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Corporate Reputation and Stock Returns: Are Good Firms Good for Investors?

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ABSTRACT

This paper employs a unique dataset from the UK based on ten years of surveys of company directors and analysts conducted for *Management Today* to examine the relationship between a firm's reputation and the returns on its shares. We find that investors who purchase stocks with reputation scores that have risen significantly can make abnormal returns. Also, firms whose scores have fallen substantially still exhibit positive abnormal returns in both the short and long run when the market index is employed as a benchmark. However, when a more appropriate comparator is used, evidence of out-performance entirely disappears.

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1. Introduction

Are good firms good for investors? Even if most academics are sceptical, there is evidence that the investing public at large think so (see, for example, Barber and Odean, 2002). At least once a year, almost every newspaper and financial magazine includes a set of stock selection tips for private investors. Similarly, one of the core functions of stock analysts is to provide an assessment for institutional clients of the inherent worth of firms and whether the stock of those firms is likely to rise in value over the medium to longer term. However, one may argue that there is likely to be little information content in stock suggestions put forward by uninformed private individuals¹. There is also now a large literature suggesting that analyst recommendations are overly optimistic (Hong and Kubick, 2003), although they still appear useful².

The concept of a firm's reputation has been defined in various ways, but it may usefully be defined as a perceptual representation of a company's past actions and future prospects that describe its overall appeal to all its key constituents when compared to other leading rivals" (Fombrun, 1996, p.72). Traditional financial theories related to the notion of efficient markets suggest that a firm's current or past reputation should not provide any useful guide as to its future stock price performance. Therefore, after allowing for factors such as the industry in which the firm operates, its risk, and its size, firms with strong reputations relative to competitors should not earn abnormal returns. There may be stock price movements in response to unexpected changes in reputation, but these should be unpredictable, one-off shifts.

By contrast, many financial analysts, market pundits and academic studies, suggest that a firm's reputation will have a positive impact on changes in its future share price. This would be the case if those with specialist knowledge of particular firms or industries could appreciate firms' worth more quickly than outsiders, so that a favoured firm's stock price will appreciate over the period until this fact becomes

¹ For example, there are now several studies that examine the usefulness of the information posted on internet news bulletin boards for developing trading rules, including Dewally (2003).

² See, for example, Barber *et al.* (2001) for a recent study. They show that buying a portfolio of analyst most highly recommended stocks and short selling the least recommended stocks generates returns of 75 to 100 basis points per month. Similarly, Womack (1996) provides evidence of positive short-run abnormal returns for securities newly added to analysts' buy recommendations, and negative abnormal returns for new sell indicators.

apparent to the investing public at large. Such a philosophy lies behind Warren Buffett's apparently phenomenally successful investment approach (see Buffett and Clark, 2002), which involves seeking out "excellent businesses" that are undervalued and holding them for the long run.

Finally, it may be possible that firms with strong reputations earn negative abnormal returns since the euphoria surrounding them has caused investors to be willing to pay too much. Eventually, the firm's operating performance will not be able to deliver the promise, causing a reversal in its share price. There is widespread international evidence of over-reactions in stock markets, whereby firms whose stock prices have appreciated the most over a one to five year historical period have a tendency to underperform subsequently (see, for example, DeBondt and Thaler, 1985, 1987; Clare and Thomas, 1995; Chen and DeBondt, 2004). Such over-reaction and subsequent reversals of fortunes are hard to explain using rational pricing approaches, and have encouraged a renewed interest in behavioural models.

This study is among the first to employ UK data from *Management Today's* annual "Most Admired Companies" survey and to consider both the market impact and profitability of the information contained within it. It offers two distinctive contributions. First, we inspect for an impact on not only long-run returns, but also effects on or around the date of announcement, i.e. the date on which the reputation scores are published in *Management Today*. Second, we also consider the impact on stock returns of changes in the position a firm achieves in the published ranking according to reputation scores rather than the scores per se. We do so to allow for the possibility that the informational impact of the index resides in the extent to which a firm's rating differs from that most recently published, rather than the score itself. This is an important innovation since, following the standard arguments put forward by proponents of the efficient markets hypothesis (EMH), only new information should yield a market impact. Arguably, if a company has a particular score in one *Management Today* survey and obtains a similar score in the following survey, no new information has been revealed. We investigate the stock returns of portfolios comprising all of the firms with scores, and comprising only firms with large changes in scores, to determine whether such intuition applies in this context.

Our research provides a useful comparison for previous work that almost exclusively considers US surveys. Our dataset includes reputation scores for the whole ten-year period from 1994-2003. To anticipate our findings, we observe that there appears to be a small positive anticipation effect on the day before the survey is published, but very little price impact around the time when the new scores are announced or thereafter. We then examine the impacts of firm-specific characteristics such as industrial classification, capitalisation, market risk, price-to-book and momentum. We conclude that highly rated firms still yield abnormal profits over the year after survey publication if a standard market index benchmark is employed, but when the industry characteristics are accounted for, the highly rated firms provide a disappointing performance.

The remainder of this paper is organised as follows. Section 2 examines related literatures on the impact of corporate reputation and social responsibility on firm value. Section 3 describes and summarises the *Management Today* survey and explains our sources of other data. Section 4 describes the methodologies used for examining the financial impact and utility of the *Management Today* announcements, while Section 5 discusses the results and Section 6 concludes.

2. Corporate Reputation and Stock Returns

There is a significant body of research relating corporate reputation to firm profitability, but some of these studies are based on firms' operating performance (e.g., McGuire *et al.*, 1988), rather than stock returns, which are the focus of the present study. The impact of reputation on operating performance and corporate earnings are arguably only of indirect interest to investors through their effect on current or projected future returns. Only a small number of existing studies relate corporate reputation to stock returns, and most are popular books lacking in rigorous research – for example, Clayman (1987) and Siegel (1995), both of which find that their samples of highly regarded stocks outperform the market during the periods they investigated.

