HOW DOES THE SPANISH STOCK MARKET VALUE CORPORATE REPUTATION?

COMO O MERCADO DE AÇÕES ESPANHOL VALORIZA A REPUTAÇÃO CORPORATIVA?

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Abstract

Highly reputable companies are excellent investment candidates because they have positive expectations about their future performance that derive from their consistent track records of delivering quality and value. For that reason, individuals and institutional investors often prefer to buy shares of well-regarded companies and some of them exclusively invest in stocks of leading firms. However, the question of whether these firms provide higher market values remains as yet unresolved. In this context, the aim of this study is to analyze the added value of corporate reputation for a sample of firms quoted on the Spanish stock market. Our overall results show that only small firms with a high level of reputation are significantly valued by the market and, more precisely, those small and reputable firms with positive profits.

KEYWORDS: Corporate reputation, market value, size, profitability.

Resumo

Empresas altamente conceituadas são excelentes candidatas ao investimento, porque existem expectativas positivas sobre seu desempenho futuro que derivam dos seus registos consistentes de oferecer qualidade e valor. Por essa razão, investidores privados e institucionais muitas vezes preferem comprar ações de empresas reputadas e alguns deles investem exclusivamente em ações de empresas líderes. No entanto, a questão de saber se estas empresas fornecem valores de mercado mais elevados permanece ainda por resolver. Neste contexto, o objetivo deste estudo é analisar o valor acrescentado da reputação corporativa para uma amostra de empresas cotadas na bolsa espanhola. Os nossos resultados globais mostram que apenas as pequenas empresas com um elevado nível de reputação são significativamente valorizadas pelo mercado e, mais precisamente, as pequenas e reputadas empresas com lucros positivos.

PALAVRAS-CHAVE: reputação corporativa, valor de mercado, tamanho, rentabilidade.

1. INTRODUCTION

Corporate reputation represents the value and trust that stakeholders have for a company. It is an essential part of a firm's intangible asset which favours the achievement of strategic

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objectives such as value creation, profitable growth and sustainable competitive advantages. In this sense, highly reputable companies are excellent investment candidates because they have positive expectations about their future performance that derive from their consistent track records of delivering quality and value. For that reason, institutional investors and portfolio managers are increasingly concerned with the financial impacts of this key asset. However, the number of articles that analyze corporate reputation from an investor's point of view is scarce and they present inconclusive results.

Previous research which has attempted to measure the stock performance of investment strategies based on corporate reputation has focused almost exclusively on the US market. A number of these works have employed the *Fortune* index of "America's Most Admired Companies" (AMAC) to compose mutually exclusive portfolios based on this index and research their return differences over an investment horizon. Notable studies find that the stocks of the most admired firms outperform those of the least admired ones (Antunovich et al. 2000; Filbeck et al. 1997) and or market indexes (Filbeck *et al.*, 1997; Vergin and Qoronfleh, 1998; Anderson and Smith, 2006). On the other hand, Chung *et al.* (2003) find little evidence that highly rated firms outperform those that are less admired on a risk-adjusted basis. More recently, Statman et al. (2008) and Angier and Statman (2010) observe that increases in admiration were followed, on average, by lower returns.[4]

Empirical evidence for other markets is reduced due to the absence of indexes which could serve investors to construct their portfolios based on reputation. For the British market, we highlight the works of Brammer *et al.* (2006) and Agarwal *et al.* (2011) who employed the *Management Today's* annual "Most Admired Companies" reputation index. These authors analyzed whether, in the year following each annual publication, the stocks of companies identified as highly regarded tended to subsequently outperform those of the least admired firms. Their findings indicated that high reputation scores were not associated with superior ex post stock returns. On the other hand, when the publication of reputation rankings by the *German Maganer Magazin* is employed, the results reveal that there exist significant effects on share prices (Tischer and Hildebrandt, 2014).

In this context, the aim of this study is to provide evidence about the added value of corporate reputation for investors which trade on the Spanish stock market over the period 2001-2012. To that end, we employ the Spanish Monitor of Corporate Reputation (MERCO) ranking which identifies the most reputable companies with business operations in Spain similar to that of the AMAC index. This survey has been employed for various studies in the corporate finance area which document the relationship between corporate reputation and the creation of value, the ownership structure and company (Fernández and Luna, 2007; Delgado *et al.*, 2010; Delgado *et al.*, 2013). However, to our knowledge, this is the first piece of research about the benefits of corporate reputation from an investor's point of view with Spanish data. Furthermore, it is important to report empirical results from other data sets in order to check the robustness of the available results and to support the belief that it is not due to a data--snooping problem (Lo and MacKinlay, 1990).

