Doğuş Üniversitesi Dergisi, 21 (1) 2020, 117 - 132

The Financial Performance-Corporate Reputation Nexus in Turkey in the Institutional Theory Context

Kurumsal Teori Bağlamında Türkiye'de Finansal Performans-Firma İtibarı İlişkisi

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ABSTRACT: The scholars who indicate the institutional quality as one of main sources of economic growth state that any endeavor of companies increasing production and employment are no longer sufficient for sustainable growth. Therefore, economies need intangible assets such as corporate reputation (CR). CR entirely depends on stakeholders' perception. In this study, we investigate the potential linkage between CR and financial performances of companies, which can affect the stakeholders' perception, in Turkey between 2006 and 2016. The results show that any increase in companies' assets fosters the perceptions of stakeholders in next period while a raise in indebtedness causes worse reputation.

Keywords: Institutional theory, corporate reputation, financial performance, panel data analysis.
Jel Classifcations: D22, G34, M14.

Öz: *İktisadi büyümenin ana kaynaklarından biri olarak kurumsal kaliteyi gösteren araştırmacılar, sürdürülebilir büyüme için firmaların üretim ve istihdam artışı sağlama çabalarının artık yeterli olmadığını belirtmektedirler. Dolayısıyla ekonomilerin firma itibarı gibi maddi olmayan duran varlıklara ihtiyaçları vardır. Firma itibarı tamamen paydaşların algılarına dayanmaktadır. Bu çalışmada, Türkiye'de 2006-2016 yılları arasında firma itibarı ile paydaşların algılarını etkileyebilen finansal performans arasındaki potansiyel ilişki incelenmektedir. Sonuçlar, şirketlerin varlıklarındaki herhangi bir artışın bir sonraki dönemde paydaşların algılarını artırdığını, borçluluktaki artışın ise daha kötü bir firma itibarı yarattığını gösteriyor.*

Anahtar kelimeler: *Kurumsal teori, firma itibarı, finansal performans, panel veri analizi.*

1. Introduction

The institutional theory points out institutions that are the rules of the game and organizations that play the game according to these rules in economies. The fundamentals behind this approach depend on the fact that institutions and organizations support the development of each other. In this respect, the more significant the quality of the institutions, the better the quality of the organizations, vice versa. One of components that contributes to the quality of the organizations is CR. According to the resource-based view, CR is specific to every company, and it cannot be copied or imitated. Companies can benefit from this asset to gain competitive advantage in the markets. Also, according to the signaling theory, the firm

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Geliş/Received: 28-11-2018; Kabul/Accepted: 06-05-2019

reputation gives signals to the stakeholders and the market about the situation of the company.

Previous studies concluded that one of the influential assets of companies is CR. CR of any company reflects perceptions originated from company's stakeholders. In fact, these perceptions are consequences of a cognitive process that is influenced by some internal and external factors such as financial performance of companies and institutional quality of countries. These factors may vary regarding the stakeholders' role in relation to company.

This study reveals the factors affecting the top managers' perception when they answer the survey about corporate reputation. However, these factors are mainly expecting to be related to financial performance of companies due to the professional attitude of participants of survey. Our contribution is to expand the related literature with evidence from Turkey through using a new data set, employing institutional quality variables, and enlarging the time horizon of the previous studies. For this purpose, we explore the financial determinants of corporate reputation in Turkey in the framework of the institutional theory. Section 2 gives definitions of CR and some concepts regarding it. Section 3 briefly explains the literature. Section 4 presents data, methodology, section 5 presents empirical findings and section 6 concludes.

2. Basic Concepts

In this section, some basic concepts such as institutional theory, resource-based view, and corporate reputation are explained. The relationship between institutions and organizations are significant due to factors that affect their developments. As resource-based view states that every company has specific assets, companies which are kinds of organizations can vary their development path by using different resources. One of these resources is corporate reputation. In addition, according to the signaling theory, reputation is a kind of informative sign that is about companies' attitudes and behaviors.

