Brand Thrust: Strategic Branding and Shareholder Value

An Empirical Reconciliation of Two Critical Concepts

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Lars Ohnemus

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Frederiksberg, October 15, 2009

Preface

This dissertation investigates how strategic branding can be measured among listed companies in a particular industry and whether long term investments in branding have any significant and measurable economic impact on shareholders.

The work explores initially the hypothesis as to whether there could be a correlation between branding and financial performance, by applying a range of Ordinary Least Square (OLS) multi-variable regression analyses and is based on a total research test sample with more than 13,500 corporations. The overall hypothesis throughout the entire research project is that branding should be considered as a financial investment and as a corporate asset; its economic impact should be assessed from a shareholder perspective. At present, there is little empirical evidence of a link between company brand equity and the financial return achieved by the company. According to some researchers, "… the scholarly literature has neither provided a comprehensive theoretical basis …nor documented an empirical relationship between brand value and shareholder value" (Kerin and Sethuraman, 1998). Or expressed differently; how can board members or senior executives make and justify a major branding decision, which will ultimately have a material, often non-reversible impact on the shareholders, when there is no or little scientific foundation for deriving at the ultimate economic equilibrium?

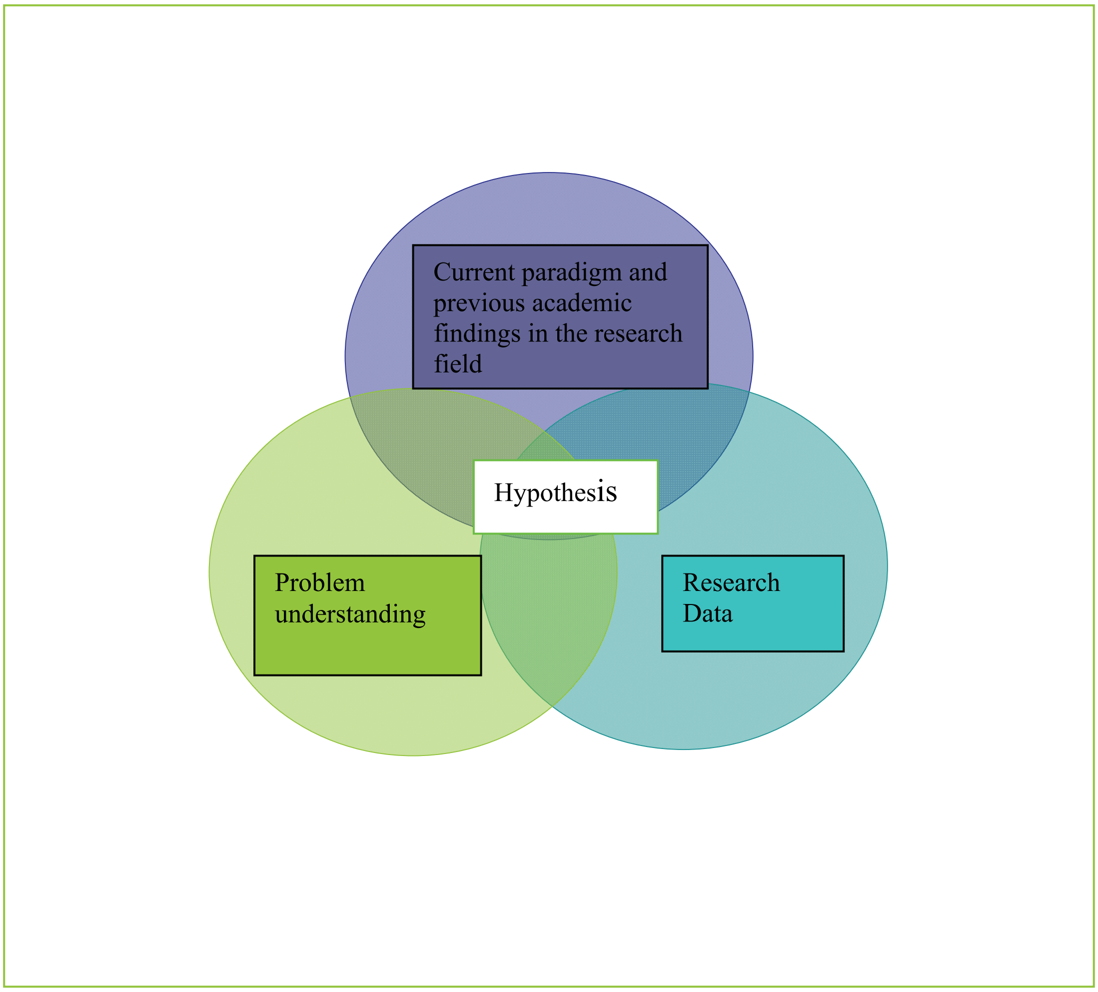
This dissertation is based on a collection of four papers and investigates the following conjunction: (a) does a relationship between branding and shareholder performance exist, (b) can an appropriate branding level be defined in a particular sector, (c)why is the relationship between those two critical concepts not measured more widely and (d) what might be the nature of current barriers to a successful implementation? Finally, the thesis also speculates on what has prevented shareholders, including the board of directors or other senior executives, from implementing and measuring the shareholder value of strategic branding decisions in the past. The research work and development of my dissertation and final hypothesis is conceptualized through the following model, which comprises of three cornerstones;

(a) examining the paradigms and key academic findings in this field and what might be the appropriate epistemological foundation?

(b) obtaining a sound understanding of current research problems, including the selection of an appropriate methodology as well as;

(c) selecting the right kind of primary or secondary data available and how should it be structured and designed in a model which could predict, prescribe and explain, with an acceptable degree of confidence, the relationship between branding and financial performance.

Based on these three cornerstones, it is possible to develop and conceptualize a hypothesis which can be tested as shown in the model.



Consequently and based on this research work, this dissertation introduces the concept of brand thrust which reconciles two concepts; (I) strategic branding and (II) shareholder value. This methodology combined with the research findings presented in the subsequent sections is used as platform for a discussion about how branding investments can be assessed and measured during different piecewise intervals. The conclusion is that the relationship between branding and financial performance can, in some industries, be described as a simplified W- function.

In the dissertation, the choice was made to test the fundamental research question (hypothesis) first on a large and broad based sample, and subsequently on particular industry groups (in this case , the business to business segment) and finally with focus on a single sector, namely banking. The findings, including peer review suggestions and corrections, are presented in four separate, but interlinked papers essentially summarized below;

- The first paper, which appeared in *International studies of Management & Organization (Lars Ohnemus and Per V. Jenster. "Corporate Brand Thrust and Financial Performance", ISMO – Vol. 37, No.4/ISSN 0020-8825, page 84-107),* deals with the link between branding and financial performance. This was researched across 11 different industries and more than 40 countries, including the USA, Canada, Europe and the Far East. It includes all corporations and industries in the database of Thomson financials and spans a period of 5 years. The research sample suggests that branding and financial performance can be measured and described as 5 distinct strategic phases (in the form of a simplified W function), rather than a linear function. Market to Book (MtB) value and Return on Assets (RoA) were selected as the most relevant benchmarks for financial performance, and were applied to all sectors, except the financial sector, where Return on Equity was applied. Furthermore, the study reveals that companies with a balanced brand thrust, as opposed to over or under branding, provide their shareholders with significantly higher returns.
- The second paper, "B2B branding: A Financial Burden for Shareholders?" appeared as a publication in *Business Horizons (Lars Ohnemus – B2B branding: A Financial Burden for Shareholders?, BH#7110,* issue 52, page 159-66, March – April 2009 edition*)* . The same research methodology was applied as for Paper 1, but it was decided to delve deeper into the field of business-to-business branding, in order to determine whether the conclusions from the general sample in Paper 1 would also be valid in the B2B field, and whether one could apply the same conceptual framework to a smaller sample. B2B is of a particular interest, since most companies deal with complex networks and longer-term partner relationships. While the results and thus the conclusions were not as clear as in the general sample, the simplified W pattern recurred. Here too, the best indicator for financial performance was Return on Assets (RoA) or as an alternative methodology – replacement of book value
- In the third paper, "*Lars Ohnemus – Corporate Branding and Financial Performance – in a Business to Business Context"*, the research data is identical to sample used in Paper 2, but the text contains a more in depth discussion and literature review of strategic branding in a B2B context, the value of network strategies, and highlights key differences with respect to branding in other industries, such as fast moving consumer goods and banking**.** This paper has been to get submitted for publication in Business to Business Marketing.

- In the fourth and final paper "*Lars Ohnemus – Is Branding creating Shareholder Wealth for Banks",* the research concept was to select an industry dealing primarily with retail customers and to determine whether other economic benchmarks could be applied, and whether this leads to a change in any of the conclusions presented in the previous papers. The decision was made to select the banking sector, since it conforms to the abovementioned requirements and less research has been conducted in this field in the past, compared to the traditional research areas of fast-moving consumer goods. Here too, a simplified W pattern function could be established, but the sample size was smaller, rendering the conclusions less significant**.** This paper has been published by the *International Journal of Bank Marketing* (Volume 27, issue 3, page 186-201 spring edition of 2009)

The final outcome of the research presented in this dissertation and discussed in the four papers, demonstrates that that the strategic branding position of a corporation must be reviewed within a dynamic context, in which industry-specific factors, selection of the rights piecewise intervals and timing aspects are critical components. Furthermore, this investigation has also confirmed findings from previous studies (Aaker, Kerin, Buzell and Gale), that strategic branding, which is managed dynamically and has an economic equilibrium, will ultimately provide shareholders of a particular corporation with an enhanced financial performance. Companies taking such a line will typically have enhanced their return by 3 – 7 %,- which is significant Hence, shareholders should insist on systematic performance feedback from the corporation on key financial ratios, including return on their branding investment.

Hence, the hypothesis of a relationship between branding and financial performance cannot be reputed, and it would benefit shareholders and marketers if clear economic benchmarks could be established for branding since they would properly have an impact on future returns.

"Il faut confronter des idees vagues avec des images claires – Jean Luc Godard

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The writing of a dissertation would not be possible without a strong and committed group of advisors to ensure that one stays focused in the seemingly unlimited and borderless world of academia, theories and hypotheses.

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Working and teaching at the Department of International Economics and Management (INT) at CBS have been truly inspiring and have given me a rewarding and wonderful introduction to the academic world and a second career at CBS. Hopefully, CBS will also again invite an international executive to join a particular institute. Personally, it has been a very rewarding experience and I can only encourage other business leaders to pursue a similar path. In this regard, I would also particularly like to thank Niels Mygind, Lars Haakanson and Jens Gammelgaard.

Henrik Mathiensen's hard work and strong involvement in advising and assisting me with the modelling of my regression analysis and the actual statistical analysis was fundamental during the initial part of the doctorial work. Dr. Brian Bloch has provided extremely valuable input and suggestions on writing style, grammar and various editorial issues.

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Introduction to Branding and Financial Performance

Why do shareholders of listed financial corporations not receive a systematic computation or return on investment calculation on their potentially largest asset, their brand? Alternatively expressed, if clear return requirements fail to be applied to strategic branding, how can investors know that an economic equilibrium has been achieved? It is surprising that, in a world in which listed corporations have to provide all manner of financial statements, including disclosures on social and environmental issues, the largest immaterial asset on the balance sheet, constituting as much as 72-80 % of market value (Simon and Sullivan 1993), is not accompanied by any systematic economic performance feed-back to shareholders (Sheppard 1994, Black, Wright and Davies 2001). Furthermore, the boards of directors of listed companies are faced increasingly with critical shareholders demanding an acceptable return on equity or assets**.** Yet, despite the fact that approximately 80% of listed-company equity consist of immaterial assets, it is rare for any link to be made between financial return and brand performance (Kerin and Sethuraman,1998, Madden, Fehle and Fournier, 2006, Yeung and Ramasamy, 2007).

Is this logical when all material and immaterial assets of a firm should be recorded, documented and audited? However, there is presently a major discrepancy between actual internal brand reporting and what is presented in the annual accounts of a listed company. A company's brand is, in most cases, not shown and valued systematically on the balance sheet (Rust et al., 2004) and is not subject to rigorous academic standards which shareholders can ultimately use as a key indicator of success or failure. This has led to a situation in which the financial impact on shareholders of either under or overbranding is barely recognized or measured systematically, despite the fact that the concepts of *strategic branding, brand equity* and *brand value* were introduced and discussed in some detail in the early 90's (Aaker, Kerin, Simon and Sulivan, Swait, etc). Furthermore, expenditure in this field is becoming substantial, with companies devoting on average 3–5 % of their turnover (source: Thomson Financials 2000-2003) to branding. Well-managed brands provide effective barriers to competition, develop customer loyalty and provide firms with enhanced pricing power and channel-distribution advantages as highlighted, among others, by (Balmer, 1995, Harris & Chernatony, 2001).

Key stakeholders, including the board of directors, are faced with three fundamental and strategic branding dilemmas; (a) What is the appropriate level of long-term strategic branding? (b) If a powerful brand is generally considered and accepted as an effective means of generating shareholder wealth, how should it be measured and controlled strategically?, and (c) Finally, should a monolithic or rather a multi-brand strategy be applied? If these issues are dealt with appropriately, the firm in question should be on a path to better financial performance and a considerably enhanced competitive position. Regrettably, this evolution towards a more investment-based branding approach is less simple in practice than in theory, and appears even to constitute an insurmountable barrier for most executive teams and thus, in particular, undermines the creditability of marketers in the eyes of financial constituents such as shareholders and financial analysts. The link between performance and branding is a pivotal topic for scholars and practitioners, but it is also a very complex task to fully estimate the true relationship between various strategic factors. It is obvious that branding in this context cannot be valued and analyzed in isolation, since other critical elements such as investments in R & D, capital expenditures, balance sheet management and ownership structure including return expectations, could also have a decisive impact.

Previous studies in this field have applied more rudimentary models where causality between, for example, turnover and marketing was tested. The strength of the work is that, to the author's best knowledge, it is by far the most comprehensive model developed in this field and it has been applied to the largest sample data set so far (close to 14,000 corporations) used in branding research.

The model was constructed with due consideration to ensure that all major problems and challenges concerning large simulation systems were observed, including fixing the numbers of explanatory variables to ensure that no over-identification or simplification would occur. The final decision, after an elaborate trial and error phase, was to work with a model based on 14 independent (explanatory) variables. Each variable was selected in order to capture what were identified as the key business performance drivers. The development of such a conceptual framework is always a balancing act. On one hand, there was the clear objective to move away from more simplified branding models (Keller & Lehmann, 2002, Epstein & Westbrook 2001, Srivastava, Shervani and Fahey 1998) used in the past. On the other hand, however, large scale models with numerous variables would automatically suffer from a diminishing degree of freedom. The selected number of variables covering this research work is significant and the problem of diminishing degree of freedom was compensated by having an exceptionally large data set. This selected approach significantly increases the likelihood of detecting major structural patterns and parameters. Having in the best case close to 14,000 companies in the database, provided a significant degree of certainty that all parameter estimates between branding and financial performance could be identified.

The other critical assumption is that only a strategic time perspective is applied in order to eliminate the short-term impact new or regular activities, including marketing campaigns. The concept of a strategic branding should be understood implicitly as a decision which entails significant and important deployment of resources, senior management commitment potentially including the board of directors and isn't easily revertible (R.M. Grant. *Contemporary Strategy Analysis* p. 14). There are at least four major conceptual challenges that have to be discussed and considered when doing research in this field: (a) it requires the development of a conceptual framework which contains all value components associated with the brand equity of a listed firm (b) the selected sample must be controlled for any major regulatory or accounting standard changes regarding marketing or branding expenditures under IFRS/GAAP during the research period (c) the model must be valid across very different industries ranging from companies extracting and processing raw materials and to high tech firms in the fiels of IT and pharmaceuticals (d) appropriate selection of statistical methodology. These 4 challenges are described and discussed in the subsequent sections.

Challenge I - Definition of branding and the impact of branding across different industries.

In order to obtain a more structured and comprehensive overview of branding activities in different industries, the entire data set was classified into 13 different categories. Furthermore, the application of branding is fundamentally industry specific which further complicated the research work. Moreover, adopting an investment-driven perspective focuses the general discussion on (a) resource allocations seen from a shareholder perspective (b) the strategic context (c) finally the development of a strategic branding framework which could be used for future decision makers. In order to distinguish this approach from the general branding literature, the notion of corporate *brand thrust was introduced which simply includes all branding expenditures of a corporation and places them in a dynamic context.* In the presented papers, brand thrust is defined as the total financial resources a company allocates to develop, build and maintain the values and signals of its brand(s) including marketing activities and emotional features, with its products or services and its combined efforts in representing and distributing its bundle of goods and services to its constituency, over a defined period of time.

By introducing a resource-based view on branding and applying the brand thrust concept it was possible to pose a significant question on the economic importance of branding: "Are companies spending adequate resources on establishing and maintaining the optimal value of their brands, and can the economic impact be identified and measured by the shareholders in their financial results? The answer to this question could have a significant influence on future branding strategies not only from a financial perspective, but also as a basis for the development of new branding strategies, co-branding initiatives (where several brands are used in conjunction) and future investment plans. Kerin and Sethuraman (1998) have already suggested that enhanced branding efforts appear to be related to higher market-to-book values, but caution that brand value growth at the firm level does not necessarily produce a commensurate growth in shareholder value. The advantage of the brand thrust concept, compared to a traditional marketing model is that it is: (a) it encompasses the entire brand value chain (b) it is a consistent approach where the relevant data can be extracted from international databases (like Thomson) (c) it can provide a consistent platform for regression analysis of a diverse and global sample base, for which no manual adjustments or arbitrary corrections are made.

Obviously, marketing is the most visible the component in the brand equity chain. It has been researched extensively over the last 3 decades,- yet it is only one of the various components which a corporation uses to establish and build its brand equity. The traditional school of mass consumer marketing originated in the 1920's with Lord Lever and was gradually accepted and implemented by a whole range of fast-moving consumer good companies (FMCG). Today, most of them are listed: Coca-Cola, Nestle, Procter & Gamble etc. and each is included in this study. The best way to illustrate that brand equity is a much broader concept and must be measured wider is to use Coca-Cola Inc. as an illustration. Since the 30's, Coca-Cola has, been using extensively local and global marketing campaigns in order to build their brand. However, the distribution part is equally important in brand building process: Coca-Cola trucks and smaller delivery vans are highly visible from a consumer perspective and used as an integrated means of building the brand. Once the product arrives at the point of sale, significant financial resources are invested to ensure the best visibility; this again promotes the brand, and would also have to be factored into a performance equation when measuring the total branding investment.

However, in many industries the tangible and visible part of direct marketing is only a fraction of the total expenditures on the overall brand value chain. This is particularly an issue in the area of industrial goods, where direct marketing is, for obvious reasons, limited and all brand building focuses on having as many direct client contacts as possible, including tailor-made product presentations, providing a high service level which is branded and, frequently, a unique distribution system. Each of these components should take into account and measured as brand building activities.

More specifically, the concept of brand thrust was developed as a proxy for total branding expenditures. For the present research, a decision was made to build a model consisting of three expenditure categories, each of which is reported in Thomson Financials:

(1) Overheads: this includes not only the central marketing and sales staff, but also costs at the affiliates.
(2) Distribution element: this encompasses all expenditures related to bringing the goods or services to the customer.
(3) ***Client system*** or marketing intensity: this includes all direct marketing and advertising expenditures, postage and freight, public relations and communication activities.

The key challenges in this doctorial work included only indentifying an appropriate definition and approximation of branding, as discussed above, but also to ensure that financial performance could be recorded and measured in a systematic and non biased way. The performances measurements used in this study can be categorized conceptually into three blocks: (a) market-based value (i.e. the development of the share price of a particular corporation which is listed on one of the included stock exchanges) (b) accounting values and (c) a combination of both values. This additional challenge is presented, analyzed and discussed in the subsequent sections.

Challenge II -Impact of accounting standards and regulatory changes.

The research work was performed on a global sample, which raises the fundamental question of whether the applied accounting standards are uniform across the different countries and sectors, and whether there has been any major revision of accounting standards during the research period, especially in the terms of how marketing or branding expenditures should be recorded and reported. International Financial Reporting Standards (IFRS), which are issued by the International Accounting Standard Board, began operating in 2001 and is basically a continuation of the work conducted by International Accounting Standards (IAS). Presently, these standards are applied by more than 100 countries, including the European Union and most countries in the Far East. Notably, the United States and Canada still follow Generally Accepted Accounting Principles (GAAP) and will be transitioning fully by 2016. When assessing the above questions it is necessary to identify what standards one is dealing with and where there have been significant revisions made during the research period (1997- 2003). Conceptually, IAS 3 and IAS 38 cover the area of intellectual property, including branding and good-will. There were no major revisions of those guidelines during this period; they were introduced in 2005 when IFRS 3 was changed in order to factor in the status of brands in the context of accounting of merger and acquisitions. Prior to this modification, the relevant accounting standards were very clear, since brands would not meet the recognition standard for inclusion in the balance sheet as an asset (Sinclair and Keller, 2007). Globally, significant resources are being invested in harmonizing accounting and reporting standards in order to provide comparable information between different firms and a strong foundation for a global and uniform capital market. This said, there is still some uncertainty, especially when dealing with business combination and impairment tests, where brand equity is not always interpreted in a uniform way. This has been highlighted, among others, by the International Interpretations Committee (IFRIC). What is important from a research perspective, is the fact that those accounting standards remained unchanged during the entire testing period and thus did not bias any research findings.

Challenge III : Shareholder benchmarks

What would be the most appropriate and relevant economic benchmark in measuring branding performance from a shareholder perspective? In this dissertation, three accounting-based values are analyzed and discussed, namely Return on Equity (RoE), Return on Assets (RoA) and Market to Book / Tobins Q. The first two standards are widely applied in econometric studies and are easily defined, since Return on Equity basically measures the percentage of book value return to the company's equity holders (shareholders) and Return on Asset is the combined return to both equity and debt holders. As shown and discussed below the main difference is, that interest expenses should be deducted in the earnings measure of Return on Equity.

Return on Equity (RoE) measures the rate of return on the ownership interest (shareholders' equity) of the common stock owners. It measures a firm's efficiency in generating profits from each currency unit of shareholder equity (also known as net assets or assets minus liabilities). It shows how well a company uses investment to generate earnings growth. RoE is equal to a fiscal year's net income (after preferred stock dividends, but before common stock dividends) divided by total equity (excluding preferred shares), expressed as a percentage, where the formula looks is as follows;

Return on Equity (RoE) = Net Income / (Total Equity – Preferred Shares)

However, not all high-RoE companies are not necessarily good sustainable investments. Some industries in the selected data sample have high RoE, only because they require limited assets, such as international consulting or IT firms. The opposite dimension in the database is the traditional capital-intensive firms, such as natural resources and infrastructure providers. Generally, capital-intensive businesses have high barriers to entry (Porter, 1999), which limit competition. Yet, high-RoE firms with small asset bases have lower barriers to entry. Thus, such firms face more business risk, because competitors can replicate their success without having to obtain much outside funding. Return on Equity, as with many financial ratios, is best used to compare companies in the same industry.

An alternative benchmark is ***Return on Assets*** which can, according IFRS be computed as:

Return on Assets = Net Income – Interest Expense – Interest Tax Savings / Avg. Total Assets

The number will vary widely across different industries and sectors. Return on Assets gives an indication of the capital intensity of the company, which depend on the industry: companies that require large initial investments generally have a lower return on assets.

Return on Assets is an indicator of the profitability a company before leverage, and is compared with companies in the same industry. Since the figure for total assets of the company depends on the carrying value of the assets, some caution is required for companies whose carrying value may not correspond to the actual market value. Return on Assets is not useful for comparisons between industries, because of factors of scale and unique capital requirements (such as special reserve requirements (Basel II) in the financial sector).

Another potential issue, when working either with Return on Equity or Return on Asset, is what proportion can truly be attributed to ordinary financial performance and what was caused by extra-ordinary activities and/or items. Especially returns from non-operating financial assets, including marketable financial instruments like SWAPS and pension fund liabilities can distort the real performance picture. One could argue that these components should be excluded from the actual calculation of financial performance. Conceptually, the next issues which arise are the debate on the materiality impact of such non-operating financial assets and whether or not to include returns from extraordinary activities. Indeed, the exclusion of extraordinary gains or losses from the performance calculation could be highly disruptive, since it could contain the component with respect to which management could have demonstrated that it has initiated strategic initiatives, which compared to other competitors, had lead either to an above or below market-performance. Furthermore, in this study, in which a large data sample was applied to most piecewise intervals, the law of large numbers would be applicable and thereby support the validation of the underlying research findings. In the final research work, all financial results were included as presented to the respective stock exchange and no corrections or deductions were made for extraordinary events or items.

Other final financial benchmarks applied and tested were market to book and Tobin's, Q which are both hybrid measurements, for which a combination of accounting standards and market-based information are used. Both ratios use the market value of the firm's liabilities in the numerator. This said, there is a significant variance between both standards, since the market to book value uses the market value of the corporation's liabilities, while Tobin's Q is based on a concept built around replacement cost.

The key advantage of using market to book value is the fact that one would not have to consider the potential impact of extra-ordinary items in the annual accounts. This discussion has been covered in the previous section and will not be elaborated further, but conceptually it is important to be aware of this material difference. Furthermore, market to book values might also be a more reliable benchmark, since it can be considered as more objective and less influenced by the subjective interpretation of accounting standards. Ironically, both local and international accounting standards do provide room for interpretation. They cannot be considered as scientifically accurate and allow management with limits, either to adopt a very aggressive or conservative approach to financial results, without violating any rules or regulations. By contrast, management would, in theory, not be able to arbitrarily influence the stock price development.

The obvious disadvantage of including any part of market based-information, such as the stock price, is that the market might be a less rational indicator than the audited accounts. Periods of exuberant market behavior do occasionally occur (Greenspan 2001), but the counter-argumentation is that the final impact on the research work is limited, since it would influence all firms in a fairly similar way.

How is Tobin's Q defined and applied in this research work? It is a ratio comparing the market value of a company's stock with the value of a company's equity to book value. Theoretically, the ratio is defined as the market value of the firm's outstanding financial claims, divided by the minimum market costs of replacing all the assets represented by the firm's outstanding financial claims. Originally, the ratio was developed by Tobin and Brainard (1969, 1978). As mentioned before, it is calculated by dividing the market value of a company by the replacement value of the book equity which can be shown as follows;

Tobin's q = ***(Equity Market Value + Liabilities Book Value) / (Equity Book Value + Liabilities Book Value)***

Another use for q is to determine the valuation of the market as a whole. The formula is that Q is the value defined by the stock market, divided by corporate net worth (i.e replacement value). Conceptually, if the market value reflected only the recorded assets of a company, Tobin's q would be 1.0. If Tobin's q is greater than 1.0, then the market value exceeds the value of the company's recorded assets. This suggests that the market value reflects some unmeasured or unrecorded assets of the company. High Tobin's q values encourage companies to invest more in capital, because they are "worth" more than the price they paid for them.

If a company's stock price (which is a measure of the company's capital market value) is 2 and the price of the capital in the current market is 1; the company can issue shares, where the proceeds from equity raising should be invested in new projects. In this case, where $q>1$, this argumentation is important, since it could also indicate when one should invest in the particular firm including its branding activities. The underlying assumption would of course be that q can be measured accurately and in a timely manner without any kind of bias.

On the other hand, if Tobin's q is less than 1, the market value is less than the recorded value of the assets of the company. This suggests that the market may be undervaluing the company. Tobin's discoveries show that movements in stock prices are reflected in changes in consumption and investment, although empirical evidence reveals that his discoveries are not as rigorous as one might have thought. This is largely because firms do not base investment decisions blindly on movements in the stock price, rather, they rather examine the present value of expected profits and future interest rates.

Tobin's q reflects a number of variables, in particular, the intellectual capital of the company. This has been severely criticized including by Doug Henwood, (1997), who argues that the q ratio fails to predict investments accurately, in contrast to Tobin's claims. Furthermore, it might also be plagued by some significant measurement errors, since it is difficult to measure replacement costs, including such items as leased assets and current stock. Also, this method does not include any reliable and systematic way to account for immaterial assets, including patents and brands.