Our main results show that investors value corporate reputation on the Spanish stock market. However, not all reputable firms are equally valued by stock market investors. We observe that only small firms with a high level of reputation are significantly valued by investors and, more precisely, those small and reputable firms with positive profits. These findings are relevant not only for practitioners but also for academics because they are consistent with the resource based view of the firm indicating that a good reputation is a valuable resource.

The remainder of the paper is organized as follow. In section two, we present a literature review about the the role of reputation on stock markets. In section three, we describe the me-

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[4] In a similar vein, some studies have investigated the effect on stock returns of the information contained in other well-known indexes such as the Fortune "100 Best Companies to Work for in America" (Filbeck and Preece, 2003; Edmans, 2011) or the Business Ethics "100 Best Corporated Citizens" (Brammer et al., 2009; Filbeck et al., 2009) with the same inconclusive results.

thodology employed to analyze the impact of corporate reputation on the Spanish stock market. In section four, we present the corporate reputation information obtained from the Spanish monitor of corporate reputation as well as the descriptive statistics of the variables under analysis. In section five, we present our empirical results. Finally, section six has concluding remarks.

2. LITERATURE REVIEW

The concept of reputation is essential for the development of stock markets. The performance of a stock reflects widespread assumptions among investors about the credibility of a firm's financial forecasts and its capacity to deliver returns in the future. On the other hand, the diffusion of rumours challenging the soundness of a firm's plans or the quality of its offerings may negatively affect the stock value even before their veracity is ascertained. Relatively shared perceptions of the uncertainty surrounding a firm's plans and accounts –reinforced by the judgment of investors, as well as by the subtle influence of the media- will ultimately affect the return expected by creditors, bondholders, and shareholders, hence the cost of raising capital (Gabbioneta *et al.*, 2011).

As exposed in Table 1, the benefits of a good reputation on the stock market are diverse. Firstly, investors are inclined to consider well-regarded firms as comparatively less risky than poorly reputed ones. In these cases, they are willing to accept higher financial risk for the same level of returns or lower returns for the same level of risk (Srivastava *et al.*, 1997). Moreover, firms with stronger reputations seem to face market volatility better than those with weaker reputations. During market crises, corporate reputation may act as a reservoir of goodwill, helping firms recover from drops of share prices faster than poorly regarded firms (Gregory, 1998). Similarly, shares of firms that enjoy a good reputation suffer less and recover faster from stock market crashes due to corporate crises –product recalls, financial scandals, etc.- than shares of poorly regarded firms (Knight and Petty, 1999; Orlitzky and Bejaming, 2001).

Table 1: The benefits of a good reputation on the stock market

In terms of	Description	References
Risk	A good reputation helps a firm be perceived as less risky A good reputation helps firms facing market volatility	Srivastava *et al.* (1997) Gregory (1998); Knight and Petty (1999); Orlitzky and Bejaming (2001)
Cost of capital	A good reputation decreases the average cost of capital	Orlitzky and Bejaming (2001); Agarwal *et al.* (2011)
Expected returns	A good reputation attracts investors and helps a firm become an investment of choice A good reputation enables influences the investment decisions positively	Fombrun (2002) Little and Little (2000); McGregor et al. (2000); Shefrin (2001); Lucey and Dowling (2005)
Market capitalization	A good reputation increases the demand for a firm's shares	Fombrun and van Riel (2004) Dhir and Vinen (2005)

On the other hand, improvements in a firm's reputation tend to decrease the average cost of capital (Orlitzky and Bejaming, 2001; Agarwall *et al.*, 2011). Moreover, a good reputation among financial audiences may help a firm become an "investment of choice" enhancing its ability to attract capital and to do it at a lower cost than rivals (Little and Little; 2000; Fom-

brun, 2002; McGregor *et al.*, 2000; Shefrin, 2001; Lucey and Dowling, 2005). Finally, markets perceptions of a firm's future prospects tend to influence the level of demand for its shares, hence its market capitalization (Fombrun and van Riel, 2004; Dhir and Vinen, 2005), although some researchers claim this effect to be the other way around (for an overview, see Tischer and Holdebradt, 2014) presenting inconclusive results.