2.1. Institutional theory

As North (1990) stated institutions represent the rules of the game, one can remark that these rules enable and constraint the attitutes and actions of individuals and organizations such as stakeholders and companies. Broadly there are two types of institutions (North, 1990: 4; Peng, Wang, and Jiang, 2008: 920). Formal institutions are those which determine the rules, procedures, and structures in a society while informal institutions refer to moral values, customs, cultures and unwritten code of conduct (Deephouse, Newburry, and Soleimani, 2016: 464; Hofstede, Van Deusen, Mueller, Charles, and Network, 2002: 785-786).

There is an explicit distinction between institutions and organizations. Despite organizations, such as political parties, sport clubs or companies, determine the structure to human interaction like institutions, they are actually players who play the game by rules. Their evolutions are influenced by institutions, while they aim to win the game by practicing strategies and using resources. "*In turn they influence how the institutional framework evolves*" (North, 1990: 4, 5). Therefore, we can claim that there is bidirectional link between institutional development and organizational development. These developments bring about lower transaction costs and relieved corporate activities through improvement in rules, procedures, and structures

(Brouthers, 2013: 14-15). North (1990: 6) states that "*the major role of institutions in a society is to reduce uncertainty by establishing a stable (but not necessarily efficient) structure to human interaction*". In fact, any efficient institutional or organizational development makes stable structures more qualified. Thus it is important to examine the factors that lead to increase in quality for organizations because of its effect on organizational achievements and institutional framework (Cullen, Parboteeah, and Hoegl, 2004).

One of the factors that increases the quality of the companies depending on organizational evolution is corporate reputation. Corporate reputation is referred to the intangible asset of companies by resource-based view (RBV). RBV states that companies can take competitive advantage in the markets by using their internal inimitable resources and their specific strategies elaborately (Koch and Cebula, 1994; Roberts and Dowling, 2002). In addition, signaling theory asserts that an informative sign arising from good reputation reflects a reduction in uncertainty and transaction costs (Walker, 2010). Therefore there is an explicit bridge among institutional theory, the RBV, the signaling theory. To these links, better corporate reputation which is intrinsic to every company causes increase in organization quality so that institutional framework improves.

2.2. Corporate Reputation (CR)

In numerous dictionaries there is a clear definition of the term reputation, however, its meaning in the business world is still not unified. As a multidisciplinary concept, there is not just one definition of reputation in the related literature. Different authors state numerous definitions of CR that differ in interpretation but also in its characteristics.

According to Fombrun, Gardberg, and Sever (2000: 242) CR represent a collective presence that defines the aggregate perceptions of multilateral stakeholders about a company's performance. Bromley (2001: 36) defines CR as a reflection of a company's relative standing inside the corporation with employees and outside the corporation with other stakeholders. This perception is prevailing in its competitive and institutional environment. Highhouse, Broadfoot, Yugo, and Devendorf (2009: 783) state that CR is an evaluative judgment about a company which is shared by multiple constituencies.

As the definitions suggest above, CR is crucial for the stakeholders to designate their own support for the company. Lewis (2001: 35) emphasizes the importance of the company for them: "*(i)f stakeholders are to feel and act positively towards a company, it will be in reciprocation for that company making a contribution to their lives*". In addition, CR is a necessity for the parties to make an agreement with a company based on its reputation (Carmeli and Freund, 2002). Thus, one can state that reputation is a kind of pre-condition for people's eager to become a stakeholder of a company (Ettenson and Knowles, 2008) which likely affects their welfare, and social welfare as well.

There are numerous strategic advantages of good CR for the companies. The following list shows either utilities of these advantages and the basic motives of the studies that explore the factors affecting the CR.

