Brand Purpose and Firm Performance

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The research aims to examine the effects of brand purpose on firm performance. Brand purpose is the use of strategy and structure to achieve a social impact or to focus on stakeholders other than customers to gain brand profits. The data for brand purpose is extracted from Thomson Reuters Eikon database for the year 2012 to 2021.Firm performance is measured through Return on Assets (ROA) in this study. Panel data regression analysis shows that brand purpose negatively and significantly affects firm performance. The findings of this research echoes prior research studies findings which shows that stakeholder centric actions are negatively affecting firm performance. (ESG Did Not Immunize Stocks during the COVID-19 Crisis, but Investments in Intangible Assets Did _ Enhanced Reader, n.d.), Demeris et al 2021

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1. Introduction

During the late 2019, brands were previously not very closely associated with indicators that related it with purpose. Purpose drives success in an organization. They understood that the sole purpose of a business would not be profits alone but having a consistent purpose. (*Purpose Power Index 2022 Purpose Power Summit*, 2022) Purposeful brands would lead to doing good. Some conceptual papers and reports say that brand purpose (i.e; stakeholder centricity) increase firm performance. But is it the case? Societal objectives always had more alliance to shareholders money which had its impact on reducing the financial gains. ESG matrices measure the firm's commitment towards shareholders and stakeholders. Shareholder's and stakeholder's centric conflicts are now increasingly seen in firms' top management decisions, for instance some top managements prefer the traditional shareholder centric success matrix, whereas others prefer stakeholder centric success matrix. It is found that purposiveness of brands is not prevalent across the world (Bahadori et al., 2021). However, stakeholder centric actions such as brand activism, focus on CSR strategies and Non-market strategies are taken by brands ((Bhagwat et al., 2020)). Bhagwat et al 2020, shows that stakeholder centricity has negative affect on firm performance, Also Demeris et al 2021 shows that ESG scores doesn't explain firm performance. Thus, even though conceptual papers and reports states that brand purpose leads to better performance, the present evidence from literature however states otherwise. Since to the best of our knowledge no research has till now empirically tested the association between brand purpose and firm performance. Hence, the creation of a new comparison of brand purpose and firm performance would help to understand and gain value to the entire society.

We have observed that consumers all over have come to this notion of having the top management move on with societal issues which would help to gain focus on aligning brands on a much larger perspective other than profits, well will ever shareholders allow the top management to give importance to stakeholders more than them. Thus, we can't eventually say that brands will be purposeful enough to gain value in the minds of stakeholders.

Strawberry Frog and Dynata (*Power of Purpose: Discussion*, n.d.) had come up with purpose power index that has verticals which measures:

- Whether a firm has a higher purpose more than making money. -
- Whether the firms improve the lives of people and their communities
- Whether firms just do things to benefit stakeholders, employees, or customers, but society as a whole.
- Whether the firm is committed to changing the world for better.

From the report published by Strawberry Frog and Dynata it could be seen that there exists a gap in purpose among the firms in terms of goals of the employees and what they would like to contribute to the company which would in effect have its value to the society. Even though these surveys and reports argue that there lies a positive relationship between brand purpose and firm performance, most of the prior studies on this stream of literature says the opposite. It is also inferred that large number of stakeholders have its brand value set upon its socio-political stance on a variety of concerns. We have contrary conclusions and recommendations that have been stated by Strawberry Frog and Dynata which elucidated that being socially relevant would help in higher profitability of the business.

The survey reports above mainly focused on the top brands and consumer opinions, these reports have not taken firm level data and analyzed it's arguments. A study on purposiveness of brands would directly or indirectly impact the profitability of the business and as a result have a considerable impact on the societal, environmental, and governmental aspects of an economy which is measured through the ROA and using various allied controls.

The signaling theory has been used by previous studies to explain the impact of stakeholder centric non market strategies on firm performance. The theory states that stakeholder centric decisions signal shareholders that the firm is moving away from core business objectives such as creating shareholders wealth. Drawing from this theory we argue that firms that are more focused on stakeholders than the shareholders have lower firm performance. In our case, the theory would aim to increase conflict among two elements. The impact of brand purpose and firm value is the situation in our case which is substantiated through data sourced from Thomson Reuters Eikon. A relationship has been established which would have an association between brand purpose and firm performance.(Nyagadza et al., 2021)

