



Determining the Relationship between Brand Values and Corporate Governance Index

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Keywords
Corporate
Governance Index,
Brand Value.

Abstract
In each country, the most important of the reasons of the company bankruptcy arose from the concept of corporate governance for companies. The purpose of this study is to determine the relationship between brand values of the companies that have corporate governance indexes (excluding banks) and the corporate index values. Panel regression analysis is used to determine the relation between the companies' corporate index and brand values. Also long period of relations are determined between the corporate index values and the brand values by using regression analysis. With this study, the significance relation between the corporate governance indexes and the brand values could not find in short term.

1. Introduction

Companies have been required to comply with corporate governance principles in order to be able to maintain their sustainability in the markets, to have a reliable place in the sector and to be able to carry out cross-border activities. The corporate governance is defined as that a company communicates with board of directors, partners, employees, suppliers and the community, in other words, manages a relationship with its all shareholders within the framework of equality, transparency, accountability and responsibility principles. The frame of corporate governance can be formed differently according to law, regulations and corporate ecosystem. In addition, concepts such as business ethics, corporate awareness of framework and social responsibilities that will affect the long-term success and reputation of the company can be considered within the framework of corporate governance principles.

The degree of companies operating in accordance with corporate governance principles comply with these principles is measured by rating agencies. The corporate governance index is formed by these rating scores of the companies. Corporate governance index values of companies in our country are announced

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and followed up in BIST Corporate Governance Index. The aim of the BIST Corporate Governance Index is to measure the price and yield performance of companies whose shares are traded on the Borsa Istanbul markets (except for the Watchlist Companies Market and C lists) and which have at least 7 out of 10 compliance scores and at least 6.5 out of 10 in each main section. In the BIST Corporate Governance Index, while the corporate management index values of 5 companies used to be reported for the first time, this number has reached to 64 in total together with non-public companies today. This means that companies attach more importance to corporate governance principles today.

While benefiting from the advantage of operating in compliance with the corporate governance principles in the sector, the companies are choosing branding with their services and products in order to differentiate from their competitors. They are trying to create a brand with their activities. According to the American Marketing Association, the brand is "a name, a term, a sign, a symbol, and a design that aims to identify and separate products and services of a dealer or a group of sellers". The brand is company's promise to the customer because the brand also refers to certain qualities. The brand is a tool that will influence profit, provide a competitive advantage and also it is a propose that determines the target market.

The brand has a value. Brand value is a value that encompasses the quality measurement of the brand formed by the company. The brand value is determined by taking into consideration information about physical characteristics of product, brand awareness, brand image, loyalty to the brand, consistency of contact, brand susceptibility, product quality, stability in the market, distribution, pricing and innovation. An index for brand value has not been established, but the brand values of related companies are regularly announced to the public every year.

There are many studies in the literature which have proven that companies implementing corporate governance principles are leading positive increases in financial performance and stock market values. However, there is a limited number of studies about the relation between corporate governance index values and brand values of companies. This study aims to investigate the relationship between BIST Corporate Index Values and brand values of companies. It has been companies' analysis topic of Corporate Governance Index and brand value, data and panel data of related companies will be created and interaction of these two values will be tried to be revealed by panel data analysis. Moreover, it is planned to contribute literature by determining the relation between brand value and corporate index values of companies with the current study.

2. Literature

The corporate governance system for companies has now become a necessity because of the financial crises of the 1990s in various countries in the world and the financial scandals of large corporations in 2000s, increasing economic dependence among countries and the spread of privatization emerging as a result of globalization. As a result, many studies related to the subject have been conducted in domestic and foreign literature.

Gupta and Sharma (2014, 4) found a relationship between corporate governance practices and share prices of companies as a result of their study about Indian and

South Korea companies' compliance with governance criteria and relationship between corporate governance and company's performance.

Andreou P.C. and his colleagues (2014) investigated the relationship between corporate governance and earnings management, investment decisions and financial performance in maritime companies. They revealed the relationship between corporate governance dynamics such as ownership structure, size, corporate governance committees existence of companies and company performance in their study.