For that reason, although all these effects are relevant for investors, we focus exclusively on analyzing the influence of corporate reputation on market value for our empirical research with Spanish data. To that end, we propose the use of the accounting-based valuation model developed by Ohlson (1995 and 2001) which allows us to directly analyze the role of corporate reputation on shareholder value.

3. METHODOLOGY

As we exposed above, our empirical research is based on the accounting-based valuation model developed by Ohlson (1995 and 2001) which shows how the firm value relates to accounting data and other information. This approach is currently used in empirical studies on the value relevance of non-financial information.[5]

Our primary model shows that the market value of equity is a linear function of two summary measures of information reflected in financial statements, namely the book value of equity and earnings, given by the following equation:

$$MV_{it} = \alpha_0 + \alpha_1 BV_{it} + \alpha_2 EARN_{it} + \mu_t + \eta_i + \varepsilon_{it} \tag{1}$$

where MV_{it} is the market value of equity; BV_{it} represents the book value of equity; $EARN_{it}$ is the net operating income; α is, in each case, the parameter to be estimated; finally, the expressions μ_t, η_i and ε_{it} refers to time effects, individual effects and random disturbances, respectively.

Based on this primary model and in order to analyze whether firms with higher corporate reputation are valued by the stock market, we use a second regression equation which comprises the variable CR_{it} which assumes the value 1 if the firm is included in the reputation ranking and 0 otherwise. If the market values firms with higher corporate reputation, we would expect the estimated coefficient on CR_{it} to be positive and statistically significant.

$$MV_{it} = \alpha_0 + \alpha_1 BV_{it} + \alpha_2 EARN_{it} + \alpha_3 CR_{it} + \mu_t + \eta_i + \varepsilon_{it} \tag{2}$$

Furthermore, taking into account previous empirical evidence which present mixed results, we additionally test the impact of corporate reputation on market value considering the influence of the size and profitability effects in our results.

Fama and French (1993 and 1995), among others, document that small firms are under--valuated on stock markets and, consequently, investors have the opportunity to obtain higher economic gains investing on them. Considering these empirical evidence, we analyze whether the market valuation of firms with a higher level of corporate reputation is higher for small firms when compared with large firms, we use a third regression equation which comprises two binary variables splitting the CR_{it} in two groups based on the firm's size (*CRsmall*$_{it}$ and

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[5] See Sinking et al. (2008), Agarwal *et al.* (2011), Bertherlot et al. (2012), Lourenço et al. (2012), Lopatta and Kaspereit (2014), Lourenço et al. (2014), among others.

$CRbig_{it}$). The variable $CRsmall_{it}$ assumes the value 1 if the firm has a higher level of corporate reputation and its size is below the median and 0 otherwise. The variable $CRbig_{it}$ assumes the value 1 if the firm has a higher level of corporate reputation and its size is above the median and 0 otherwise.

$$MV_{it} = \alpha_0 + \alpha_1 BV_{it} + \alpha_2 EARN_{it} + \alpha_3 CRsmall_{it} + \alpha_4 CRbig_{it} + \mu_t + \eta_i + \varepsilon_{it} \quad (3)$$

If the market valuation of small firms is higher, when compared with larger firms, we would expect the estimated coefficients on $CRsmall_{it}$ and $CRbig_{it}$ to be positive and statistically significant and the absolute value of the former to be statistically higher than the latter. If on the other hand the market does not distinguish groups of firms with a higher level of corporate reputation based on size, then we would expect that $\alpha3=\alpha4$. An alternative situation is also possible whereby the market values only those firms with incentives to present a higher level of corporate reputation, i.e., the smaller firms included in the reputation ranking. In this case, we would expect the estimated coefficient on $CRsmall_{it}$ to be positive and statistically significant and the estimated coefficient on $CRbig_{it}$ to be statistically insignificant.