A notable exception is a recent study by Agarwal *et al.* (2005), which employs a panel of *Management Today's* annual “Most Admired Companies” reputation index drawn across a similar time period to that employed

in our study. They focus upon both long-run stock returns and levels of, rather than year-on-year changes in, reputation to investigate whether, in the year following each annual publication, the stocks of companies thus identified as highly regarded tend to subsequently outperform those of the least admired firms. Their findings indicate that high reputation scores are not associated with superior *ex post* stock returns, but rather superior *ex ante* stock returns, implying that reputational assessments are biased by prior share performance.

In a loosely related study, Antunovich and Laster (2000) employ data for the 1983-1996 period from the US survey conducted each year by *Fortune* magazine in producing its list of “America’s Most Admired Companies”. Sorting the sample by scores into deciles, they find that the stocks of the most admired firms decile yield positive abnormal returns of 3.2% in the following year and 8.3% over the following three years. The stocks of the decile of lowest-scoring firms yield negative abnormal returns of 8.6% in the following nine months, although there is a sharp reversal thereafter. Chung *et al.* (1999), on the other hand, find little evidence that highly rated firms outperform less admired firms on a risk-adjusted basis. They employ data for the slightly shorter 1990-98 period, but they examine the performance of only the very highest ranked 10 firms and the very lowest ranked 10 firms, rather than the 50-firm portfolios employed by Antunovich and Laster (2000). Therefore, the results of Chung *et al.* (1999) could have arisen as a result of significant idiosyncratic risk in their portfolios.

Our study is also related to a broad spectrum of work that seeks to investigate the impacts upon stock returns of the reputation, variously defined and measured, of top management teams (Chemmanur and Paeglis, 2005; D’Aveni, 1990), CEOs in particular (Wade *et al.*, 2006; Malmendier and Tate, 2005; Milbourn, 2003), and underwriters (Carter *et al.*, 1998). Some such studies derive their reputation measures from the results of magazine tournaments (e.g. “CEO of the Year” by *Financial World* magazine), while others use prestige indicators (e.g. educational background and notable institutional affiliations). Somewhat unsurprisingly given the differing measures and analytical tools employed, the findings are somewhat mixed, but there is broad support for an influence of reputations on stock market behaviour. In a similar vein, some studies have investigated the impact on stock returns of the information contained

within equity analyst's reports (Asquith *et al.*, 2005; Barber *et al.*, 2001). These studies provide evidence in support of an influence attributable to analyst's opinions, such that there is a positive impact on the market valuations of favoured stocks – perhaps keenly relevant for our study, as the *Management Today* index draws upon a survey of analysts as well as industry peers.

Although only one of the indicators that make up the reputation scores focuses on corporate social responsibility, “community and environmental responsibility”, our research is loosely related to the growing body of literature in this area. Corporate social responsibility (CSR) has been defined as “a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with stakeholders on a voluntary basis” (European Commission, 2001). Research has suggested that reputation and corporate social responsibility CSR may be positively related, while noting that CSR is multi-faceted (e.g. philanthropic giving, reducing negative environmental externalities, fair working practices, etc.). Therefore, the various aspects of CSR may have differential impacts on stakeholder perceptions of the firm, depending also on the industry in which the firm operates (see Brammer and Pavelin, 2006). Having a social conscience may enhance a firm's reputation by helping to satisfy stakeholders (employees, altruistic shareholders, consumers, government). There is also evidence that awareness and consideration of environmental and employee issues may reduce the potential for costly law suits (Ullmann, 1985) and enhance worker productivity (Turban and Greening, 1997). Cox *et al.* (2004) and Graves and Waddock (1994) suggest, using UK and US data respectively, that poor corporate social performance leads to a reduction in the number of long-term institutional investors holding the firm's stock since such firms are likely to be “screened out”. On the other hand, a view dating back to Rostow (1959), and Friedman (1970), and echoed by a number of other more recent studies, is that CSR may divert resources away from projects that would have had a greater impact on reputation or directly on profitability (McWilliams and Siegel, 2001). Rostow (1959, p.63) terms CSR “bewildering balderdash” while Johnson (1966, p.394) suggests that it is at best “a public relations camouflage for sophisticated pursuit of profits.”

The conclusions of research into the impact of CSR on firm value have been mixed, and the majority of studies that have examined the relationship between social performance and stock returns have focused on socially responsible funds rather than individual stocks. The use of such data renders it difficult to determine whether fund performance is a result of the good or bad performance of socially responsible versus socially irresponsible stocks or a result of the abilities of the managers of ethical funds. Among studies at the individual company level, Filbeck and Preece (2003) examine the information content of *Fortune's* annual “best 100 companies to work for in America” survey results, using data for the period 1987-1999. This award considers the “work/family balance”, as well as remuneration and a range of other issues. Both immediate price reactions on announcement of the contents of the list and long-term buy-and-hold abnormal returns are examined. The average market-adjusted abnormal return on the event day is a highly significant 4%, while the average abnormal return for the following year is 11.8%. A sample of non-award winning firms, matched on size and sector, is significantly outperformed by the award-winners for 2 of the 13 years (30-day event period), and for 8 of them over the one-year horizon. The positive results in this study are argued to be stronger than previous findings in large part because *Fortune* has such a wide readership.