Challenge IV : Statistical descriptions of how the W - function is carried out

The purpose of this section is to introduce to the reader the statistical model as applied and the analytical background used in this dissertation. Conceptually, this research work is based on a structural equation model with three endogenous variables, where financial performance can be measured, as previously discussed, by using Return on Equity, Return on Assets or Tobin's Q.
The performance equation was inspired largely by the work of Morck, Schleifer and Vishny (1998), previous research executed at CBS and in-depth discussions with various leading branding executives.

This dissertation develops and tests a multi-variant and simultaneous regression model with three endogenous variables: financial performance, branding and expected financial performance. The selection of this method automatically triggers a series of important statistical issues including: testing for the non-linearity of branding as a function of financial performance, endogeneity problems, functional specification areas, causation, risk of omitted variables, timing and measurement errors. Three important actions have been conducted to ensure that the statistical findings are reliable and free of biased results: (a) each of the endogenous variables has been tested on alternative definitions of the variables, (b) these analyses have been conducted on weighted regression samples as well as non-weighted regression samples, (c) different sample sizes have been applied commencing from more than 13,500 companies in the total data sample, and cutting this down to 780 in the sample where only banks are analyzed.

Should in this dissertation a nonlinear relationship been used e.g. an appropriate transformation including polynomial equations? This obvious question subsequently rises whether the correct statistical model was selected in this dissertation and, whether ultimately one can implicitly establish any kind of linearity, either during the entire test interval or for parts of them. Can one implicitly assume that the correct statistical model was selected? In reality, this is more easily said than done, to imagine a research work which does not suffer from some degree of model - specification inaccuracy. The simplest assumption would be to claim that there is a straight linear function between branding and financial performance and to design the final statistical model accordingly.

Moreover, polynomial specifications are typically only used to test simple relations such as U shapes or inverse U shapes. For polynomial specifications of higher orders (third or forth degree polynomials) real world regressions tend to become unstable and result in low statistical significance so it is not really suited in order to test a more complex relation like the 'truncated W shape'. The terminology truncated is deliberately used because the last turn in the W was not significant because there were too few observations in this interval which can hopefully be addressed in future research work. No previous studies in this field have tested for non-monotonous relationships by regressing squared branding expenditures. This condition can only test for bell curves that cover the entire branding expenditure interval from 0 to 100 % which in the view of the author is even a larger weakness than working with a piece-wise model structure.

The selection of an appropriate regression model can and should also be discussed. In this case, the standard ordinary least square model was selected, as it was deemed to be the most appropriate fit, based on other studies in this field and studies in which a similar methodology was applied. Moreover, there are no previous descriptive statistics for this data set which provide any guidance on means, standard deviations or correlations between the variables. Such basic information is simply necessary in order to understand the structure of the dataset. One of the pitfalls of statistical analysis involving correlations is that correlation is often confused with causation. If one variable increases together with the other, the first is not necessarily causing the second to increase, or vice versa. Most likely, there is a relationship between the two variables, but simple statistics are often unable to provide evidence of a causality linking the two.

A rigorous method for an independent verification of all empirical findings and analysis was established and is based on four guiding principles: (a) only external, highly-regarded international databases (Thomson) are used, (b) all results are published, (c) entirely document how the data collection was prepared for analytical purposes (d) all results can be re-calculated and reconfirmed by a third party, if desired.

Academic Framework

At present, it is obvious that particularly the areas of marketing and branding research have lately gone through considerable soul-seeking (Vargo, Steven and Robert, 2004), with scholars questioning the very fundaments of the discipline. Severe criticism and scepticism are evident with respect to the general paradigm, with allegations of a lack of real scientific foundation, or claims that the field of branding cannot be considered as an independent academic school of thought.

While this debate may have merit in some respects, it is clearly evident that an eminent group of scholars explored the economic rationale for branding expenditures beginning in the early 1990's. A variety of perspectives have been researched, including stock price analysis (Simon and Sullivan, 1990), replacement cost (Aaker, 1992), price premiums (Aaker, 1992), equalization price (Swait, 1993), modelling (Kamakura and Russell, 1993), brand attributes (Lassar, et al., 1995), and brand loyalty analysis (Feldwick, 1996) and brand value – shareholder value (Kerin and Sethuraman (1998). Furthermore, the Profit Impact Market Strategy,- PIMS School (Buzzell and Gale, 1987) focused extensively on the link between financial performance and business strategy, and also confirmed a correlation between market share and share of marketing expenditure. However, with few exceptions (Madden, Fehle and Fournier, 2006, Yeung and Ramasamy, 2007), there has been only a limited focus on the link between branding, including brand equity, and financial performance seen from a shareholder perspective over the last decade.

Another academic challenge is how branding should be understood and defined as a paradigm, and consequently, this definition provides the basis for quantitative research. Branding is a popular concept among scholars (Kotler, 1999), and refers to the way in which companies differentiate their products and services from those of their competitors. In the literature, *brands* are viewed essentially as signals which help differentiate one product or company from another, identifying the product and its source, and often evoking associations and images The literature offers numerous definitions of branding and brand equity (American Marketing Association, Keller, 1993, Aaker 1991, etc.). Branding thus entails the processes and activities associated with the establishment and communication of these signals and associations. Several definitions of *brand equity* have been formulated, such as "a set of brand assets and liabilities linked to a brand, its name and symbol that add to or subtract from the value provided by a product or service to a firm and/or to that firm's customers" (Aaker, 1992). Historically, there has been general acceptance (Aaker and Biel, 1993 Prentice, 1991, Ryan, 1993) that one of the major contributions to brand equity is direct advertising, but there are clearly other elements like marketing and sales activities, that should also be considered.

Recently, various different academic schools of branding have focused more on the organizational aspects, at the expense of an in-depth analysis of the economic implications (Balmer, 2001, Harris and de Chernatony, 2001). Some Scandinavian scholars (e.g., Jenster & Smith, 2005 and Schultz & Hatch, 2003) have adopted a new approach in conceptualizing marketing and branding. Their holistic approach focuses particularly on organizational culture and core values as the building blocks of a given brand, whereby these become the primary source of value creation and differentiation for all stakeholders. It is clear that this could lead to a new and distinct school of thought in the area of branding. In contrast to American research traditions, European and in particular, Scandinavian scholars, analyse the interaction between different stakeholders and the strategic implications of different approaches in greater depth, and to a lesser extent, assess the link between branding and financial performance. As emphasised by Balmer (2001) and others, these significant different views on branding have led to considerable academic challenges and a degree of what could be termed *scholastic obscurity*. Furthermore, in the area of brand equity, the academic world has been divided into two conceptual schools of thought: (1) the brand-perception school, based on consumer preferences (e.g., Cobb-Walgreen, 1995, Farquhar, 1994) and (2) the economic school, based on objective financial and market-based criteria (e.g., Buzzell and Gale, 1987, Doyle, 1990, 2000 and Lehman 2004).

In this present work, an economic perspective has been used as an academic anchor point in developing the corporate brand thrust concept, since this could potentially yield a more monetary perspective to branding and address many of the managerial concerns hidden in the "academic obscurity". Hence, scholars are, from a scientific perspective, not faced with a bounded rationality issue, since the prerequisites are in place for conducting a performance-related financial analysis of branding. In 1993, Aaker and Biel demonstrated that, over time, successful strategic branding strategies enhance the brand equity of an enterprise, which is linked to the stock price development. They also claim that strategic branding is an instrument which can be used to mitigate competitive pressure and enhance financial performance. If one accepts the concept of strategic branding, it is also obvious that stringent requirements must be established in order to measure the financial results of such initiatives. One without the other renders the exercise absurd and irrelevant.

Is there a need for a paradigm shift in the current research focus? Traditionally many marketers and researchers focused exclusively on consumer marketing, brand building and the organizational perspectives of branding. Intuitionally or perhaps even intentionally, outsiders can only speculate that the prevailing assumption among marketers was that the shareholders would ultimately pay the branding bill without any further justification. Marketers only (indirect) investment justification tool was consumer research either developed internally or procured externally. They were equally surprised to discover that at each recession the marketing budget was the first expense line to be cut without any rational or scientific approach. Did we ever hear at the annual general assembly a shareholder asking the chairman of a listed corporation what is the financial impact of a 10 % increase or decrease of branding expenditures on share performance? There has so far simply been a total lack of systematic feed-back to shareholders (Wright & Davies, 2001, Sheppard, 1994) and, since the brand isn't recorded systematically on the balance sheet (Rust, 2004), it gets minimal attention from shareholders and also from financial analysts following listed companies.

This raises the next conceptual question of whether branding can be transformed from a discipline of craftsmanship and intuition, into a truly academic environment, based on a model of brand-value - shareholder nexus. Obviously, this would require some conceptual stepping stones in order to build on a positivistic and quantitative research approach. It not only requires a solid epistemological foundation, but also the development of an appropriate and relevant hypothesis which can be tested.

The subsequent sections consider how a relevant hypothesis for branding and financial performance is developed, as well as the way it should be formulated. A general statistical regression model is tested, based on this hypothesis, which also entails a definition of branding and brand thrust as material components in building a relevant research framework. Finally, there is a presentation of the research results and a critical review of the conclusions arising from the regression analysis.

Is there a Universal Performance Model?

The dissertation challenges conventional wisdom i.e. that there is a concave relationship between firm performance and branding**.** Aaker (1993), who is admittedly one of the leading scholars in this field, has been a strong proponent of a concave relationship between branding and firm performance. However, this hypothesis is not universally accepted (Balmer 2002, Keller 2003, Yeung & Ramasamy, 2008) .

The uniquene contribution of this dissertation is the argument that branding must be analyzed in different strategic piecewise intervals and that the true relationship between branding and financial performance in some industries follows what can be described as a simplified "W" pattern.

The strength of this dissertation is that it critically assesses the various components of building up a brand and how the associated expenditures should be categorized and assessed. The simplest assumption would be to claim that there is a straight correlation between branding expenditures and shareholder performance. In reality, a firm's brand value is not only captured by the level of branding or marketing expenditure which would be an over-simplification and not reflect the various value drivers within a brand equity chain. Furthermore, there are very material industry-specific factors which would also have be factored into any kind of research model and would implicitly either directly or indirectly exert a significant impact in the chosen field of research. These factors are determined by such components as consumer legislation (healthcare, alcohol, tobacco), branding efficiency (telecom), competitive pressure (consumer electronics, energy and utilities) and industry structure (business-to-business, banking, fast-moving consumer goods, etc). In order to illustrate and document the significant importance of these factors and their relationship to a particular industry, a special database was established. Here the current marketing, distribution costs and other overheads costs were expressed as a percentage function of sales revenue for 13,974 listed companies, and with each of them having its own industry classification. While the average marketing expenditures expressed as percentage of sales revenues was 5.5 %,- there could be a factor difference of close 12 between the highest (pharmacy- drugs / FMCG and air transportation where up to 13 % of turnover could be used for marketing versus the lowest, energy, where only 1 – 2 % would be used).

Hence in order to fully comprehend and appreciate from a shareholder perspective the true contribution of brand building it is necessary to analyze the entire value chain. The impact of one marketing campaign can be measured but it will be the totality of the various components which will show the real branding power of a corporation and ultimately what returns it yields to its shareholders.

To further illustrate this point, an advertising campaign may fail without having any long term branding impact at all. The concept that a firm's brand is merely a function of marketing expenses has to large degree been ignored in previous studies but it will, without doubt, be more critically discussed in future research especially since strong brands not only deliver greater returns to shareholders but also do so with significant less risk(Madden, Fehle, Fournier, 2006)

Hypothesis

The development of an appropriate and relevant hypothesis for the relationship between branding and financial performance for this dissertation is based on two observations; (a) The findings of Kerin and Sethuraman (1998), showing that the functional form of the relationship between brand value and market to book value is concave with decreasing returns to scale (b) strong brands deliver greater returns to stockholders and do so with less financial risk than companies not focusing on branding (Madden, Fehle and Fournier, 2006).

The obvious question is whether the correct hypothesis and statistical model have been selected in this dissertation. Can one implicitly assume that the correct methodology and statistical model have been selected whenever testing the hypothesis? In reality, it would be more easily said than done, to imagine a research work which does not suffer to some degree of model specification or methodology inaccuracy.

Furthermore, it is necessary to factor in what would and could constitute the relevant causal pattern between branding and financial performance across different industries. My final assumption was that the relationship between branding and shareholder performance could be described as a reverse U-curve, with an optimum level for each company, based on its strategic situation (where piecewise factor should be considered) and at a given point in time**.** Once the optimum is exceeded, the company would be faced with diminishing returns and subsequent a destruction of shareholder value. The reverse argument would of cause prevail, if the company under brands compared to its strategic situation and at a given point in time.

Overall, the assumption is that, with regard to branding, managers are expected to make rational decisions and operate in a perfect market environment. Furthermore, tactical branding considerations about media selection methods, communication style, the impact of marketing cycles and so on, do not form part of this dissertation.

Methodology

In other to obtain a satisfactory research structure, it became obvious that a cross-functional approach was necessary, with branding, corporate finance and statistics being combined in a conceptual framework. Before the end of last millennium, listed companies only provided data to a very limited degree on the three abovementioned elements of Overheads, Distribution and Client System. This new wealth of information, published on a quarterly basis, and stronger statistical information packages, have opened up new research avenues. Little or no marketing and branding information from listed companies was reported until the beginning of this millennium. Today, there is an ample flow of relevant information for such assessments, and statistical approximations can be used for this very limited group of companies providing insufficient data. The research was based on a sample size of more than 10,900 international corporations, all of which list and report their results to Thomson Financials, Extel or Bloomberg. Listed companies are considered as a secondary data source, but were selected, since they have more stringent reporting and corporate government standards and, in general, provide more reliable and standardized information about their branding activities than unlisted firms. The research was built up in three distinct steps and combined with a range of pre-tests in order to provide the most appropriate regression model. For the final model, the relationship between strategic branding and financial performance was researched by using Ordinary Least Square (OLS) analysis. Each model was constructed with 12-14 variables, with deductions made, amongst other factors, for the firm's market share, market beta risk, capital expenditures, sales, R & D expenditure, ownership structure and long-term debt. It was essential to identify the correct variables, in order to ensure that the explanatory power of the model would be significant and statistical disturbance minimized. Each variable could potentially exert a material impact on the final research result.

Should one select to apply a methodology based on a linear or none linear regression model? A simple linear regression model, based on a cross-sectional construction, might be seriously biased. The current academic studies do not provide significant evidence that there is only one, globally acceptable methodology which can be applied for studies in this field. Furthermore, there is also no clear conclusion about the genuine contour of the relationship between branding and financial performance. In order to overcome this potential criticism and use a model framework which is also applied in other economic studies, a piecewise linear regression model was developed. This selected approach further strengthens the conclusions presented in the subsequent sections.

The advantage of using a piecewise linear specification instead of a polynomial specification, is primarily that it facilitates setting the cut points by oneself instead of having the regression fit the turning points. This allows for more precise hypotheses testing. The used cut points are not arbitrary guesses, but are the percentages that were deemed as appropriate, after an extensive trial and error process and close consultation with leading industry executives. The turning points were deemed to be relevant, for example from 0 to 2% where some branding investments were wasted (s) because it was below the critical mass for an effective campaign. The prevailing belief was that for most companies, 10% would be ideal and above this level would be too costly and in-effective, given the level of the expected returns.
Subsequently, after an extensive trial error and error period, the branding expenditures were sub-divided into five intervals: 0-2 percent, 2-5 percent, 5-10 percent, 10-20 percent and +20 percent of current turnover. Branding was thus measured as a percentage of current turnover, or as the return on assets, except for financial institutions. Different versions of performance benchmarks were also tested in order to find the most appropriate solution.

Key Findings

The key findings for the entire data set are presented in Tabel I where also some key statistical variables are included. All regressions are cross-sectional year 1998-2000 OLS regressions or from 2000 to 2003. The reported values are parameter estimates and the numbers in the brackets are the associated t-values. All regressions presented here are based on weighted and substituted regression analysis, but identical calculations have also been conducted for non-weighted and non-substituted models. In the above mentioned table, the entire data set was used plus a three year time horizon was applied for each OLS analysis. In the subsequent chapters, (where the different papers are presented and discussed) smaller data samples are used for either a specific industry group like business to business or a special sector like banking.

Table I: Regressions - Branding effects on financial performance

All regressions include an intercept term, which is not reported. Dummies for industry ($DIndust1_{i,t}$) and country ($DCountry_{i,t}$) are included in all regressions, but are also not reported. Also not reported are five piecewise linear variables for the ownership of closely held shares.

Explanatory variables	Return on Assets Sample: 3 year average marketing	Return on Assets Sample: 3 year average branding	Market to Book Sample: 3 year average marketing	Market to Book Sample: 3 year average branding
$ADVP_{i,t,0\text{-}2\%}$ Advertising expenses	-1,39823 (-9.30)	-0,04930 (-0,28)	-0,17906 (-5,72)	-0.18056 (-6,83)
$ADVP_{i,t,2\text{-}5\%}$ Advertising expenses	1,367671 (8,06)	0,046778 (0,47)	0,558515 (15,84)	0.54534 (18,18)
$ADVP_{i,t,5\text{-}10\%}$ Advertising expenses	-1,74866 (-11,81)	0,117605 (2,66)	-0,25479 (-8,28)	-0,23462 (-8,92)
$ADVP_{i,t,10\text{-}20\%}$ Advertising expenses	1,563638 (7,61)	0.223728 (5,61)	0,280625 (7,58)	0,252049 (7,86)
$ADVP_{i,t,20\text{-}95\%}$ Advertising expenses	-0,65381 (-4,24)	-0.07596 (-7,49)	-0,03235 (-1,67)	-0,02266 (-1.35)
$DADVP_{i,t}$ Advertising dummy for substituted values	-0.18396 (-3.48)	0.280452 (0.87)	-0,01885 (-0,17)	-0.04775 (-0.51)
$MarkSh_{i,t}$ Approximated market share	-0.02619 (-1,50)	-0,02658 (-1,70)	-0,05642 (-15,27)	-0.05206 (-16,71)
$LTDebt_{i,t}$ / $Assets_{i,t}$ Long-term debt to assets	-0,001908 (-5,46)	-0,12514 (-7,00)	-0.001010 (-13,86)	-0.06423 (-17,77)
$BETA_{i,t}$ Stock market beta	-1,08106 (-5,53)	-1,26208 (-7,37)	0506657 (12,28)	0,460982 (13,26)
$CapExp_{i,t}$ / $PPECap_{i,t}$ Cap exp to prop pl & equip	0.011900 (2,41)	0,017894 (4,10)	0,010944 (10,59)	0,011729 (13,36)
$OpeInc_{i,t}$ / $Sales_{i,t}$ Operating income to sales	0.403595 (49,95)	0.364638 (51,23)	0.036820 (22,80)	0.034471 25,68
$R\&D_{i,t}$ / $Sales_{i,t}$ R&D costs to sales	-0,021364 (-7,60)	0,440865 (1,53)	0,092749 (15,78)	0,090445 17,82
F Value	51,85	54,95	111,09	124,69
Number of firms	6,770	9,207	6,957	9,714
Dependent Mean	9,70152	9,70471	3,01705	2,91
Adj. R^2	0.5854	0.57084	0.75041	0.7438

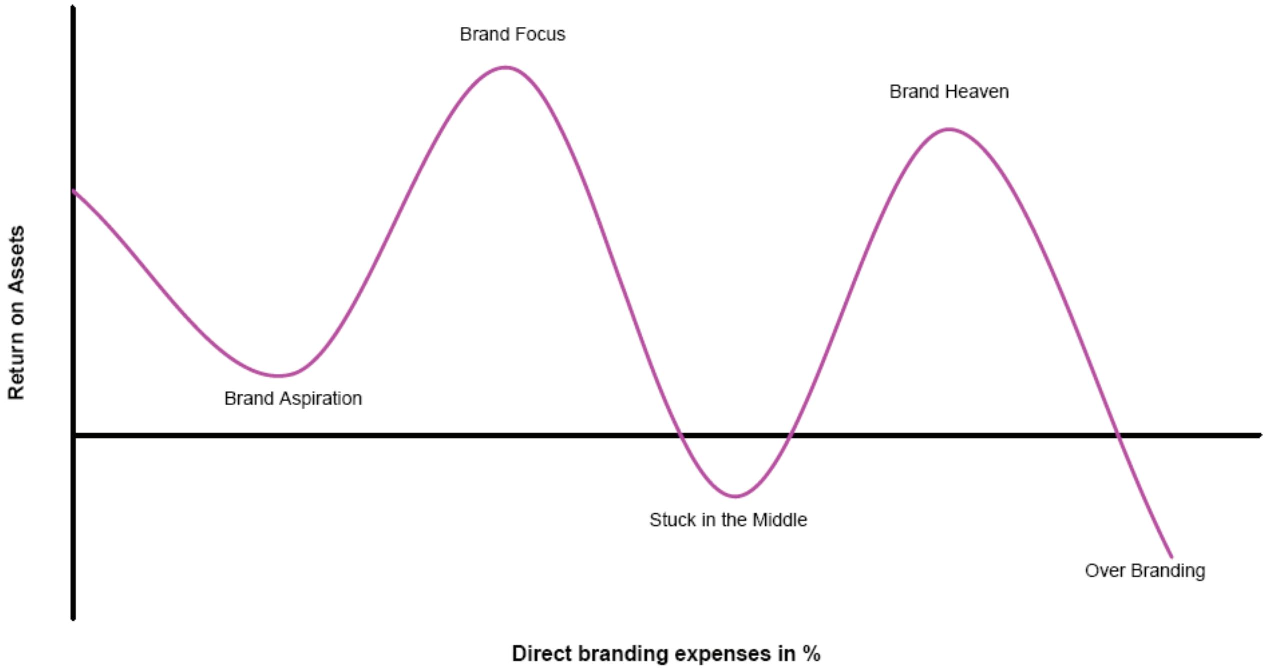
The average marketing expenditures (1998- 2000) expressed, as percentage of total sales were 5.58 %, with a standard deviation of 9.62 %. Marketing expenditures were fluctuated between 5.6 % and

6.0 % during the applied three-year period and the median between 2.43 % and 2.72 %. How does this compare to what companies invest in R & D, which is another intangible asset for which management would also have to make a deliberate choice, if they want to invest in a potentially enhanced future cash-flow stream. Here, the average R &D number for the entire sample was 1.72 %, when measured as percentage of total sales and the standard deviation was 6.75 %. The entire sample was divided into 113 primary industries, where the average market share for this listed global sample was 0.8 %, again expressed as a percentage of turn-over and with a standard deviation of 3.36 %.

Brand Thrust and W-function

The initial research, based on market-to-book value, revealed that companies achieve the highest return on assets when investing 2-5% or (10-20 %) of their turnover in branding. Conversely, branding in the 0-2% and 20-95% ranges leads to deteriorating performance. Thus, there is a clear optimal branding range for a firm and its shareholders. Interestingly, companies with an appropriate strategic branding position achieved a return of 3-7% more than other companies in the same interval. Most test samples reveal a simplified W pattern (function), with five different phases between branding and financial performance as shown in a simplified version in the chart below. Multi-variant analyses are by nature complex and there is a reversed caution risk which is discussed in a subsequent section. The W curve was plotted by using the t-values found for each interval. T-values identify the relationship between the calculated parameter value and its standard variation.

Graph I – Simplified W – Function (only for illustration purposes)



The W function's five phases are described as; (a) Brand Aspiration (b) Brand Focus (c) Brand Aspiration (d) Stuck in the Middle (e) Over branding. The applied terminology is used primarily for illustrative purposes. This said, shareholders face a peculiar challenge when dealing with branding investment. Not only should they define what the most appropriate long term branding level is seen from an investor perspective. Equally important is selection of the most relevant brand investment approach which would guide management either in the direction of focusing on their existing brand(s) or by taking radically different approach by either acquiring new brands through acquisition or merger activities. There is, from an accounting perspective, a significant and nearly absurd difference between those different avenues. Under IFRS, all branding expenditures are as general rule expensed in the year they do occur (IAS II). Admittedly, US-GAAP opens for the possibility on a very selective basis that some marketing expenditures can be capitalized over a number of years provided a very stringent set of rules are met. The reversed position actually occurs when a company decides to acquire a competitor. As a general rule, especially in the case for listed companies a significant premium is paid above the book value of the target firm. This difference is automatically classified as an intangible asset and depreciated over several years. International stock markets have already priced in this factor since the average value of a listed company is 40-75% above book value (Interbrand/Fortune 500/brand eGuide). Hence, there is a major paradox and biased approach factored into current accounting standards.

Brand thrust, as presented in this Introduction Section in this dissertation and the four subsequent papers, combined with the utilization of the W-function conceptual framework provides strategic guidance on how executives can get out of this dead-look situation. The reviewed branding literature (Aaker 1992, Kerin 1996) has as a general rule, used market to book value as a conceptual starting point and economic benchmark. Equally important is it to establish a benchmark for branding in the defined industry. Typically, this can either be expressed as percentage of turnover or per unit basis. Board of directors and investors should be especially alert once these strategic corner flags are established and subsequently when a strategic branding shift is taking place. These strategic shifts, generalized as a W-function, can best be describes as follows;

1. Aspiration: The original raison d'être of many business enterprises is based on a strong business concept, technical innovation or new service standards or adapted product concept (which might be protected by one or several patents), a change in manufacturing process or in the nature of approach its to customers. Initially, the company generally has a rather narrow strategic focus and is restrictive in its branding activities. In most cases, the company has for obvious reasons, none or only a limited number of foreign subsidiaries. The internal focus is on technical and manufacturing aspects or delivering the right services, and sales activities can best be described as pull-driven. Any branding activity tends to achieve a below-average return, since it is too limited (0-2% of turnover), ultimately yielding a negative financial impact. Furthermore, the company has short term difficulties in achieving economies of scale from a branding perspective, since the relative investments are too high compared to the (magnitude of) market potential. Another strategic dilemma leading to value destruction is when firms are convinced they are only selling commodities and deny making any branding investments. Nonetheless, there are examples that the opposite can be achieved in industries perceived as “commoditized” with considerable economic success for their shareholders.

2. Brand focus: The service level or technical strength of the company and superiority of the company starts to be recognised, not only locally, but through international sales. Frequently, it is a segment leader and has a sustainable competitive position in its field. The company starts to focus on branding, committing substantial resources (2-5%) to these new activities and sales grow rapidly. Branding investment in this range reinforces the values associated to the firm, eliminating communication barriers between current and potential purchasers and mitigates the risk of customers making a non-optimal purchase decision. The outcome of the research showed that there is always a positive and robust correlation between branding activities and financial performance in such a situation. This is not surprising, when comparing the results with previous findings in other industries (Buzzell & Gale 1987, Aaker, 1996, Ohnemus & Jenster, 2007).

3. Stuck in the middle: Further international expansion or expansion into new business areas or segments, combined with extensive branding activities, lead to wealth destruction, and most companies are strategically "stuck in the middle". Ultimately, branding expenditures now approach 5–10% of turnover. This high investment, combined with the weaker strategic position, leads to deteriorating financial performance. The bottom line is that the company is overextended and "attacking" too many new markets or segments at the expense of financial performance. One additional explanation and factor is that companies in businesses-to-business sales are often faced with higher technical and language barriers than other industries, anti-competitive forces are more pronounced (as observed in Japan, China Switzerland, France) and the market penetration period is longer. These negative elements have a negative impact on return on investment. Companies in this group are firms where aggressive internationalization plans, including significant investments in brand building, have during the research period resulted in below average shareholder performance.

4. Brand Heaven: as the company achieves a larger scale through its branding activities in the different markets and segments, it gains international synergy through these activities (as observed in many US or Japanese multi-nationals). It also achieves a stronger strategic position, and actual returns increase. Again, it is evident that there is a positive balance between the current branding investment and market position. This was confirmed by Buzzell and Gale (1987*)* in stable markets, market leaders on average reap 25 percentage points more ROI than small businesses. The brand has obtained a solid position where shareholders and clients are having an optimal situation defined as brand heaven. Expressed differently, the brand promise is fulfilled and all key stakeholders are satisfied.