- A reputable company may have cost advantage because employees prefer to work for such companies in the industry so that they work harder, or they work for lower salaries. Therefore, a good reputation can yield to lowering costs of the companies (Deephouse, 2000; Fombrun, 1996). Hence a good reputation may raise the motivation and productivity of employees. Additionally, high reputation corporations can easily attract and retain great numbers of applicants, investors and customers (Fombrun, 1996).
- When suppliers are transacting with reputable companies, they are less concerned about contractual hazards so that these companies may yield to lower contracting costs (Roberts and Dowling, 2002)
- Reputation is one of the sources of competitive advantage that may generate barriers for those having relatively less reputation in the markets (Eberl and Schwaiger, 2005; Fombrun, 1996). Therefore, it can be suggested that a good reputation enables the company to differentiate from its competitors and establishing better market positioning.
- CR cannot be imitated or replicated properly that means it needs a lot of time to accumulate. Therefore, every company's reputation is rare (Fombrun and van Riel, 1997).
- Greyser (1999) states that if the prices and quality of the products of several companies are similar, customers are more likely to choose the company with the higher reputation. Then, CR leads to a rise in the market value (EBITDA), and diminishing risks for the reputable companies.

While examining CR, it is also crucial to shed light on two related concepts: organizational identity (henceforth: identity) and organizational image (henceforth: image). Wartick (2002: 373-375) states that the term like identity, as well as image and corporate reputation are often used alternatively. However, it is important to make their meaning and interrelationship clearer.

The identity represents the basic character of a company which determines what a company really is when it reflects the company's values, behaviors and activities towards all its stakeholders (Bendixen and Abratt, 2007: 70-71). The image is the mental picture of the company adhered by its target audiences while it means what comes to mind when someone sees or hears the corporate name or sees its logo (Gray and Balmer, 1998). Since the image depends on the observer's perception, it is often seen as the same thing as reputation. According to Fombrun and van Riel (1997), identity and image embody the basic elements of reputation.

CR represents a valuable intangible asset but even this feature is not enough for the assessment of it. Therefore, we need a measurement to prove its value. However, it is hard to measure CR because of its intangible characteristic and the affective-cognitive component of the stakeholders. Yet there is not a standard measurement, only some individual authors and organizations create ranking lists with different numbers of variables.

The most known measurement depending on a survey was performed by *the Fortune Magazine* during the fall of 1983 (Ponzi, Fombrun, and Gardberg, 2011), and the list of "America's Most Admired Companies" as the output of this survey was published for the first time in 1984 (Fombrun et al., 2000). In 1999, Charles Fombrun in together with the market research company Harris Interactive developed a new instrument of measurement, the Reputation Quotient (RQ), which is the standard in reputation measuring of companies, in order to see what the perception of different stakeholders is. As corporate performance is a multi-dimensional construct, reputation would be expected to be multi-dimensional as well, reflecting the unique dimensions on which stakeholders base their judgments of the company's performance. Reputation Quotient consists of 20 items divided into six criteria (Fombrun et al., 2000: 252): *"(1) Emotional Appeal, (2) Products and Services, (3) Financial Performance, (4) Vision and Leadership, (5) Workplace Environment, and (6) Social Responsibility*". According to Ponzi, Fombrun, and Gardberg (2011), numerous other authors developed their own instruments of measurement with different numbers of criteria, like a 28-item customer-based reputation measure (Walsh and Beatty, 2007), 15-items scale, a ten-item scale (Helm, 2005), a six-item corporate reputation measure (Schwaiger, 2004), a four-item scale (Hammond and Slocum, 1996) or a three-item scale (Highhouse, Lievens, and Sinar, 2003).

In addition, there are some other surveys[1] conducted in various countries that show the reputation rankings of the domestic companies. For instance, such a survey has been performed in Turkey by *the Capital Magazine* since 1999. This survey is based on *Fortune*'s study and the list which is an output of this survey is named "Turkey's Most Admired Companies (TMAC)"[2].

3. Literature Review

There are numerous studies that examine the relationship between corporate reputation and financial performance. As mentioned above, the RBV states that positive reputation is a kind of intangible assets, while the signaling theory considers it as an information about the company. Every company has its own reputation which cannot be copied or imitated so that companies can differentiate themselves from their rivals in the markets (Surroca, Tribo, and Waddock, 2010).