3. Data

3.1 The Management Today Corporate Reputation Survey

Management Today annually produces a list of “Britain’s most admired companies”. The methodology that they use is similar to that employed by *Fortune* in constructing their “Most Admired Companies” list, a commonly used measure of the reputations of US firms (see, for example, Fombrun and Shanley, 1990; Fombrun, 1996; Fryxell and Wang, 1994; McGuire *et al.*, 1988). The chairpersons, managing directors, and selected main board directors of the 10 largest companies in around 24 industrial sectors are surveyed annually together with a sample of analysts at leading investment management firms. Typically, 70% of the companies and 90% of the analysts that are approached respond to the survey. The number of sectors varies from one year to another (for example, there were 22 in 2003 but 24 in 2002). In 2003, the sectors were: banking; building materials and merchants; chemicals; construction; engineering – aero and defence; food producers and processors; food retailing; health and household; insurance; leisure; entertainment and

hotels; media; oil, gas and extractive; property; restaurants, pubs and breweries; retailers – textiles and apparel; retailers – general; software and computer services; speciality and other finance; support services; telecommunications; transport; utilities.

Survey participants are asked to rate each company in their sector (excluding their own company) on a scale of 0 (poor) to 10 (excellent) for their performance in a range of 9 indicators: quality of management; financial soundness; ability to attract, develop and retain top talent; quality of products/services; value as a long term investment; capacity to innovate; quality of marketing; community and environmental responsibility; use of corporate assets. The assessments received for each firm are averaged across criteria and respondents to produce a single reputation score.

The survey results are presented annually in the December edition of *Management Today*, and we have ten years of reputation scores beginning in 1994 and ending in 2003. It would be of interest to examine the determinants of the reputation scores, and although this is not the subject of the present study, we briefly examine the financial characteristics of the firms that score highly in Section 3.4. In that connection, factor analysis of the *Fortune* reputation index carried out by Fryxell and Wang (1994) indicates that despite the fact that the overall reputation score is derived from multiple components, it largely reflects a single assessment of the firm. Specifically, they find all elements, apart from ‘Community and environmental responsibility’, to be driven by a single factor, closely related to financial success. Consequently, they conclude that reputation scores gleaned from these surveys capture the manner in which each firm is perceived as an investment prospect.³ While this study relates to the *Fortune* rather than *Management Today* index, the close similarity in survey methods employed ensures that, in the absence of a similar analysis of the latter, it provides a good guide to that which is reflected by the reputation scores for UK companies. Indeed, there is some evidence that similar analyses of the *Fortune* and *Management Today* indices tend to

³ This feature of the reputation scores is perhaps unsurprising given that market analysts, as well as industry peers, are surveyed. In order to more directly capture the opinions of analysts one could investigate the impacts of their reports rather than the reputation indices of *Fortune* or *Management Today*. However, the stock return implications of analyst recommendations have already been exhaustively studied in the extant literature. Moreover, it is reasonable, given the different contexts in which the information is provided, to expect that the impacts of the latter might differ systematically from those of former. For informative recent analyses that employ the former, see Asquith *et al.* (2005) and Barber *et al.* (2001).

yield reassuringly similar results (for example, comparable studies by Fombrun and Shanley (1990) and Brammer and Pavelin (2006)).

3.2 Other Variables

Our sample comprises all firms that were constituents of the FTSE All Share Index over the 10-year period from 1994 – 2003. This index is a market-capitalisation weighted index of UK quoted firms. We obtained data from Datastream on all firms that were index constituents at any time during the sample period for the following variables: share total return indices (i.e. with dividends added back), market value of equity, book value, and industry code). After excluding investment trusts, and companies for which either the Datastream codes or one of the required variables was missing, we were left with a total of 451 firms plus the All Share Index itself.

3.3 Summary Statistics for Reputations Data

Although the number of firms that have received a score in the survey varies from one year to another, typically around 180-200 of our firms has a reputation score. The mean score is 55 with standard deviation 6.6. Thus the spread of scores is narrow, and most rated firms receive a score in the 55-65 range. It is interesting to examine the firms that received the very highest scores, and to this end, the top 5 firms by score in each year are presented in Table 1. All of the firms are household names and they are concentrated among retail, oil, pharmaceutical and food and drink companies. Given that good firms are unlikely to turn bad over night, one observes the expected strong degree of persistency in the profiles, with many firms being highly admired for several years in a row. Smithkline Beecham (which after a merger with Glaxo Welcome became known as Glaxo Smithkline) appeared in the top 5 in 1994 and then again every year from 1997 to 2003. Tesco appeared in the top 5 every year from 1995 and was the single most admired firm for 4 of our 10 sample years. The table also reveals a remarkable degree of similarity in the scores awarded to top firms through time. There is a great deal of persistence in the score given to each firm, and the average correlation between a given firm's score in one year and its score in the next is 65%. If a firm receives a score that places it within the top 100 ranked firms in a particular year, there is a 93% probability (assuming that the firm continues to exist) that it will still be in the top 100 the following

year. Therefore, we suggest that neither the score nor the fact that a firm appears within the top 100 firms by reputation will constitute particularly useful information for investors, since the marginal news value will be relatively small. Instead, it seems plausible that investors will focus on the change in score and/or the change in ranking of firms, especially if the change is large. We thus investigate a number of ways of categorising the information contained in the survey results, including an examination of: 1) whether the firm's reputation ranks it within the top 100, top 50 or top 10 firms; 2) whether a firm's reputations score rank has risen or fallen compared to the previous year; 3) whether the firm's ranking has risen or fallen by more than 50 places.

Changes in score are typically fairly small and are negatively correlated over time (correlation: -0.2). That is, firms whose scores rise one year will on average experience falls the following year and vice versa. However, there are one or two spectacular rises and falls from grace. Schroders score fell from 71.2 in 1998 52.2 in 1999, a fall of 19 percentage points. Their reputation ranking fell from 3rd to 119th, a fall of over 100 places in a single year. Similarly, Anglia Water (AWG) fell from 55.5 in 2001 to 37.4 in 2002, a fall of 18.1 percentage points. By contrast, Compass' score rose from 50.3 in 2002 to 65.5 in 2003, a rise of over 15 percentage points.