5. Beyond Zenith (Overbranding): once the company has achieved a given size by international standards, it starts expanding into new and different activities (again), thereby increasing its branding expenditure and ultimately decreasing its financial performance. Spending more than 20% of current turnover on branding-related activities is not sustainable. Other companies in this range are typically start-ups, for which an inappropriately high level of investment in branding was observed especially during the dot.com era. Frequently, one observes the phenomenon of over-branding in this business-to-business segment. Management generally tries to justify it on the basis that branding constitutes a barrier to entry for potential new players. The bottom line is that managers in the beyond Zenith interval act irrationally in this context, since no equilibrium is established from an economic perspective. Ultimately, shareholders pay the price and the company would either have to pass through frequent restructuring processes or it becomes a potential takeover target, if an economic equilibrium is not re-established.

The advantages of both Brand Trust and the W – function is that they provide decision makers with a strong and unique reference point for internal and external analysis and discussions. If applied, they also provide guidance and automatically force executives to highlight to their shareholders, if they are shifting from one strategic level to another. One can argue with some justification that the W-function is a rather simplistic way of approaching strategic branding investments. However, this research and especially its conclusions have been derived by using an inductive method after extensive empirical analysis and identification of correlation patterns and widespread discussions with scholar and leading industry executives about what could be the underlying phenomena and background for this pattern. These generalizations, as previously discussed and selection of a piecewise model (W-function), as strategic branding tool have been based on repetitive analysis and an exceptionally comprehensive data sample.

However, these findings and phases raise issues of strategic causation and its implications.
Research in this field is faced with some empirical measurement problems which can cause biased results. Most leading statistical methods assume that variables are measured without error. In reality, it is virtually impossible to measure any economic variable without some degree of error and this may seriously undermine the quality of statistically-based conclusions. Broadly speaking, this measurement occurs in two categories (a) errors in variables, including proxy and conception errors (b) errors in samples, including missing values (data) and truncation errors.

Furthermore, brand thrust can and should by no means be considered a static variable, since there is clearly a strategic investment perspective in order to achieve the actual branding equilibrium. This requires de-facto current branding investments are either accelerated or slowed down, depending on the branding position of the firm.

Furthermore, research methods of this kind automatically raise questions about reverse causation or endogeneity, because financial performance may also determine branding expenditure, especially in a recession environment, or if a corporation is financially distressed. Admittedly, this constitutes a real problem, since it causes OLS estimators to produce inconsistent estimators and they could become biased. However, there are good reasons to believe that, after running hundreds of modified model versions with several definitions of financial performance, branding and different regression samples, the simplified W shape function emerged consistently. This would not be possible if the selected methods and functional form were not indeed valid**.** Furthermore, four different statistical methods were applied: non-weighted – non-substituted, weighted non-substituted, non-weighted – substituted and weighted and substituted. The R^2 results are satisfactory (60-80 % range), except for weighted non-substituted, where this test showed an R^2 result of 38 %. Overall, the results were similar across different industries. However, in the business-to business area, the shape of the simplified W function was less pronounced.

Measurement Problems and limitations

A several of the key empirical issues related to measuring branding, combined with financial performance, are linked to primarily measurement weaknesses and potential data contamination.

The impact and classification of branding, and how it should be measured is vital since these conceptual cornerstones plays a major role in the understanding and development of brand thrust. Ironically, as service plays an increasing role in determining customer value, brand impact shifts from the product to the company level, leading to a situation in which the current value of intangible assets is significantly higher than that of tangible assets. In the food processing industry, for example, brand-related factors (i.e., intangible assets) now exceed 80 percent of a company's market value (Simon and Sullivan, 1993).

Another key challenge is to identify a relevant and reliable benchmark for financial performance. In this respect, companies were divided into two major sub-samples: non-financial and financial. This approach was taken, since it is not meaningful to use Return on Assets (RoA) as a performance benchmark for financial institutions. In the sub-sample covering the financial institutions, Return on Assets (RoE) was therefore used as a performance benchmark. This aspect of the research also raised various fundamental questions: could conclusions drawn from one industry segment be applied to other industries? Does the size of a corporation have a particular impact on financial performance? Could differences in the behaviour or ownership structure of companies in the USA or Europe have an impact on performance? One could also question whether the current financial performance of a company is driven by other elements, such as the product life cycle of the corporation, including management commitment to branding, its history in the field of research and development, or recent changes brought about by merger or acquisition activities. This debate cannot stand in isolation and must be analyzed and evaluated in conjunction with the current level of expenditure on branding. Furthermore, the barriers between corporate or product brands have always been rather hazy, and in this study, no differentiation is made. A range of leading global companies including IBM and Shell, which form part of this study, follow a single (corporate) brand-strategy approach, while most fast moving consumer companies, including Nestle, Procter & Gamble, etc. actively brand and support a vast range of different brands. No differences were made in the sample between companies using a monolithic, as opposed to a pluralistic branding strategy, since the current consideration is that also in this case, management is dealing with a decision about investing in branding and would ultimately have to be accountable to the shareholders.

The final challenge is to define a relevant and reliable time horizon. The debate on selecting the right time horizon is fundamental, and Prentice and Ryan (1991) established that the impact of principal image advertising lasts for approximately four years, whereas for other product categories and services, this could be as low as one year or even less. By taking a medium-term (in this case, a one to three year period) on branding, rather than focusing on short-term fluctuations and quarterly campaigns, the aim is to determine whether there is a direct correlation between company performance and overall branding intensity.

Statistically speaking, one is also forced to find approximations for corporations which have been merged, declared bankrupt or forced out of a particular industry (such as Nokia moving from consumer electronics in the 80's/90's and into telecommunication a decade later). If not handled appropriately, these situations could lead to a biased sample.

In our order to get a very comprehensive picture of the actual robustness of the model four different statistical methods: (a) none weighted – none substituted (b) none weighted but substituted (c) weighted but not substituted and (d) finally weighted and substituted have been applied. The explanatory power of the model was in general satisfactory but showed, as one would expect considerable variation. The lowest R_2 results at 0.32 – 0.40 appeared for results that were none weighted and none substituted and the R_2 at 0.60 – 0.78 emerged when a fully substituted and weighted calculation method was applied. Subsequent test runs using either market to book value, or return on assets gave similar results and didn't change any of the preliminary findings or conclusions.

Statistical Issues, including Reversed Caution Risk and Correlation

When testing a hypothesis, the interaction and in particular the timing between branding and financial performance, is a critical issue which must be analyzed carefully before developing or testing any final theories. Biased or inappropriate timing can result in model specification errors. Furthermore, appropriate timing can be applied to target specific types of explanations, thereby reducing the likelihood that the supporting evidence could be interpreted as proof for different types of explanations.

The general debate about reversed causation or endogeneity is also relevant in this study because financial performance may also determine branding expenses, especially in situations of financial distress where firms could be tempted to cut such spending. Endogeneity poses a real problem for OLS (Ordinary Least Squares) regressions because it violates one of the assumptions on which OLS is based on, namely, that the explanatory variables must have zero covariance with the regression residuals (Gujarati, 1995, p. 60-65). This assumption violation is problematic because it causes OLS to produce inconsistent estimators (Greene, 1997, p. 710). The problem with inconsistent estimators is that they do not approach the true values as the sample size increases. Thus, the estimates may be biased, possibly to a degree where they lead to faulty conclusions about the nature of the theory that they are testing. The parameter estimates in this model could have been biased, however, there are solid reasons to believe that the problem is not grave enough to invalidate these conclusions. Despite having run hundreds of modified model versions with several definitions of financial performance, branding, and different regression samples, we kept on finding the 'W-shape' for most tests. This should not be possible unless the functional form is indeed true for underlying conceptual reasons.

Another option would have been to use Hausman's specification test to determine whether the model is significantly harmed by the correlation between the explanatory variables and the regression errors (Hausman, 1978). The choice was made against it as the Hausman test cannot confirm whether the correlation with residuals is caused by endogeneity or other circumstances such as measurement error or omitted variable (where the omitted variable is correlated with the included explanatory variable). Even the decision had been made to use the Hausman test and found evidence of significant estimation bias, the remedy to this problem, namely instrumental regression, suffers from its own problems that may prevent it from doing any better than OLS. The main problem with instrumental regression is to find qualified instruments, which are particularly difficult for regressions on financial performance, (Mathiesen, 2002, p.224).

One could argue that part of this work should have been executed as an event study. While this could be tempting, it would totally eliminate the strategic dimension of branding, since many marketing campaigns could be interpreted as special events. Furthermore, these event studies face two major timing problems: (a) what constitutes appropriate period for calculating the Cumulative Abnormal Returns (CAR) for each firm for example, if the time frame is too long, other events might exert a more decisive impact and it will not be possible to capture the true performance impact of any branding impact, (b) the impact of unofficial / insider information or industry information which is circulated prior to any official announcement to the stock exchange, including quarterly and annual results. Furthermore, especially for quarterly announcements, there is very limited information about branding expenditures, a situation which frequently forces competitors to react to non-published and non-verifiable competitor information.

This regression model, based on cross sectional data, also is faced with some significant challenges when compared to an event study. The timing component is a problem as discussed above, but so is the debate about shareholder value, which also imposes some restrictions. Ideally, the shareholder value should be measured over a defined period, such as quarterly or yearly.

One could easily argue that firm performance is not influenced by branding expenditures, but because the firm performs better, management simply increases the branding expenditures.
The reality is that, any OLS study in this field is open for attacks or suffering from some form of bias since all economic variables, depend on each other, at least partially. The fundamental challenge is to determine whether if branding and financial performance affect each other simultaneously thereby violating the OLS assumptions. If this occurs, the implications for our OLS assumptions are: (a) the explanatory variables are non-stochastic or (b) that the selected explanatory variables are stochastic, but have no-covariance with any regression residuals. It is precisely for this reason that the initial research work revolved around four different hypotheses. In addition, the main hypothesis other hypotheses were also developed and discussed during the initial part of the research. They were as follows; (a) Hypothesis 1 predicts that performance depends on branding and is a linear function, (b) Hypothesis 2 assumes that branding depends on the financial performance of the corporation (i. e if financial results are strong, branding expenditures are

increased and visa versa if the results are declining and (c) Hypothesis 3 that there is no relationship between branding and financial performance.

Despite the much-acclaimed work of D. Aaaker in 1993, is that the conceptual problem in this research field is there is no clear perception or dominant hypothesis. Reality is that are a too few studies in this field and it is not possible to argue convincingly based on scientific merits, that branding and financial performance are truly endogenous variables which depend on each other. This situation in the research field is a real problem and the debate becomes further fatigued if the OLS regressions would suffer from simultaneous equations bias and thereby produce inconsistent estimators (Green, 1997). The issue of inconsistent estimators would cause a major problem, since they would approach the true values as a function of increased sample size. If this is the case, the selected estimates could become biased, whereby one would derive the wrong results about the tested theory. Furthermore, a study of this nature can always be accused of some degree of simultaneous equation bias, since there is, inevitable some degree of dependence on all the economic variables used. The obvious question is whether other techniques such as two stage least squares (2SLS) or three least square test (3SLS) could have provided different and better results. Hausman's specification test, which comprises an entire range of tests, is capable of testing for simultaneous equation bias and other issues. Greene (1997) and Gujarati (1995) compared these techniques and came to the conclusion that simultaneous equation bias is often not so severe that it would fundamentally challenge the results of a classic regression model.

Neither the selected paradigm nor the statistical framework can stand alone when assessing the interference endogeneity and causality. Ultimately, it has to be a combined function of use of paradigm (theory) and use of evidence. Without an appropriate theory on a statistical relationship, the selected statistical framework would become meaningless. The relationship between branding and shareholder value can be regarded as an exceptionally focused research field, in which the obvious assumption would be a simple linearity between the two variables. This research is currently attracting considerable interest in non-academic cycles but an extensive literature search concluded that less than 20 academic papers have been written in this research field over the last couple of decades. The newer studies, especially those conducted over the last 3 years, were based on larger sample sizes, nonetheless, conceptually no paradigm shift has yet emerged when comparing the different generation of studies. What is also challenging is that there is no broadly accepted scientific foundation. Admittedly, Aaker's hypothesis about a concave relationship is acclaimed and is, in some circles, considered as conventional wisdom, but it is far from being the only prevailing hypothesis. This situation might be conceptually have been caused by various factors, the most predominant of which would be weak and flawed statistical assumptions, an erroneous measurements of variables, inappropriate development of concepts pervaded with intellectual absurdities, to highlight only a few. This situation obviously opens up for a fundamental debate about seemingly contradictory hypotheses and conflicting evidence. In theory, the endogeneity problem cannot be isolated to cover the debate on the factual relationship between branding and financial performance. The reality is, for example, that if a pharmaceutical firm through focused R & D expenditures (which is a variable in this study), achieved a major breakthrough, it would invariably subsequently dramatically increase its branding activities in order to fully exploit the commercial potential of the new product. To cover this aspect, the current model might require additional modifications and further theoretical debate which are clearly beyond the scope of this dissertation.

The so-called measurement problem is a concern both from a theoretical and practical perspective. Broadly speaking, one would be confronted by two different sets of measurement errors: (a) measurement errors in variables. These would typically include working with the wrong proxies and recording rounding errors (b) measurement errors in samples, which could be generated by missing data values, truncation errors and response mistakes. In reality it is impossible to compute any economic variable without some degree of uncertainty. The imperative issue in this debate is what methods have been selected in order to minimize the problem of measurement error, and what kind of impact they have for statistical interferences.

Finally, there is one factor, product life cycle span, which is difficult to factor in and value in ordinary least square regression models. The rudimentary assumption in this dissertation is that the company will be investing sufficiently to protect its flow of new products Explanatory variables that are correlated are normally not a real problem for the estimations unless they are extremely highly correlated variables that cause multi-correlation. This is very rare. It is statistically seen as a larger problem not to explain or not to include an important variable, than to deal with commonly correlated or other explanatory variables that are included in regression equations. In other words, we need to be much more concerned about neglected variables that should have been included, than about multi-correlation variables that appear only with correlation coefficient values of 1 and there is no reason to suppose that this is the case for the variables used in this study.

Contributions

The conceptual starting point of this dissertation is to determine whether an empirical reconciliation of these two critical concepts; branding and shareholder performance is possible. The research challenge of testing this hypothesis becomes multidisciplinary drawing on the branding, strategic management and finance literature. By drawing on more than 13,500 corporations, this study most likely, constitutes the largest and most comprehensive study in the area of financial performance and branding. This dissertation aims to build on a solid academic tradition which originated in the early 1990's, by providing contemporary results and then establishes a new cognition of branding and its dynamic implications as an investment. Through the introduction of and work with *brand thrust* and the value creation of branding at different piecewise intervals (as a percentage of turnover), the research paves the way for additional methodologies which can be applied in due course. In addition, the concept of working with pre-defined branding intervals is new. Before fixing the final intervals, as described earlier in the paper, several hundred regression analyses had to be conducted. These piecewise intervals were determined subsequently and then combined with the results of the structural equation models. This reveals when a company has an economic equilibrium at particular point in time, or if it is over- or under-branding, seen from a shareholder perspective. The dissertation also confirms that companies which have such equilibrium do yield a significantly higher return on assets or return on equity, in the case of the banking industry. This is particularly relevant and important knowledge, when considering that the traditional mainstream branding literature has not assumed explicitly that branding expenditures should generate a financial return and that decision makers must be accountable to the shareholders for their choices.

A research methodology which works with five different intervals automatically raises the issue of why there are neither more nor fewer intervals and what would constitute either the advantages or disadvantages of changing the number of intervals. The selection of five different intervals was made after running the initial batches of regression analysis, where the simplified W function occurred regularly. It proved to be a sustainable concept across different industries and markets. Furthermore, a reduction in intervals would lead to an oversimplification of the model and reduce the relevance of any conclusions, since the intervals would become outsized. An increase in the number of intervals would, in many cases, exert a reverse impact on the statistical conclusions, since the number of observations would become insignificant and thereby lead to inclusive findings.

Additional research in this area would clearly have to refine these intervals further and some variables incorporated in the current OLS model would have to be adapted in order to better reflect the circumstances related to a particular industry and/or to increase the validity of the underlying results. Each interval must be placed in a strategic context, in order to fully appreciate the ramifications of moving from one phase to another. This is an essential consideration, when, for instance, firms move outside their traditional product, geographical or business boundaries, which could subsequently shift it from one interval to another. This decision about moving to a new interval should also trigger an examination of whether an economic equilibrium can be achieved, since either over or under-branding would ultimately have a negative economic impact on the shareholders. The W pattern does not appear incidentally or based on a biased methodology, since these findings are based on several hundred regression analyses.

The monitoring and selection of the strategic branding equilibrium would, as discussed, direct management to a more sustainable competitive situation and provide a better shareholder return. Another important, but admittedly indirect benefit, would be the generation of more focused and accountable branding activities.

The discussion of brand thrust also contributes to the debate on who is responsible for monitoring the current level of branding investment, with respect to the return to shareholders. Should the strategic branding performance analysis be conducted internally or externally (by either auditors or consultants) and should the actual results be made public via the stock exchange, as is the case for other key financial results and ratios?

One could argue that structural equation models can easily be labelled as a very academic approach to branding and are barely relevant in a real business context. This would be an imprudent interpretation, since methods of this nature, as presented in the four articles, clearly permit marketers to use a conceptual framework based more on scientific principles and structured methodologies, and not on craftsmanship. Therefore, the approaches are equivalent to their peers in the field of finance. Furthermore, this approach can provide board members, and ultimately shareholders, with a more predictable environment of expected returns from branding investments and eliminate most of the expensive guesswork and trial & error process that has been experienced in the past. Ultimately, this research and future contributions from other scholars in this field should provide stakeholders with guidance on building and managing brands in the most economic manner over a given strategic period.

Hence, the fundamental contribution of this dissertation is that it demonstrates the value of working with multidisciplinary research methods. Branding, as discussed in the *Academic Framework* section, has recently gone through some radical, fundamental and soul-seeking discussions among leading scholars. Many of these discussions have revolved around the issue of whether or not a major paradigm shift is required. The work presented in the coming sections and papers illustrates that, by applying multidisciplinary research methods, one can provide new and genuine insights into branding and financial performance. This research has focused only to a limited degree on reverse causation, so it is conceivable that the actual economic performance of a corporation, possibly combined with a different research methodology, modified segment selection or ownership structures, could have a material impact on the current branding level. The interrelatedness of branding and financial performance can cause an endogeneity issue, but these presented papers seek to account for it. Clearly, one can challenge any approach to establishing a strict link between financial performances and branding. Nevertheless, supplementary empirical analysis focusing on establishing a correlation between branding and financial performance, larger and more comprehensive financial databases and more insight into the strategic nature and impact of branding, will provide a unique opportunity for future research. The scope of this study, whilst broad compared to previous studies, has been limited only to a restricted group of industrial nations, predefined segments and been subject to database restrictions. It would be of particular interest to expand the scope to include more companies in the Far East and other emerging markets, in order to assess whether the conclusions and application of the conceptual framework can be verified in those markets. The limitations of this work are also evident in the high number of factors with respect to which deductions had to be made, so that it would be fascinating to examine whether some factors should either be included or excluded to provide further insights.

Conclusion – Lessons for Shareholders

The original research hypothesis raised the issue of whether a valid economic relationship between financial performance and branding could be established from a shareholder perspective. Each of the four papers presented here, which cover very varied industries, have highlighted the fact that there *can* be a significant relationship between branding expenditures and shareholder value. The current strategic branding situation of an industry can be categorized into five distinct phases with very different strategic implications and conclusions. However, it should be accepted that the links between strategic branding and financial performance are, to some degree, industry-specific, particularly in the business-to-business segment, where the actual correlation is less pronounced. This study also confirms findings from previous studies, that strategic branding which is managed dynamically by the companies in question, will ultimately provide shareholders with enhanced financial performance. *Hence, shareholders should insist on systematic performance feed-back from the corporation on key financial ratios, including branding. This is not presently the case, since neither American nor European stock exchanges require any systematic feed-back on brand performance. This is ironic and difficult to understand, considering that it is the largest immaterial asset on the balance of most companies. Furthermore, it would also provide marketers with the necessary justification that brand investments have the required pay-off and equally importantly, it allows brand equity to be included in the balance sheet. If this situation is not changed, there is a significant risk that the current laissez-faire situation will continue and, at a firm level, could ultimately destroy significant shareholder wealth. On the basis of this research, shareholders, among others, should demand from management, evidence of the right brand thrust (i.e. no over or under branding) and request information on the expected shareholder impact when major strategic branding initiatives are requested. This is regardless of whether such initiatives deal with major business changes, geographical expansion or line extensions. The research also indicates that companies with a balanced corporate brand thrust, provide between 3 and 7 per cent higher returns to their shareholders than their competitors, which is significant. Hence, marketers must, if they want to maintain their credibility towards their prime constituency, the shareholders, ensure that (a) branding is measured like any other investment (b) should be considered a performance-driven investments where an economic equilibrium is identified (c) brand equity is reported and tracked like any other asset(or eventually liability) and included in the balance sheet* These initial findings and insights are restricted by some important limitations and shortcomings, most of which have already been discussed. However, my anticipation and hope is that this research will generate further interest and inspiration for future projects, particularly with respect to correlation between financial performance, brand equity and branding. This dissertation " Strategic Branding and Shareholder Value: An Empirical Reconciliation of two Critical Concepts" had as an objective, to research and investigate how strategic branding can be measured among listed companies in a particular industry and whether using methodology systematically could have any significant economic impact from a shareholder perspective. In conclusion, the extensive research presented in this dissertation, which is based on the insights and inspiration of D. Aaker, K.L. Keller, R. Kerin and other leading scholars in the field, has confirmed that, by combining the two concepts of strategic branding and financial performance in a multidisciplinary model, it is possible, with a certain degree of confidence to monitor and to control whether branding expenditures do provide genuine value to investors in listed companies.

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Lars Ohnemus and Per V. Jenster

Corporate Brand Thrust and Financial Performance.

An Examination of Strategic Brand Investments

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Abstract: *A powerful brand is generally considered an effective way of generating shareholder wealth, but how is it actually measured and controlled? Today, there is still no empirical evidence of a link between a company's "brand thrust" (i.e. the amount of financial resources a company allocates over time to build its brand, with the financial return achieved by the company. This article establishes an empirical link between brand thrust and financial return, whereby 2,158 companies within 11 different industries were analyzed in terms of their investments in supporting, developing, or maintaining their brand, against their return on assets or equity. The total sample size comprises over 10,300 corporations listed on US and European stock exchanges. This study reveals that companies with a balanced corporate brand thrust, compared to their competitors, on average bring up to a 3-percentage point higher return to their shareholders. Furthermore, for the companies studied, the link between brand thrust and financial return can be described as a W-curve with five distinct strategic phases rather than a linear function.*

Introduction

Can shareholders thrust that management decisions in the area of branding will lead to enhanced financial performance, or is this only a smokescreen? Over the past twenty years, the general topic of branding has received increasing academic interest (Chatterjee et al. and Keller 2005, 1998). Given that managerial attention has recognised the enormous potential benefits and risks associated with the endeavour to build a strong brand presence, this is not unexpected. Expenditures are becoming prodigious, and our research shows that companies are currently using an average of three to five percent of their turnover on branding. Furthermore, the estimated cost of bringing a new brand to the marketplace is now over US$100 million (Ourusoff et al. 1992, p 3) with over 50 percent of brands introduced being expected to fail. *But, on the other side, a well-positioned and powerful brand provides an effective barrier against competitors, offers customer attraction, and the ability to enhance pricing and channel negotiation power.* Some have argued that "from a financial perspective, tangible wealth emanated from the incremental capitalized earnings and cash flows achieved by linking a successful, established brand name to a product or service (Kerin and Sethuraman, 1998, p.2). However, the risks associated with branding investments and their potential returns are of such a magnitude that academics and practitioners alike are struggling to gain a more solid understanding of the branding phenomenon, whether they are looking for a conceptual construct to explain the building blocks of a strong brand, or a practical way to use brands as an integral part of strategic development. Hence, there is no doubt that both academics and practitioners agree that there is an urgent need to find some economic justification for the enormous amounts of corporate and societal resources used in ensuring the sustainability of brands in the minds of customers and investors.

Beginning in the 1990s, academics have explored the economic justification for branding expenditures from a variety of perspectives, including stock price analysis (Simon and Sullivan, 1990), replacement cost (Aaker, 1992), price premiums (Aaker, 1992), equalization price (Swait, 1993), modelling (Kamakura and Russell, 1993), brand attributes (Lassar, et al., 1995), and brand loyalty analysis (Feldwick, 1996). Furthermore, the Profit Impact Market Strategy (PIMS School) principles focused extensively on the link between financial performance and business strategy, and also confirmed a correlation between market share and share of marketing expenditure. However, with only few exceptions, there has been only limited focus on the function related to branding and financial performance (Biel 1993, Lev 1997).

Even today, academic research and evidence in the field has been rather limited. As described by Kerin and Sethuraman (1998, p.260): "It is generally claimed that brand names are a corporate asset with an economic value that creates wealth for a firm's shareholder. However, the scholarly literature has neither provided a comprehensive theoretical basis for this claim nor documented an empirical relationship between brand value and shareholder value." Academics and practitioners are still struggling with the fundamental questions: Are we spending too much or too little on developing a given corporate brand, and if the decision is taken about investing in branding, what should be an acceptable financial benchmark? Consequently, many executives find themselves pondering which part of their advertising expenditure is actually effective and how much would additional resources provide in enhancing sales and strategic position? Keller, was outspoken about this point in the Journal of Marketing (1993, p.4) when he identified five key areas for future branding research and wrote "...design better "brand metrics" and more insightful measures of brand equity…. and to senior management, it is especially important to develop highly reliable brand valuation techniques and means of assessing return on investments". This knowledge gap is also critical for the development of future business and acquisition strategies.

Finally, this situation is also important from a global perspective, where quality standards and manufacturing costs are converging due to global sourcing possibilities. One could suggest that branding might be one of the last remaining opportunities where a company can achieve a sustainable competitive advantage. If true, this could carry wide ramifications not only for companies that are focusing heavily on branding for stock market evaluation, but also for industries where branding has played a less pivotal role.

The purpose of this article therefore, is to present a strategic branding concept and to address the fundamental research question "*can the financial impact of branding be measured, and if yes, what methods and variables should be considered to obtain valid results?"* Given this challenging starting point, a range of important research questions need to be addressed: Can the classical definitions of branding and brand equity be applied in a meaningful way? Or do important variables such as industry behaviour, timing, and actual spending levels have a disruptive influence and ultimately lead to a biased approach and inconclusive results? This article addresses these issues by presenting our research hypothesis, our general concept of brand thrust and our review of actual findings. We conclude by addressing the above question, putting it into a strategic context and offering a direction for future research.

Branding and the value of brand equity

Branding is generally used as a rather popular expression among scholars (Kotler, 1999) as the way in which companies differentiate their products and services from those of their competitors. In the literature, *brands* are notably viewed as signals which help differentiate one product or company from another, identifying the product and its source, and often evoking associations and images (Aaker, 1992). Branding thus becomes the processes and activities associated with the establishment and communication of these signals and associations. Several definitions have been developed for *brand equity*, such as "a set of brand assets and liabilities linked to a brand, its name and symbol, that add to or subtract from the value provided by a product or service to a firm and/or to that firm's customers" (Aaker, 1992). Alternatively, brand equity is "the differential effect of brand knowledge on customer response to the marketing of the brand" (Keller, 1993); or, "the net present value of future cash flows that can be derived from them (i.e., *brands*)" (Schuetze, 1993). Historically, there has been general conformity (Aaker and Biel, Prentice and Ryan, 1993, 1991) that one of the major contributions to brand equity is direct advertising, however, there are clearly other elements that one must consider.