In fact, conceptualization of the CR depends on the pioneering study of Fombrun (1996)[3]. In the literature, some studies that ignore the direction of causality or dependency have focused on the issue of existence of the link between corporate reputation and financial performance[4]. These studies consider different starting points

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[1] See Fombrun (2007) for examining the other surveys.

[2] TMAC cautiously assesses some subsets of topics for the companies such as investment in information technologies, product and service quality, new product development, innovativeness, management quality, social opportunities and employees' rights, salary policy, marketing and sales strategies, public relations, competencies of employees, ethical behaviors, customer and employee satisfaction, organizational transparency, creating value for investors, social responsibility, efficiency in international markets, global and regional contribution in terms of employment and investment.

[3] For detailed literature reviews, see Sabate and Puente (2003) and Walker (2010).

[4] The researchers have been examining the sign of the relationship between corporate reputation and financial performance, and the direction of causality. Conflicting results have been already reached (Sabate and Puente, 2003). For instance, Fernandez-Gamez, Gil-Corral, and Galan-Valdivieso (2016), Smith, Smith, and Wang (2010), and Zhang and Rezaee (2009) can be reviewed to consider the effects of corporate reputation on the financial performance of companies. Also, Inglis, Morley, and

for their analysis and reach divergent results. For instance, Roberts and Dowling (2002) and some other scholars[5] indicate that firms with better reputations are more likely to experience superior financial performance depending on a clear positive relationship between corporate reputation and financial performance. However, some empirical studies claim that financial performances of the companies improve their reputations (Fombrun and Shanley, 1990), while some studies find no evidence of this relationship[6]. Since we assume that prior financial performance affects the corporate reputation, some selected studies which showed this effect before are explained below.

McGuire and Branch (1990) used *Fortune*'s corporate reputation survey data to analyze the relation between firm quality and firm performance. They examined two issues: (1) the degree to which perceived firm or management quality influences corporate financial performance, and (2) the degree to which historical measures of corporate financial performance forecast future perceptions of corporate or management quality. They found that perceptions of firm quality are influenced by financial measures in terms of risk and return. They asserted that perceptions of firm quality are often more closely related to previous financial performance than the current performance, although they are related to subsequent performance of specific financial measures. Likewise, Preston and Sapienza (1990) indicated a positive relationship between reputation and financial performance. They debated whether there was a proof of managers pursuing their growth objectives (or short-term earnings) favoring the interests of any one group of stakeholders. In general, if the company earns greater income and raise its assets, the interests of the stakeholders are satisfied more.

Herremans, Akathaporn, and McInnes (1993) examined whether large US manufacturing companies with better reputations for social responsibility outperform companies with poorer reputation during the six-year period. They measure corporate financial performance using financial indicators which are operating margin, net margin, ROA (return on assets), and ROE (return on equity). In this study, there were 21 manufacturing industries included in *Fortune*'s corporate reputation survey for the period 1982 and 1987. The results showed consistency with the hypothesis that companies' reputations for corporate social responsibility and their performance are expected to be positively related.

Hammond and Slocum (1996) analyzed the impact of prior financial performance on subsequent corporate reputation by using *Fortune's* "Most Admired Companies" list between 1981 and 1993. They found that the subsequent corporate reputation is

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Sammut (2006) stated that there is no causal relatonship between reputation and performance in either direction.

[5] These scholars generally employ return on equity, return on assets, and market value as dependent variable while they use corporate reputation, corporate social responsibility or corporate social performance, which represent reputation, as independent variable. For some of these studies, see Aupperle, Carroll, and Hatfield (1985), Dunbar and Schwalbach (2000), Galbreath, (2010), Lai, Chiu, Yang, and Pai, (2010), Lee, Faff, and Langfield-Smith (2009), McGuire (1990), McWilliams and Siegel (2000), Rose and Thomsen (2004), Wang, Yu, and Chiang (2016).