3.4 Which Financial Characteristics Lead to High Reputation Scores?

Brammer and Pavelin (2006) suggest that the *Management Today* reputation scores are related to social performance, financial performance, market risk, the degree of institutional shareholding, and the nature of the firm's business activities. It is of interest to examine the financial characteristics of firms that score highly, but, since this is not the main focus of our study, we will consider only the financial variables that are employed in other parts of our paper. To this end, we regress the pooled sample of company scores for all years (a total of 1525 observations) on a constant, the company's price-to-book value, its capital asset pricing model beta⁴, market capitalisation, and the previous year's stock return. Separately, we calculate the average score for each industrial classification. The results from the regression and for the average scores for each sector are presented in Panels A and B respectively of Table 2.

⁴ Stock betas for each year are formed on the basis of the past 5 years of monthly data up to 1 December.

As Panel A shows, from among the variables that we consider, survey respondents appear to rate highly those firms whose stocks experienced the largest price appreciations during the previous year. While the previous year's return parameter is highly statistically significant (p -value 0.000), it is economically small. Thus a 10% increase in return will lead to an average increase in the score of 0.3 points. Market capitalisation is also highly significant and has a positive sign, indicating that survey respondents rate large companies more highly, everything else equal. Both price-to-book and beta have their expected positive and negative signs respectively, indicating that "growth" stocks and those with relatively low risks, will yield higher scores on average. These results using the UK *Management Today* survey responses and indicating that admired firms are typically large, "glamour" stocks corroborate the findings of Shefrin and Statman (1995, 1997) and Chung *et al.* (1999) that used US *Fortune* survey data.

Panel B of Table 2 indicates a remarkable degree of similarity in the average scores by sector classification. While stocks in the non-cyclical consumer, industrials, resources and non-cyclical services sectors generated slightly higher scores than other sectors, all sectors bar one have average scores in the range (52, 57). It is only unquoted companies that yield considerably lower scores than all other sectors (average unquoted company score: 47.8), indicating that survey respondents prefer companies that are listed and that are likely therefore to be more familiar to them. Quoted firms are also likely to be larger and to have lower betas, corroborating our previous finding.

4. Methodology

Our analysis of the impact and financial usefulness of the reputations scores announced by *Management Today* is conducted in two parts, following Filbeck and Preece (2003). The first part examines the market impact of the announcements over a 21-day window surrounding the 1 December date that *Management Today* is published each year. Second, we also consider whether there is any information in the announcements that can be usefully employed to earn abnormal profits in the longer run. The techniques employed to examine the post-announcement impacts over both horizons are described in the following sections.

4.1 Short-run Price Impacts

We determine the price impact of new survey announcements using a standard event study approach where we consider a 21-day window around 1 December of each year. 1 December (or the next working day thereafter if 1 December is at the weekend during a particular year) is defined as day t , and we consider the abnormal returns (relative to the FTSE All-Share) on days $t-10$ to $t-1$ (to determine whether there could be any anticipation or leakage of information contained in the survey results) and then on days $t+1$ to $t+10$ (to determine whether there is any lagged impact or slow incorporation of any information contained in the survey data). We compute both abnormal returns on each day within the event window, and the cumulative returns from day $t-10$ to day $t-1$, and from day $t+1$ to $t+10$.

4.2. Long Run Profitability of Trading on Information in Most Admired Companies Survey

We determine the profitability of trading in Most Admired Companies by forming various portfolios on 1 December (or the next working day if 1 December falls on a weekend), the day of publication of the survey, and holding them until 31 November (or the last working day before if 31 falls on a weekend). We assume that equally weighted portfolios are formed in each case. Our performance figures do not allow for transactions costs, although these are likely to be relatively trivial since trading would occur only once a year and all of the companies with reputations scores are large.

It is important to allow for firm characteristics when examining the performance of the most admired firms, since highly admired firms were found typically to be large, glamour stocks. As Antunovich and Laster (2000) point out, the Fama-French (1992) study and associated work has suggested that such firms are likely on average to perform poorly. Thus, we wish to examine the impact of firm characteristics on the profitability of the various one-year holding strategies described above. So, suppose we observe companies that have scores ranking them reputationally in the top 10 yield large abnormal returns. Is this exceptional performance a feature of new information that was not already available in standard firm characteristics? Or does it arise, for example, because such firms have large exposures to a momentum factor and stocks with momentum usually outperform in the following year? In order to answer this question, we run the following regression using a pooled sample comprising all available years:

$$r_{it} = \beta_1 + \beta_2 BETA_{i,t} + \beta_3 PTBV_{i,t} + \beta_4 CAP_{i,t} + \beta_5 r_{i,t-1} + u_t \quad (2)$$

where r_{it} are the returns to stock i in year t (where each year runs from 1 December), and u_t is a disturbance term. We therefore regress the annual returns on a constant, size (“ CAP ”), price-to-book (“ $PTBV$ ”), beta, and the previous year’s return. These explanatory variables are the Fama-French factors, plus a measure of momentum. The latter is employed following work by Carhart (1997), which suggests that firms experiencing strong performance over periods up to one year are likely to continue to do so in the short term. The regression is run on all firms excluding those under consideration. So if, for example, we are investigating the abnormal performance of firms whose reputation scores place them in the top 100, the regression would be performed using data on all firms excluding those in the top 100. The estimated regression parameters will show the relationship between average returns for non-top 100 stocks and their characteristics. We then take these parameter values and multiply them by the equally weighted average values of the characteristics (i.e. beta, $PTBV$, cap, previous return) for companies that are in the top 100. This enables us to answer the question, “given the average characteristics of the companies in the top 100, what returns would have been expected based on the relationship between characteristics and returns for firms that were not in the top 100?” This approach is repeated separately to determine the expected returns for 1) stocks with a reputation score; 2) stocks with ranks in the top 100; 3) stocks whose reputational ranks rose by at least 50 places in a single year.