Lately, different academic schools of branding have focused more on the organizational aspects of branding at the expense of an in-depth analysis of its economic implications, whereby "a corporate brand involves the conscious decision by senior management to distil and make known the attributes of the organization's identity in the form of a clearly defined branding proposition" (Balmer, 2001). Alternatively, "corporate branding entails that the organization itself is the foundation for the brand" (Schultz, 2003), or: "Corporate branding requires a holistic approach to brand management, in which all members of an organization behave in accordance with the desired brand identity" (Harris and de Chernatony, 2001). Recently, some Scandinavian scholars (e.g., Jenster, 2005 and Schultz, 2003) have taken a new approach in conceptualizing marketing and branding. Their holistic approach particularly focuses on organizational culture and core values as the building blocks of a given brand, whereby these become the primary source and distinction of value creation for all stakeholders. It is obvious that this could develop a new distinctive school of thought in the area of branding. In comparison to U.S. research traditions, Jenster & Smith (2005) and Schultz & Hatch (2003) analyse the interaction between different stakeholders and the strategic implications of different approaches in further depth, and to a lesser extent, they assess the link between branding and financial performance. As highlighted by Balmer (2001) and others, these significant views on branding have led to considerable academic challenges and scholastic obscurity. Furthermore, in the area of brand equity, the academic world has been divided between two conceptual schools of thought: (1) the brand perception school based on consumer preferences (e.g., Cobb-Walgreen, 1995, Farquhar, 1994) and (2) the economic school based on objective financial and market-based criteria (e.g., Buzzell, Gale, Simon, 1987). We have used the latter school as an academic anchor point in developing the corporate brand thrust concept, as we believe that a return to a more economic perspective can address many of the managerial concerns not revealed in the "academic obscurity".

By adopting an investment driven point of view, we have allowed discussion to follow those of concerned practitioners in the resource allocations decisions related to brand development more closely. In order to distinguish this approach from the general branding literature, we have chosen to introduce our discussion with the notion of corporate *brand thrust.* In our view, brand thrust is defined as the total financial resources a company allocates to develop, build and maintain the values and signals of its brand(s) including marketing activities and emotional features with its products or services and its combined efforts in representing and distributing its bundle of goods and services, over a defined period of time to its constituency. More specifically, as a proxy for brand thrust intensity it was decided to build a model consisting of three elements:

(1) ***Overheads:*** this includes not only the central marketing and sales staff, but also costs at affiliates
(2) ***Distribution element:*** this encompasses all expenditures related to bringing the goods or services to the customer
(3) ***Client system*** or marketing intensity: this includes all direct marketing and advertising expenditures, postage and freight, public relations, and communication activities.

These three elements are disclosed in the annual accounts (and Thomson Financials) in the sample used for further analysis. Thus, there is a methodological consistency between the definition and data sample. By introducing a resource based view on branding and by applying the brand thrust concept we were able to postulate a very interesting question addressing the economic importance of branding: "Are companies spending adequate resources on establishing and maintaining the optimal value of their brands, and can it be measured on their financial results? The answer to this question could have a significant influence not only from a financial perspective, but also as a basis for the development of new branding strategies, co-branding initiatives (where several brands are used in conjunction) and future investment plans. Kerin and Sethuraman (1998, p.11) have already suggested that enhanced branding efforts appear related to higher market-to-book value, but caution that brand value growth at the firm level does not necessarily produce a commensurate growth in shareholder value.

The concept of brand thrust is new, but Interbrand and Financial World (FW) have developed and commercialized different brand models thereby gaining some recognition in the field. In their view, the value creation of branding is measured as the incremental marginal contribution (earnings) of each individual brand compared to the industry average, times the market size, plus a risk adjustment factor and a time element. Furthermore, a "brand strength adjustment" based on seven weighted brand dimensions has also been applied. In many ways, this adjustment is based on the conceptual framework developed by Aaker and Keller in the early and mid 1990s. According to industry sources, the consultancy of McKinsey & Co. is working on a similar conceptual framework but focusing more on the incremental return on equity that branding can yield for a particular company. The advantage of the brand thrust concept compared to the above mentioned model is that it is based totally on regression analysis of a diverse and global sample base where no manual adjustments or arbitrary corrections are made.

Another vital aspect is that branding expenditures tends to fluctuate significantly over time, which must be built into any branding model.

Dimension of Time

Traditionally, marketing has been used to build the external image of a brand, with focus on short-term impacts such as marketing campaigns and promotions being seen as sales driven activities. Given the close historical links between branding and packaged goods (e.g., Lord Lever), this is hardly surprising. During the 1980s and 1990s, the role of branding has widened significantly, with many recent articles (Aaker, 1992, Balmer, 1995, Harris, 2001, Keller, 1998) concluding that brand equity is developed by the entire organization, thus creating a link between the strategic position of a company, its marketing expenditures and its brand equity (or vice versa). Discussion about selecting the right time horizon is essential, and Prentice and Ryan (1991) established that the impact of primarily image advertising lasts for approximately four years, whereas for other product categories and services, this could be as low as one year or even less.

By taking a medium term (in this case, a one to three year period) strategic view on branding, rather than focusing on short-term fluctuations and campaigns, we aim to determine whether there is a direct correlation between a given industry performance and overall branding intensity. Time is not the only element that could bias research findings. There is also a vast difference between the various industries and their approach to branding.

Importance of Industry

The impact and importance of branding, specifically in industry, has been widely discussed, and it therefore plays a major role in our concept of brand thrust. As service plays a greater role in determining customer value, brand impact then shifts from product to company. Faced with ever increasing pricing pressures, and growing global competition, many new industries have recently been focusing on branding as a way of escaping the risk of becoming commoditized. In fact, in many of today's industries, the actual value of their intangible assets is significantly higher than those of their tangible assets. In the food processing industry, for example, brand related factors (i.e., intangible assets) now exceeds 80 percent of a company's market value (Simon and Sullivan, 1993), which was one of the key factors we explored throughout the entire research process.

The financial and stock market data coming from Thomson Financial were based on 113 industries that were reviewed, analyzed and included in our study. These ranged from suppliers of basic raw materials to high technology companies. In the second phase, to achieve a sufficiently large and valid sample size from a statistical perspective, those companies classified by Thomson Financial were compiled and condensed into a classification system of eleven industries. Once each company was properly classified, it was entered into our global database. In this article, results from the global sample are presented and discussed, but they were divided into two major sub-samples: non-financial and financial based companies. This approach was taken since it is not meaningful to use return on assets as a performance benchmark for financial institutions. In the sub-sample covering the financial institutions, return on equity was therefore used as a performance benchmark. Subsequent research and papers will focus extensively on the individual industries, including those in the financial sector. This research also raised a range of fundamental questions: could conclusions drawn from one industry segment be used in other industries? Does the size of a corporation have a particular impact on financial performance? Could differences in the behaviour of companies in the U.S. or Europe have an impact on performance? One could also question whether the actual financial performance of a company is driven by other elements such as the product life cycle of the corporation including, management commitment to branding, its history in the field of research and development, or recent changes brought about by merger or acquisition activities. This debate can't stand in isolation and must be analyzed and judged in conjunction with the actual spending level of branding. Furthermore, the barriers between corporate or product brands have always been rather fragile and in this study no differentiation is made. Some companies (IBM, Shell) follow a single (corporate) brand strategy approach while most fast moving consumer companies (Nestle, Procter & Gamble, Kraft, etc.) actively support a vast range of different brands. Seen from a strategic and timing perspective, the actual decision to use one or multiple brands is more of a tactical nature.

The Effect of Branding on Financial Performance and Hypothesis

The original hypothesis was that there would a reversed U curve function between branding and financial performance. The assumption was that there would be an optimum level of branding expenditure or activities for each company, compared to its competitors at any one point in time. If this optimum level were to be exceeded, at any given point in time, the company would be faced with the law of diminishing returns and experience value destruction. Based on the findings of Kerin and Sethuraman (1998) showing that “the functional form of the relationship is found to be concave with decreasing returns to scale”, this starting point was of particular interest. The initial hypothesis was modified, and three additional hypotheses were also discussed, considered and investigated as a part of this research work:

HYPOTHESIS 1: *Higher branding intensity causes better financial performance*.

This hypothesis is based on the assumption that branding reduces inefficiencies caused by asymmetric information between consumers and firms, thereby ultimately leading to greater market transparency. This prediction assumes that more branding will lead to more relevant consumer information, increasing product trials, and repetitive purchase patterns, enhanced consumer perception, and ultimately will translate into enhanced financial performance.The management of a particular brand should thus be able to establish an industry-given ratio that their firm can be benchmarked against to determine whether if they are over or under investing in a brand, compared to key competitors. If all other key variables are isolated and eliminated, the company with the greatest and most consistent branding intensity would enjoy industry dominance over a given time period.

HYPOTHESIS 2: *At high levels of branding, additional expenditures decrease financial performance.*

This prediction is in line with the law of diminishing marginal returns. Companies expand their branding activities with the objective of pursuing higher returns, but consumers are indifferent or may even react negatively (over-branding) to those additional branding activities. Ultimately, this will lead to a reduction of financial performance.

HYPOTHESIS 3: *Branding has no effect on financial performance*.

The assumption is that management and competitors are expected to make rational decisions with regard to branding and they are operating in a perfect market . Any major increases or reductions in branding activities will be matched by competitive moves. Fundamentally, branding may yield to short-term competitive and financial gains, but over time, these will be eliminated.

The background to all three hypotheses has been added so as to explain the reader the different hypotheses that were explored during the research phase and to highlight there is so far no universal model that can fully capture and explain the relationship between branding and financial performance. Nonetheless, in this paper after input from the various reviewers, and to have a more focused approached only the final hypothesis (the simplified W function) will be presented, discussed and analyzed in the subsequent sections.

Method

A regression model was designed consisting of 12 - 14 variables, which made it possible by making a set of mathematical deductions for non branding related items and including such elements as capital expenditure, debt structure, R & D expenditure, ownership structure, and other relevant industry variables (a detailed description of each variable is provided under Model 1). It was critical to identify the correct variables to ensure that the explanatory power of the model would be satisfactory and statistical disturbance would be minimized. As an example, R & D expenditures must be measured and isolated as a separate variable since they could have a material impact on the financial performance of a corporation if they were leading to new and higher income generating products. The research focused on four different equations, all based on a unique set of assumptions and financial benchmark measurements. In this article, only the first equation is presented and discussed. Furthermore, each set of assumptions was broken down into several or more of the hypotheses discussed above. The model has also been adapted to reflect such elements as advertising intensity, stock market beta (i.e., systematic market risk should be eliminated since our aim was to identify and measure the financial impact of individual company branding investments and not overall stock market movements), and ownership structure of shares in a given company. Furthermore, *the selected regression model uses a fixed effects model for the panel data.*
The research also provided the opportunity to test the incremental return of increasing branding expenditures, and to verify whether the law of incremental returns is also valid in the area of branding. The actual branding expenditures were sub-divided into five intervals: 0-2 percent, 2-5 percent, 5-10 percent, 10-20 percent and + 20 percent. Branding was measured as a percentage of actual turn-over. Furthermore, for the regression model for each hypothesis, four different statistical methods were applied: (1) Numeric, (2) numeric weighted but not substituted, (3) numeric non-weighted but substituted, numeric weighted and (4) substituted.

Pre-Testing

The actual research work was based on three distinct steps. Models were refined through a series of pre-tests. Companies outside the U.S., Canada and Europe were eliminated due to low data quality combined with too few observations. Initially, 47 firms were selected for a test sample. The selection criterion was that each company had to spend more than US$ 1 billion on branding. Subsequently, a benchmark sample was developed consisting of 2,606 companies, all of which had been reporting branding from 1995 to 2000. A critical element of this research was to ensure that the relevant definition of branding could be combined and tested with the structure of the different databases.

Database

The study was based on empirical research conducted during 2002-2004. It was based on a final sample size of more that 10,300 international companies primarily based in the U.S. and Europe, of which approximately 2,200 had reported branding expenditures. *The total sample size was the largest conducted until now, but not all selected corporations provided relevant and reliable information. The total number of corporations which reported branding expenditures over the reporting period was close to 6,700. Both weighted and non-weighted substitution was used for the companies that had not submitted any data about their branding expenditures*. The databases of Thomson Financial and Extel were used as sources. Approximations were used for those companies that had not reported branding either for the full or for a part of the period. Furthermore, insufficient company data, especially in the earlier part of the period, forced us to use a simplified approach where only the client system could only be used as an approximation for branding.

Only listed companies were analyzed for this study since they are subject to stricter disclosure rules and reporting requirements, and are, in general, providing more financial information about their branding activities.

As previously mentioned, Thomsen Financial covers 113 different industries, but for the purpose of our research, this number was ultimately reduced to eleven. Seen from a statistical perspective, more than sixty one million employees are working in these industries and in the year 2000, the firms had a total market value of $ 28,000 billion.

A statistical model on the economics of branding expenditures

EQ1, Financial performance:

$$P_{i,t} = a_{1,1} + a_{1,2}MarkSh_{i,t} + a_{1,3}IndustNr_{i,t} + a_{1,4}BETA_{i,t} + a_{1,5}\frac{CapExp_{i,t}}{PPECap_{i,t}} + a_{1,6}\frac{OpeInc_{i,t}}{Sales_{i,t}} + a_{1,7}DR\&D_{i,t} + a_{1,8}\frac{R\&D_{i,t}}{Sales_{i,t}} + a_{1,9}\mathrm{LN}\left(MarkCap_{i,t}\right) + a_{1,10}\frac{LTDebt_{i,t}}{Assets_{i,t}} + a_{1,11}\left(\frac{LTDebt_{i,t}}{Assets_{i,t}}\right)^2 +$$

$$a_{1,12}DAdvTotBr_{i,t} + a_{1,13}\frac{Adver_{i,t}}{TotBrandExp_{i,t}} + a_{1,14}DADVP_{i,t} + \sum_{d=1}^{D} a_{1,14+d}ADVP_{i,t,d} + \sum_{e=1}^{E} a_{1,14+D+e}OWP_{i,t,e} + \sum_{f=1}^{F} a_{1,14+D+E+f}DIndust1_{i,t,f} + \sum_{g=1}^{G} a_{1,14+D+E+F+g}DExchange_{i,t,f} +$$

$$\sum_{h=1}^{H} a_{1,14+D+E+F+G+h}DCountry_{i,t,h} + e_{1,i}$$

Where;

- $P_{i,t}$ is financial performance at time t for firm i measured by either the market-to-book ratio or the return on assets.
- $ADVP_{i,t,d}$ is a proxy for branding intensity measured by advertising exp. in percentage of sales at time t in firm i for the piecewise linear interval d. The applied intervals are: [0;2%], [2;5%], [5;10%], [10;20%] and [20, >20%]. $ADV_{i,t}$ is the non-piecewise advertising percentage so that $ADV_{i,t} = \sum_{d=1}^{D} ADVP_{i,t,d}$
- $OWP_{i,t,e}$ is closely held shares in percentage at time t in firm i for the piecewise linear interval d. The applied intervals are: [0;0.5%], [0.5;1%], [1;5%], [5;30%], and [30;100%]. $OW_{i,t}$ is non-piecewise closely held ownership so that $OW_{i,t} = \sum_{e=1}^{E} OWP_{i,t,e}$.
- $a_{x,y}$ are model parameters to be estimated by regression techniques.

$e_{1,i}$, $e_{2,i}$, and $e_{3,i}$ are the residual errors for each equation and each firm i.Other variable abbreviations: **MarkSh** is the firms' market share. **IndustNr** is the number of distinct SIC-industries that the firm operates in. **BETA** is stock market beta risk. **CapExp** is capital expenditures. **PPECap** is total property, plant and equipment. **OpeInc** is operating income. **Sales** are simply revenue on sales. **R&D** is research and development costs. **DR&D** is a dummy for missing R&D values. **MarkCap** is market capitalization. **LTDebt** is long-term debt. **Assets** are total assets. **Adver** is advertising costs. **TotBrandExp** is cost of selling, administration, distribution, and advertising. **DAdvTotBr** is a dummy for missing values of Adver/TotBrandExp. **DADVP** is a dummy for missing advertising values. **DIndust1** and **DIndust2** are industry dummies for +100 and 10 industries respectively. **DExchange** is a stock exchange dummy. **DCountry** is a dummy for country. **DB2C** is a dummy = 1 if the firm primarily is a business to consumer supplier. **DB2B** is a dummy = 1 if the firm primarily is a business to business supplier (if the firm operates in an industry that is both B2C

Table 1: Regressions - Branding effects on financial performance

All regressions are cross-sectional year 2000 OLS regressions. The reported values are parameter estimates and the numbers in the brackets are the associated t-values. All regressions include an intercept term, which is not reported. Dummies for industry ($DIndust1_{i,t}$) and country ($DCountry_{i,t}$) are included in all regressions, but are also not reported. Also not reported are five piecewise linear variables for ownership of closely held shares. All regressions are estimated as weighted regressions using market capitalization.

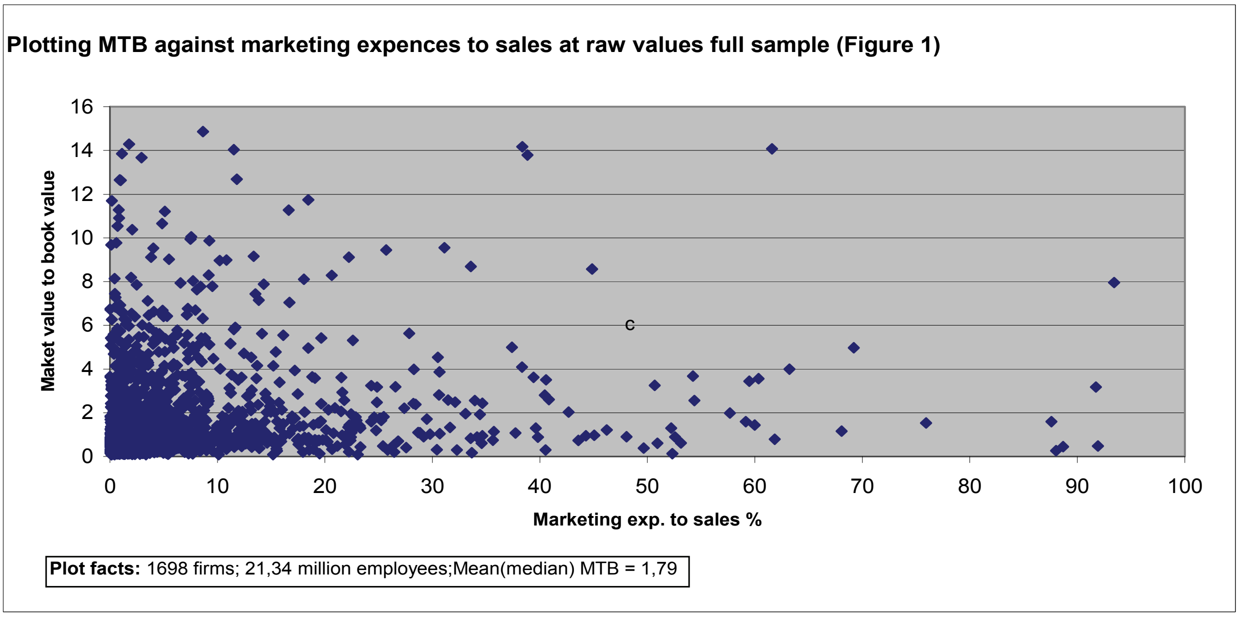
Explanatory variables	LN(Market to Book) Sample: Non-financial firms	Return on Assets Sample: Non-financial firms	LN(Market to Book) Sample: Financial firms only	Return on Equity Sample: Financial firms only
$ADVP_{i,t,0\text{-}2\%}$ Advertising expenses	-0.12585 (-5.17)	-6.59845 (-13.83)	-0.40611 (-5.84)	-1.51309 (-1.53)
$ADVP_{i,t,2\text{-}5\%}$ Advertising expenses	0.035091 (2.5)	0.928633 (3.36)	0.212236 (3.82)	4.644451 (5.76)
$ADVP_{i,t,5\text{-}10\%}$ Advertising expenses	0.09565 (10.16)	0.53721 (2.91)	-0.1402 (-3.43)	-3.20511 (-5.33)
$ADVP_{i,t,10\text{-}20\%}$ Advertising expenses	-0.06844 (-8.61)	-1.96788 (-12.55)	0.045381 (0.97)	0.313226 (0.47)
$ADVP_{i,t,20\text{-}95\%}$ Advertising expenses	0.015365 (3.37)	0.26619 (2.84)	-0.08353 (-1.01)	-0.90536 (-0.77)
$DADVP_{i,t}$ Advertising dummy for substituted values	-0.18396 (-3.48)	-5.78079 (-5.52)	-0.12359 (-1.25)	0.463661 (0.32)
$IndustNr_{i,t}$ Number of industries	-0.04932 (-12.8)	-0.31487 (-4.18)	0.018238 (1.96)	0.411453 (3.17)
$LTDebt_{i,t}$ / $Assets_{i,t}$ Long-term debt to assets	-0.02073 (-18.5)	-0.16423 (-7.48)	0.030963 (9.59)	0.024832 (0.54)
$(LTDebt_{i,t} / Assets_{i,t})^2$ Long-term debt to assets sq	0.000339 (18.05)	0.002167 (5.85)	-0.00022 (-4.3)	0.000301 (0.41)
$MarkCap_{i,t}$ LN of market capitalization	0.228546 (42.54)	0.672576 (6.45)	0.121864 (9.02)	-0.37571 (-2.03)
$BETA_{i,t}$ Stock market beta	0.124781 (11.06)	-2.15288 (-9.84)	0.087499 (2.77)	2.030259 (4.52)
$CapExp_{i,t}$ / $PPECap_{i,t}$ Cap exp to prop pl & equip	0.007088 (17.34)	0.067002 (8.55)	-0.00043 (-1.00)	0.002395 (0.37)
$OpeInc_{i,t}$ / $Sales_{i,t}$ Operating income to sales	0.006678 (16.97)	0.435133 (51.99)	0.005146 (4.91)	0.141798 (9.44)
$R\&D_{i,t}$ / $Sales_{i,t}$ R&D costs to sales	0.013997 (9.98)	-0.17573 (-6.39)	-0.00427 (-0.03)	-1.41725 (-0.61)
$DR\&D_{i,t}$ R&D dummy	0.118942 (6.46)	0.771108 (2.13)	0.258671 (1.93)	-3.73881 (-1.93)
$Adver_{i,t}/TotBrandExp_{i,t}$ Advertising to total branding	-0.00235 (-2.46)	0.001472 (0.08)	-0.00203 (-1.42)	0.001309 (0.06)
$DAdvTotBrand_{i,t}$ Dummy for adv exp to brand	0.137406 (2.78)	1.017267 (1.04)	-0.18698 (-1.89)	0.131025 (0.09)
Number of firms, obs	6393	6072	847	816
Adj. R^2	0.77974	0.60497	0.84005	0.60028

The total sample size covered 10,300 international companies but not all of them provided relevant and reliable information. The total numbers of companies which reported branding expenditures over the reporting period was close to 6,400. Both weighted and none weighted substitution was used for the companies that had not submitted any financial information about their branding expenditures.

The value of the brand, as it can be seen from Tabel 1, was measured by using Market-to-Book, Return on Assets and Return on Equity (only for financial firms). A more elaborated debate about the impact of the various benchmarks and impact of regulatory accounting changes are included in the introduction part of this dissertation (page 12 -16)

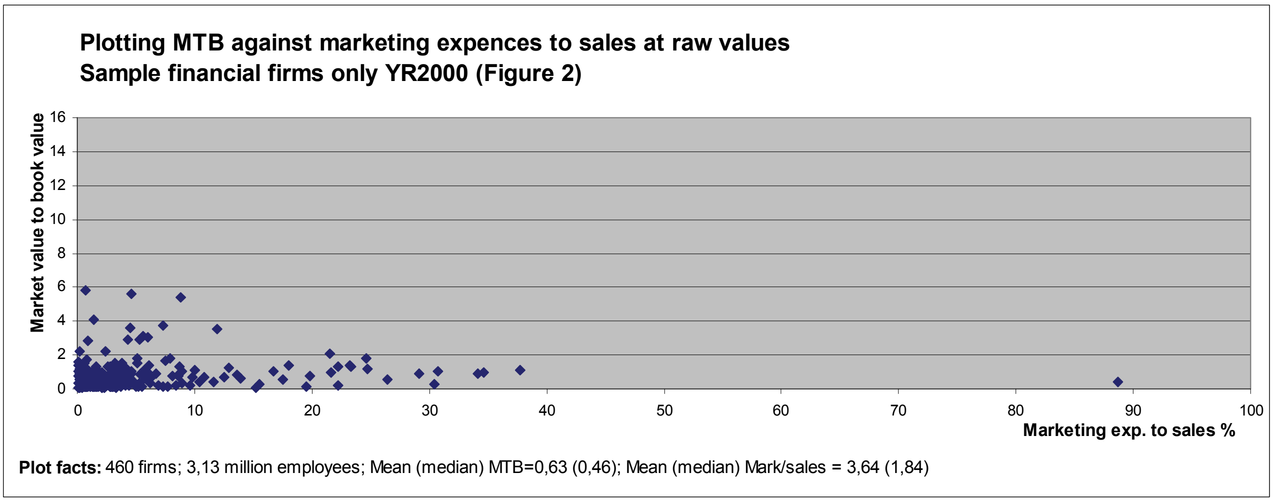
The Correlation of Branding and Financial Performance

As a first step, marketing and branding expenditures as a percentage of function to sales were analyzed. In this <u>*initial*</u> sample, 1,698 companies, all active in the non-financial sector, were included and plotted (Graph I). Subsequently, the same analysis was performed for 460 companies active in the financial sector (Graph II). In parallel, extreme values were identified, analyzed and tested. Considerable attention has been paid to identify relevant variables related to branding. The database is structured in such a way that it separates different industries.



As seen in Graph 1, as one would expect, most observations were in the interval 0 – 20 % of expenditures to total sales. A similar pattern was observed in the financial sector depicted in Graph 2. Over time it became apparent that in nine out of eleven industries the function between branding and financial expenses expressed as return on assets could be expressed as a W curve and not as a linear function

Graph - 2 MARKET TO BOOK VALUE



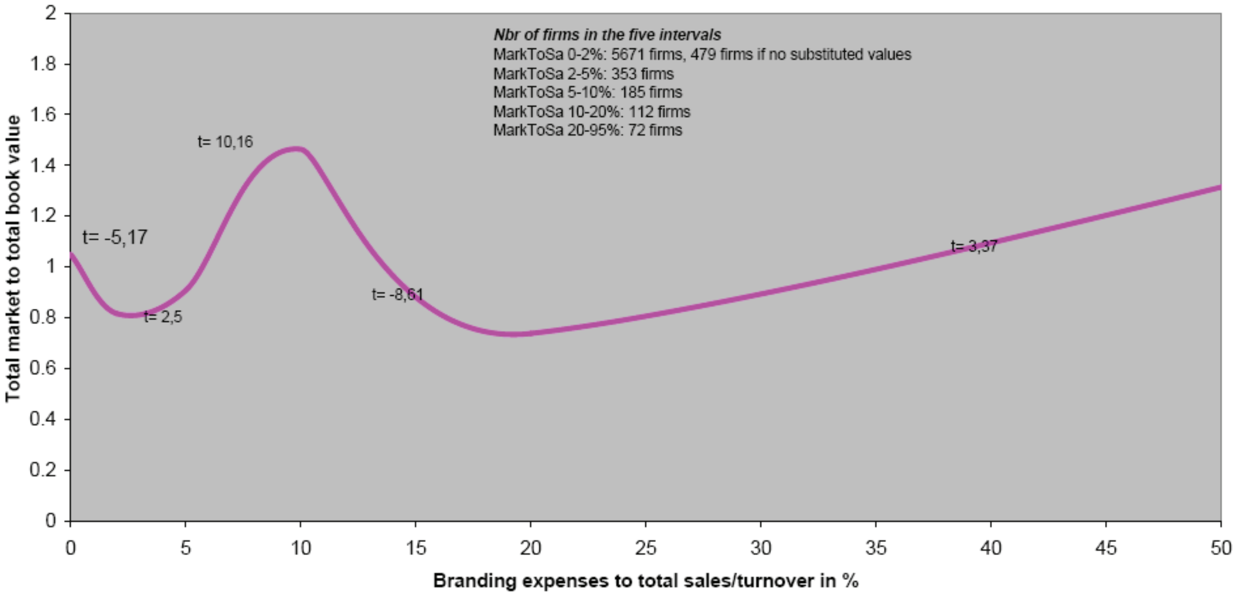
This phenomenon and its implications caused a range of wider discussions about branding expenditure spending patterns in different industries. Specific industries tend to have either formal or informal norms established for marketing or branding expenditures, expressed either as $ per kg sold products (food industry) or $ per thousand units (car, tobacco, etc). Industry impact, timing and competitive forces are all elements that would require considerable future research to establish a clearer causation pattern. Historically, many companies tend to cut back on marketing expenditures during recession periods (as observed by Keller, 1998). The above observations, combined with the insight gained from looking at different industries, led us to believe that branding should be seen in a much wider and more dynamic context, in other words, brand thrust. Furthermore, one could also argue that perhaps in selective industries there could be a reserved causation pattern. In theory, strong economic results make it easier for managers to justify significant branding increases. In addition, our preliminary business-to-business results in those industries studied show a weaker correlation than in other industries. This could be explained either by historic behaviour, where there is a stronger focus on research or ownership driven specifics (as observed at Haldor Topsøe – world leader in industrial catalysts, where the owner and chairman is against any kind of branding activities as a matter of principle).