Tariq and Abbas (2013) evaluated the impact of the Corporate Governance Index on the performance and activities of companies in Pakistan. In the period of 2003-2010, 119 firms determined the relationship between variables of financial performance and technical efficiency values, corporate governance index values, firm size, growth and dividend payment policy, financial leverage ratios by using Data Envelopment Analysis method and a panel data.

Ficici and Aybar (2012) determined the relationship between corporate governance rating score and its market value with a regression analysis in their study conducted in 54 companies operating in 9 countries, developing in Asia, Eastern Europe and Latin America. According to the result of the analysis, a direct proportion between rating score and market value has been revealed.

Kula, Baykut (2014) examined the development of corporate governance practices and regulatory arrangements in Turkey. The relationship between the corporate governance rating of 2013 and the market value of 47 companies in Borsa Istanbul was researched by the horizontal-section regression method. A positive relationship between the corporate governance rating and market values of companies was found.

Ege et al. (2013,100-101) aimed to reach the success scores by analyzing financial performance of companies which are in corporate governance index and included to the study and between 2009-2011 by using the TOPSIS method and to range results by evaluating obtained scores and corporate governance scores. As a result of the analysis, it was revealed that financial performances of companies and corporate governance scores do not move positively and corporate governance qualities of companies do not reflect on financial performances completely.

Acar et al. (2013) observed no abnormal yield of share prices that start being operated in corporate governance index. Furthermore, significant positive changes in market value / book value and period net profit / total asset ratio of companies which are operated in the index were detected before they are included to the index.

In the study conducted by Yenice and Dölen (2013), the stock exchange values of the 37 companies included in the XKURY index were determined 30 days before and 30 days after the announcement date of the rating grades between 2007 and 2011, and compared with the Wilcoxon Signed-Rank Numbers and T test. A significant relationship was found between the corporate governance index score and the stock exchange value of the company.

Gökçen et al. (2012) investigated the relationship between the financial data of the companies included in the Corporate Governance Index in 2010. As a result of the study, it was determined that taking place in Corporate Governance Index has a significant relationship with the increase in market value as a performance criterion.

In their study, Dalğar et al. (2011) examined the changes in the financial ratios of companies entering into the Corporate Governance Index. According to the results of the analysis, it was observed that the companies perform better than the average of the sectors after having entered into index in terms of activity and profitability ratios.

Şengür and Püskül (2011) examined the relationship between the board of directors structure and the asset yield ratio, equity yield ratio, price earnings ratio, profit per share ratio of the 24 companies in the Corporate Governance Index in 2009. According to the results of the analysis, it was found out that the companies with independent board members in the board of directors have higher asset yield ratio and equity yield ratio.

There is not a study conducted about relationship between corporate governance index and brand value or brand components in the literature.

3. The Concept of Corporate Governance

Companies need to be institutionalized in order to be able to carry out their activities professionally in accordance with their aims and to have a strong structure, in accordance with the concept of personality which is one of the basic concepts of accounting, without depending on owners and partners. *Institutionalization* is the process where a company or an institution can be structured in a way that allows it to sustain its activities in a "systematic" manner without "adhering to the existence of persons". The main aim of institutionalization is that a company or an institution can operate and develop its activities properly according to the defined forms of business without being dependent on the boss, the leader manager or important staff (www.yeniTTK.com).

The Corporate Governance Council, ASX (2014), defined the concept of corporate governance as a communication network between companies' governance, rules, control and process, and interest groups related to the company. Companies maximize their long-term value as a result of operating according to corporate governance principles and thus they gain confidence of investors.

The Organization for Economic Co-operation and Development (OECD) defines corporate governance as a system in which companies are guided and controlled, and it includes a system of relations among the company's management, board of directors, its partners and other interest groups. The corporate governance sets out a structure in which the goals and objectives of the company are determined and tools for monitoring performance to achieve these aims are identified (OECD, Corporate Governance Principles, 1998). Corporate Governance awareness creates transparency and clarity in its activities by establishing corporate culture.