Our regression-based approach is somewhat different to the Barber, Lyon and Tsai (1998) “sample-matching” procedure employed by Antunovich and Laster (2000). The latter method would involve multi-way sorting the control sample of firms into quintiles or deciles based on the various characteristics, which may still leave the sorted portfolio with somewhat different characteristics to the firm it is supposedly matched with. By contrast, our technique should ensure that the expected return for a firm with these characteristics is calculated exactly. From a practical perspective, it would be infeasible in our case to perform a multi-dimensional sort given the smaller number of companies available for analysis in the UK, since to do so would lead to some almost empty cells, where the control portfolios contained very small numbers of stocks or no stocks.

5. Results

5.1 Short-run Price Impact

Table 3 presents percentage returns for each of the ten days before and after the announcement of the survey results on 1 December, for companies whose ranks rose compared with the previous year⁵. Some anticipation of the survey results seems to be evident, with positive returns on day $t-1$ for 7 of the 9 years in the sample. In spite of this, returns over the whole run-up period from 10 days before announcement are negative for 6 of 9 years and are negative on average. Returns are highly variable on publication day, and the average returns on all days are extremely small in the announcement interval for all years. Thus, even if some are statistically significant, they are not of a financially meaningful magnitude. The average return on the publication date (1 December or the first trading day thereafter) is positive about half the time, and no consistent patterns of returns are apparent on the following days to $t+10$. Thus, there appear to be no exploitable profit opportunities around the survey announcement date. While Table 3 displays raw rather than abnormal returns, use of the latter did not qualitatively alter our conclusions.

Table 3 shows average returns only for companies whose ranks have risen. Figures 1 and 2 present a fuller analysis by plotting the daily returns and the cumulative returns from day $t-10$ respectively for: 1) companies in the top 100 by score, 2) companies whose ranks have risen compared with the previous year's survey, 3) companies whose ranks have fallen, 4) companies whose ranks have risen by more than 50 places, 5) companies whose ranks have fallen by more than 50 places. The latter two represent situations where the reputational perception of the firm has changed considerably compared with the previous year, and we would expect stronger price responses in such cases than when relatively minor changes in score (and therefore rank) have occurred⁶. The ranks are indicative that whether firms' ranks in the surveys rise or fall compared with the previous year, returns are always positive on day $t-1$, although they are higher for firms whose ranks rise. The average day $t-1$ return corresponds to an annualised figure of a little over 40%. Our results suggest that the publicity associated with being in a company having a score outweighs any negative impact of a fall in ranking compared with the previous year. Cumulative

⁵ Returns around the announcement for companies whose ranks fell, or for companies that appeared in the Top 100, or that experienced extreme changes in their scores, are considered subsequently in Figures 1 and 2.

⁶ Although the choice of a 50 rank place change cutoff to determine whether reputation has changed significantly is somewhat arbitrary, we find that the main results are not altered by fairly large changes in this parameter (i.e. 20 to 80).

returns for $(t-10, t+10)$ are negative whether the company rank has risen or fallen, although not significantly so, perhaps resulting from general seasonalities in the market. When a firm experiences a fall in its reputational rank, especially if it falls a great deal, this leads to lower cumulative returns (i.e. larger price falls), although when the firm's rank rises, the extent of the increase appears largely irrelevant in determining the price impact of the survey announcement. This lack of announcement impact is in contrast to Filbeck and Preece's (2003) finding that *Fortune's* survey relating to employment practices leads to a 4% announcement day abnormal return for the highly rated firms.

In summary, we find that there is very little immediate price impact around the time when the *Management Today* rankings are announced, but this is perhaps hardly surprising. Given that the scores are supposed to provide an assessment of the inherent quality of a firm and of its reputation, the announcements are unlikely to lead to immediate price pressures. Therefore, while this result is consistent with their being no information content in the scores, or in relative changes to the scores, two alternative scenarios would lead to the same finding. First, it is equally possible that investors respond with a much longer lag to the *Management Today* data, taking the scores into account in their decision-making process when they next rebalance their portfolios. Second, even if investors ignore the survey data, the scores may still have useful information content if, when viewed *ex post*, the stock of admired companies yielded higher returns than that of less reputable firms. In order to investigate this issue further, we now turn our attention to an assessment of the relationship between reputation scores and stock returns over the longer-run.

5.2. Long-run Performance of Most Admired Companies

Table 4 presents the results of various trading strategies associated with transacting in most admired companies on 1 December each year and holding the positions until 30 November in the following year. The numbers in parentheses (aside from the last column) give the number of stocks that would be included in the portfolio in each case. For example, "87" below the return for the top 100 companies for a particular year indicates that of the top 100 companies, we have full data on 87 of them that are incorporated into the portfolio to exploit the strategy. The final column of Table 4 gives the returns averaged across all 9 (in some cases 8) years, followed by the annual standard deviations of returns in

parentheses. The FTSE All-Share returns for each year are presented in the first row for comparison. Aside from the very last row, all returns are given in abnormal form, that is, after subtracting the return on the FTSE All-Share during that year.

Once the most admired companies list is produced, it is not immediately clear how one should employ this information to form trading rules. One might first consider simply buying and holding all of the companies that have been ranked, although little can be inferred about survey respondents' attitudes towards a company from the fact that the company has not received a score. Such an absence implies that it is not among the ten largest in their sector, not necessarily that it has a poor reputation.