The general debate about reversed causation or endogeneity is also relevant in our study because financial performance may also determine branding expenses, especially in situations of financial distress where firms could be tempted to cut such spending. Such endogeneity poses a real problem for OLS (Ordinary Least Squares) regressions because it violates one of the assumptions that OLS is based on, namely, that the explanatory variables must have zero covariance with the regression residuals (Gujarati, 1995, p. 60-65). This assumption violation is a problem because it causes OLS to produce inconsistent estimators (Greene, 1997, p. 710). The problem with inconsistent estimators is that they do not approach the true values as the sample size increases. Thus, the estimates may be biased, and possibly to a degree where they lead to the wrong conclusions about the nature of the theory that they are testing. The parameter estimates in our model could have been biased, however, we have reason to believe that the problem is not grave enough to invalidate our conclusions. Despite having run hundreds of modified model versions with several definitions of financial performance, branding, and different regression samples, we nevertheless continue finding the 'W-shape', which should not be possible unless the functional form is indeed true for underlying conceptual reasons.

Another option would have been to use Hausman's specification test to determine whether the model is significantly harmed by the correlation between the explanatory variables and the regression errors (Hausman, 1978), however, we chose not to do this as the Hausman test cannot confirm whether the correlation with residuals is caused by endogeneity or other circumstances such as measurement error or omitted variable, where the omitted variable is correlated with the included explanatory variable. Even if we did use the Hausman test and found evidence of significant estimation bias, the remedy to this problem, namely, instrumental regression, suffers from its own problems that may prevent it from doing any better than OLS. The main problem with instrumental regression is to find qualified instruments, which are particularly difficult for regressions on financial performance, (Mathiesen, 2002, p.224).

As a next step, to test our observations and see if the same W pattern would emerge, it was decided to use a weighted and fully substituted test sample, whereby, the overall sample size was increased from 1,671 to 6,393 companies. *As can been seen in Graph 3, a positive correlation for the 5-10 percent and 20-30 percent phases, and a negative correlation (i.e. value destruction) for the 0-5 percent and + 30 percent phases was demonstrated. The adjusted R2 showed an exceptionally high value at 0.77.*

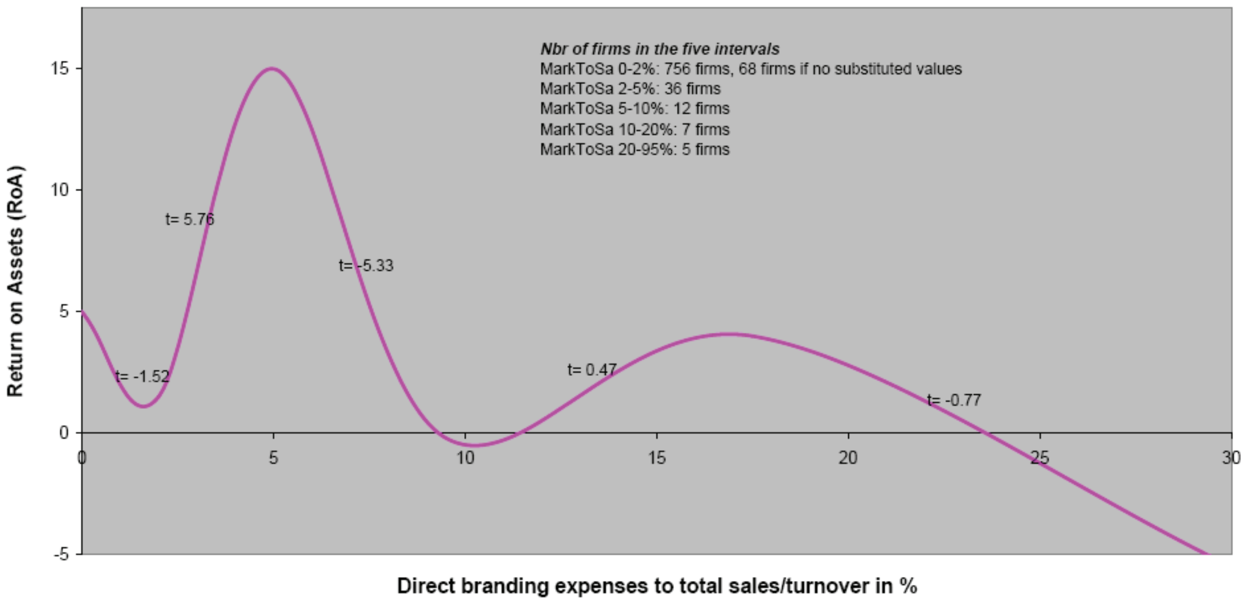
GRAPH III: The estimated relation between Market to Book and direct branding expenses to sales
All industries except financial YR2000



Reg facts: 6393 firms; 57.56 million employees; AdjR2=0.77974

The above findings are unique but not surprising. Varaiya, Kerin and Weeks (1987) argued already in 1987 that a firm creates shareholder wealth by ensuring that the warranted market value of the equity capital invested in a firm should exceed the book value. If this market value falls below book value, shareholders would experience value and performance erosion. The weighted and substituted sample covering companies active in the financial sector, as indicated in Graph 4, gave a similar pattern. As previously mentioned, the financial performance benchmark used for this sample was not return on equity but return on assets.

GRAPH IV: The estimated relation between Return on Assets and direct branding expenses to sales
Sample financial firms only YR2000

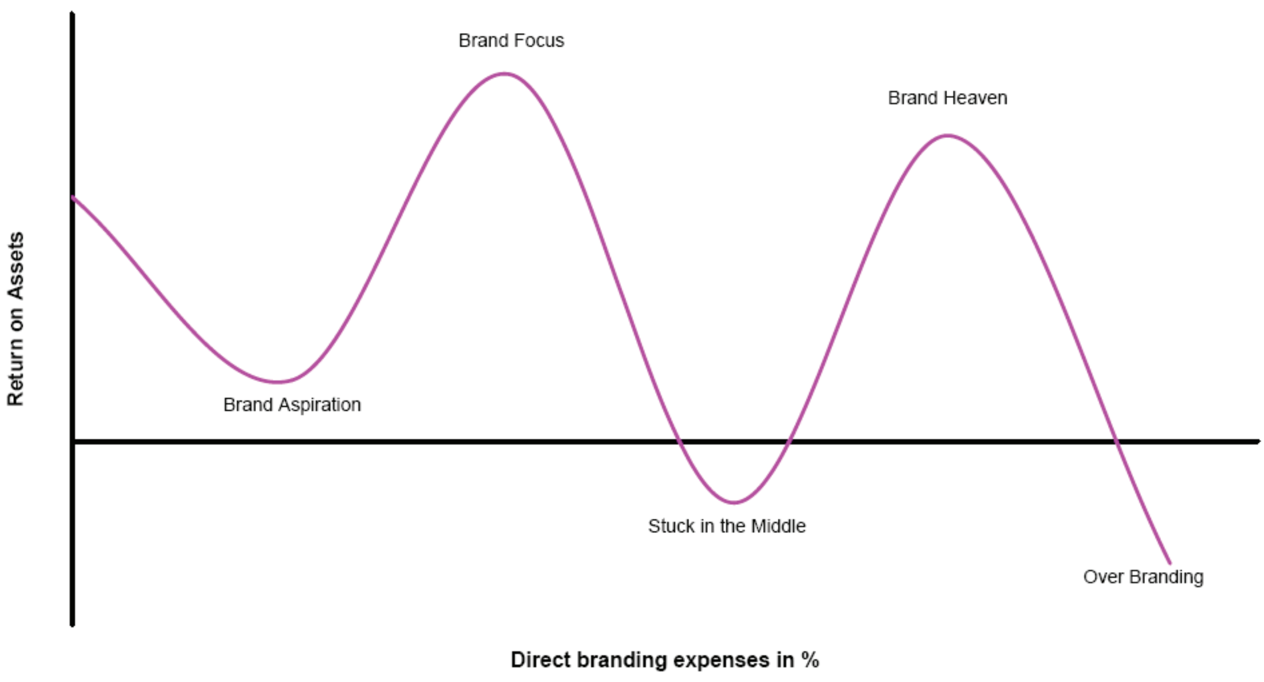


Reg facts: 816 firms; 3.59 million employees; AdjR2=0.60028

As in the previous sample, the initial research showed that companies active in the financial sector are achieving the highest return on their assets when investing 5-10 percent or 20-30 percent of their turnover in branding, whereas branding in the 0-5 percent, 10 -20 percent or + 30 percent range is leading to performance destruction. It was interesting to note that companies with an appropriate strategic branding position would achieve a return of up to 3-percentage points higher than other companies in the same interval. The adjusted R2 was not as high as for the first group, but was still 0.60. Again, a W pattern (function) could be observed between financial performance and branding.

What could be the probable relationship and explanation for the observed patterns? After extensive discussions and research of the literature, five working assumptions have developed around the W pattern and the concept of corporate brand thrust. Briefly explained, the authors believe that the five observed key phases: (a) Aspiration (b) Brand Focus (c) Stuck in the Middle (d) Brand Heaven (e) Over Branding as illustrated in the simplified graph (5) shown below.

GRAPH V: Simplified W function



The background for each phase and the financial impact could be explained as follows:

1. **Aspiration:** The company is rather narrow and restrictive in its branding activities, and in most cases only has a limited number or no foreign subsidiaries. Management has an undefined branding strategy driven by some unclear brand building aspirations and is thereby achieving a below average return on its branding activities since they are too limited (0-5 percent). Thereby no impact can be measured, ultimately resulting in a negative financial impact. Furthermore, the company has difficulties in achieving scale economies from a branding perspective since the relative investments are too high to achieve an acceptable return. The strategic position is weak and not sustainable in the long run.

2. **Brand Focus:** The company starts focusing on branding, and is placing substantial resources (5-10 percent) behind those new activities. Sales are increasing and it is gaining a critical size in the market place. The result is a dramatic increase of its financial performance leading to value creation. Frequently, the company is becoming a segment leader and has a sustainable competitive position.

3. **Stuck in the Middle**: The Company again has a weak strategic position, frequently due to lack of focus and is stuck in the middle. (Montgomery and Porter, 1990). It is expanding and attacking many new markets or segments. Ultimately, branding expenditure is now approaching 10 – 20 percent of their turnover. This high investment, combined with their weak strategic situation is leading to a decrease in financial performance.

4. **Brand Heaven:** As the company is reaching scale economies with its branding activities in the different markets or segments, it is gaining international synergy (as observed in many U.S. multinationals) with its branding activities. The company achieves a stronger strategic position and their return is again increasing. (This was also confirmed by Buzzell and Gale (1987, p. 91) … "in stable markets, market leaders on average reap 25 % percentage points more ROI than small businesses ").

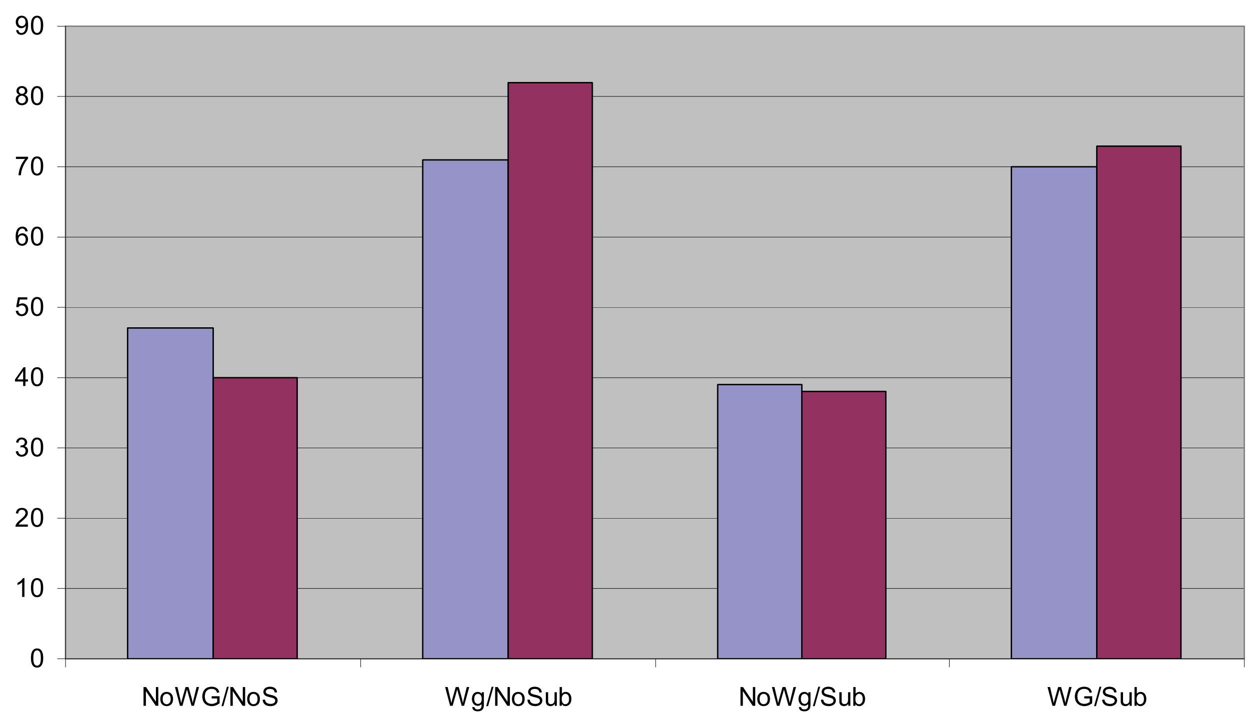
5. **Over branding:** Once the company has achieved a given size by international standards, it starts spreading out into different and new activities, thereby adding additional branding expenditures and ultimately decreasing its financial performance. Frequently, one can also observe the phenomenon of over branding in this segment.

The branding position of a company should by no means remain static over time. Some companies maintain a status quo over time, but there are also examples in our research database where companies move downwards or upwards. Hence, it is absolutely vital that branding is analyzed in a dynamic perspective, and that academics and practitioners acquire a performance and time driven reference model for branding. The brand thrust concept should be seen as a first step in this direction. The underlying data from other studies also confirmed that a company's' involvement in several or more industries would lower financial performance.

Control

Four different statistical methods have been applied. The explanatory power of the model was in general satisfactory, as shown below in Figure 6, with the exception of Method 3, which was weighted but not substituted. This test only showed a result of r2 at 38 percent.

Figure 6: The explanatory power of the model (R2) for Equations 1 and 2



Subsequent test runs using either market to book value, or return on assets gave similar results and didn't change any of the preliminary findings or conclusions.

Conclusions

The original research question asked if a valid relationship between financial performance and branding could be established. This article has highlighted the fact that there is a significant relationship between branding activity and financial performance based on a sample size of more than 10,300 corporations. Our findings show that this could be described as a W curve with five distinctive phases, which is, in most cases, not industry specific. Furthermore, the concept of brand thrust has been introduced and discussed in a strategic context. It has been shown that the strategic branding position of a company must be analyzed and managed dynamically, since it can lead either to value creation or destruction, as seen from a shareholder perspective. The research also indicates that companies having a balanced corporate brand thrust and using it strategically, are providing up to a 3 percentage point higher return to their shareholders compared to their competitors.

Managerial implications

This research indicates that for most companies a correlation between financial performance and branding is present, and can be established. As a minimum, it has five different and unique phases that cannot be perceived to be a linear function. Another important conclusion for management teams and shareholders is that while there can be a positive correlation between branding and financial performance, in reality this can also lead to value destruction. This implies that the branding position of a company must be regularly and closely monitored and managed from a strategic perspective. To be applied successfully, this would require cross-departmental (Marketing, Finance and Sales) working groups analyzing all relevant internal and external factors, and ultimately reporting back to senior management. Conceptually, this could be achieved by applying the corporate brand thrust concept presented in this article, whereby those findings would ultimately be presented to, and reviewed by, the board of directors of each corporation, and not left to be justified by the marketing team, as is seen in many corporations. The final, and in many ways, the most critical element, is that each company must be aware of its strategic branding position vis-à-vis its competitors, having a conceptual understanding of its current situation and acting accordingly.

Limitations and Directions for future research

The findings presented in this article have focused on the link between branding and financial performance. It has confirmed that there is a significant correlation between branding and financial performance that could have a determining impact on a company's position in the marketplace. These initial findings and insights are nonetheless restricted by some important limitations and shortcomings, most of which have already been discussed, however our hope is that this research can provide the basis and inspiration for future research, particularly in the area of financial performance and branding.

One can challenge any approach of establishing a strict link between financial performance and branding, nevertheless, empirical analysis establishing a correlation between branding and financial performance, larger and more comprehensive databases and more insight into the strategic nature and impact of branding are providing a unique opportunity for future research work.

This research has only focused on reverse causation to a limited degree, so it is conceivable that the actual economic performance of a corporation, eventually combined with specific strategic considerations or ownership structures could have a material impact on the actual branding level.

It would be of interest if new and more adaptable definitions of branding could be developed and tested in the years to come, and the conceptual framework of corporate brand thrust will clearly have to be adjusted over time and be made more industry and company specific.

The scope of this study, whilst broad compared to previous studies, has been limited only to the U.S. and Western Europe. It would be of particular interest to expand its scope to include the Far East and other emerging markets in order to assess whether the application of the conceptual framework can be verified in those markets. The limitations of this work are also illustrated in the high number of factors where deductions had to be made, therefore it would be interesting to examine if some factors should either be included or excluded to provide more insight into branding and financial performance.

In conclusion the correlation between the concept of branding and financial performance has been established and merits further consideration both from a theoretical and business perspective.

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B2B BRANDING, A FINANCIAL BURDEN FOR SHAREHOLDERS?

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Abstract

Is branding an effective tool for generating shareholder wealth for companies which are active in a business to business environment? Or do other factors such as innovation and manufacturing efficiency, or the lack of it, create or destroy shareholder wealth?

Based on close to 1700 companies listed either on the US or European stock exchanges, the study reveals that this crucial relationship could be described as a W-shaped curve with five distinctive phases, depending on the strategic branding position of the company. Used strategically, business-

to-business (B2B) companies with a balanced corporate brand strategy, generally yield a return to their shareholders that is between 5% and 7% higher. Thus, is vital that senior executives, including the board of directors, systematically assess and monitor the strategic branding position of their company and how their branding investments are performing against key competitors. This study reveals that shareholders should now insist on systematic performance feed-back from the corporation on all key items in their balance sheet - including branding. Very few of the companies studied had an optimal balance between branding and financial performance.

Key words: *B2B Branding, financial performance, return on branding, market orientation,*

1. Why do shareholders not show any interest in branding?

In the business-to-business area, does branding creating sustainable economic value for companies and their shareholders? Or are other variables such as innovation, research and manufacturing excellence the predominant business drivers? Over the last few decades, the topic of branding has attracted increasing interest, but little research has been conducted on the link between branding and the financial performance of companies in the B2B segment. In many cases, business-to-consumer activities have been the focus of research, while industrial branding has been treated as the "intellectual step-child" and been somewhat neglected. Academic research in this field has been limited, and neither has the scholarly literature provided a comprehensive theoretical basis or documented an empirical relationship between brand value and shareholder value (Kerin & Sethuraman, 1998). The result is that branding research in this field is frequently based on shaky foundations where key results and findings are debatable. These bold claims shared by Balmer (2001) and Gronroos (1997) challenge the widely accepted perception that branding always creates wealth, and can, therefore, frequently in reality be a major cause of wealth destruction for shareholders.

In addition, branding is increasingly becoming a question of survival, since many companies face the universal challenge of both converging quality standards and manufacturing costs. This is prompted not only by global manufacturing, enhanced knowledge and design-sharing possibilities, but is also due to the fact that companies have increasingly easier access to the same financial resources and international distribution channels. Put more succinctly, innovation and time to market are important, *but* have lost much of their values as a strategic tool which protects against "me-too" products as among others experienced by F.L Schmidt when protecting their global leadership position in the cement plant industry against aggressive Chinese competitors. Thus, branding may be one of the last remaining means by which a company operating in the industrial field can achieve a sustainable competitive advantage. Ultimately, this has wide ramifications, particularly in a B2B context. A well positioned and powerful brand provides a highly effective barrier against competitors, increases information efficiency and attracts customers, since it reduces the risk of making wrong purchase decisions. It also creates a competitive advantage which translates into enhanced pricing and distribution power.

For European companies in particular, branding increasingly constitutes a major strategic challenge, because their brands are less well known on a global scale,- according to Interbrand only 23 of the top 100 global brands are of European origin (source:www.interbrand.com). Historically, American B2B companies such as GE, Honeywell, Intel and Caterpillar, have been much faster to establish global brands than their European competitors. Increasingly, European players are also getting "squeezed" by Fast East competitors like Tata, Mitsubishi and Lenovo.

The principle objective of this article is to present and discuss the strategic relationship between branding and financial performance in a B2B context and to address the fundamental research question "*can the financial benefits of branding be measured, and if so, what would be the conclusions for shareholders investing in B2B companies"?* Given this ambitious starting point, a series of questions need to be addressed. What definition of branding and brand equity apply to the B2B field? Would other critical variables, such as innovation and manufacturing costs, exert a disruptive influence on the research presented in the paper and ultimately lead to biased and inconclusive findings? Furthermore, is there truly any difference in branding strategies between different industries, or are we dealing with universal methods and approaches that can be applied to all companies and product types? These intriguing questions are analyzed and discussed in the following sections.

2. Branding in B2B context – is it different from B2C activities?

Conceptually, the difference in branding and sales orientation between companies producing consumer goods versus companies producing industrial goods or services is significant. There is also a major theoretical difference in their approach to branding. The general assumption is that there is close long-term cooperation (sales orientation) between producers of industrial goods and services and their customers, whereas consumer-goods companies focus more on the short-term marketing mix and segmentation models (Kotler & Pfoertsch, 2006, Anderson and Narus, 1999).

The level of complexity in this field is exceptional high, because firms can apply radically different branding and pricing models, have industry-specific distribution models, and the extensive use of patents can either increase or decrease overall average profitability. The brand expectations of B2B customers are also significantly different and demanding than from other segments. A well positioned brand in this field should provide substantial reassurance to business customers, since the purchaser's entire fate could be totally dependent on it. The stronger the reputation and inherent goodwill of the brand, the greater the likelihood that the company possesses competitive advantages and more pricing power which would ultimately provide it shareholders with above-average returns. General Electric is a prime example of how this can be achieved consistently on a global scale. In this research sample, GE is spending 6.5 % of their turnover on branding activities (including costs of running subsidiaries) where other players in this field are spending up to 14 – 18 %. The application of a universal, consistent and focused brand strategy has provided scalability globally and branding efficiency which is translating into enhanced shareholder performance.

Furthermore, mass communication can be used to a much lesser extent than in the field of fast moving consumer goods. The focus is also different, since B2B branding, as general rule, requires the development of a positive reputation, goodwill and the commitment of the entire company to a set of given brand values. In most segments of the fast moving consumer sector, there are millions of potential costumers, whereas the power balance and number of customers is totally different in the business-to-business segment. For example, in its global power plant business unit, Siemens has less than 2,700 potential B2B customers (source: Nicolas Vortmeyer, CTO, Siemens), whereas Coke has a potential global customer base exceeding one billion customers. The advantage for Siemens is that the market is well-defined and focused, but the company remains heavily dependent on more face-to-face interaction, of which the downside is that specific product and technical information might overshadow brand communication.

Product-based, rather than company branding in the B2B field is demanding, as experienced by IBM in the mid nineties. It required both the appointment of a new CEO, Lou Gerstner, the development of a new brand strategy and the firing of 70 global agency partners, before the company was able to shed its brand image of being a product-focused mainframe manufacturer, in favour of a firm offering business solutions in an e-economy. Another dimension in this debate is the degree of complexity - industrial goods are often characterized by a significant and multifaceted number of product specifications, lines and variations. Furthermore, the decision making process also varies, since there are frequently more decision makers involved than in the fast moving consumer goods field.

The B2B segment is also unique in that companies and suppliers are closely interlinked and have a symbiotic relationship as described, amongst others, by IMP researchers (Haakanson, 1995 Ritter, 2002). Strategically, when compared to consumer goods, segmentation models are often considered to be rudimentary or non-existent, because customers are regarded as unique. Different behavioural and cultural patterns in diverse industries could also have a major impact, whereas conversely, the desire for heterogeneity drives companies to search for customers with similar purchasing patterns. Furthermore, relationship skills, networking capabilities and profound technical product understanding are clearly more important then when selling and promoting fast moving consumer goods. In most cases, it is significantly easier to establish causal links or, expressed differently: "*Marketers in the B2B categories can employ a measurement system of perception, performance and financial metrics that is data rich, because the data is at customer level"* (p. 383 Munoz and Kumar, 2004).

There may also be a direct relationship between the underlying pricing or cost model applied in an industry and financial performance. In this respect, classic manufacturing technology is generally linked with cost-based pricing. This may be true of sectors not exposed to strong competition or globalisation, but most companies are eventually forced to follow a market-based pricing strategy.

Recently, many new industries have been focusing on branding in order to avoid becoming commoditized in the wake of ever-increasing price pressures and global competition. (de Chernatony et al,2001). The ubiquity of technology is currently decreasing the potential for sustained competitive advantage, and managers are focusing more on differentiating their brands on the basis of unique emotional, rather than functional characteristics. They are also increasingly being forced to re-think their global product strategies. It is obvious that branding can provide a competitive edge, but is there any fundamental difference between product and corporate branding?

2.1 Product versus corporate branding

The dividing line between corporate or product brands has always been rather unclear. Some industrial companies (ABB, Siemens, GE) follow a one-brand (corporate) strategy, Hence, brands in this field are often corporate ones, the focus of which should be on communicating and presenting the true underlying values (such as innovation, reliability, safety, etc). While most fast moving consumer companies (Nestlé, Procter & Gamble, Kraft, etc.) have a wide range of different brands. Seen from a broader strategic perspective, the decision to use one, as opposed to many brands, is more tactical than strategic. Industry behaviour, management risk profiles, tradition (including nationalistic associations with a brand) and product portfolio considerations are some of the trigger points for the decision to have only one or several brands. Trans-national and multi-domestic brand strategies have been applied successfully, but they are not easy to implement and control. However, standardized global brand strategies and performance lead to significant economics of scale with respect to brand investments (Kotler & Pfoertsch, 2006). The emergence of multi-channel marketing and purchase methods will further reduce the attractiveness of multi-brand strategies. Thus, quite deliberately, no distinction is made in this study between branding at a corporate as opposed to a product level, since, in all circumstances, branding expenditures should be considered as an investment.

2.2 The consequence of branding on financial performance for B2B firms

When a corporation is branding there will always be financial impact even though it is in most cases not reported directly in the annual accounts. B2B branding will surely lead to more relevant information, additional product or service trials, and repetitive purchase patterns. Management of a particular industrial brand should be able to establish an industry-given ratio that can benchmark whether they are over or under investing in their brand, compared to key competitors. If one isolates and eliminates all other key variables including R & D (which has provided many B2B companies with a competitive edge in the past), the company with the highest and most consistent branding intensity will or is likely to develop a competitive advantage over time (Buzell and Gale, 1987). This observation confirms the assumption that higher branding intensity leads in general causes enhanced financial performance, since it reduces inefficiencies caused by asymmetric information between two or more firms, thereby ultimately leading to greater market transparency. This aspect is particularly important in a global market place which is becoming increasing crowded, and in which decision making becomes more complex, due to new to new factors such as environmental and compliance requirements, including CO2 emissions. If appropriately handled, branding enhance customer perceptions and ultimately translate into enhanced financial performance for the company. But, a B2B corporation cannot expand its investments indefinitely, it will reach a point where the law of diminishing marginal returns is applicable, and over-branding would have a negative impact on shareholder value.

