < 0.05), that is little and showed little error in pattern and good fitness of it. Comparative fit index (CFI) for mentioned pattern is 0.999 (CFI >0.05) and showed that the fitness of pattern is good. RMSEA for pattern is 0.023(RMSEA <0.05), this index too, showed that the fitness of pattern is good.

Table 3. Overall index of path analysis

index	CMIN	DF	P	CMIN/DF	RMR	GFI	AGFI	TLI	CFI	RMSEA
value	346.087	167	0000	2.072	0.006	0.993	0.949	0.997	0.999	0.023

Table 4 shows the result of hypotheses testing. As it is clear the p-value of presented hypotheses is lower than 0.05 (p <0.05) that means these hypotheses are accepted. The information quality regression weight of 0.951 is the stronger factor, and the lowest regression weight of 0.316 is belonging to ease of use. Other hypotheses that do not present in table are rejected.

Table 4. The result of hypotheses testing (regression weights)

Hypotheses		decription	Estimate	S.E.	C.R.	P
financial performance	<---	brand value	0.63	.041	7.008	***
financial performance	<---	Costs advertising	0.51	.099	4.694	***
brand value	<--- --->	Costs advertising	0.58	.042	4.947	***

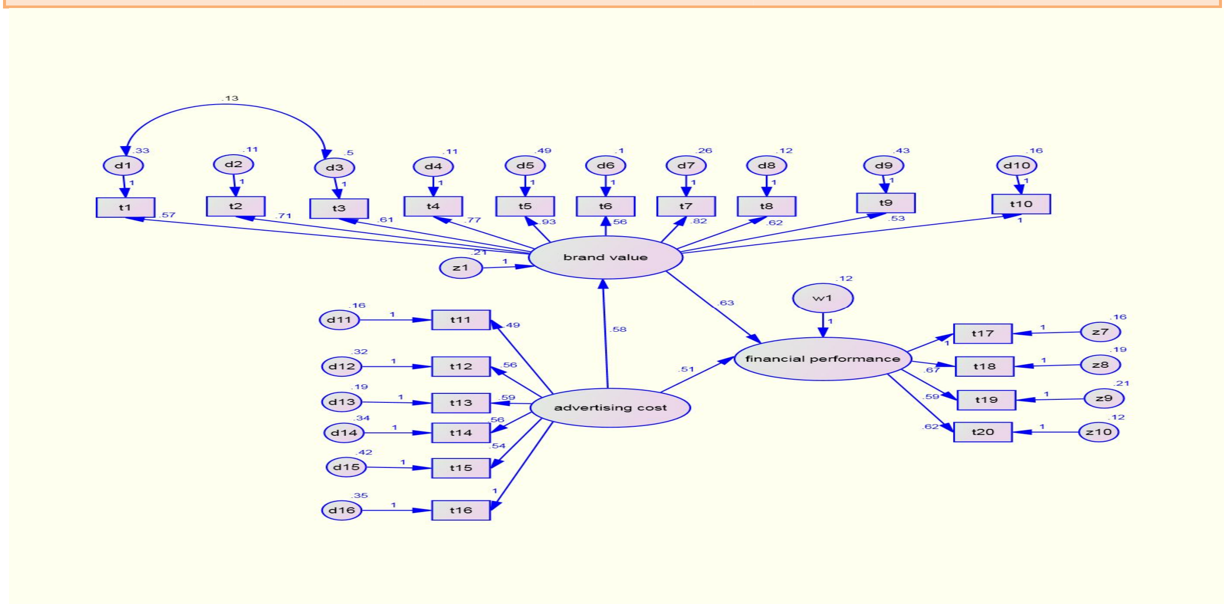

Figure 2 .AMOS Results

Discussion and managerial implications

This study empirically tested a model that predicted the significance of the impact of brand value and advertising cost on financial performance. The results solidify and verify the role of brand value as well as financial assets. First our study provides two valuable insights into shareholder viewpoints, and our results have important implications for organizations, managers and marketers .One interesting findings of this research is that, the influence of brand value is the strongest predictor. Second this study shows that advertising cost strongly affects the financial performance. In respect of the impact of brand and advertising costs on financial performance of companies, didn`t observe any significant difference between the views of shareholders with regard to social class and educational level of them. Another finding shows that advertising cost has positive effect on brand value. The overall results of this study suggest that the shareholders recognize advertising investments as assets and incorporate information relating to this variable in the valuation of the firm. In view of the evidence provided by this and prior studies, investments in advertising should be capitalized and amortized over their estimated economic lives. The results provide valuable insights into understanding the factors that affect the financial performance. The P.correlation test showed that all of the variables affecting financial performance. Furthermore, to understand which variable can predict better the financial performance, we used structural equations model. As the result we can state that all hypotheses have been confirmed. As shown in table 3. The new model's key statistics with accepted hypotheses are good since the GFI is 0.993, the CFI is 0.999, the RMSEA is 0.023 and the p is 0.344. We can thus safely conclude that the new model is valid. Although some evidences prove that different countries' samples might cause the same research results in hypotheses. Further investigations and more evidences acquired by cross-country and cross-culture are necessary. We suggest three possible directions for further research. First, more additional financial factors can be added to this model for explaining the financial performance. Second, because the results and findings of this study of financial performance from view point of shareholders, a relatively new research field, are derived from just a single study of a specific view and only from among respondents in Tehran stock change, generalizing and confirming this model's applicability in different research fields and among other groups would further validate both the findings and research model. Third, these results were obtained in only one time period, so longitudinal research would help develop a better grasp of the interrelationships among variables over time. Future work in these three areas would not only help develop a more sophisticated understanding of financial performance for researchers, but it would also offer useful knowledge.

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Appendix

CMIN

Model	NPAR	CMIN	DF	P	CMIN/DF
Default model	43	346.087	167	.000	2.072
Saturated model	210	.000	0		
Independence model	20	953.534	190	.000	5.019

RMR, GFI

Model	RMR	GFI	AGFI	PGFI
Default model	.019	.988	.948	.235
Saturated model	.000	1.000		
Independence model	.162	.519	.326	.370

Baseline Comparisons

Model	NFI Delta1	RFI rho1	IFI Delta2	TLI rho2	CFI
Default model	.979	.937	.990	.968	.989
Saturated model	1.000		1.000		1.000
Independence model	.000	.000	.000	.000	.000

RMSEA

Model	RMSEA	LO 90	HI 90	PCLOSE
Default model	.038	.023	.050	.945
Independence model	.105	.096	.114	.000