Finally, in order to access whether the market valuation of firms with a higher level of corporate reputation is also higher for profitable firms when compared with non-profitable ones, we use a new regression equation which comprises two binary variables splitting the $CRsmall_{it}$ ($CRbig_{it}$) in two groups based on the firm's profitability, namely the CRsmall_profitit and the $CRsmall\_loss_{it}$ ($CRbig\_profit_{it}$ and the $CRbig\_loss_{it}$). The variable $CRsmall\_profit_{it}$ ($CRbig\_profit_{it}$) assumes the value 1 if the firm has a higher level of corporate reputation, its size is below (above) the median and its return on equity is positive and 0 otherwise. The variable $CRsmall\_loss_{it}$ ($CRbig\_loss_{it}$) assumes the value 1 if the firm has a higher level of corporate reputation, its size is below (above) the median and its return on equity is negative and 0 otherwise.

$$MV_{it} = \alpha_0 + \alpha_1 BV_{it} + \alpha_2 EARN_{it} + \alpha_3 CRsmall\_profit_{it} + \alpha_4 CRsmall\_loss_{it}$$
$$+ \alpha_5 CRbig\_profit_{it} + \alpha_6 CRbig\_loss_{it} + \mu_t + \eta_i + \varepsilon_{it} \quad (4)$$

If the market valuation of profitable firms is higher, when compared with non-profitable ones, we would expect the estimated coefficients on $CRsmall\_profit_{it}$ ($CRbig\_profit_{it}$) and on $CRsmall\_loss_{it}$ ($CRbig\_loss_{it}$) to be positive and statistically significant and the absolute value of the former to be statistically higher than the latter. If on the other hand the market does not distinguish groups of small (big) firms with a higher level of corporate reputation based on profitability, then we would expect that $\alpha3=\alpha4$ ($\alpha5=\alpha6$). An alternative situation is also possible whereby the market values only those firms with economic incentives to present a higher level of corporate reputation and with enough wealth to get it, i.e., the smaller and profitable firms included in the reputation ranking. In this case, we would expect the estimated coefficient on $CRsmall\_profit_{it}$ to be positive and statistically significant and the other estimated coefficients to be statistically insignificant.

4. DATABASE

Our research employs the Spanish Monitor of Corporate Reputation (MERCO) ranking. Since 2001 this monitor annually evaluates the reputation of the companies that operate in Spain and provides a score for the 100 companies with the best reputation. In the field of corporate finance, this index has been used in previous research by Fernández and Luna (2007), Delgado *et al.* (2010) and Delgado *et al.*, (2013).

The mechanism elaborated by MERCO is similar to the AMAC index reported by Fortune. The Spanish monitor evaluates companies in six areas: financial and economic performance, quality of products and services, corporate culture and workplace quality, ethics and corporate social responsibility, international and global presence, and innovation. In addition each of these areas is split into three items which we report in Table 2.

Moreover, the process to elaborate the Spanish index follows different steps so that all the stakeholders' assessments are aggregated. Firstly, the Spanish monitor asks for the views of major Spanish managers. This stage provisionally proposes the 100 most reputable Spanish firms. Secondly, each of these firms is evaluated by financial analysts, NGOs, unions, and consumer associations. Thirdly, the Spanish monitor adds the opinions of employees from each firm. Finally, the results are verified through a "merit questionnaire" created by MERCO analysts and the final ranking is published in the first quarter of the following year.[6]

Table 2: Key attributes of reputation

Evaluation dimensions	Items for each dimension
Financial and economic performance	Book profits Profitability Quality of economic information
Quality of products and services	Product value Brand value Customer service
Corporate culture and workplace quality	Workplace quality Valuation and reward Suitability of corporate culture to business project
Ethics and corporate social responsibility	Business ethics Commitment to the community Social and environmental responsibility
International and global presence	Number of international partners International expansion Strategic international alliances
Innovation	Research and development investments New product and services portfolio New channels of distribution

Our research employs the annual rankings from 2001 to 2012. Once the lists were obtained, we selected those companies quoted on the Spanish market at the date of publication. We have to point out that not all the companies included in the MERCO annual indexes are usually quoted on the Spanish stock market since some of them are foreign firms with business operations in Spain. This reduces the number of highly reputable firms to 54 as reported in Table 3. As we can see, these remaining 54 firms quoted on the Spanish market belong to a broad range of industries and offer a diverse group for our analysis.

Moreover, we have to highlight that our study analyzes how the Spanish stock market value corporate reputation. To that end, Thomson DataStream provides us with firm-level data for all stocks listed on the Spanish stock market over the period 2001-2012. The total number

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[6] These annual reports are available in www.merco.info/es.

of stocks decreased from 146 at the beginning of 2001 to 109 at the end of 2012.[7] Table 4 reports the number of firms included each year in the most reputable firms' list as well as the number of firms added to and dropped from the list each year. Finally, we present the number of remaining firms quoted on the Spanish market without reputation scores.