[6] See Schultz, Mouritsen, and Gabrielsen (2001).

moderately affected by prior financial performance measures of market return of the firm and return on sales.

According to the Basdeo, Smith, Grimm, Rindova, and Derfus, (2006), corporate reputation depends on both actions and performance of the company and on actions of other companies in the market. Sanchez and Sotorrio (2007) empirically examined the relationship between corporate reputation and financial performance of the top 100 companies operating in Spain in 2004. They found that there is a strong and non-linear relationship between reputation and performance of the companies. In addition, Shi (2016) underlined that the link between performance and reputation subjected to industry intensity. The prior financial performance affects subsequent reputation, and also financial outcome dominates either in competitive and non-competitive industries.

To the best of our knowledge, empirical studies on Turkey are quite rare in the literature. Çalışkan, Nemli, İçke, and Aytürk (2011) examined the related relationship in Turkey for the period between 2000 and 2010 by using the survey data from *Capital*'s TMAC list. The results indicated that there is no causal relationship between corporate reputation and financial performance measures of market-to-book-value and ROA. In addition, the results showed that although corporate reputation does not affect performance measure of ROE, ROE conversely improves corporate reputation. Tomak (2014) analyzed the effect of reputation on the firms' performances for firms included by Borsa Istanbul 30 index between 2008 and 2012. The results do not provide evidence which states that reputable companies have greater performance than non-reputable companies. To the study, the relationship between corporate reputation and financial performance is ambiguous in the emerging countries. Çınaroğlu (2017) investigated the determinants of firm performance for hospitals in Turkey by employing factor analysis. This study emphasized that overall performance of hospitals are not affected by reputation and cost performance at all. Ultimately, Kandil Göker, Arar, and Uysal (2017) examined the unidirectional effect from reputation to financial performance like Tomak (2014). They had a comparison that includes the portfolio return and the market return of the companies listed in *the Capital*'s survey for 2008-2014. The results attained by using Fama French Three Factor Model showed that CR affects the financial performance positively.

4. Data and Methodology

This study explores the financial determinants of CR in Turkey. Our sample consists of the companies listed in *Capital'*s TMAC survey. This survey has the longest history in Turkey, and almost there has been no major methodological change except some updates. The survey based on responses from executives who monitors company-specific micro data and country-specific macro data.

Our dependent variable is CR which is measured as a ranking by *Capital*'s survey. *The Capital Magazine* announces the top twenty companies in terms of CR ranking every year. In this study, we evaluate six companies of them, namely Arçelik, Coca Cola, Koç Holding, Sabancı Holding, Turkcell, Ülker[7] which were among the top

[7] Arçelik has operations in durable consumer goods industry with production, marketing and after-sales services. Coca-Cola is a soft-drink producer. Koç Holding and Sabancı Holding are two of Turkey's largest group of companies. Turkcell is

twenty for the longest time together in the period between 2006-2016, and whose stocks are traded on stock exchange market (BIST)[8]. Table 1 shows these companies' rankings over this period.

Table 1. Rankings of the companies, 2006-2016

	Arçelik	Coca-Cola	Koç Holding	Sabancı Holding	Turkcell	Ülker
2006	3	7	1	4	2	11
2007	3	8	2	6	1	8
2008	3	5	2	5	1	8
2009	2	4	3	5	1	8
2010	3	6	4	12	1	9
2011	3	6	4	10	1	13
2012	4	3	5	13	1	15
2013	3	4	1	10	2	15
2014	5	3	2	11	1	12
2015	3	5	1	14	2	12
2016	2	5	1	11	6	14

Source: Own compilation from the Capital Magazine's survey data.