A strategy of buying an equally weighted portfolio comprising all companies with a reputations score yields an average annual abnormal return of around 1%. After allowing for the difference between benchmarks used in calculating the abnormal returns, this result is consistent with that of Agarwal *et al.* (2005), who employ the same survey scores as used in this study but for a slightly earlier sample period. A second set of strategies involves buying only the companies that appear high on a ranking of the most admired companies scores. Rows 4 to 6 of Table 4 give the returns from holding the top 100, top 50 and top 10 highest ranked companies each year respectively. Screening out companies whose scores rank below the top 100 is not helpful, but buying and holding the top 50 improves average annual abnormal returns to 3.4%. However, reducing the number of portfolio constituents to 10 leads to average returns that are below those available from simply buying and holding the index. A glance at the returns for individual years indicates that this arises largely from a particularly bad performance during 1998-99, where the Index rose by 25% and the strategy returned -10%. Such a small portfolio is likely to embody significant idiosyncratic risk, and in this year, the price of one of the included stocks, Boots, fell by 36%. Had this stock not been included, the abnormal return that year on the portfolio comprising the other 9 stocks would be +2.8%, a performance more consistent with the other years.

However, as shown above, the scores typically vary very little from one year to another, and a trading strategy based upon the inclusion of stocks that achieve at least a particular ranking may be sub-optimal

since it does not make full use of any new information. Sharper trading rules may arise from a strategy based on buying and holding stocks whose rankings have risen, and on selling stocks whose rankings have fallen. The average annual abnormal returns for portfolios of rising and falling stocks are 1.1% and 3.3% respectively, indicating that the “bad news” associated with a stock fall is outweighed by the fact that the stock is likely to be still included in the list of stocks with a score.

Even if the relative ranking of stocks has shifted from one year to the next, it may have only shifted by one or two places. A more explicit signal is offered in situations where scores change significantly leading to a large change in the ranking. Therefore, rows 9 and 10 of Table 4 present the results from buying a portfolio of stocks whose rankings rose by at least 50 places, and from selling a portfolio of stocks whose rankings fell by at least 50 places respectively. The results in this case are sharper than those for simple rises or falls, with average annual abnormal returns of 4.38% (ignoring transactions costs for now) for firms whose rankings rise by more than 50 places. This average return would have translated an initial investment on 1 December 1995 of £1,000 into approximately £2,059 by 30 November 2003, while an identical investment in the FTSE All-Share would have had a terminal value of only £1,545. Even companies whose rankings have fallen substantially still yield average returns higher than the FTSE index. Finally, a zero investment portfolio with returns having a low correlation with the market index (0.11) can be produced by taking a long position in the firms whose rankings rose substantially and a short position in the firms whose rankings fell substantially. The annual returns for such a portfolio, which average 3.5%, are given in the last row of Table 4.

Nothing has been said thus far concerning the relative risks of the trading rules proposed above, nor has any mention been made of the associated transactions costs. The numbers in parentheses in the ultimate column of Table 4 give the standard deviations of the annual returns to each strategy. As can be seen, these figures are similar to those from buying and holding the market index, indicating that the strategy Sharpe ratios are likely to be larger than those of the index in all cases except the purchase of the top 10

companies by score. Transactions costs for the largest UK companies that are part of the FTSE All Share are likely to be of the order 0.5%-2%⁷.

Table 5 presents the annual returns⁸ results for various portfolios formed at announcement day and held for one year. As for Table 4, the ultimate column shows average returns over all years in the sample, with the standard deviation of annual returns in parentheses. Again, for comparison, the first row after the header gives returns for the FTSE All-Share. The following three rows examine the impact that having a reputation score has on performance. It is evident that average annual returns for companies with no score (23%) are more than double those having a score on 1 December (9.7%). Even more strikingly, the equally weighted portfolio of firms with no scores yields higher returns by at least 2.5% every single year that we examine. It would be too hasty, however, to conclude from this that investors were paying too much for companies having reputation scores, since we know from Panel A of Table 2 that companies with (high) scores have high price-to-book values, are large and performed well in the previous 12 months. Aside from the last (momentum) characteristic, the large size and glamour traits typically lead to lower returns. Therefore, an idea of whether we can attribute the poor performance of firms with scores to their characteristics is given in the fifth row of Table 5. This row shows the return that would have been expected of the portfolio of firms with scores, given the average characteristics of such firms. While the average expected return (14.8%) is lower than the actual returns of the portfolio of firms without scores, it is still higher than the actual return of the portfolio of firms with scores. We thus conclude that even given their characteristics, firms given reputational scores underperform by an average of around 5% per annum. Again, there is consistent underperformance for every year in our sample period. Such a finding is broadly in line with that of Agarwal *et al.* (2005) once we allow for their use of the risk free rate of return as the performance benchmark rather than the FTSE All-Share return as is employed in this study.

We next examine the profitability of rules based on investing equally in only the top 100 firms by reputational ranking, and the results are qualitatively identical to those of firms with scores. That is, the

⁷ Plus 1% "stamp duty" – a tax on all share purchases in the UK.

⁸ Note that, for ease of comparison with the various benchmarks, these are unadjusted rather than abnormal returns.

average annual return for top 100 firms (9.8%) is only half that of firms outside the top 100 (18.8%)⁹. Firms in the top 100 have the characteristics of firms showing poor stock market performance, but this is not quite sufficient to explain why they do so badly, since expected returns for such firms are 10.9% p.a.

What of the firms whose ranks rose substantially – is their performance still impressive after allowing for their financial characteristics? An answer to this question is also provided by Table 5. Once again, actual annual average returns (11.1%) of firms whose ranks rose by at least 50 places are lower than those expected (12.4%). Thus, in summary, firms that are highly regarded by financial analysts and company executives in that sector, do not perform as well as they should, however we measure any information contained in the reputations survey. Financially, it is more profitable to purchase small value stocks with recent return momentum than to develop a strategy based on the information contained in the UK's most admired companies survey. These findings run contrary to some evidence relating to US companies (Antunovich and Laster, 2000; Filbeck and Preece, 2003; Chemmanur and Paeglis, 2005), but do somewhat echo the corresponding findings of Chung *et al.* (1999), Wade *et al.* (2006) and Malmendier and Tate (2005) that show a good corporate reputation to be a poor predictor of strong future share performance. Clearly, the size and significance or otherwise of the reputation effect depends to a large extent on the precise nature of the methods used to construct the reputation scores, and on the techniques and reference portfolios employed to detect abnormal performance.