Table 3: The most reputable firms quoted on the Spanish stock market

Industry	Sector	Name
Consumer Goods	Foods Producers	Campofrio, Ebro Puleva
	Tobacco	Altadis
Financials	Banks	Banco Popular, Banco Sabadell, Banco Santander, Banesto, Bankia, Bankinter, BBVA, Caixabank
	Insurances	Catalana Occidente, Mapfre
Industrials	Real Estate Investment and Services	Inmobiliaria Colonial, Fadesa, Urbis, Metrovacesa
	Construction and Materials	Abengoa, Acciona, ACS, Dragados, Ferrovial, FCC, OHL, Portfland, Sacyr Vallehermoso
	Industrial Transportation	Abertis, EADS
Oil and Gas	Support Services	Prosegur
	Alternative Energy	Gamesa
	Oil and Gas producers	Petróleos (Cepsa), Repsol YPF
Health Care	Pharmaceuticals and Biotechnology	Grifols, Zeltia
Services Consumer	General Retailers	Adolfo Domínguez, Carrefour, Cortefiel, Inditex
	Media	Antena 3, Prisa, Vocento
	Travel and Leisure	Iberia, NH Hoteles, Sol Meliá, Vueling
Technology	Software and Computer Services	Indra
Telecommunications	Fixed Line Telecommunications	Telefónica
	Mobile Telecommunications	Telefónica Móviles
Utilities	Gas, Water and Multiutilities	Enagas, Gas Natural

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[7] We follow previous empirical studies and only include the most liquid class of shares for a given stock. Neither do we include preferred stocks nor the stocks traded on the floor of the market. Although the number of firms is limited, we consider there is not any bias towards larger or surviving stocks.

Table 4: Number of firms included or excluded each year from the list

Year of list	Most reputable firms	Added	Dropped	Remaining firms
2001	28	--	--	118
2002	26	1	3	114
2003	25	1	2	108
2004	38	14	2	88
2005	35	2	3	89
2006	39	5	--	82
2007	37	4	2	91
2008	32	--	5	103
2009	30	--	1	98
2010	31	3	2	91
2011	30	1	1	82
2012	35	7	2	74

As we can see, corporate reputation is a persistent characteristic which is built up over time through a slow process. However, it is a vulnerable asset which can be quickly destroyed as a consequence of globalization, business complexities or economic and financial turbulence. This asymmetry between the length of time required to build a good reputation and the ease with which it can be destroyed gives us credibility as an informative signal.

Table 5: Descriptive statistics

	Mean	Median	Standard Deviation	Minimum	Maximum
Panel A: Whole sample (2,288 observations)					
Market value	14,84	7,01	31,21	0,01	467
Book value	8,86	3,90	21,38	-5,26	315,74
Earnings	1,39	0,39	11,31	-226,66	208,83
Panel B: Most reputable firms (412 observations)					
Market value	16,08	10,94	19,87	0,58	216,85
Book value	7,70	4,86	11,55	0,15	93,68
Earnings	3,26	0,63	16,95	-1,14	208,83
Panel C: Remainder firms (1,876 observations)					
Market value	14,44	6,02	34,06	0,013	467
Book value	9,23	3,48	23,68	-5,26	272,87
Earnings	0,79	0,32	8,69	-226	96,59

Finally, we have to highlight that to analyze the impact of corporate reputation on market value we also need financial information which was obtained from the Thomson DataStream database. More precisely, we have required, from each firm quoted on the Spanish stock market over the sample period, the market value, book value and earnings at December, 31. Descriptive statistics from these variables are presented in Table 5 for the whole sample as well as divided in two groups: the most reputable firms quoted on the Spanish stock market and the remainder of firms. As we can see, these preliminary statistics show that most reputable firms are as the same time those quoted firms with higher levels of market capitalization, book value and earnings.

5. EMPIRICAL RESULTS

Before presenting the empirical results, we have to highlight that we have estimated the proposed models, described in the methodological section, using a panel data methodology which allows us to control for individual heterogeneity (or unobservable company effects) as well as for the endogeneity of the explanatory variables. More precisely, we have performed the system Generalized Method of Moments (GMM) model (Arellano and Bond, 1991). The GMM estimator uses internal instruments; specifically, instruments that are based on lagged values of the explanatory variables that may present problems of endogeneity. To be exact, we used all the endogenous right-hand-side variables in the model lagged from t-1 to t-2 for equations in differences. In our case, employing a larger number of lagged values could result in a larger number of instruments in comparison with the number of firms or groups. Thus, the results might be robust but weakened by many instruments. For this reason, we decided to use lagged values of just two years. Nevertheless, we repeated the estimations using a larger number of lagged values and the results did not vary significantly.