2. Methodology

The objective of this study is to investigate whether a company's brand purpose is associated with firm performance. The dataset has 8,880 observations. In the dataset we have 7,083 companies and we have the variables of these companies for 2012 to 2021. Thus a panel dataset has been constructed for the purpose of this analysis. Since, the firms can be heterogenous and as time invariant effects can occur we model our panel data regression based on fixed effects. Fixed Effects controls for firm specific and time invariant factors. Our main measure of firm performance is Return on Assets (ROA) and our independent measure is brand purpose which is constructed from the available scores of Environmental, Social and Governance pillars from the Thomson Reuters Eikon database. We measure brand purpose by combining environmental and social pillar scores as a stakeholder centric focus matrices and governance pillar score as a shareholder centric focus matrices. We combine Environmental and Social scores and normalize the same. At the same time from that result, we deduct the product of Governance scores. This would be divided by the combined measure of environmental and social scores and it is converted as a percentage by multiplying it with 100. Equation 1 shows the brand purpose calculation. We use other variables as controls like debt- equity ratio, total assets (proxy for size), Goodwill, Intangible assets, dividend pay out ratio, long term debt, short term debt, and asset turnover ratio. When we check the correlations of these variables some were having high correlations with each other. So due to the high correlations some variables were eliminated from the final model. The final variables included in the model are purpose score, log Asset Turnover, log Total Assets. We took the log of Asset Turnover(LAT) and Total Assets(LTA) because these specific variables were highly skewed to the right. The fixed effects specification is shown in Equation 2.

Equation 1 *Brand Purpose Score*

$$\frac{(0.5\ X\ ES + 0.5\ X\ S) - GS}{ES + GS} X\ 100$$

Where,
ES – refers to Environmental Score;
S – refers to Social Score; and
GS – refers to Governance Score

Equation 2 Return on Assets

$ROA_{it} = \alpha + \beta PurposeScore + \beta * \log AT + \beta * \log TA + Firm\ Fixed\ Effects + Year\ Fixed\ Effects$

Where,
AT – refers to Asset Turnover;
TA – refers to Total Assets

3. Data Specification

Our study is based on data from Thomson Reuters Eikon. The sample spans from 2012 to 2022 and is inclusive for a total of 8880 observations. We have arrived at this sample size by avoiding missing datasets in the ESG database, data from financial and real estate sectors and ESG scores which is not available for a period for more than 5 years. The Thomson Reuters ESG scores gives us an understanding of the companies relative ESG performance. The scores are grouped into 10 categories among the Environment, Governance and Social scores. Thomson Reuters rates their data and scores it in a pre-defined matrice. Scores have been calculated based on three factors:

- How many companies are worse than the current one?
- How many companies have the same value?
- How many companies have no value at all?

Percentile scores are not based on ranks alone to prevent them from not being sensitive to outliers. Environment pillar involves resource use, emissions, and innovation. Social pillar involves workforce, human rights and community. Governance pillar involves Management, shareholders, and CSR strategy. Out of the three pillars Governance pillar is associated with shareholder centricity. Although governance pillar has CSR strategy as a matrice to calculate the score, it has been given the lowest weightage in the pillar constituents. Since, the governance pillar gives highest weightage to shareholders and management matrice, this can be the most proxy for shareholder centricity. Thus, we take Environment and Social scores as Stakeholder matrice and Governance score as shareholder matrice. We identify brand purpose score from subtracting stakeholder centricity value with shareholder centricity. See Equation 1 for further reference.

4. Results and Discussions

Table 1 shows the descriptive statistics. It shows that some variables have missing values which Stata has accounted for. The observations in total taken for finding return on assets are 6,301 observations. The deviations from the return on assets and other variables when considering the purpose score, asset turnover ratio and total assets is normal. The standard deviation is 0.081 and the mean for the following data when compared with return on assets is 0.062. Purpose score has 7,139 observations of which the mean is -14.93 and standard deviation is 30.145. Asset turnover ratio has 8.460 observations of which the total mean data that have resulted has amounted to 0.31 whereas the standard deviation is 0.77. The total assets score gives us an idea on the entire observations in general which has 8.761 observations and the mean value is 22.101 and standard deviation for the observation is 1.584.

Table 1 *Descriptive Statistics*

Variable	Obs	Mean	Std. Dev.	Min	Max
ROA	6,301	0.062173	0.081055	-2.072	0.756
Purpose Score	7,139	-14.9269	30.1455	-98.72611	90.54829
lAT	8,460	-0.3102288	0.7730844	-4.60517	2.324347
lTA	8,761	22.10159	1.583629	10.79385	27.25268

In Table 2, it shows the correlation between different variables. It shows insignificant correlation among the data provided from 888 firms that have been taken into consideration. When we compare the return on assets with the purpose, they might be slightly correlated to return on assets as purpose score shows a positive correlation of 0.051 when compared with return on assets (ROA). The asset turnover is a metric which when correlated with return on assets shows a positive correlation of 0.3422. the same variable when correlated with purpose score shows a slightly negative correlation of -0.0528. The total assets ratio when compared with return on assets shows a slightly positive relationship of 0.0252. The same metric is compared with the purpose and we find that its positively correlated with a value of 0.3398. When we analyze total assets with asset turnover it has a slightly negative correlation of -0.2624.