Our independent variables can be separated into three groups. In the first group, financial variables were obtained from the year-end balance sheets (B/S) and income statements (I/S) of the companies attained to Turkish Public Disclosure Platform in the internet. Some of these financial variables are ratios such as ROE, current ratio, and debt ratio[9]. ROE is a ratio that shows net income returned as a percentage of shareholder's equity, and also demonstrate executives' effectiveness. Current ratio measuring a company's ability to pay its obligations equals current assets divided by current liabilities. Debt ratio is defined as the ratio of total debt to total assets that demonstrates financial risk of a company. Following Al-Shubiri, Al-Abedallat, and Abu Orabi (2012), Fombrun and Shanley (1990), McGuire, Schneeweis, and Branch (1990), and Preston and Sapienza (1990), four annual growth rates for assets, incomes, and marketing expenditure are used as proxies to be able to evaluate the size and dominance of the companies in the economy (Brammer and Pavelin, 2006). A wide range of lags in both direction was used by many researchers due to the difference between current and lagged perceptions (Riahi-Belkaoui and Pavlik, 1991). We relate the reputation rankings of the current year with the data of previous year's financial variables because perception of stakeholders and executives are generally rely on previous year's financial performance, and lagged variables for one year allows to control for endogeneity (Blajer-Golebiewska and Kozlowski, 2016; Hammond and Slocum, 1996; Shi, 2016).

telecommunication and technology services provider. Ülker is a leading food company manufacturing a wide span of products such as biscuits, chocolate, candy, chewing gum, ice cream, baby food etc.

[8] Companies listed discretely on TMAC and not traded on BIST are excluded due to have a balanced panel.

[9] McGuire (1990) and Smith et al. (2010) used these ratios in their studies. See Fombrun and Shanley (1990), Makni, Francoeur, and Bellavance (2009), Riahi-Belkaoui and Pavlik (1991) for studies using other ratios.

Reputation depends on companies' attitudes and behaviors substantially; however, some researchers assessed that national institutions have significant effects on companies' behavior also (Brouthers, 2013). Many indicators derived by international organizations such as the United Nations, the World Bank, the International Monetary Fund or some non-governmental organizations such as the Freedom House, the Heritage Foundation are used to measure institutional structure of nations. Pioneering studies (North, 1990; Scott, 1995) suggest that more comprehensive indicators should be assessed while evaluating the institutional development. Therefore, we used the economic freedom index (*efreedom*) obtained from The Heritage Foundation, which scores countries' economic freedom based on 10 factors, and the rule of law index (*ruleoflaw*) from the World Bank, which captures the quality level of courts, police force, contract enforcement (Baughn, Bodie, and McIntosh, 2007), securing private property, to measure any effect of institutional quality on the companies in Turkey. In addition, the World Bank's annual GDP growth rate is used as another control variable in our models.

This study empirically tests whether the financial factors resulting from the companies' financial results determine the reputation rankings, and whether there is a relationship between institutional quality and corporate reputation in Turkey or not. In this context, our hypotheses are as follows;

H1: A higher (lower) financial performance leads to higher (lower) reputation perception.
H2: A better(worse) institutional quality leads to higher (lower) reputation perception.

Depending on our hypotheses below, we estimate the following model:

$$\begin{aligned} rank_{it} = {} & \alpha_{it} + \beta_2 roe_{2it-1} + \beta_3 currrentr_{3it-1} + \beta_4 debtr_{4it-1} \\ & + \beta_5 assetr_{5it-1} + \beta_6 incomeg_{6it-1} + \beta_7 salesg_{7it-1} \\ & + \beta_8 marketing_{8it-1} + \beta_9 gdpg_{9it} + \beta_{10} efreedom_{10it} \\ & + \beta_{11} ruleoflaw_{11it} + \varepsilon_{it} \\ & (i = 1, \ldots, 6 \; and \; t = 1, \ldots, 11) \end{aligned} \tag{1}$$

where $rank_{it}$ is the reputation measure for company i at time t. Also, *roe* is return on equity, *currentr* is current ratio, *debtr* is debt ratio, *assert* is annual asset growth rate, *incomeg* is annual income growth rate, *salesg* is annual net sales growth rate, and *marketing* is annual marketing expenditure growth rate. These financial performance measures lagged by one year. Annual GDP growth rate is denoted by *gdpg*. *efreedom* and *ruleoflaw* represent the institutional quality of Turkey at time t.