2.3 Can brand equity be defined and how should shareholders measure it?

How can shareholder value and brand equity be measured in an uniform way? In a B2B context, branding is generally a well-accepted notion, but lacks a uniform academic definition. Over the years, various definitions of brand equity have been proposed based on *set* of brand assets and liabilities (Aaker, 1992); or on a methodology based on the *net present value of future cash flows* (Schuetze 1993). While these definitions are certainly valid, they seem too narrow in scope, when aiming to measure branding and shareholder performance in a B2B context. More specifically, in this study, corporate branding expenditure refers to all marketing expenditures, including sales-related general and administrative costs, distribution costs, together with direct and indirect marketing expenditures. This wide range is particularly relevant in an industrial context, where indirect sales costs and indirect sales staff outweigh the cost of marketing specialists and direct marketing expenditures.

Today, on average 80% or more of a firm's assets are non-material or intangible (Simon and Sullivan, 1993). Thus, it would be logical to expect that such values would be reported to shareholders consistently and methodically. This applies not only to brand equity, but also to R & D expenses, patent registration and other immaterial assets. However, the reality is somewhat different. Surprisingly few companies have instituted a systematic programme of analysis which allows them to gauge their brands' performance, and, more importantly, to link them to business performance measures and report back their findings to the shareholders. (Munoz and Shailendra, 2004). In reality, remarkably few shareholders obtain a concise and consistent picture of one of their largest, if not *the* largest asset on the balance sheet, *the brand*. The current situation is almost grotesque, given that 97% (Black et al. 2001) of all CEO's claim that their main objective is to create and increase shareholder value. Yet, they lack a systematic way of measuring brand performance. Furthermore, there is no reason to believe that this debate should be any less important in the B2B sector than in any other.

One way of overcoming this weakness would be to develop a specific company or industry model which would measure and benchmark branding expenditures and financial performance against key competitors. For this present study, a special regression model is developed and consists of 14 different variables:

Financial performance = f (branding variables, other firm related and industry variables)

Where financial performance is measured either by Tobin's Q which compares the market value of a companies' to the replacement value of their tangible assets: or the return on assets / return on equity. In this particular Tobin's Q was applied. As previously described, branding is for this study defined as all marketing expenditures, including sales-related general and administrative costs, distribution costs, together with direct and indirect marketing expenditures. Other firm related variables are measuring such elements as; firm size, market capitalization, investment intensity, as measured by capital expenses from the cash flow statement to property plant and equipment, stock market beta and R & D. Furthermore, other variables are also included measuring ownership, global market share, diversification, industry classification and capital structure by long-term debt to total assets.

Industry classification and the selection of benchmark criteria are general challenges in this context, since the entire B2B field is extremely wide and diverse, ranging from high-tech companies (Intel, Cisco, etc) to those with significant raw material stocks (Exxon, Shell, etc) Hence, for instance, selecting Tobin's Q can reveal the opposite of what might initially be expected. This deviation is probably caused either by a structural imbalance in a given research method (B2B companies are frequently compared to other sectors with major raw material stocks in their balance sheets, which can distort the results when making the link between financial performance and branding) or no appropriate estimate is used for replacement value. These structural barriers can in many cases be overcome by applying return on assets or on equity as performance benchmarks.

2.4 The time horizon of branding

When measuring financial impact, one would also need to make a careful decision about what time horizon should be applied**.** Conventionally, marketing has been used to establish a brand and gradually be building up product or brand awareness. The focus has frequently been on measuring short-term impact on sales and turnover. In many cases, these branding investments been regarded and treated as an add-on feature to sales-related activities and where the only financial yardstick was the annual marketing budget. No real considerations were given to what should happen in the subsequent years and the actual impact on long term shareholder performance. The controversy over selecting the right time horizon is fundamental in terms of measuring the financial impact of branding. Research in the early 90's established that the impact of *brand* advertising generally lasts for about four years, whereas for other product categories and services, and especially industrial goods, this could be as low as one year or even less. This serious timing problem can probably be explained by psychological differences. With respect to branding activities and campaigns, it would seem advisable not to consider short-term fluctuations, but rather to take only a medium-term *strategic* view. In this case, medium term refers to a three to five year period.

3. Shareholder Value and Branding - Key findings

The findings presented in this section are based on empirical research conducted over the period from 2003 to 2006 and covers almost 1700 companies active in the B2B sector. Only listed American and European companies were included in the study, since they are subject to stricter disclosure rules and reporting requirements than those from other regions. In general, they also provide more financial information about their branding activities than their non listed competitors.

The branding expenditures were sub-divided into five intervals: 0-2 percent, 2-5 percent, 5-10 percent, 10-20 percent and +20 percent of current turnover. Branding was thus measured as a percentage of current turn-over or as the return on assets. The initial research, based on market-to-book value, revealed that companies achieve the highest return on assets when investing 2-5% of their turnover in branding. Conversely, branding in the 0-2% and 5-10% ranges leads to deteriorating performance. Thus, there is a clear optimal branding range for a firm and its shareholders. Interestingly, companies with an appropriate strategic branding position achieved a return of up to 7% higher than other companies in the same interval. The B2B sample, reveals a W pattern (function) between financial performance and branding. (For further details, please see Attachment One) which raises the question what could be the strategic causation and its implications.

4. The W–curve: a strategic bridge to branding and its five phases

Conceptually, these key findings raise the question of what explains the probable relationship of the observed pattern and what interpretation should be applied. How should shareholders relay to the five observed key phases and how could they be explained from a managerial perspective? The main explanations are as follows:

Aspiration: The original raison d'être of many business–to-business enterprises are based on a technical innovation or adapted product concept, frequently protected by one or several patents, a change in manufacturing process or in the nature of approach to customers. Initially, the company generally has a rather narrow strategic focus and is restrictive in its branding activities. In most cases, the company has none or only a limited number of foreign subsidiaries. The internal focus is on technical and manufacturing aspects, and sales activities can best be described as pull-driven. In this group, Hyundai Engineering Chubb, Samsung Industries and Korean Industrial Development are classified all having global ambitions but clearly under investing in their brands. The same can also be observed at Haldor Topsøe, a world leader in industrial catalysts, where the owner and chairman opposes any kind of branding activities as a matter of principle. Any branding activities tend to achieve a below-average return, since they are too limited (0-2% of turnover), ultimately yielding a negative financial impact. Furthermore, the company has short term difficulties in achieving economies of scale from a branding perspective, since the relative investments are too high compared to the (magnitude of) market potential. Another strategic dilemma leading to value destruction is when firms are convinced they are only selling commodities and deny making any branding investments. Companies in this group include among others Murphy Oil, Centex, Orientel Petroleum, Fecto Cement, Aegon, Cherat Cement and Uni Chemical Industries. But, Cemex and Tata are examples that the opposite can be achieved in industries perceived as "commoditized" with considerable economic success for their shareholders.

Brand focus: The technical strength and superiority of the company starts to be recognised, not only locally, but through international sales. Frequently, it is a segment leader and has a sustainable competitive position in its field. The company starts to focus on branding, committing substantial resources (2-5%) to these new activities and sales grow rapidly. B2B branding investment in this range are reinforcing the values associated to the firm, eliminating any communication barriers between current and potential purchasers and reduces the risk of a customer of making the wrong purchase decision. The outcome of the research showed that there is always a positive and robust correlation between branding activities and financial performance in such a situation. This is not surprising, when comparing the results with previous findings in other industries (Ohnemus & Jenster, 2007). Companies in the Brand Focus segment included Ricardo which has in a unique combination of product innovation, and branding has succeeded in becoming a leader in supplying engineering solutions to companies engaged in the global automotive and transport sector. It also had examples like Stilwater Mining and Schlumberger where manufacturers of raw materials or suppliers in this field are moving up the value chain by having focus on branding. Interestingly enough GE capital is just on the edge of this group since branding expenditures are fluctuating between 5 – 6 % depending on the actual year and measurement applied.

Stuck in the middle:Further international expansion or expansion into new business areas or segments, combined with extensive branding activities, leads to wealth destruction, and most companies are strategically "stuck in the middle". Ultimately, branding expenditures now approach 5–10% of turnover. This high investment, combined with the weaker strategic position, leads to deteriorating financial performance. The bottom line is that the company is overextended and "attacking" too many new markets or segments at the expense of financial performance. One additional explanation and factor is that companies in businesses-to-business sales are often faced with higher technical and language barriers than other industries, anti-competitive forces are more pronounced (as observed in Japan, China Switzerland, France) and the market penetration period is longer which has a negative impact on return on investment. Companies in this group are Sumitomo Corp., Kerr McGee, PLB Eng,, Embraer all firms where aggressive international plans including significant investments in brand building have during the research period resulted in below average shareholder performance

Brand Heaven: as the company achieves a larger scale through its branding activities in the different markets and segments, it gains international synergy through these activities (as observed in many US or Japanese multi-nationals). It also achieves a stronger strategic position, and the returns increase. Again, it is evident that there is a positive balance between the current branding investment and market position. This was confirmed by Buzzell and Gale (1987*)* in stable markets, market leaders on average reap 25 percentage points more ROI than small businesses. The brand has obtained a solid position where shareholders and clients are having an optimal situation defined as brand heaven. Expressed differently, the brand promise is fulfilled and all key stakeholders are satisfied. Companies in this group are among others Intel, SKF, Degussa (Evonik), ABB, Siemens and Toshiba all corporations which are having strong brand perceptions globally and have succeeded in striking the right balance seen from a shareholder perspective.

Beyond Zenith (Overbranding): once the company has achieved a given size by international standards, it starts expanding into new and different activities (again), thereby increasing its branding expenditure and ultimately decreasing its financial performance. Spending more than 20% of current turnover on branding-related activities is not sustainable. Other companies in this range are typically start-ups, for which an inappropriately high level of investment in branding was observed especially during the dot.com era. Frequently, one observes the phenomenon of over-branding in this business-to-business segment. Management generally tries to justify it on the basis that branding constitutes a barrier to entry for potential new players. However, managers consider them rationally in this context but no equilibrium established from an economic perspective. Ultimately, shareholders pay the price and the company either would have to pass through frequent restructuring processes or is becomes a potential takeover target, if an economic equilibrium is not re-established. Akzo which is one of the world’s leading industrial companies and number one in the global paint industry is a typical example in this group. They have despite frequent restructuring at group level and heavy investment in branding not (yet) succeeded in striking the right balance and the shareholders are paying the price. Other companies in this group are among other Aker, Martime, Fiskars/watsila and Jungheinrich.

Furthermore, the branding position of a company should not generally be allowed to become static over time. Some companies are able to maintain the status quo, but there are also examples in this database of companies which have deliberately changed their strategic branding position. It is therefore vital that branding be analysed in a dynamic perspective, and that both theoreticians and practitioners have both a performance and time-driven reference model for branding. The presented concept and research should be seen as a first step in this direction. The sample group only covers business-to-business companies listed on a leading stock exchange. Many leading European companies or companies based in the Far East are still run and/or controlled by the founding families (Tetra Pak, Grundfoss, Danfoss, etc.) and could not, therefore, be used for this research, but there are no obvious reasons to believe that the five phases shouldn't be applicable to them.

6. Lessons to be learned for shareholders

Shareholders in the business to business field must not only require that innovations and product leadership are resulting in a competitive advantage but also that branding expenditures are applied as an investment that would have to yield a return. This study confirms that shareholders should now insist on systematic performance feed-back from the corporation on key financial ratios including branding otherwise they could be faced with major strategic and economic fatalities. Very few of the companies studied had an optimal balance between branding and financial performance. Managers of companies currently located in either Phase 1 or 5, might be too quick to conclude from this research and their own experience, that branding does not add true value in a business-to-business context. They would then continue their business focus on R & D and manufacturing activities. However, such a conclusion and approach would be flawed and misconceived.

Modern database tools, advanced regression models and more enhanced reporting standards now permit financial performance to be measured systematically. There is from a research perspective a clear recommendation that shareholders should be insisting on receiving a report about where the prevailing strategic optimum level of their branding activities and expenditures is for the corporation. The research also indicates that the strategic branding position of a company should be analysed and managed dynamically, since it can lead either to value creation or destruction, viewed from a shareholder perspective. Thereby, financial performance can be better optimized and shareholders would not be forced to be reactive anymore. Furthermore, effective branding is a way of ensuring information efficiency, providing customers with risk reduction and preventing products and services from becoming commoditized which is crucial for companies operating in the industrial sector. Furthermore, this paper highlights the fact that there is a significant correlation between branding and financial performance. These empirical business-to-business results yield what could be described as a W-curve with five distinct phases, when measured against Tobin's Q or return on assets.. It is evident that there is a strong need for re-engineering of branding strategies for many companies in a business-to business environment, if they are serious about remaining competitive and providing a superior return to their shareholders. Branding is clearly not the only way to establish a competitive edge, but particularly for many European and Asian companies, it could provide an incremental advantage which they have not exploited fully in the past.

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Paper III

CORPORATE BRANDING AND FINANCIAL PERFORMANCE IN A BUSINESS-TO-BUSINESS CONTEXT

by

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Abstract

This paper examines the link between branding and financial returns, using a sample of more than 13,300 companies listed either on the European or US stock exchanges. Of these, 1 671 are active in industrial manufacturing and sales.

The basic hypothesis was that the relationship between branding and financial performance form a reverse U-shaped curve. However, for the above-mentioned sample, this study reveals that it could be better described as a W-shaped curve with five distinctive phases, depending on the strategic branding position of the company. This study also revealed that business-to-business companies with a balanced corporate brand strategy, generally yield a 5 to 7% higher return to their shareholders. This said, compared to other industries, the W-curve is not as pronounced in the business-to-business sector as in the consumer-goods sector, indicating that factors other than branding, also exert a decisive impact.

Key words: Branding, marketing, business-to-business, financial performance, market orientation,

Introduction

Can investors in listed business to business enterprises identify how economic resources should be allocated between research & development, capital expenditures and branding? The topic of branding has attracted academic increasing interest, but little research has been conducted on the connection between the various value drivers of companies in the business-to-business segment and their link to shareholder performance. These weaknesses have been highlighted (Balmer, Gronross, Roger A. Kerin and R. Sethuraman) but no conceptual framework has been developed which could provide shareholders with an appropriate response

The economic resources invested in branding are dramatic and currently constitute between 3% and 5% of turnover, and this percentage is increasing (source: Interbrand,) Branding is increasingly becoming a question of survival, since many companies face the universal challenge of converging quality standards and manufacturing costs. This is not only prompted by global manufacturing, enhanced knowledge and design-sharing possibilities, but is also due to the fact that companies have increasingly easier access to the same financial resources and international distribution channels. Put more succinctly, "*innovation is central, but nowadays nearly everything can be copied – and as a rule very quickly*" (Olins, 2003). In addition, the time factor has lost much of its value as a strategic tool which protects against "me-too" products (Butz and Goodstein; 1996). Thus, branding may be one of the last remaining means by which a company operating in the industrial field can achieve a sustainable competitive advantage. Ultimately, this has wide ramifications, particularly in this business-to-business context, in which branding has played a less pivotal role than in the consumer goods sector. In the 1990's, several leading researchers (Aaaker, Swait,Kamakura, Russel, Feldwick) showed increasing interest in the economic justification of brand expenditures and attempted to develop a stronger conceptual and empirical framework for analyzing this phenomenon.

Recently, research has focused increasingly on the relationship between shareholder return and market-to-book value (Mortanges, Riel, 2003). Again, most of this empirical work is rooted in either the consumer or service sectors. Grönroos argues in several papers that there is a need for a significant paradigm shift in the area of industrial marketing and relationship marketing. Furthermore, researchers (Håkansson, Ritter, etc.) affiliated with the Industrial Marketing and Procurement (IMP) group have provided state of the art papers and research insights into marketing and purchasing, but their key focus has been to demonstrate how the various market players interact and compete in both simple and complex networks. Also inside IMP, little work has so far been performed to quantify the financial impact of branding in a business-to-business environment.

Conceptually, the difference in branding and marketing orientation between companies producing consumer goods versus companies producing industrial goods or services is significant (Webster, 1978; Hutt and Speh, 1992; Gounaris and Avlonitis, 2001). There is also a major theoretical difference in the approach to branding. The general assumption is that there is close long-term cooperation (sales orientation) between producers of industrial goods and services and their customers, whereas consumer-goods companies focus more on the short-term marketing mix and segmentation.

Academic work in this field automatically opens up for some pivotal challenges;- what definition should be applied when measuring branding and brand equity in the field of business-to-business can the classic definitions be used meaningfully? Furthermore it also forces one to make fundamental decisions about how shareholder value should be defined and measured and what would be an appropriate time horizon when conducting the research. Finally, there is also a strict to asses if other critical variables such as innovation and manufacturing costs exert a disruptive influence on the research and ultimately lead to biased and inconclusive findings. These issues are addressed in the subsequent sections of this paper. Afterwards, the research hypotheses are presented, the actual findings are then analyzed and discussed and finally the article concludes by placing these findings in a strategic context and suggesting appropriate directions for future research.

Brand equity

In a business-to-business context, branding is generally used as a rather accepted idiom but without a uniform academic definition. Different scholars have over the years presented and defended various definitions of brand equity such as: *"a set of brand assets and liabilities linked to a brand, its name and symbol, that add to or subtract from the value provided by a product or service to a firm and/or to that firm's customers"* (Aaker, 1991); or, brand equity is *"the differential effect of brand knowledge on customer response to the marketing of the brand"* (Keller, 1993).

Alternatively, "*the net present value of future cash flows that can be derived from them (brands)*" (Schuetze 1993). These definitions are certainly well-substantiated but they seem too narrow in scope to be applied directly to this research work. More explicitly, corporate branding expenditures are defined in this study as all marketing expenditures including sales related general and administrative costs, distribution costs, together with direct and indirect marketing expenditures. This wider definition is principally relevant in an industrial context, where indirect sales costs and indirect sales staff outweigh the cost of marketing specialists and direct marketing expenditures as observed by Gummerson and Gronroos (1999).Quite deliberately, no distinction is made between branding at a corporate as opposed to a product level, since, in all circumstances, the process and actual expenditures should be considered as an investment.

Shareholder Value

Today, the predominant part of listed of listed firms balance sheet and in particular asset are of a non-material nature, (Simon and Sulivan, 1993, Tobins),- hence it is logical for shareholders to asses such values consistently and methodically. This is not only valid for brand equity, but also for R & D, customer relationship and other immaterial assets. Few listed companies have instituted a systematic programme of methods or analytics that allows them to determine their brands' performance, brand adjustment strategies and, more importantly, link them to business performance measures. (Munoz and Shailendra, 2004). In reality, remarkably few shareholders obtain a concise and consistent picture in the annual reports of one of their largest, if not *the* largest assets on the balance sheet, *the brand*. The current situation is almost bizarre when predominately and CFO's amd CEO's (Black et al. 2001) declare that their main objective is to generate and boost shareholder value but are lacking a systematic way of measuring brand performance. Furthermore, there is no reason to believe that this debate should be any less important in the business-to-business sector than in any other.

The Time Dimension

Historically, branding focus has frequently been on short-term impact, entailing such measures as design changes, new communication channels, marketing waves and sales promotions. These activities have frequently been regarded and treated as an add-on feature to sales-related activities. This is not surprising, given the close historical links between branding and far moving consumer goods (FMCG) . In the 80's and 90's, however, the role of branding has expanded significantly.

Many recent articles (including those of Balmer (2001) and Schultz (2003)), have concluded that brand equity is developed by the entire organization and that there is a link between the strategic position of a company, its marketing expenditures (Kim, 1990) and its brand equity. The controversy over selecting the right time horizon is essential when measuring the financial impact of branding. Buzzell and Gale (1987) suggested that scholars analyzing the impact between strategy to performance should even consider a time period of up to 7 years in some industries. In 1991, Prentice established that the impact of *image* advertising generally lasts for about four years, whereas for other product categories and services, and especially for industrial goods, this could be as low as one year or even less. This major time problem can probably be explained by psychological differences, namely, that there may well be a stronger emotional attachment to a consumer product than to an industrial one.

The fundamental question is whether a direct financial correlation can be established between the overall branding intensity of listed companies. The purpose of this research, however, is not to look at short-term fluctuations in branding activities and campaigns, but to take a medium-term strategic view of branding. In this particular case, medium term refers to a one to three year period, with the intention of expanding the time frame for future research work.

Branding in a Business-to-Business Context

The level of complexity in this field is exceptional high, because firms apply radically different pricing models, have industry specific distribution models plus the extensive use of patents can either increase or decrease overall average profitability. Furthermore, compared to consumer goods, segmentation models are often considered, rudimentary or non-existent, since customers are considered unique. "*This is despite the fact that the marketing literature is affluent with compelling normative and empirically derived arguments which suggest that more important differences exist in marketing practices between industrial and consumer goods producers"* (Gounaris and Avlonitis; 2001). In a study that is directly relevant to this context, Wilkinson (2000) found that there is a strong correlation between market orientation and company performance. Furthermore, relationship skills, networking capabilities and profound technical product understanding are clearly more essential when selling and promoting industrial goods or services than fast moving consumer goods.

What makes research in the business-to-business area of particular interest is the closer link between customers and companies, compared to many other industries. In most cases, it is significantly easier to establish causal links or, expressed differently: companies focusing on business to business segments can establish a solid measurement system of awareness, performance and financial benchmarks since the data is at customer/client level (Munoz and Kumar, 2004).

There may also be a direct relationship between the underlying pricing or cost model applied in an industry and financial performance, as observed by Prabhaker (2001) whereby classical manufacturing technology and industrial manufacturing are generally consistent with cost based pricing. This may be true of sectors not exposed to strong competition or globalisation, but most companies are eventually forced to follow a (more) market-based pricing strategy.

The impact and importance of branding in a particular industry has been widely discussed and debated by among others by Aker (1996), Harris (1997). In this respect, a common view is that brand impact shifts from product to company as services and customer commitments are playing a greater role especially in a global context (Berry and Parasuraman 1991). Branding is frequently perceived by many executives as a way of escaping the risk of becoming commoditized in the wake of ever-increasing price pressures and global rivalry. Today, the ubiquity of technology is decreasing and accordingly the long term potential for sustained competitive advantage is getting reduced if the enterprise does not posses a strong brand.

The Effect of Branding on Financial Performance

Few, research papers has in the past focused on the linkage between branding and financial performance for industrial firms which complicated the assignment of finding a relevant hypothesis without going through a trial and error process. The original hypothesis of this research work was that there would be a reverse U-shaped function. This would be identical to M. Porter's observations about return on investment and marker share (1976). The assumption was that for each firm when benchmarked to its competitors, there would be an optimum level of branding at a defined point in time. If the optimum was exceeded at this given time, the company would be faced with the law of diminishing returns and experience value destruction. This starting point was of particular interest, given the findings of Kerin and Sethuranam (1998) showing that the functional form of the relationship is found to be concave with decreasing returns to scale. Over time, the initial hypothesis was modified and three additional hypotheses should also be considered from an academic perspective:

HYPOTHESIS 1: *Higher branding intensity leads to better financial performance*.
This was based on the assumption that branding reduces inefficiencies caused by asymmetric information between two or more firms, thereby ultimately leading to higher market transparency. This aspect is particularly important in a global economy, in which company and brand awareness is vital in a very "crowded" market. Accordingly, it is assumed that more branding leads to more relevant information for buyers, additional product or service trials, repeat purchase patterns and enhanced customer perceptions, which ultimately translates into enhanced financial performance for the company.

The management of a particular brand should be able to establish an industry-given ratio that can benchmark whether they are over or under investing in a brand, compared to key competitors. If one isolates and eliminates all other key variables including R & D (which has provided many business-to-business companies with a competitive edge in the past), the company with the highest and most consistent branding intensity will progress to industry dominance over time.

HYPOTHESIS 2: *At high levels of branding, further expenditures decrease financial performance*
This prediction conforms to the law of diminishing marginal returns. Companies expand their branding activities in order to obtain higher returns, but potential customers, including purchasing managers, are often indifferent to, or unaware of, these additional activities and expenditures, and may even react negatively to them (over-branding). Furthermore, in an environment where focus is primarily on technical innovation, quality and manufacturing efficiency, branding is not perceived by industrial buyers as a value-creating activity. Ultimately, this erodes the financial performance of a company, because it increases total costs, and this is not compensated by higher product or service prices.

HYPOTHESIS 3: *Branding has no impact on financial performance*.
The assumption is that both management and competitors make rational decisions with regard to branding and that they operate in a perfect market environment. This assumption is also valid in a business-to-business context. Any major increases or reductions in branding activities are matched by competitors. In essence, therefore, branding may lead to short term competitive and financial

gains, but over time, they will be eliminated. After the hypothesis were established focus was on selecting an appropriate method and model, building a suitable database where the relevant industries were selected and implement rigorous testing methods. Each of these elements are described and discussed in the subsequent sections.

Currently, there is no dominant hypothesis which would repeatedly with any doubt provide a scientific and non ambiguous result about the relationship between branding and financial performance.

Method and Model Selection

A regression model was designed consisting of 12 - 14 variables, which made it possible to test the correlation between branding and financial performance. Mathematical deductions were made for non branding related items and including such elements as capital expenditure, debt structure, R & D expenditure, ownership structure, and other relevant industry variables (a detailed description of each variable is provided under Model 1). It was critical to identify the correct variables to ensure that the explanatory power of the model would be satisfactory and statistical disturbance would be minimized. For example, R&D expenditures must be measured and isolated as a separate variable, since they could exert a material impact on the financial performance of a company, if leading to new and higher-income-generating products.

The model has also been adapted to reflect such elements as advertising intensity, stock-market beta, and ownership of shares in the given company. This research also enabled testing the incremental return on increasing branding expenditures, verifying whether the law of incremental returns also applies to branding. Furthermore, for this regression model, and for each hypothesis, the following four statistical methods were applied: numeric, numeric weighted but not substituted, numeric non-weighted but substituted, numeric weighted and substituted. As indicated above, the model was adapted to reflect such elements as advertising intensity, stock market beta (i.e., systematic market risk should be eliminated, since our aim was to identify and measure the financial impact of individual company branding investments and not overall stock market movements), and the ownership structure of shares in a given company. The branding expenditures were sub-divided into five intervals: 0-2 percent, 2-5 percent, 5-10 percent, 10-20 percent and + 20 percent of current turnover. Branding was measured as a percentage of current turnovers. Finally, the regression analysis is using a fixed effects model (i.e no random effects model is used)

Database

This paper is based on empirical research conducted the period from 2003 to 2005. The original sample comprised more than 13,000 companies covering 113 different industries based in more than 50 countries, and using the databases of Thomson Financial and Extel. The final sample was based on more than 10,000 companies of which around 3,300 were classified as industrial enterprises and had reported branding expenditures. Approximations were used for those companies not reporting branding expenditure for either the full period or a part thereof. Only listed European and American companies were included in the study, since they are subject to stricter disclosure rules and reporting requirements than companies from other regions. In general, they also provide more financial information about their branding activities compared to their competitors.