Finally, we checked for the potential misspecification of the models. Firstly, we used the Hansen J statistics of over-identifying restrictions in order to test for the absence of correlation between the instruments and the error term. Secondly, we used the m1 and m2 statistics, developed by Arellano and Bond (1991), in order to test for the lack of first- and second-order serial correlation in the first-difference residual. Thirdly, we provide z1 and z2 Wald tests of the joint significance of the coefficients and the dummy variables respectively.

Our preliminary findings are provided in Table 6, in which we present the empirical results from models 1 and 2. As we can see, results from model 1 reveal that the accounting-value based model developed by Ohlson (1995 and 2001) explains market value on a proper way. However, results from model 2, in which we include the effect of corporate reputation, reveal that not all high reputable firms are significantly valued by the stock market.

Table 6: The direct influence of corporate reputation on market value

	Model 1		**Model 2**
Intercept	2.409	Intercept	2.14
	(1.02)		(0.95)
BV_{it}	1.090***	BV_{it}	1.086***
	(3.58)		(3.58)
$EARN_{it}$	0.337***	$EARN_{it}$	0.331**
	(2.18)		(2.13)
		CR_{it}	1.119
			(0.36)
Sargan test	2978.84***	Sargan test	3150.01***
m_1	-1.46	m_1	-1.46
m_2	-0.96	m_2	-0.96
z_1	7.99***	z_1	6.19***
z_2	10.32***	z_2	10.06***

***, **, * Significance at 1%, 5% and 10% level respectively.

Results from models 3 and 4 are provided in Table 7, in which we analyze the indirect influence of corporate reputation on market value considering the size and profitability effects. As we see, when we divided high reputable firms between small and big firms in model 3, we notice that only small reputable firms are positively and significantly valued by the stock

market at a 10% level of relevance. Moreover, we observe that, when we divided both groups of high reputable firms between profitable and non-profitable firms in model 4, only those reputable firms that are small and profitable are positively and significantly valued by the stock market at a 1% level of relevance.

Table 7: The indirect influence of corporate reputation on market value

	Model 3		Model 4
Intercept	1.696	Intercept	2.419
	(0.77)		(1.04)
BV_{it}	1.085***	BV_{it}	1.087***
	(3.58)		(3.58)
$EARN_{it}$	0.327**	$EARN_{it}$	0.322**
	(2.08)		(2.09)
$CRsmall_{it}$	4.544*	$CRsmall\_profit_{it}$	8.951***
	(1.81)		(3.33)
$CRbig_{it}$	2.718	$CRsmall\_loss_{it}$	5.565
	(0.80)		(0.77)
		$CRbig\_profit_{it}$	3.066
			(1.61)
		$CRbig\_loss_{it}$	-2.822
			(-1.42)
Sargan test	3304.23***	Sargan test	3504.72***
m_1	-1.46	m_1	-1.48
m_2	-0.96	m_2	-0.94
z_1	5.93***	z_1	6.65***
z_2	9.97***	z_2	10.18***

***, **, * Significance at 1%, 5% and 10% level respectively.

These results indicate that investors which trade on the Spanish stock market over the 2001-2012 period values only those firms with economic incentives to present a higher level of corporate reputation and with enough wealth to get it, i.e., the smaller and profitable firms included in the annual reputation rankings.

6. CONCLUSIONS

Good corporate reputation is one of the most valuable assets of a firm and causes a multitude of favourable impacts within different stakeholder groups. For that reason, investors are becoming increasingly aware of the potential impacts that corporate reputation has on the firm itself as well as the whole stock market.

In this context, the aim of this paper has been to provide evidence about the influence of corporate reputation on market value and, consequently, the benefits in terms of higher market capitalization for investors which trade on those quoted firms with higher levels of reputation. Our study extends the international empirical evidence to the Spanish case providing a useful comparison with previous work which almost exclusively considers US surveys.

Our overall results reveal that investors from the Spanish stock market value corporate reputation. However, we notice that not all reputable firms are significantly valued at the conventional levels. We observe that only those reputable firms which are small and profitable ob-

tain higher levels of market capitalization than the remainder of firms quoted on the market. These results indicate that only those firms with economic incentives to present a higher level of corporate reputation and with enough wealth to get it are a valuable resource for investors.

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