In the initial stage, we had taken a few extra variables which had turned the data to be highly correlated. But however, -our present model does not have highly correlated data.

Table 2 *Correlation*

Variable	ROA	Purpose	lAT	lTA
ROA	1			
Purpose Score	0.0513	1		
lAT	0.3422	-0.0528	1	
lTA	0.0252	0.3398	-0.2624	1

We have been analyzing the data using fixed effects regression in the panel data. The reason for running fixed effects in panel data is because we must analyze along in a period of 10 years which is varying over different brands as well. This is been varying over a time frame according to the brands in different ranges. We aim to control the effect of these brands by inferences that, bigger brands tend to have a bigger effect whereas smaller brands would be having smaller effects. This would be controlled by the fixed effects. In the fixed effects, we have put forth a variable for brand level effects. Along with that various brand level effects have also been taken into consideration by considering the varying time effects in time period. Thus, we should note that time invariant effects have also been added along with the fixed effects model. The beta for some of the data is negative because when we consider a single unit of purpose, the return on assets would also be decreasing by 1. This has been shown in accordance with the variables of asset turnover, total assets, and purpose score. The standard errors have also been shown in brackets whereas the r^2 value is 0.28.

Table 3 *Result*

ROA	Coef.	Std. Err.	t	P>t	[95% Conf.	Interval]
Purpose Score	-0.0000816	0.0000308	-2.65	0.008	-0.0001419	-0.0000213
lAT	0.1079538	0.0025133	42.95	0.000	0.1030265	0.1128811
lTA	0.0391467	0.0017322	22.6	0.000	0.0357508	0.0425426
_cons	-0.7880739	0.0389864	-20.21	0.000	-0.8645054	-0.7116423
sigma_u	0.08794178					
sigma_e	0.03445175					
rho	0.86694702 (fraction of variance due to u_i)					

5. Conclusions

In this paper we have investigated the relationship between brand purpose and firm performance. By analyzing 888 firm level data over the period of 10 years we find that the results show that there exists a negative relationship between the brand purpose and firm performance during the investigated period. The sample data used in the study was extracted from Thomas Reuters Eikon Database of all the countries with ESG data which incorporates different countries as well as various sectors which gave more generalized output for the study. The initial question we aim to answer was whether there lies a positive relationship between brand purpose and firm performance, however our results suggest that their negative relationship between the brand purpose and firm performance. There might a be other reasons for the reports published by Dynata and Strawberry frog to showcase a positive relationship. i.e; the data they taken was the top 100 brands in US, but as stated above we conducted the study using data from different countries as well as from various sectors.

The study findings have significant implications for managers. First, the firms that focus more on stakeholders than of shareholders has fewer financial gains. Thus, still firm’s financial results are governed by shareholder centric decisions.

Second, the results suggest that non-marketing strategies are having limited effects on financial gains. Finally, the firms can more focus on market strategies than of focusing on non-market strategies such as brand purpose. The research also contributes to current literature in following ways. Contributing to existing literature by empirically investigating the relationship between brand purpose and firm performance. Prior studies have only conceptually discussed or argued the relationship between brand purpose and firm outcomes ((Hsu, 2017); (Williams et al., 2022); Kramer, 2017; Hajdas & kleczek, 2021). Also, the findings of this research add more evidence to the current literatures that discusses stakeholder versus shareholder conflicts in the firm.

The study majorly supports to shareholder centric perspective than of stakeholder centric focus. (Bhagwat et al 2020). Moreover, it adds to the merging literature which shows stakeholder centric decisions have little effects on firm performance (Demeris et al 2021). The study is not without limitations. First, the data used for the study was only taken from Thomas Reuters Eikon Database, but similar data could be found in other sources such as Bloomberg, MSCI, Capital IQ etc. However, our study did not limit on taking data specific to any of the indexes rather included all the available firm’s with ESG data. Hence future researchers can use these sources to carry down further studies on the same. Second, the basic variables to showcase stakeholder centricity was taken using the Environmental and social scores also shareholder centricity was showcased using Governance score and firm performance using ROA, in future the analysis could be rerun using other variables such as ROE for firm performance, any other variables that could be a measure for stakeholder and shareholder centricity. Finally, initial we have taken 8 variables as controls however due to high correlation these variables could not be considered thus researchers could identify additional that can be included as control variables. control variables were limited due to the high collinearity, this could also be avoided by taking less colinear variables.

6. References

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