The pooled OLS and panel data techniques are used to estimate the models. Panel data analysis enables researchers to control for every unit, so that every companies' strategic behavior can be assessed in their model. We employed Hausman test to choose between fixed-effects or random-effects models. If the Hausman test rejects the null hypothesis that proposes independent variables' conditional mean of disturbance is zero, fixed-effects method is said to overperform, otherwise, random-effects estimators are reported (Baltagi, Bresson, and Pirotte, 2003). However, we reported three results, i.e. pooled OLS, fixed-effects, and random-effects to compare the results as well.

5. Empirical Results

Our final sample includes 6 companies and 66 observations for every company. Descriptive statistics of our dataset are presented in Table 2 which shows number of observation (Obs.), mean values of variables, standard deviations of variables (Std. Dev.), and minimum and maximum values of variables.

Table 2. Summary Statistics of the Data

Variable	Obs.	Mean	Std. Dev.	Min.	Max.
rank	66	5.469	4.177	1	15
roe	66	0.131	0.085	-0.01	0.6
currentr	66	1.459	0.559	0.57	2.7
debtr	66	0.593	0.168	0.23	0.85
assetr	66	0.708	0.360	0.04	1.77
incomeg	66	0.437	1.671	-1.24	11.2
salesg	66	0.124	0.223	-0.56	1.03
marketing	66	0.135	0.179	-0.26	0.65
gdpg	66	5.055	4.098	-4.7	11.11
efreedom	66	61.772	2.526	57	64.9
ruleoflaw	66	55.720	2.769	48.56	58.77

Table 3 provides the correlation analysis results. This table shows the sign of relationship between dependent and independent variables. As seen, ranking of the company has a negative relationship with *currentr* (lagged value of current ratio) and a positive relationship with *debtr* (lagged value of debt ratio) relatively. Also, variables are not highly correlated between each other so that it can be stated there may be no multicollinearity problem among variables. However, a diagnostic procedure must be employed to completely eliminate this problem. Therefore, we use variance inflating factors (VIFs) to check for multicollinearity. If VIFs are lower than 3, one can state that there is no multicollinearity. VIFs are lower than 2.5, and the mean VIF is 1.7 for our model.

Table 3. Correlation Matrix

	1	2	3	4	5	6	7	8	9	10	11
1 rank$_t$	1.000										
2 roe$_{t-1}$	0.048	1.000									
3 currentr$_{t-1}$	-0.344	0.227	1.000								
4 debtr$_{t-1}$	0.457	-0.291	-0.694	1.000							
5 assetg$_{t-1}$	-0.001	-0.151	0.005	0.137	1.000						
6 incomeg$_{t-1}$	0.032	0.315	-0.115	0.006	-0.157	1.000					
7 salesg$_{t-1}$	0.081	-0.017	-0.020	0.121	0.225	-0.181	1.000				
8 marketing$_{t-1}$	0.053	-0.031	-0.049	0.061	0.175	-0.137	0.555	1.000			
9 gdpg$_t$	0.155	0.055	0.087	-0.069	-0.247	0.194	0.097	-0.078	1.000		
10 efreedom$_t$	0.135	-0.065	0.179	0.016	-0.141	0.100	-0.350	-0.350	0.420	1.000	
11 ruleoflaw$_t$	-0.063	0.054	-0.068	-0.033	0.012	0.190	-0.191	-0.269	0.077	0.268	1.000

We run the pooled OLS, fixed-effects (FE), and random-effects (RE) regressions to estimate our model. The Haussmann test statistic ($\chi2$= 40.56 (Prob>$\chi2$=0.000)) suggests applying FE regression. In other words, FE estimates show the appropriate results of this study. However, we present the pooled OLS and RE results in Table 4 as well.