Finally, as discussed above, the companies with the very highest reputations scores are concentrated in a small number of sectors, notably food retail and pharmaceuticals, so what effect does industrial classification have on the performance of highly rated firms? In order to answer this question, Table 5 presents the returns for the companies in the top 100, and for companies whose rankings had risen by at least 50 places, that would have been expected given their industrial classifications. In other words, we present the returns that would have been expected had the highly regarded firms have been typical for their industries. These figures are obtained by finding the average return for each industry in each year and then constructing a weighted average of these industry returns, where the weights are equal to the

⁹ Some of these firms outside the top 100 have reputational scores, and some do not.

proportion of firms in the strategy portfolio (e.g. top 100 firms by score) that are in each industry. As the results show, the highly regarded firms continue to underperform relative to expectations, and thus these firms' stock returns are lower than their industrial make-up would suggest. For example, an equally weighted portfolio comprising the top 100 firms by reputation would have yielded an average return of 9.79%, but given the industrial classifications of these firms, a return of 15.6% would have been expected. Thus, investing in firms having the highest scores would historically have led to the purchase of the wrong stocks in the right industries.

6. Conclusions

This study has investigated the short-run price impact upon announcement of the *Management Today* list of Most Admired Firms in the UK. The announcement of the reputations scores on 1 December appears to be anticipated on the previous trading day, although there is very little short-term adjustment effect post-announcement, and there are no immediate profitable trading opportunities.

Interestingly, we find that around the time of the announcement on December 1st, stock prices rise even for firms whose reputations scores have slipped. Similarly, long-run returns on reputationally damaged stocks are on average slightly higher than those of the market index. At first blush, this result seems odd, for it seems to suggest that only no news is bad news and any news is good news. But this finding corroborates the findings of Barber and Odean (2002), who show that even negative information concerning a particular stock will lead retail investors to increase their demand for it. Schwarzkopf (2003) uses an experiment to demonstrate that investors often find it hard to interpret financial information and will exhibit some demand for inferior stocks when information on them becomes available.

Various plausible strategies involving buy-and-hold abnormal returns over the 12 months following announcement are also investigated. Of these various strategies, buying the companies that rose a large number of ranking places appears to be the most profitable, yielding average annual abnormal returns of over 4%. Why do firms with strong reputations typically yield higher long-term returns than the market index? This superior performance occurs in spite of highly rated stocks already being large and highly

priced, attributes that usually degrade performance. A glance at the list of very most admired companies indicates that all are household names. Therefore our results are consistent with the notion that individual investors like to hold stocks that they are familiar with (Barber and Odean, 2002), and equally, professional fund managers will be willing to heavily weight such stocks in their portfolios. Fund managers are required to disclose their holdings in the stocks that comprise the greatest proportion of their portfolios. Even if the financial performance of the companies disappoints, how can clients be critical of managers that held such “great stocks” in their portfolios?

However, when we allow for the financial characteristics of the firms (value, size, beta, momentum), the returns to the companies incorporated in these strategies all fall below expectations. We thus conclude that, when an appropriate benchmark is used, there is no trading profitability in an examination of the results of the UK’s most admired companies survey. The benchmarking issue is crucial, and a standard market index such as the FTSE All-Share is a poor choice as a yardstick since it is likely to have different characteristics to the typical highly rated firm. Our results are consistent with those from the study of the *Management Today* index carried out by Agarwal *et al.* (2005), while extending that conclusion to include both announcement effects on and around the publication date, and investment strategies that favour companies that have risen up the reputational rankings, rather than the most admired *per se*. They are also consistent with the findings for the US-based *Fortune* index of Chung *et al.* (1998), although, while also employing the *Fortune* index, Antunovich and Laster (2000) found positive abnormal returns of over 3%. The difference in results may be attributable to the fact that the latter accounted for firm size and a measure of value, but not momentum or industry, when calculating out-performance. Our results are of importance for fund managers and stock analysts, for they suggest that a firm’s reputation is not a useful measure in determining whether buying its stock is likely to be profitable, even if one favours companies whose reputational rating has risen considerably since last it was reported.

Why do firms with strong reputations provide lower returns than expected given their characteristics? Even though highly admired firms usually are large “growth” firms, they also typically have share price momentum, an attribute that dominates others and leads to an expectation that such firms will still yield

high returns over the following year. Risk factor-based models of the Fama-French variety have been unable to provide the answer, and so one may look to behavioural explanations. There is evidence that investors, and in particular individuals, make stock purchase decisions in the same way as they would make choices between consumer durables, relying on a well-known brand as a proxy for quality. If the perception of quality is illusory from a financial point of view, eventually enthusiasm for the stocks of reputationally highly rated firms will disappear and there will be a price reversal.

Antunovich and Laster (2000) find evidence of seasonality in the relationship between stock price performance and reputation scores. They argue that this arises as a result of fund managers engaging in “window dressing” – that is, they have a tendency to purchase highly rated stocks towards the end of their financial year when stock holdings are reported, typically in December. It would be of interest to conduct a similar analysis in the context of our UK data, although a timing difficulty arises since the *Management Today* survey results are published in December, while those of *Fortune* appear in March. Therefore, in the UK case, it would be difficult to separate announcement effects from seasonal patterns, and we leave this question to future research.