According to a study published by Turkish Industry and Business Association (TUSIAD) Corporate Governance Working Group of Corporate Affairs Committee in April in 2002, the corporate governance is regulation of any institution created to achieve a goal in modern life in a broad and narrow sense. In a more narrow sense, it refers to all laws, regulations, codes and practices allowing a company to attract human and financial capital, to operate effectively and therefore to create economic values for its partners while respecting values to which it belongs (TUSIAD 2002, 9).

The framework of corporate governance should encourage effective markets, be in compliance with the law and openly distribute responsibilities among different supervision, regulatory and executive functions (TYKD 2005, 13).

A. The corporate governance framework should be developed by taking into account the general performance of the economy, the credibility of markets, the motivation for market participants, and the impact on the incentive of transparent and efficient markets.

B. The legal and regulatory requirements affecting corporate governance practices in any country must be lawful, transparent and implementable.

C. The distribution of responsibility among the different powers in any country must be made clearly and ensured that this distribution is for the benefit of public interest.

D. The supervision, regulation and executive authorities should have authorization, credibility and resources in order to fulfill their tasks professionally and objectively. Besides, rules that they have established should be transparent and completely defined.

The corporate governance is described as a system investigating characteristics and qualities of law, accounting and ethics which are necessary for public security in establishments and developing methods and techniques of these besides taking into consideration benefits of corporate governance system. This system, which gives power to businesses with this feature, also strengthens the economy of the country. For this reason, macro and micro economical branches have started to attract attention and to be taught gradually in recent years (Aysan 2007, 18).

3.1. Corporate Governance Principles

Corporate governance principles are a set of criteria for the senior management of the company that must follow while making decisions about the company and a set of rules about the time when such decisions are made and presented to the parties. In the 89th paragraph of general preamble of New Turkish Commercial Code, four key bases of the corporate governance are explained:

1. Transparency, 2. Fairness, 3. Responsibility, 4 Accountability Principles

Transparency Principle: Companies are requested to share the information regarding the operating cycle with relevant shareholders and investors in accordance with transparency principle. The companies disclose the required information with annual reports and financial reports to the public. The statements are prepared in accordance with the accounting principles, standards

and related laws. Furthermore, while the statement data are calculated, they should be explained with methods and explanatory information in the footnote.

Shareholders and potential investors would like to receive information about the selection, ownership and valuation of stocks by accessing regular, reliable and comparable information about governance practices of a company. The basic information fields are:

- Objectives, corporate governance structure and policies of company,
- Balance sheet, profit and loss statements and cash flow statements,
- Ethical rules and environmental policies for business purposes and activities,
- Share of capital ownership and voting rights,
- Board of the directors and executive members and their incomes,
- Risk factors related to sector, region, finance and environment,
- Matters that affect the performance of the employees and other stakeholders (Çatıkkaş 2013, 13-14).

New Turkish Commercial Code also requires founders of companies' written statement in incorporations within in frame of transparency principle and this statement is added in trade registry file so that it can be reviewed by everyone. The allottee is entitled to receive and examine comprehensive information organized according to informing public, corporate supervision and credibility principles. The allottee's right of demanding special supervision has been rearranged and each allottee is entitled to demand special auditor. The board of directors has also been tasked with organizing the disclosure of corporate governance and presenting it to the general assembly in addition to the annual activity report (Tunç 2011, 4-5).

Accountability Principle: The corporate governance framework should ensure that the company has strategic guidance, effective supervision by the board of directors and accountability of the board of directors to the company and its shareholders (yenittk.com). Accountability is a principle which requires all people making decisions and operating in to be responsible for their decisions and operations and to have to state an accord. This principle which is related to responsibility and transparency principles enables the allottee to question and judge all decisions made and applications done about operating activities by the business management and all related groups (Altın 2006, 32).

Responsibility Principle: The purpose of responsibility principle is to assure compliance of corporate actions with laws and regulations reflecting social values. The responsibility principle means that legal entity of the company, the board of directors and directors comply with the legislation about decisions and actions and social and ethical values. It also includes explanations about functions, duties and responsibilities, operations, creation of board of directors and financial rights which have been entitled to it and committees and directors helping operations of the board of directors. The board of directors is responsible for corporate actions, decisions and preferences at first. In this respect, it is important to determine the

board of the directors' responsibilities correctly for a proper company management (Hatunoğlu et al., 2012, 241).