A statistical model of the economics of branding

EQ1, Financial performance:

$$P_{i,t} = a_{1,1} + a_{1,2} MarkSh_{i,t} + a_{1,3} IndustNr_{i,t} + a_{1,4} BETA_{i,t} + a_{1,5} \frac{CapExp_{i,t}}{PPECap_{i,t}} + a_{1,6} \frac{OpeInc_{i,t}}{Sales_{i,t}} + a_{1,7} DR\&D_{i,t} + a_{1,8} \frac{R\&D_{i,t}}{Sales_{i,t}} + a_{1,9} \mathrm{LN}\left(MarkCap_{i,t}\right) + a_{1,10} \frac{LTDebt_{i,t}}{Assets_{i,t}} + a_{1,11} \left(\frac{LTDebt_{i,t}}{Assets_{i,t}}\right)^2 +$$

$$a_{1,12} DAdvTotBr_{i,t} + a_{1,13} \frac{Adver_{i,t}}{TotBrandExp_{i,t}} + a_{1,14} DADVP_{i,t} + \sum_{d=1}^{D} a_{1,14+d} ADVP_{i,t,d} + \sum_{e=1}^{E} a_{1,14+D+e} OWP_{i,t,e} + \sum_{f=1}^{F} a_{1,14+D+E+f} DIndust1_{i,t,f} + \sum_{g=1}^{G} a_{1,14+D+E+F+g} DExchange_{i,t,f} +$$

$$\sum_{h=1}^{H} a_{1,14+D+E+F+G+h} DCountry_{i,t,h} + e_{1,i}$$

Where the different parts and various abbreviations of this financial performance equation for branding can be explained as follows

- $P_{i,t}$ is financial performance at time *t* for firm *i* measured by either the Torbins Q (market-to-book ratio) or the return on assets.
- $ADVP_{i,t,d}$ is a proxy for branding intensity measured by advertising expenditure as a percentage of sales at time *t* in firm *i* for the piecewise linear interval *d*. The applied intervals are: [0;2%], [2;5%], [5;10%], [10;20%] and [20, >20%]. $ADV_{i,t}$ is the non-piecewise advertising percentage, so that $ADV_{i,t} = \sum_{d=1}^{D} ADVP_{i,t,d}$
- $OWP_{i,t,e}$ is closely held shares in percentages at time *t* in firm *i* for the piecewise linear interval *d*. The applied intervals are: [0;2.0%], [2;5.0%], [5;10.0%], [10;20.0%], and [20;100%]. $OW_{i,t}$ is non-piecewise closely held ownership, so that $OW_{i,t} = \sum_{e=1}^{E} OWP_{i,t,e}$.
- $a_{x,y}$ are model parameters to be estimated by regression techniques.
- $e_{1,i}$, $e_{2,i}$, and $e_{3,i}$ are the residual errors for each equation and each firm.

- *Other variable abbreviations*: **MarkSh** is the firm's market share. **IndustNr** is the number of distinct SIC-industries . **BETA** is stock market beta risk. **CapExp** is capital expenditure. **PPECap** is total property, plant and equipment. **OpeInc** is operating income. **Sales** are simply revenue on sales. **R&D** is research and development costs. **DR&D** is a dummy for missing R&D values. **MarkCap** is market capitalisation. **LTDebt** is long-term debt. **Assets** are total assets. **Adver** is advertising costs. **TotBrandExp** is cost of selling, administration, distribution, and advertising. **DAdvTotBr** is a dummy for missing values of Adver/TotBrandExp. **DADVP** is a dummy for missing advertising values. **DIndust1** and **DIndust2** are industry dummies for +100 and 10 industries respectively. **DExchange** is a stock exchange dummy. **DCountry** is a dummy for country. **DB2C** is a dummy = 1 if the firm primarily is a business to consumer supplier. **DB2B** is a dummy = 1 if the firm primarily is a business-to-business supplier

The performance equation is organized and structured as follows:

Financial performance = f (marketing intensity, marketing exp. to total branding exp., other firm- characterizing variables, corporate-governance-related variables, industry dummies, country dummies, substitution dummies)

where financial performance is measured either by Tobin's Q ratio or return on assets. Other firm-characterising variables include firm size by market capitalisation, investment intensity by capital expenses from the cash flow statement to property plant and equipment net, stock market beta, R & D intensity by research and development expenses to sales. Furthermore, the corporate-governance-related variables include ownership, global market share, diversification, etc. by the number of industries, and capital structure by long-term debt to total assets. These variables are called corporate-governance variables, because they have the potential to reduce or increase the classic agency problem of the separation of ownership and control. The industry dummies include 113 industries made from DataStream's industry group code. Finally, substitution dummies are included for all explanatory variables except dummies and market capitalisation. Table I shows the total sample size with all companies included. In addition, a separate column has been created for financial firms. Table II shows the determinants for companies in the business-to-business segment.

Table I: Regressions - Branding effects on financial performance – Total Sample including industrial enterprises.

All regressions are cross-sectional year 2000 OLS regressions. The reported values are parameter estimates and the numbers in brackets are the associated t-values. All regressions include an intercept term, which is not reported. Dummies for industry ($DIndust1_{i,t}$) and country ($DCountry_{i,t}$) are included in all regressions, but are also not reported. Also not reported are five piecewise linear variables for the ownership of closely held shares. All regressions are estimated as weighted regressions using market capitalization.

Explanatory variables	LN(Market to book) Sample: Non-financial firms	Return on assets Sample: Non-financial firms
$ADVP_{i,t,0-2\%}$ Advertising expenses	-0.12585 (-5.17)	-6.59845 (-13.83)
$ADVP_{i,t,2-5\%}$ Advertising expenses	0.035091 (2.5)	0.928633 (3.36)
$ADVP_{i,t,5-10\%}$ Advertising expenses	0.09565 (10.16)	0.53721 (2.91)
$ADVP_{i,t,10-20\%}$ Advertising expenses	-0.06844 (-8.61)	-1.96788 (-12.55)
$ADVP_{i,t,20-95\%}$ Advertising expenses	0.015365 (3.37)	0.26619 (2.84)
Adveri,t/TotBrandExpi,t Advertising to total branding	-0.00235 (-2.46)	0.001472 (0.08)
DAdvTotBrandi,t Dummy for adv exp to brand	0.137406 (2.78)	1.017267 (1.04)
Number of firms, obs	6,393	6,072
Adj. R2	0.77974	0.60497

Table II: Determinants of financial performance - Business-to-Business, 2000

Ordinary least squared regressions of return on assets and Tobin's Q ratio by market-to-book ratio. The regressions are weighted by market capitalisation. The reported values are parameter estimates and the numbers in brackets are the associated t-values. All regressions include an intercept term, which is not shown

Dependent variable	**LN(*Return on assets*)** Full model.	**LN(*Tobin's Q*)** Full model.
	Yr. 2000	**Yr. 2000**
Marketing expense to sales, 0-2%	-7.39 (-10.5)	0.193 (6.30)
Marketing expense to sales, 2-5%	2.30 (3.63)	-0.135 (-4.94)
Marketing expense to sales, 5-10%	-3.00 (-3.93)	0.137 (4.14)
Marketing expense to sales, 10-20%	-0.863 (-1.82)	-0.110 (-5.38)
Marketing expense to sales, 20-95%	0.220 (1.80)	0.0275 (5.33)
Marketing exp. to total branding exp.	-0.104 (-2.42)	-0.000214 (-1.16)
Adj. R^2	0.6449	0.82922

The initial research, based on market-to-book value for the total sample size of more than 6,393 companies, revealed that they achieve a positive on assets when investing 2-10% of their turnover in branding. Branding in the 0-2% and 10-20% ranges leads to deteriorating performance. Interestingly, companies with an appropriate strategic branding position achieved a return of up to 7% higher than other companies in the same interval. A summary of results is provided in Table 1. The adjusted R2 was exceptionally high at 0.78. For test runs, a W pattern (function) could be detected between financial performance and branding.

The business-to-business sample (Table II) yields a different picture. Preliminary business-to-business results showed a weaker correlation than in other industries. This is most likely explained either by historic behaviour, namely a stronger focus on research than branding or ownership-driven specifics, as observed at Haldor Topsøe, a world leader in industrial catalysts, where the owner and chairman is against any kind of branding activities as a matter of principle. Alternatively, the finding may be due to the fact that the true financial impact of branding has been underestimated by most companies in the business–to-business field. The estimated relationship between market–to-book and direct marketing expenditures was calculated. Furthermore, a weighted and fully substituted test sample was also used, whereby the overall size sample was increased from 2,556 to 3,369 companies. With respect to the total sample, return on assets yielded a positive correlation, particularly for the range 2-5%, and a negative correlation (i.e. value destruction) for 0-2% and + 10-20%. The adjusted R2 showed a robust value of 0.64.

The ordinary least square regressions of Tobin's Q ratio revealed the opposite of what was expected. This deviation is probably caused either by a structural imbalance in the research method (business-to-business companies are frequently compared to other industries having major raw material stocks in their balance sheets which can distort the research findings), or a timing difference. Historically, many companies both in the United States and Europe, tend to cut back their marketing expenditures during recession periods (as observed by Keller, 1996). Furthermore, one could also argue that, in selected industries, there may be reversed causation pattern since, in theory, strong economic results make it easier for managers to justify significant branding increases.

In conclusion, the relationship between branding and financial performance is not as clearly evident for industrial enterprises than for companies in the area of fast-moving consumer goods, but a W pattern was observed when return on assets was applied as a benchmark.

Conceptually, this raised the question of what could explain the probable relationship of the observed pattern. After a review of the available literature and latest research findings, five business-to-business working assumptions were developed around the W pattern. In summary, it appears that conceptually, the five observed key phases could be explained as follows:

Aspiration: Many business–to-business enterprises “etre d’raison” are based on a technical innovation or adapted product concept, frequently protected by one or several patents, a change in manufacturing process or in the approach to customers. Initially, the company generally has a rather narrow strategic focus and is restrictive in its branding activities. In most cases, the company has none or only a limited number of foreign subsidiaries. The internal focus is on technical and manufacturing aspects, and sales activities can best be described as pull-driven. Any branding activities tend to achieve a below-average return, since they are too limited (0-2% of turnover), ultimately yielding a negative financial impact. Furthermore, the company has difficulties in achieving economies of scale from a branding perspective, since the relative investments are too high compared to the actual market potential.

Brand focus: The technical strength and superiority of the company starts to be recognised, not only locally, but through international sales. Frequently, it is a segment leader and has a sustainable competitive position in its field. The company starts to focus on branding, committing substantial resources (2-5%) behind these new activities and sales grow rapidly. The outcome of the research showed that there is always a positive and robust correlation between branding activities and financial performance in such a situation. This is not surprising, when comparing the results with previous findings in other industries shown and discussed in Paper I.

Stuck in the middle: Further international expansion or expansion into new business areas or segments, combined with extensive branding activities, leads to wealth destruction, and most companies are strategically “stuck in the middle”, as described by Porter (1990). Ultimately, branding expenditures now approach 5–10% of turnover. This high investment, combined with the weak strategic position, leads to deteriorating financial performance. The bottom line is that the company is overextended and “attacking” too many new markets or segments at the expense of financial performance. One additional explanation and factor is that companies in businesses-to-business sales are often faced with higher technical and language barriers than other industries, anti-competitive forces are more pronounced (as observed in Japan, Switzerland, France) and the market penetration period is longer.

Brand Heaven: as the company achieves reaching scale through its branding activities in the different markets and segments, it gains international synergy through these activities (as observed in many US or Japanese multi-nationals). It also achieves a stronger strategic position, and the returns increase. Again, it is evident that there is a positive balance between the current branding investment and market position. This was confirmed by Buzzell and Gale (1987) *“... in stable markets, market leaders on average reap 25 percentage points more ROI than small businesses*”.

Zenith (over branding): once the company has achieved a given size by international standards, it (again) starts expanding into new and different activities, thereby increasing its branding expenditure and ultimately decreasing its financial performance. Spending more than 20% of the current turnover on branding related activities is not sustainable. Frequently, one observes the phenomenon of over-branding in this business-to-business segment. Management generally tries to justify this on the basis that branding becomes a barrier to entry for potential new players. However, they tend not to challenge these expenditures, nor is an equilibrium established from an economic perspective. Ultimately, shareholders pay the price and the company becomes a potential takeover target.

The branding position of a company should never be allowed to become static over time. Some companies are able to maintain the status quo, but there are also examples in this database of companies which moved downwards or upwards when measuring their investment in branding and financial performance. It is therefore vital that branding can be analysed in a dynamic perspective, and that both theoreticians and practitioners have a performance and time-driven reference model for branding. The presented concept should be seen as a first step in this direction. The statistical validity of these findings is discussed in the subsequent sections, and the underlying data confirms the results of other studies which demonstrate that a company's involvement in several or more industries lowers financial performance. This conclusion is true both for companies in the industrial field or those in other sectors.

Control

Four different statistical methods were applied. With the exception of Method 3, which was weighted but not substituted, the overall statistical validity achieved for the remaining three models was generally satisfactory (as seen below). For Method 3, this test only showed a result of r2 at 60%. The sample group only covers business-to-business companies listed on a leading stock exchange. Many leading European companies are still family run (Tetrapack, Grundfoss, Danfoss, etc.) and could not, therefore, be used for this research. However, even if they were included, the fundamental conclusions of this study would not be altered. Furthermore, compared to other industries, the W-curve is not as pronounced in the business-to-business sector as in the consumer-goods sector, indicating that factors other than branding, also exert a decisive impact.

Distribution channels for industrial and consumer goods are different, thereby adding an unknown factor to the situation or model. Part of the problem lies in the fact that long-term relationships with suppliers encourage a stronger focus on sales than on marketing, but again, this would not change the conclusions presented in this paper.

The general debate about reverse causation or endogeneity is also relevant in this study, because financial performance may also determine branding expenses, especially in situations of financial distress where firms could be tempted to cut such expenses. The general debate about reversed causation or endogeneity is also relevant in our study because financial performance may also determine branding expenses, especially in situations of financial distress where firms could be tempted to cut such spending. Such endogeneity poses a real problem for OLS (Ordinary Least Squares) regressions because it violates one of the assumptions that OLS is based on, namely, that the explanatory variables must have zero covariance with the regression residuals (Gujarati, 1995, p. 60-65). This assumption violation is a problem because it causes OLS to produce inconsistent estimators (Greene, 1997, p. 710). The problem with inconsistent estimators is that they do not approach the true values as the sample size increases. Thus, the estimates may be biased, and possibly to a degree where they lead to the wrong conclusions about the nature of the theory that they are testing. The parameter estimates in our model could have been biased, however, we have reason to believe that the problem is not grave enough to invalidate our conclusions. Despite having run hundreds of modified model versions with several definitions of financial performance, branding, and different regression samples, we nevertheless continue finding the 'W-shape', which should not be possible unless the functional form is indeed true for underlying conceptual reasons.

Another option would have been to use Hausman's specification test to determine whether the model is significantly harmed by the correlation between the explanatory variables and the regression errors (Hausman, 1978), however, we chose not to do this as the Hausman test cannot confirm whether the correlation with residuals is caused by endogeneity or other circumstances such as measurement error or omitted variable, where the omitted variable is correlated with the included explanatory variable. Even if we did use the Hausman test and found evidence of significant estimation bias, the remedy to this problem, namely, instrumental regression, suffers from its own problems that may prevent it from doing any better than OLS. The main problem with instrumental regression is to find qualified instruments, which are particularly difficult for regressions on financial performance, (Mathiesen, 2002, p.224).

Conclusions

This paper highlights the fact that there is a significant correlation between branding and financial performance, based on an original sample size of more than 1,671 corporations. These empirical business-to-business results yield what could be described as a W-curve with five distinct phases when measured against return on assets. The research also indicates that the strategic branding position of a company should be analysed and managed dynamically, since it can either lead to value creation or destruction, viewed from a shareholder perspective. Used strategically, business-to-business companies with a balanced corporate brand strategy, generally yield a 5 to 7% higher return to their shareholders than their competitors who do not have such a strategy. It is evident that there is a strong need for a re-engineering of branding for many companies in a business-to business environment, if they wish to remain competitive and provide a superior return to their shareholders. Branding is clearly not the only way to establish a competitive edge, but particularly for many European companies and new players in the Far East, it could provide an incremental advantage which they could have not exploited fully in the past.

Managerial implications

This research indicates that for most business-to-business companies, either a negative or a positive correlation can be established between financial performance and branding. Very few of the companies studied had an optimal balance between branding and financial performance. Most industrial companies have focused on gaining a competitive advantage through innovation, manufacturing and research, and frequently with only a limited emphasis on branding, despite the fact that it could be of vital importance. Strategically, branding has a minimum of five different and unique phases, which cannot be formulated as a linear function. The board of directors and management team of each company are responsible for analysing and deciding on the prevailing strategic optimum level of their branding activities and expenditures, if they want to create true shareholder wealth.

Brand Thrust

Managers of companies currently located in phases one to three, might be too quick to conclude from this research and their own experience, that branding does not add true value in a business-to-business context. They would then continue their focus on R & D and manufacturing. However, such a conclusion and approach would be flawed and misconceived. The essential conclusion for management and shareholders is that there **can** be a positive correlation between branding and financial performance, but if branding is not applied in a strategic context, it can also lead to value destruction. The study implies that the branding position of each company must be monitored and managed regularly from a strategic perspective by key stakeholders and, if found to be sub-optimal, appropriate and decisive action must be undertaken to correct it. Only by so doing, can superior shareholder wealth be created.

Importance of this Paper and Direction for Future Research

This paper demonstrates that there is a correlation between branding and financial performance, and that this also applies to companies in the business-to-business sector. The research is based on a sample size that is one of the most comprehensive conducted so far. Furthermore, the empirical results from this study show that branding and financial performance, can, in most cases, be described as a W- shaped curve with five distinctive strategic phases. It also shows that the strategic branding position of a company must be analysed and managed dynamically, since it can lead either to value creation or destruction, when considered from a shareholder perspective. In addition, industry structure, timing, and competitive forces are all elements that require considerable additional research in order to establish a clearer causation pattern. The authors hope that this study will encourage further research in the area of industrial branding and financial performance, which has been somewhat lacking in the past. It is also hoped that these results will generate new interest and debate in the area, leading in turn to new research in the years to come.

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Is Branding Creating Shareholder Wealth For Banks?

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Abstract

Purpose: - The primary aim of this article is to analyze, from a shareholder perspective, the link between branding and financial performance. The paper focuses, in the European context, on situations in which shareholder wealth is created or destroyed, and this is measured by using return on assets or market-to-book value as a performance benchmark.

Design/methodology: The investigation is designed as a quantitative study and is based on responses obtained from 847 listed banks including 480 located in Europe. There is an analysis of the correlation between branding and shareholder value, by means of regression analysis. Deductions have been made for key variables including capital structure, ownership and capital market ratios.

Research Findings: The regression analysis indicates that there are different strategic branding phases and there is correlation between branding and shareholder value. Each phase has its own strategic implications for shareholders, with value either being created or destroyed.

Limitations: The data deals with secondary accounting information submitted in annual reports and are based primarily on European or US-based banks, which mean that the conclusions and generalizations cannot necessarily be applied to other industries, products or on a global scale.

Originality / value: This is the most comprehensive quantitative study so far conducted in the field of branding and shareholder value in the banking sector, thus providing unique insight into the strategic branding phases with which banks have to contend. Academics and practitioners, including board members, are offered guidance and a conceptual framework for assessing whether or not branding activities are generating satisfactory financial results for their investors. Furthermore, it also documents that banks with the right balance between branding and overall operating

expenditures can achieve a significantly higher return on assets, which can be a decisive factor in achieving a competitive edge in a crowded and competitive market place.

Key Words: branding, financial sector, shareholder value, brand equity, financial performance

Paper type: Research paper

Introduction

Are bankers such skilled investors as they claim to be when dealing with their most important asset, their own brand? As an investment topic, branding and in particular brand equity, has received increasing general interest (Christodoulides, de Chernatony, Furrer, Shiu, Abimbola, 2006, Kumar and Blomqvist, 2004), but has historically played a less critical role in the banking world compared to other industries.

Academics and practitioners have therefore been struggling to justify financial expenditures on branding, and to find any real economic validation for the increasingly significant expenditures reported by international banks. More importantly, seen from a shareholder perspective, an appropriate balance between branding expenditures and financial return has not yet been established. Admittedly, 76% of mergers and acquisitions transactions in Europe are on a national level (Dermine, 2002), but increasing cross-border consolidation is forcing banks to assess whether to continue operating with several national brands or consolidate them into one regional or international brand, for which some compelling strategic cost advantages can be achieved. Similarly, national banks and local brands are increasingly coming under pressure from global financial brands such as Citibank, UBS and HSBC. Some academics (Quelch, 2003, Park, 1999) have presented the argumentation that global brands matter more now than in the past since they do provide economies of scale in advertising costs, lower administration complexity in managing a single global brand and more the headquarter can execute more power. This argumentation is, however, disputed by some older academic studies (Levitt, 1983; Douglas and Wind, 1987), who argue that, in the financial sector, consumers place greater trust in their local brands, due to closeness to the branch and familiarity with the staff.

Nevertheless, there is no doubt that the exceptional global financial turbulence experienced during 2008 has dramatically amplified the need for banking customers to have a trustworthy bank brand in which they can have faith. The consequence is that they will be significantly more discriminating in their future brand bank selection in order to obtain financial protection against bank defaults. This process may indirectly be leading to higher brand switching and further escalation of future branding expenditures in the financial sector. The debate is becoming fundamental, as indicated by this sample of almost 900 international banks and other banking studies (Nellis et al. ,2000). These show that the average international banking corporation has increased its branding expenditure significantly, up to 40% over the last decade, and presently devotes on average approximately 3% of its turnover to branding **(**source: Thomson Financials**)**. This raises the obvious issue of whether, from a shareholder perspective, these significant expenditures generate any measurable financial impact and have the pivotal strategic role originally intended. In global terms, none of the players in the banking industry has a significant technological edge, since hardware and software platforms have generally been acquired from external vendors or outsourced (Wright, 2002), (Quelch, 2003), (Moutinho *et al.*, 1997). Furthermore, consumers have experienced a move towards product convergence, as a result of which genuine product differentiation is declining and many new products, including financial services or innovations, may be copied within less than a year (Cohen, 1996, Griffin, 2003). This is a particularly important challenge in the context of banking, in which quality standards and overhead costs are converging, due to similar business models, product offerings and IT solutions (Durking and Howcroft, 2003). On top of this development, successful start-ups in the area of retail and investment banking have proven that a strong national retail branch work no longer constitutes an impervious barrier to entry for aggressive newcomers. Accordingly, branding might be one of the last remaining resources (Harris, 2002, Saunders and Watters, 1993) by which financial institutions can achieve a sustainable competitive advantage and a critical success factor. Nevertheless, the "twilight zone" between branding and technology is a potential minefield, since the offline world does not represent a guarantee of success in the Internet world (Bauer, 2000), but it remains an attractive low-cost mass sales and marketing channel. De facto, as a strategic tool, branding remains one of the last resorts, by means of which a bank can establish a unique competitive edge, since branding assists in building trust and minimizing perceived transaction risk between a consumer and a bank in an increasingly depersonalized world (Harris, 2002). Particularly investors in European banks should establish whether there is, in fact, an advantageous branding strategy in place. Over the last decade, the European market for financial services has been radically transformed, due to the emergence of new distribution channels, the impact of deregulation driven by the European Commission, intensified competition and increasing cross-border mergers & acquisitions (Schildbach 2008, Lambkin and Muzellec, 2008).

Retail banking entails the marketing of intangible services rather than a physical product (Wright, 2002). Such acknowledgment can also have a decisive impact, since marketing activities were found to have the most significant impact in a study of 98 banks (Powers and Hahn, 2002) and their competitive methods. In the retail financial sector, branding also constitutes an inherent challenge, if a strategy of organic growth is pursued, since banking customers are remarkably loyal which increases the risk of having a market share inertia (Baumann, Burton and Elliott 2004, Wieringa and Verhoef, 2007). For example, in Denmark and other Nordic countries, less than 3% of all consumers switch banks annually (source Danske Bank). During the 1990's, the strategic focus of many major European banks was on achieving a critical size, reducing unit costs by streamlining branch networks and back-office functions, and building a sustainable universal banking model. At the same time, senior banking executives began to focus increasingly on more structured approaches to branding. Part of the reason is that local and national banks have enjoyed a high degree of protection from foreign competitors, and thus had little incentive to become more efficient.

The deregulation of the industry in the 1990's, combined with the emergence of a European banking market over the last decade, has served to accelerate the need to focus on new strategic initiatives and rapid industry consolidation (Schildbach 2008, Batiz-Lazo and Wood, 2003, Dermine 2002). In parallel, the introduction of the European Market Program in Financial Services by the European Union and the successful launch of the Euro in 1999 have released new competitive forces, which have triggered a large scale consolidation process in which branding also plays a new and decisive role (Deutsche Bank Research). The above mentioned development has many similarities to what the US banking industry went through in the 1980's and 1990's (Strahan 2003). Nonetheless, the industry remains highly fragmented, despite a rapid consolidation processes in which the number of banks decreased by 28 % from 1997 down to 6,926 in 2006 (ECB, www.EuropeBanks.info) within 15 different nations. The new EU countries that joined in May 2004 are not included in this study. Clearly, the prevailing market conditions, even in an environment of economic turbulence and recession, offer the most powerful European bank brands exceptional growth potential, if their brand strategies are executed effectively.

Hence, we are, in many ways, on the brink of a new age in banking consumerism and led to the standardisation of many products. Not only will the international, but in particular the European banking industry, be faced with a number of competitive pressures, which will lead to a fundamental transformation in the overall industry (Nellis, McCaffery and Hutchinson, 2000). Branding therefore remains one of the few areas in which a bank *can* gain a competitive edge, and maintain a thrustworthy relationship with its customer-base. This is of particular importance, since, for most consumers, money and particularly banking services, remain a high involvement and emotional product (Howcraft and Hewerb, 2003) which cannot be catered for effectively through technology alone. Multiple distribution-channel banks with a strong virtual platform, which is combined with strong brand recognition, have performed significantly better than virtual bank retailers (Bauer, 2000). Strong local brands constitute a true barrier to entry when the international challenger has only one viable choice - to acquire it. But, can a local bank with a weak brand compete against powerful national or international brands? Should the bank become a branded house or a house of brands? Traditionally, for weaker players in the marketplace, a means of overcoming the branding dilemma has been to enter into co-branding agreements and arrangements, but it is not clear that this creates long-term value (Bliss, 1996). Simultaneously, larger banks have frequently been tempted to "line-extend" their brands into new business segments (as seen with UK and Nordic banks in the late 90's). However, the results have also failed to live up to expectations (Harris, 2002).

Deregulation and the entry and emergence of international players such as UBS, Citibank, HSBC, ING, etc. have gradually changed industry behaviour. A process of consolidation is now taking place among the European players, particularly in Central Europe, the UK and the Nordic countries. Yet, the process is slow and "the development of super-regional markets, especially in retail banking, depends significantly on cultural affinities" (Nellis, Mc Caffery *et al.*, 2000).

Even nowadays, 29 of the top global banking players are European (The Banker, 2004) and several European banks have aspirations to become major global players. Each merger or acquisition requires a deliberate decision on brand selection and subsequently requires rebranding at a later stage, which would involve a considerable reputation-risk element (Lambkin and Muzellec, 2008). As an example, Nordea, which forms part of this study, is the industry leader in the Nordic countries, and a prime example of this "revolution". It is the result of a merger between Finnish, Swedish and Danish banks. In the past, these banks operated under such names as Unibank, Handelsbanken and Merimetsa. In 2001, they decided to merge and operate under one new pan-European brand, Nordea. While in the short term, the process was a painful and costly one for all shareholders, it nonetheless provided a branding platform for future growth and economic scalability. Subsequently, it has been very efficient to use this branding platform in its expansion into new markets such as Switzerland, the Baltic States, Poland and lately Russia (Ogresbank). Hence, how should one, not only at Nordea but from a general conceptual and strategic perspective be approaching the area of branding and shareholder performance? The sections below provide a detailed review of the conceptual cornerstones of defining and measuring branding and performance from a shareholder perspective, including a review of various contemporary branding studies. Subsequently, the research methodology, data and hypothesis are presented in sections. In the concluding section, key findings and limitations related to the link between financial performance and branding are summarized, as well as the implications of this research for both scholars and practitioners.

The Concept of Bank Branding

Academic research linking financial performance and branding, both within and beyond the financial sector; has been rather limited (Kerin and Sethuraman, 1998). Furthermore, another prevailing challenge is that retail and investment banking entails the marketing of intangible services; rather than a physical product. Wright (2002) found that in the context of the expansion of the Dutch Postbank into France, Spain and Italy, brand recognition is necessary to compensate for a lack of physical presence. Such recognition can also have a decisive impact when consumers select a future retail bank: “marketing activities were found to have the most significant impact looking at such aspects as sales, IT, marketing, product offerings etc.” (Powers and Hahn, 2002,). In the retail financial sector, branding also entails an inherent challenge, since banking customers are not particularly price sensitive and consumer trial rates between various banks are exceptionally low (Baumann, Burton, Elliott, 2005). Yet, academics and practitioners alike are still struggling with the fundamental questions. Are we spending too much or too little on branding and what would constitute a relevant financial benchmark? This fundamental challenge is not only critical from a branding perspective, but also for the evolution of future business development and acquisition strategies. Retail clients are, to an increasing extent, interacting with web sites or software programs that are tailor-made to a specific customer need. Hence, at present, the level of brand awareness created by internet promotions frequently exceeds that from traditional mass media (Motameni and Shahrokhi, 1998). The foremost question is of course how branding can be defined and measured in a systematic manner, where is, if any, the difference to regular marketing activities.