Table 4. Empirical Findings

	OLS	RE	FE
roe_{t-1}	12.085	12.085*	5.140
	(6.609)*	(7.040)	(3.647)
$currentr_{t-1}$	-1.344	-1.344	-2.026*
	(1.378)	(2.179)	(0.832)
$debtr_{t-1}$	10.103	10.104*	7.289**
	(4.613)	(5.269)	(2.836)
$assetg_{t-1}$	0.447	0.447	-2.377**
	(3.173)	(1.624)	(0.648)
$incomeg_{t-1}$	-.200	-0.200	-0.212
	(0.329)	(0.124)	(0.119)
$salesg_{t-1}$	0.278	0.278	1.610**
	(2.932)	(2.278)	(0.477)
$marketing_{t-1}$	1.162	1.162	1.167
	(3.386)	(2.929)	(0.985)
$gdpg_{t}$	0.141	0.141***	0.099
	(0.147)	(0.545)	(0.154)
$efreedom_{t}$	0.358	0.358	0.428
	(0.326)	(0.282)	(0.214)
$ruleoflaw_{t}$	-0.149	-0.149	-0.137
	(0.191)	(0.099)	(0.094)
constant	-14.977)	-14.977	-15.844
	(19.738)	(16.300)	(12.205)
R^2 (overall)	0.310	0.310	0.277
n	66	66	66

Robust standard errors in parenthesis.
***p<0.01, **p<0.05, *p<0.1

Consistent with earlier studies (Blajer-Golebiewska and Kozlowski, 2016; Brown and Perry, 1994; Carmeli and Cohen, 2001), the empirical results depending on FE estimates show that current ratio, asset growth rate, and debt ratio have significant effects on corporate reputation. One year lagged current ratio and asset growth rate negatively affects reputation rank. Accordingly, an increase in current ratio showing an improvement in the company's ability to pay its obligations decreases the ranking of the company in the list meaning a raise in the reputation. This result is also identical for the asset growth rate. If the growth rates of the assets of these companies could be positive, their stakeholders' perceptions would be become more positive in the subsequent period. On the contrary, increases in one year lagged debt ratio and sales growth raise the ranking of these companies in the list which means worse reputations. This result is quite reasonable in terms of indebtedness because the stakeholders perceive increased indebtedness as a negative signal. Due to the negative relationship between organizational reputation and rareness (Carmeli and Cohen, 2001), an increase in sales has a negative effect on corporate reputation.

6. Conclusion

Managers have been taking account stakeholders' perception elaborately since corporate reputation has been considered as one of the microeconomic foundations of companies' development. Corporate reputation is not only an intangible asset of organizations as research-based view states but also a significant determinant for institutional development arising from the perceptions of stakeholders. This cyclic nexus between organizational development and institutional development makes the concept of reputation more remarkable for managers because reputation provides competitive advantages for companies in the markets. Therefore, the factors that affect the reputation such as the financial performance of the companies, have become worthy of examining recently.

In the literature, there are many researches examining the relationship between corporate reputation and financial performance of the company. However, these studies are very limited for Turkey. In this study, we examine the effects of financial and institutional variables on corporate reputation for the companies whose stocks are traded in BIST. The empirical study involves six companies which were among the top twenty for the longest time together in the period between 2006-2016. The results received by panel data analysis show that current ratio, asset growth rate and sales growth rate have significant effects on the corporate reputations. Thus, the increase in the assets of the company relative to the debts positively affects the reputation of the company. However, as the increase in sales growth causes a decrease in rareness of the companies' products in the markets, a downward incline in corporate reputation arises among stakeholders. These results indicate that there may be a bidirectional relationship between financial performance of companies and stakeholders' perception, not only based on the corporate reputation, but also on organizational development, corporate identity and corporate image. Therefore, this study can be developed with the questionnaires that will be applied to the stakeholders within the framework of the related concepts.

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