Fairness Principle: This principle is to evaluate the opinions of all parties about the future of the institution in a balanced manner. According to this principle, while taking decisions, the corporate management should take in consideration not only shareholders having right of property but also all parties which are to help sustainability of profitability and existence of corporate in long term. With this principle, it is aimed to protect rights including those of "minority shareholders and foreign partners" and to comply with all contracts drawn up about share ownership (Tunç 2011, 5).

The corporate governance principles are accepted in all countries. Each country has published corporate governance principles by taking into consideration its own financial system and has started implementing them. The OECD published its corporate governance principles in 1999 and updated them by taking into account the developments in the world in 2004. In our country, the Capital Markets Board revised the Corporate Governance Principles by considering financial practices and published them in 2003. In accordance with the Corporate Governance Principles reformulated by the OECD in 2004, some amendments were made to principles of the Capital Markets Board in 2005 (Dalğar et al., 2011, 24).

3.2. Corporate Governance Index and Corporate Rating

"Notification on Principles about Rating Activity and Rating Agencies in Capital Market" Serial: VIII, No: 51 of our council was published in the Official Gazette 12/7/2007 dated and 26580 numbered entered into force. In accordance with this notification, rating activity covers credit rating and rating of compliance with Corporate Governance Principles. According to the notification, the rating of compliance with Corporate Governance Principles is that "the rating agencies evaluate and classify partnerships and capital market boards independently, impartially and fairly in accordance with rating of compliance with Corporate Governance Principles published by the Council". While allottees are rated within the scope of rating of compliance with Corporate Governance Principles, including public disclosure and transparency, stakeholders and board of directors are rated in each basic domain between 1 and 10 separately. Fractional scores between these values (until two-digit) are announced to public without rounding them up (spk.gov.tr).

The Corporate Governance Index has been created in order to measure companies', which are traded on the Borsa Istanbul markets and whose ratings scores are determined according to corporate governance principles published by Capital Markets Board (CMB), price and income performance according to "Basic Rules of Borsa Istanbul Corporate Governance Index" (www.denetimnet.net).

The Corporate Governance Index (XKURY), within the scope of traded on Borsa Istanbul markets (excluding Watchlist Companies Market and C lists), Rating Activity published in Capital Market 2003 and Notification on Principles Regarding Rating Agencies corporate governance principles, is composed of equity shares of companies, whose rating scores determined according to corporate governance principles, are at least 7 out of 10. While there were 7 companies in corporate index in 2007, this number increased to 57 (both public and non-public) in 2014. The equity shares of companies

that meeting the minimum rating condition are subject to the index the following workday when rating scores are reported to Public Disclosure Platform (PDP) (İMKB 2010, 3).

The equity shares within the scope of Borsa Istanbul Corporate Governance Index shall be deducted from the index on the day when related notification is made to the PDP or the following workday after the end of the 1 year period when:

- Rating score reported to PDP is less than minimum rating score,
- PDP is reported that the rating contract is terminated for any reason,
- Rating agency informs PDP that Capital Market Board has been removed from "Rating Agencies List",
- PDP is reported that the rating agency's independence has been removed,
- The rating score is not renewed or confirmed until the end of the following 1 year period from the date the rating score is issued. When mentioned causes removed, if rating score that is re-notified to PDP is higher than minimum rating score, the equity shares will be included in index in a way they can be valid on the following day when the notification is made.

If a company whose equity shares are in the scope of İMKB Corporate Governance Index takes over another company or companies, this company will continue to be covered by index. If a company that is in the scope of İMKB Corporate Governance Index is taken over by a company that is not included then the company taken over shall be deducted from the index on the day when equity shares are going to be distributed to company partners. The calculation and correction methodology of the index is the same as the other stock indexes.