Obviously, marketing is the most visible the component in any brand equity chain. It has been researched extensively over the last 3 decades,- yet it is only one of the various components which a corporation uses to establish and build its brand equity. The traditional school of mass consumer marketing originated in the 1920’s with Lord Lever and was gradually accepted and implemented by a whole range of fast-moving consumer good companies (FMCG) and increasingly also in the banking sector (Harris,2002). Today, most of the leading banks: J.P Morgan, UBS, HSBCP etc. are listed and each is included in this study. The best way to illustrate that brand equity is a much broader concept and must be measured wider is to use HSBC. as an illustration. Since more than a decade, HSBC has been using extensively local and global marketing campaigns in order to build their brand. However, the global presence of retail outlets is equally important in their brand building process: e and used as an integrated means of building the brand. Significant financial resources are invested to ensure the best visibility; this again promotes the brand, and would also have to be factored into a performance equation when measuring the total branding investment.

However, in many industries the tangible and visible part of direct marketing is only a fraction of the total expenditures on the overall brand value chain. This is particularly an issue in the area of industrial goods, where direct marketing is, for obvious reasons, limited and all brand building focuses on having as many direct client contacts as possible, including tailor-made product presentations, providing a high service level which is branded and, frequently, a unique distribution system. Each of these components should take into account and measured as brand building activities.

More specifically, the concept of brand thrust was developed as a proxy for total branding expenditures. For the present research, a decision was made to build a model consisting of three expenditure categories, each of which is reported in Thomson Financials:

Branding is a popular concept, and one which is generally and frequently used without any clear definition across all industry sectors, the banking industry being no exception. The literature offers numerous definitions of branding and brand equity (Keller, 1993, Aaker 1991, etc.). This paper uses the following definition: *"brand equity represents the financial resources including general, direct and indirect marketing expenditures allocated to ensure the appropriateness of all aspects of the bank's combined efforts in representing and distributing its services to its constituency"*. This definition takes account of all the input components in the branding process including, all marketing expenditures and, once comprehensively implemented; it can be measured as brand equity. This issue of definition is vital, since in the area of brand equity, the academic world has so far remained divided between two conceptual schools of thought: (1) the brand perception school, based on consumer preferences (e.g., Cobb-Walgren, Ruble and Donthu, 1995, Farquhar, 1994) and (2) the economic school, based on objective financial and market share based criteria (e.g., Buzzell, Gale, 1987). By applying the approach of the latter school in this research paper as an academic anchor point, it is possible to address many of the managerial concerns not revealed in the "academic obscurity".

The fundamental issue is why banks fail to devote more resources to determining the actual value of their brand's equity and the impact on other financial results. It is a significant question, not only from a financial perspective, but also for the development of new branding strategies, co-branding initiatives and potential line extensions. This issue attracted some academic research interest in the mid 1980's, when the PIMS School focused extensively on the link between financial performance and business strategies in different industries, and touched peripherally on the financial sector. In addition, Doyle (1990), Ohnemus and Jenster (2007), established that a unique brand position converts into significant and measurable financial results, with the leading brand yielding greater profitability.

What is an Appropriate Hypothesis with Respect to Branding and Financial Performance?

The original hypothesis of this research is that there could be a relationship between branding and financial performance in the banking sector as well, and that it could take the form of an inverse U-curve. This assumption is based on the notion that there would be an optimum level of branding expenditures or activities for each financial institution, compared to its competitors at any one point in time. If this optimum level were exceeded at any given point in time, the bank would be faced with diminishing returns and experience a destruction of shareholder value. Based on the findings of Kerin and Sethuraman (1998), which demonstrated that "the functional form of the relationship is found to be concave with decreasing returns to scale", this starting point for a hypothesis was of particular interest. Over time, however, it became apparent that the initial hypothesis is too restrictive and would need to be modified. The final version became; banking executives working with a particular brand should, therefore, be able to establish an industry-determined ratio against which their bank can be benchmarked, in order to determine whether they are over or under investing in a brand compared to key competitors. If all other key variables are isolated and eliminated, the bank with the greatest and most consistent branding intensity would enjoy superior shareholder return over a given time period.

Branding Intensity, Method and Reseach Model

Branding intensity (or brand thrust) is defined as the total financial resources a company allocates to develop, build and maintain the values of its brand(s). It is including marketing activities and other features linked with its products or services and its combined efforts in representing and distributing its bundle of goods and services, over a defined period of time to its constituency. More specifically, the model is consisting of three elements as a proxy for branding intensity: **(a)** ***Client system:*** this includes all direct marketing and advertising expenditures, postage and freight, public relations, and communication activities, **(b)** ***Overheads:*** this includes not only the central marketing and sales staff, but also costs at affiliates, **(c)** ***Distribution element:*** this encompasses all expenditures related to bringing the services to the bank customer. Subsequently, actual branding intensity can be expressed in percentage of sales during a defined time period for a piecewise interval.

By introducing a resource based view on branding and by applying the brand intensity concept one can measure the economic importance of branding. Access to relevant industry information and knowledge is a challenge but also prerequisite in order to develop an appropriate Ordinary Least Square (OLS) regression model.

How do shareholders or researchers overcome this lack of knowledge and test a particular relationship or hypothesis if they wish to establish the linkage between branding and financial performance? One way would be to develop a specific company or industry model to measure and benchmark branding expenditures and financial performance against key competitors. For this present study, a special regression model is developed and consists of 14 different variables, with financial performance expressed as follows;

Financial performance = f (branding variables, other firm related and industry variables)

Financial performance is measured as return on assets. As previously described, for the purposes of this study, branding is defined as all marketing expenditures, including sales-related general and administrative costs, distribution costs, together with direct and indirect marketing expenditures. Other firm-related variables measure such elements as firm size, market capitalization, investment intensity, ownership structure and stock market beta. Furthermore, other variables are also included, that is, measures of ownership, global market share, diversification, industry classification and capital structure by long-term debt to total assets. These variables have been used in other studies (Ohnemus and Jenster, 2007, Mathiesen 2002) and delivered valid and satisfactory results.

Research Methodology

The study was based on empirical research work conducted during 2003-2007, covering a range of key industries including the banking sector. The data was collected as a part of a general study assessing the link between branding and financial performance, viewed from a shareholder perspective. It was conducted with the help of Henrik Mathiesen , an expert on the collection of large-scale numbers and statistical analysis. The study was made possible through a generous research grant from Kunde & Co, a leading Northern European brand-consulting firm. The data bases of Thomson Financial and Extel were used for the project including stock market development and financial information for branding intensity. For the first part of the work, a sample of more than 6,000 firms was selected. Subsequently, a separate sample consisting of 847 listed banks (460 being European and the rest primarily located in the US) was selected and analyzed. Statistical approximations were used for those banks that had not reported on their branding expenditures, either for the entire period or part thereof. Only listed banks were included in the study, since they are subject to stricter disclosure rules, reporting requirements, and generally provide more financial information about their branding activities than unlisted banks. Furthermore, it is estimated based on information from European Central Bank (ECB) that they cover more than 60% of all assets in the European financial sector. The fundamental question in this context is whether there could be a direct correlation between the overall branding intensity developed by a particular bank and its ultimate financial performance. The purpose of this present research is, however, not to consider short-term fluctuations and campaigns, but to take a medium-term strategic view of branding. In this particular case, *medium term* refers to a one to three-year period. Short-term branding expenditures have a limited impact, are of a more tactical nature than strategic and would not provide shareholders with any particular insight into what would constitute the optimal long-term branding equilibrium. The study includes 847 banks, and the average bank has €2 billion of assets, devote 2.8 % of their turnover to branding and most of them are still biased towards domestic activities. The results of the regression analysis are shown in schedule 1 - where the reported values are parameter estimates and all numbers in brackets are the associated t-values.

Schedule 1

Explanatory variables	Market to book Non-financial firms	Return on assets Non-financial firms	Market to book Financial firms only	Return on equity Financial firms only
Advertising expend. (0-2%)	-0.12585 (-5.17)	-6.59845 (-13.83)	-0.40611 (-5.84)	-1.51309 (-1.53)
Advertising expend.(2-5%)	0.035091 (2.5)	0.928633 (3.36)	0.212236 (3.82)	4.644451 (5.76)
Advertising expend.(5-10%)	0.09565 (10.16)	0.53721 (2.91)	-0.1402 (-3.43)	-3.20511 (-5.33)
Advertising expend. (10-20%)	-0.06844 (-8.61)	-1.96788 (-12.55)	0.045381 (0.97)	0.313226 (0.47)
Advertising expend. (20-95%)	0.015365 (3.37)	0.26619 (2.84)	-0.08353 (-1.01)	-0.90536 (-0.77)
Advertising dummy for substituted values	-0.18396 (-3.48)	-5.78079 (-5.52)	-0.12359 (-1.25)	0.463661 (0.32)
Approximated market share	-0.02573 (-24.45)	-0.07136 (-3.47)	-0.02595 (-7.55)	-0.15147 (-3.11)
Long-term debt to assets	-0.02073 (-18.5)	-0.16423 (-7.48)	0.030963 (9.59)	0.024832 (0.54)
Long-term debt to assets	0.000339 (18.05)	0.002167 (5.85)	-0.00022 (-4.3)	0.000301 (0.41)
LN of market capitalization	0.228546 (42.54)	0.672576 (6.45)	0.121864 (9.02)	-0.37571 (-2.03)
Stock market beta	0.124781 (11.06)	-2.15288 (-9.84)	0.087499 (2.77)	2.030259 (4.52)
Operating income to sales	0.006678 (16.97)	0.435133 (51.99)	0.005146 (4.91)	0.141798 (9.44)
R&D costs to sales	0.013997 (9.98)	-0.17573 (-6.39)	-0.00427 (-0.03)	-1.41725 (-0.61)
Advertising to total branding	-0.00235 (-2.46)	0.001472 (0.08)	-0.00203 (-1.42)	0.001309 (0.06)
Dummy for substituted branding values	0.137406 (-2.78)	1.017267 (1.04)	-0.18698 (-1.89)	0.131025 (0.09)
Adj. R^2	0.77974	0.60497	0.84005	0.60028

The results of the entire sample are included as a reference in Columns I and II in order to provide benchmark for the financial samples.

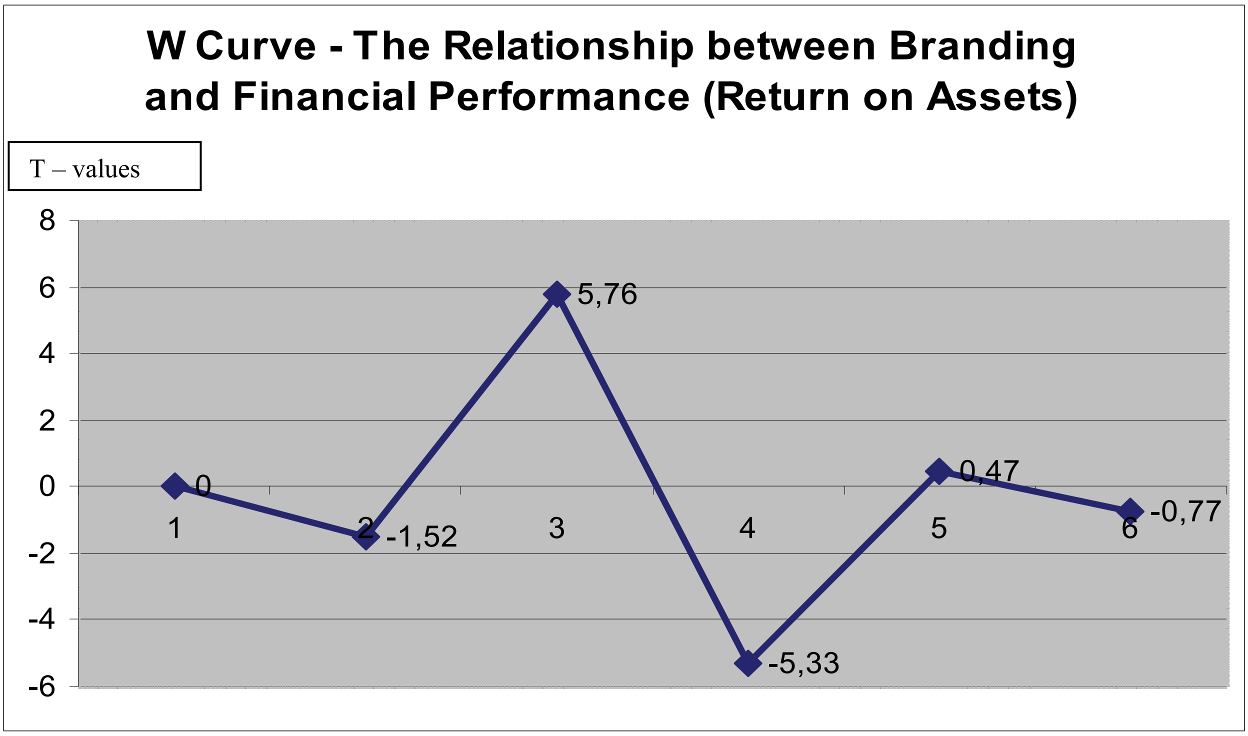
Selection of Approximations, Statistical Methods and Results

Based on previous research experience in this field, four different statistical methods were applied. These were numeric, numeric-weighted but not substituted numeric non-weighted but substituted, numeric-weighted and substituted. All were applied to each hypothesis. *The use of zero-one dummies has been applied every time there is a missing value. This is a current technique applied in order not to lose observation and statistical significance in models containing many variables*.

The model was also adapted to reflect such elements as advertising intensity and stock market beta. The research work provided the opportunity to test the incremental return obtained from increasing branding expenditures and to verify whether the law of incremental returns also applies to branding. For the purpose of this research, financial performance was measured by return on assets or market to book value, since other benchmarks, such as return on equity, would yield a distorted picture. The initial research demonstrated that corporations active in the financial sector achieve the highest return on assets when they invest in the 2-5% range of their turnover in branding. Branding expenditures in the 0-2%, 5-10% or ≥ 30% ranges lead to deteriorating shareholder performance. Banks spending 10-20% yielded somewhere between a positive and a non-conclusive correlation. An interesting aspect is that financial institutions with an appropriate strategic branding level, should achieve a return of up to 3% more than other companies in the same interval. As a first step, a comparison between branding expenditures and market to book value (used as a financial benchmark for shareholder performance) and the result yielded an exceptionally high 0.84. Subsequently, a separate test was conducted, using return on assets as a benchmark, which yielded a result of 0.6.

Plotting current branding expenditures against return on assets showed that 83% of financial institutions devote 10% or less of their overheads to branding-related activities. Initially, it was not obvious that it was necessary to establish a clear pattern from each valid observation. After considerable reflection and linking the observations to research conducted in other industries, the results were deemed to indicate that a special curve could be plotted with different and unique strategic phases. This regression analysis indicates that there are five unique branding phases which take the form of a simplified "W curve" as show and described below.

Graph 1



Does this graph really support the W shape relationship, as the high and low return on assets-values are not significantly different from zero? This valid criticism opens up for two discussion points which need to be covered separately. Tobin's Q provides stronger evidence and more conclusive results than a testing method using return on assets as benchmark, which is normal for studies of this nature. The debate about the actual shape has been presented in the Introduction Section of this dissertation. The author admits the presented results are not conclusive for all industries and benchmark methods, including the banking sector. Nonetheless, there are reasons to believe that for most industries, the function could be described as a W function, but the fundamental problem is that the sample size in some of the piecewise intervals, including the above mentioned for the banking sector is too small to yield any definitive conclusions. This said, there are no compelling reasons to believe that the underlying strategic brand drivers and their impact on financial performance would be any different in the financial sector.

The t-values are measured during 5 different piecewise intervals / phases which are described in the subsequent sections. How can these findings be explained, placed into an appropriate context and be linked to the strategic situation of a given bank or financial institution? The conditions and interpretation for each phase and their impact on shareholder value can be explained as follows:

1. **Aspiration:** This group frequently consists of many smaller regional or national banks that neither achieve scale economies nor real shareholder value from their branding activities. Typically, each bank is rather narrow and restrictive in its branding activities and has, in most cases, only a limited number of customers compared to the larger players and limited branch network and business activities to which these costs can be allocated. Relative branding costs are high, and this is compounded by the fact that no real scalability for their branding expenditures can be achieved. The bank achieves a below-average return on its branding activities, since they are used ineffectively and have only a limited impact. This finding has been covered only peripherally in the literature, although several researchers (Buzzell and Gale 1987, etc.) have made similar observations and concluded that smaller or state-owned regional banks are not as effective in their branding activities as larger banks or

financial institutions. In addition, their brands have limited attractiveness outside their regional coverage and restricted target group. Furthermore, there is in Europe a long tradition, especially among farmers, trade associations, particular geographical regions and unions to establish, manage, and control their own mutual savings institutions where many of them today are listed. These structures can be observed in Switzerland (Raiffeisen), Germany (Sparkasse), Austria, Spain (Cajas) and also in some of the Nordic countries. As with state-owned banks and savings institutions, branding has in the past played a minor role in the overall strategic direction and they are generally faced with precisely the same business challenges as the state-owned financial institutions. For various historical reasons, a large proportion of the European banking industry is directly or indirectly controlled either by a national government, regional authorities or other political players. This group also includes many postal and savings banks. Beginning in the early 90's, many of these banks in the Northern European countries were privatised and have subsequently been acquired (Girobanken, BG banken, etc.) by some of their key competitors. The remaining state-owned banks are faced with a strategic dilemma: "Deregulation and privatisation increasingly induces competitive pressure on costs and margins, plus, in many cases, they (banks) are struggling to gain a critical size in an ever-changing competitive landscape" (Gardener et al., 1997). Historically, they have only focused on branding to a limited degree and their brands have generally been weak from seen from a shareholder perspective. This study confirmed this perception and that their shareholders frequently would benefit from a strategic branding shift.

Brand Focus: Banks in this group have a dedicated and focused brand strategy, with, on average, 2 – 5 % of their turnover invested in branding. The typical bank in the Brand

Focus group has a well-defined brand strategy and has a larger national or pan regional strong branch network. The bank puts substantial management resources behind these new activities. Additionally, it has a well-defined brand which is applied to a particular customer segment. The bank pursues a strategy of striving towards either national or regional dominance. Ownership is also different for this group, since it consists mainly of larger listed banks, and there is either no or limited state control. The result is a dramatic increase in financial performance seen from a shareholder perspective and their investments in branding are justified and provide on average a satisfactory return to the shareholders. Two examples in this group are SEB and Nordea. Also local private banks or niche players still play an important role and can, if well managed, achieve a cutting edge position within a given business segment. They often pursue a strategy of focusing on a particular geographical area or providing financial products to a particular consumer segment. Their branding activities may be significant and have, in many cases, been built up into strong premium brands.

Stuck in the Middle: banks in this range are "stuck in the middle", due to their market position. Their home market provides only limited growth opportunities, since further acquisitions in the domestic market would not be permitted by the local or European competition authorities. Furthermore, organic growth is costly and time consuming. In an attempt to accelerate growth, the bank spreads out and "attack" many new markets or segments. The ultimate result is that branding expenditures exceed 10% of turnover. The high investment, combined with the weak strategic situation, leads to *deteriorating* financial performance. In terms of market capitalization, Danske Bank is the second largest group in the Nordic countries. Over the last decade, it has systematically acquired banks in Sweden, Norway, Poland and Ireland. The Danske Bank is pursuing almost the opposite branding strategy to that of Nordea. It uses different local and national brands (BG, Foreningssparbank, Realkredit Danmark, etc.) to build up a strong local market presence. This has also been applied by another company in the sample group, NatWest, which has subsequently been acquired by the Royal Bank of Scotland. While there might be tactical reasons for this branding approach, it is not the most beneficial strategy from a shareholder perspective, since the bank might end up *stuck in the middle* or *over-branding* in order to match its competitors.

Brand "Heaven" (10-20%): As the bank reaches an optimal scale with its branding activities in the different markets or segments, it gains international synergy through its branding activities, achieves a stronger strategic position and returns again increase. In this particular segment, it gains a competitive edge which translates into a premium position which provides shareholders with an above market return. Well-known and successful European examples are UBS and ING (admittedly these results were collected before the sub-prime crisis and subsequent impact on share prices). This group consists of large, privately held or listed banks, many of which clearly have pan-European or truly international ambitions (UBS, HSBC, ING, etc.). Through a combination of organic growth and mergers, this group has expanded from a leading position in their respective national market, to expansion into neighbouring markets. Barriers are becoming lower, markets are converging and competition is intensifying, with the result that the banks focus increasingly on branding (Harris, 2002) in order to build a unique platform in a crowded market. As a general rule, they apply increasingly similar branding strategies and techniques to those used by consumer-goods companies in their rapidly evolving markets. UBS has pursued a challenging strategy of building its name into a truly global brand. It is a balancing act, in which the traditional Swiss value has had to be redefined, partly to ensure that it appeals not only to a European, but also to a global clientele.

Over-Branding: The group in this investigation is rather small, with less than 20 observations, but it appears that banks in this group have a strategic imbalance (such as <u>excessive and inappropriate</u> global ambitions, investing disproportionally in new business ventures including internet platforms or new niche activities) which again leads to higher expenditures and a decline in financial performance. Alternatively, the bank has achieved a given size by international standards, and starts expanding into different new activities or it vigorously defends a strong niche position, thereby incurring additional costs and ultimately jeopardising its financial performance. These views are more of descriptive nature than based on statistically evidence or exclamation since the sample size of Over-Branding too small for making any conclusive valid findings.

It is important to note that the branding position of a banking corporation is by no means static over time. Some banks maintained their status quo over time, but there also samples in the research database of banks which moved downwards or upwards. Hence, it is essential that branding be analyzed within a dynamic perspective, and that academics and practitioners have a performance and time-driven reference model for branding.

Banks have established either formal or informal norms for marketing expenditures, expressed, for example, as a percentage of turnover, of assets under management, of overhead expenses or measured as actual cost per client. Industry impact, timing and competitive forces are all elements that would require considerable future research in order to establish a clearer causation pattern. Historically, many companies tend to cut back on marketing expenditures during recessionary periods (as observed by Keller, 1993). Furthermore, one could also argue that, possibly among banks, there could be a reverse causation pattern. In theory, strong economic results make it easier for managers to justify significant branding increases.

Implications

This study has demonstrated that branding can play a decisive role in either creating or destroying shareholder wealth in the financial sector and that *economic equilibrium does exist* at a given point in time. If a bank operates beyond the economic equilibrium, shareholder value will be destroyed, gradually undermining the strategic position and eventually creating potential for a hostile takeover. The concept of the simplified W curve provides important guidance on how strategic branding initiatives should be applied in a world in which different financial products and services are largely standardised and there has been a rapid convergence of offerings within the banking industry. As a general rule, a bank should endorse a monolithic brand strategy, which is particularly important in the prevailing environment in which mortgage institutions operate increasingly as banks, banks provide insurance and mortgage products, and insurance companies provide private banking and wealth-management services. In a balanced and targeted form, branding can lower the cost of opening new distribution channels and provide customers efficiently with new financial products or services. The downside of focusing on branding is that customer loyalty might decline, if banks move from a personal relationship to a technology-driven customer model. This is critical, since there is perhaps no other industry, apart from health care, in which thrust between the customer and client is a vital as in the banking industry. Trustworthy branding is essential, since it establishes strong emotional links and connotations between the consumer and the financial institution. It also sends a signal about perceived stability, which consumers seek in order to reduce financial risk. Numerous banks went bankrupt at the turn of the twentieth century, during the great depression 30 years later, and again in the mid-eighties. Still today, in the shadow of the sub-prime crisis and North Rock scandal, many consumers either consciously or subconsciously seek protection against a repetition of history, and they do so through a search for brands which are perceived as the strongest. Branding therefore remains one of the few areas in which a bank *can* gain a competitive edge and maintain a trustworthy relationship with its customer-base. In addition, for most consumers, money and particularly banking services remain a high-involvement and emotional product which cannot be catered for effectively through technology alone. Multiple distribution-channel banks with a strong virtual platform, combined with strong brand recognition, have performed significantly better than virtual bank retailers (Bauer, 2000). The present study provides further evidence of this reality.

Hence, the implications of this study is that, in many ways, we are at the brink of a new age in banking consumerism which can translate into superior shareholder return (Schildbach, 2008) if properly managed, and will force many European banks either to redefine or revitalize their branding strategy in the coming years. These observations are in line with other studies which find, for example, that "the European banking industry will be faced with a number of competitive pressures, which will lead to a fundamental transformation in the overall industry." (Nellis, McCaffery and Hutchinson, 2000). Equally important is the issue of whether one universal brand or several local ones should be applied on a European or global scale. Strong local brands can constitute a true barrier to entry, such that an international challenger has only one viable choice - to acquire a local bank (brand). But, can a local bank with a weak brand ever compete against powerful national or international brands? Traditionally, for weaker players in the marketplace, a means of overcoming the branding dilemma has been to enter into co-branding agreements and arrangements, but it is not clear whether this creates long-term value and this study did not yield any successful examples which might indicate such a development. Simultaneously, larger banks have frequently been tempted to "line-extend" their brands into new business segments outside the banking sector (as seen in the context of the UK and Nordic banks in the late 90's) and occasionally, the results have also failed to live up to expectations (Harris, 2002) or even proven disastrous.

Presently, none of the abovementioned players commands more than a 5% market share in Europe (European Central Bank, 2007, Schildbach 2008), which means that the race for ultimate European market share leadership has only just begun. The consolidation process has also started in Southern Europe, Central Europe and the UK. Some of the more prominent examples include: Banesto entering the UK banking scene, HVB acquiring a majority share stake in Bank Austria, and Dutch banks (ING, ABN-Amro, etc.) "attacking" some Southern European markets. At this point in time, their future branding strategy has not been expressed explicitly; one could expect it to be as diverse as has been observed among Nordic banks. Yet, the process is slow and the development of super regional brands, especially in retail banking, depends significantly on cultural affinities and strategic persistence (Nellis, McCaffery and Hutchison, 2000).

Conclusions

As demonstrated and documented in this study, the managers of a particular banking brand should be able to establish a given ratio that can benchmark whether the bank is over or under-investing in a brand, compared to key competitors. Through isolating and eliminating all other key variables, the bank with the highest and most consistent branding intensity would presumably achieve industry dominance over a given time period. One might convincingly argue that, in the banking industry, it is all a question of size and cost control. The present paper has demonstrated that is *not* the case after all. Banking customers do not select a particular bank or its products due only to size or price, but also according to brand strength and associated brand values. The brand strategy applied by each individual bank is clearly contingent on the current strategic circumstances and future business objectives. Based on an investigation with a sample size of more than 840 banks, this paper has highlighted and confirmed that there is a significant and robust correlation between branding and financial performance in the financial sector. The analysis also reveals that, in the present strategic environment, branding remains one of the few, if not the only way that a bank can establish a truly competitive edge. It is also evident that it is among, if not even the leading asset, that banks have in an increasingly depersonalized internet world and where many customers are deeply concerned about the long term survival perspective of the banks. The results from the study also show that branding and financial performance can be described by analyzing five distinctive strategic branding phases. Another implication of this study is that the strategic branding position of a bank must be analysed and managed dynamically over time, since, from a shareholder perspective, it can lead either to value creation or value destruction. Furthermore, the research also indicates that banks with a balanced branding strategy, which is applied strategically, yields up to 3% greater returns to their shareholders than their competitors. It is therefore becoming increasingly imperative for European banking executives and their boards of directors to undertake a constant and critical review of their branding expenditures and to link them to financial performance, if they wish to be true industry leaders and not to find themselves in the invidious position of potential takeover targets.

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