4. Brand Value

The brand establishes the relationship between the product and customers and gives the identity to products and services by bringing qualities that customers expect into the forefront. American Marketing Association defines the brand as "a name, a symbol, a term, a sign or a design, or a combination of them, which is a dealer or a group of dealers intend to identify their products and services and to separate them from their competitors" (Keller, 1998, p.2).

In the broadest sense, the brand is focus of employees, customers and other shareholders expectations and thoughts about the company and products and services of the company. However, a more technical explanation is needed in terms of partnership estates that can be bought, sold and licensed. Brand Finance has helped creation of Brand Valuation Standard, ISO 10668, which is worldwide accepted. This standard defines the brand as: "Non-physical entity such as name, description, logo, symbol, mark and design related to marketing which aims to define products, services or institutions and creating distinctive images and connotations in minds of shareholders, thus providing economic value/benefit" (Brandfinance Türkiye, 2016, p.8)

The brand reflects consumers' thoughts about products and services and it is the key element in the competition among firms. Firms would like to have high

demand for their products and services and thus high and regular sales revenues and cash flow. Therefore, the brand is the indicator of value and power. In fact, the brand value is the name or symbol that adds or loses value to the firms and/or its customers through its products and services. Thus the brand value provides the brand knowledge to differentiate in the result of the marketing of the brand. The brand knowledge covers brand awareness and brand image. In this way, the brand management has crucial tasks such as choosing a valid brand name, symbolizing and institutionalizing the brand, increasing the quality that customers perceive (Pan et al., 2002, p.3).

Consumers create a value in the market by differentiating brands thanks to their logos, trade names, packages from similar products. This market value created by brands is different from generally observed market price of the company which created the brand. The brand value created by the firm generally depends on the quality of the brand, its image, the loyalty of the customer to the brand, and the brands' satisfaction level for customer's needs. On the other hand, value of the firm that creates the brand is parallel with cash flow by selling this brand. The value of the company generally reflects the value of company's market price or values of product market. Thus, value of the company reflects value of its brand, potential gain in the market and current market value. For this reason, if a brand attracts customers' attention in the market, the brand value is expected to be high (Capon et al., 2001, p. 215-216).

5. Comparison of Companies' Corporate Governance Index and their Brand Values

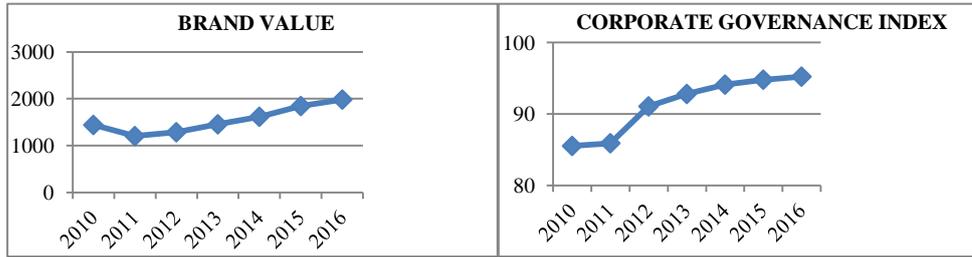
The Corporate Governance Index between 2010 and 2016 and the most valuable 100 companies of Turkey samplings have been taken into consideration in the study. The brand values of companies have been obtained from the Most Valuable Brands Report of Turkey published by Brandfinance Türkiye. The corporate index values of the companies have been obtained from the website of Corporate Governance Association of Turkey. As of 2016, the brand values of 31 companies of 49 ones with corporate governance index registered to BIST Corporate Governance Index and which are public have been reached.

The purpose of our study is to determine existence of the relationship between companies' corporate governance index and their brand values. For this purpose, panel regression analysis was tried to be conducted among brand value / company value ratios representing the brand value because the Corporate Governance Index is based on values on 100 to get a proper conclusion from regression analysis. As a result of the analysis, no significant relation was reached between the two variables.

At this stage of the study, some companies' corporate governance index values and brand values will be shown on the graph for the period between.

Graph 1 shows the corporate governance index and brand value data of Arçelik Inc. in the related period.

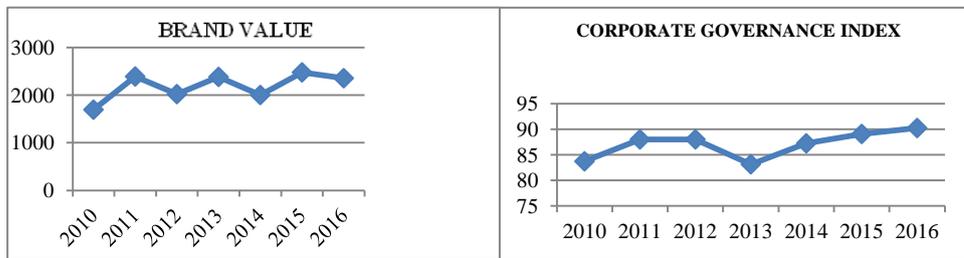
Graph 1. Brand Value and Corporate Governance Index of Arçelik for 2010-2016 Graphs



It is observed that brand values and corporate governance values of Arçelik are increasing in the related period.

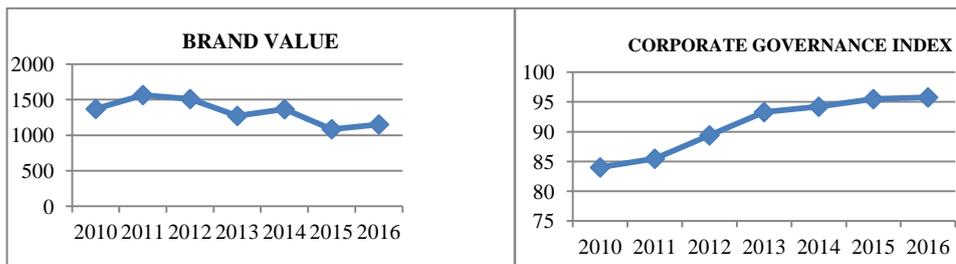
In the Graph 2, the brand value and corporate governance values have increased.

Graph 2. Brand Value and Corporate Governance Index of Türk Telekom Inc. for 2010-2016 Graphs



In the Graph 3, while Anadolu Efes Inc. has been showing a decline in brand value during the last 6 years, its corporate index value has increased.

Graph 3. Brand Value and Corporate Governance Index of Anadolu Efes Inc. for 2010-2016 Graphs



As seen in the graphs, the brand values and the corporate index values of the companies change independently. Within the scope of our study, it has been determined that there is no interaction between the brand values and the corporate index values of companies either statistically or graphically.

6. Conclusion and Recommendations

The principle of enforcing corporate governance principles of a country will support economic development with the consequences of improving the investment climate, ensuring economic stability and competitive equality. In addition, when companies announce financial and non-financial information to the public, they give information about equality of shareholders, practices and independence of board of directors, capital structure, free float ratios, equity liquidity, level of participation of stakeholders in decisions taken, company's environmental sensitivity and social responsibility level.

The corporate governance enables creation of systems in which management performance is followed impartially in accordance with accountability principle thus it provides increase in companies' performances. Being included in the Corporate Governance Index is an indicator of effective and successful implementation of corporate governance principles for the company and has the effect of enhancing the reliability of financial statements by investors and other related groups.

Importance of the brand in sustained activity is understood better day by day. The brand has become "primary capital" for many businesses which would like to sustain its existence and to resist global competition. Today, the competitive advantage of a successful brand is a very valuable asset for the firm which is brand owner. Importance of the brand management is gradually understood much well by Turkish companies trying to increase its global competitive capacity. The "Brand Value" is accepted as the most contemporary measure in brand management performance. Econometric studies that guide the brand management in order to make the brand worthwhile are considered necessary for the proper future evaluation (Brandfinance, 2016, p.3,7)

Whether an interaction between the corporate index values of companies included in corporate index in Turkey between 2010-2016 and brand values that are most significant indicator of companies' competitive capacity in global markets exists or not has been investigated with the current study. In the end of the analysis, it has been found that corporate index values of companies and their brand values are not affected by each other. However it is necessarily stated that the conclusion may change by examining the data in long term and varying variable numbers.

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