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Table 1: Top Five Highest Scoring Firms for each year 1994-2003

1994		1995		1996		1997		1998	
<u>Firms</u>	<u>Score</u>	<u>Firms</u>	<u>Score</u>	<u>Firms</u>	<u>Score</u>	<u>Firms</u>	<u>Score</u>	<u>Firms</u>	<u>Score</u>
Rentokil Initial	74.16	Cadbury Schweppes	71.28	Tesco	72.27	Reuters	72.07	Tesco	74.50
Glaxo	73.26	Unilever	70.65	Burford	69.84	Tesco	71.41	Cadbury Schweppes	72.83
Marks & Spencer	72.27	Smiths Group	69.48	Next	69.39	Marks & Spencer	70.09	Schroders	71.17
Smithkline Beecham	70.47	Tesco	69.30	Marks & Spencer	69.12	Glaxo	69.96	BP	70.32
Unilever	69.12	Whitbread	69.03	Cadbury Schweppes	69.03	Welcome Smiths Group	69.17	Smithkline Beecham	70.11
1999		2000		2001		2002		2003	
<u>Firms</u>	<u>Score</u>	<u>Firms</u>	<u>Score</u>	<u>Firms</u>	<u>Score</u>	<u>Firms</u>	<u>Score</u>	<u>Firms</u>	<u>Score</u>
Tesco	73.72	Glaxo SmithKline	73.60	Shell	73.72	BP	73.00	Tesco	73.74
Smithkline Beecham	72.20	BP	71.10	AstraZeneca	72.57	Cadbury Schweppes	71.25	Glaxo SmithKline	69.50
Glaxo Welcome	71.63	Shell	70.80	BP	71.63	Tesco	69.13	AstraZeneca	69.33
Daily Mail & General Trust	70.70	Cadbury Schweppes	70.00	Tesco	70.36	Unilever	69.10	BP	68.79
Cadbury Schweppes	68.38	Tesco	69.00	Glaxo SmithKline	69.50	Glaxo SmithKline	68.71	Shell	67.88

Table 2: Determinants of Most Admired Company Scores

Panel A: Score Regression Results					
$score_{i,t} = \alpha_0 + \alpha_1 PTBV_{i,t-1} + \alpha_2 BETA_{i,t-1} + \alpha_3 CAP_{i,t-1} + \alpha_4 RET_{i,t-1} + u_t$					
<u>Parameter</u>	<u>α_0</u>	<u>α_1</u>	<u>α_2</u>	<u>α_3</u>	<u>α_4</u>
Estimate	54.65**	0.000036	-0.57	0.000017**	0.034**
(standard error)	(0.4323)	(0.0058)	(0.42)	(0.0000031)	(0.0046)
Panel B: Average Scores by Industrial Sector					
Financials	53.98	Utilities	53.57		
Unquoted Equities	47.80	Resources	55.04		
IT	55.57	Cyclical Consumer	52.72		
Cyclical Services	54.00	General Industrials	55.58		
Basic Industries	53.96	Non-Cyclical Services	55.86		
Non-Cyclical Consumer	56.18				

Notes: ** indicates statistical significance at the 1% level.

Table 3: Returns Around Announcement Day for Companies whose Ranks have Risen

Day	1995	1996	1997	1998	1999	2000	2001	2002	2003	Average
$t-10$	-0.042	-0.055	-0.349**	-0.149	-0.031	0.109	-0.099	-0.101	0.010	-0.079
$t-9$	-0.177**	-0.104	0.035	-0.118	0.002	0.063	-0.067	0.050	-0.196**	-0.057
$t-8$	-0.074	0.035	-0.006	-0.497**	0.355**	-0.199	-0.297**	0.296	0.046	-0.038
$t-7$	-0.017	0.058	-0.180	-0.186	0.088	0.006	-0.109	-0.180	-0.056	-0.064
$t-6$	0.151**	-0.193**	-0.305**	-0.240*	0.186	-0.232	0.067	0.323	-0.127**	-0.041
$t-5$	0.036	-0.142**	0.513**	0.338**	-0.245	-0.135	0.267*	0.076	-0.161**	0.061
$t-4$	-0.126	-0.009	-0.027	0.230**	-0.438*	0.157	0.000	-0.101	-0.004	-0.035
$t-3$	-0.055	0.035	-0.032	-0.273	0.221	0.320	-0.008	-0.136	0.098	0.019
$t-2$	0.081	0.061	0.004	-0.228**	0.198	-0.094	-0.201	0.082	0.023	-0.008
$t-1$	-0.069	-0.052	0.238**	0.301**	0.428	0.100	0.325**	0.216	0.129**	0.180**
t	-0.069	0.099*	-0.302**	0.357**	-0.065	0.140	0.054	-0.189	-0.240**	-0.024
$t+1$	-0.036	-0.069*	-0.150**	0.024	-0.019	-0.061	-0.214*	-0.024	0.220**	-0.037
$t+2$	0.046	0.004	0.064	-0.181	-0.038	-0.056	-0.118	0.255	-0.027	-0.006
$t+3$	-0.027	0.023	-0.297**	-0.147	-0.410*	0.270	0.115	-0.031	0.013	-0.055
$t+4$	0.112*	0.051	-0.278**	-0.185	0.035	-0.022	0.381**	-0.150	-0.027	-0.009
$t+5$	-0.065	-0.046	-0.252**	-0.236**	-0.076	-0.005	0.196	0.251	-0.004	-0.026
$t+6$	-0.090	-0.106	0.059	-0.086	-0.498	-0.219	-0.016	-0.034	-0.159**	-0.128**
$t+7$	-0.089	0.167**	0.001	0.029	-0.098*	-0.255	-0.050	-0.349	0.077	-0.063
$t+8$	0.044	0.045	0.251**	0.337**	0.246	0.000	0.042	-0.384	-0.060	0.058
$t+9$	0.067	0.093	0.003	-0.099	-0.324	0.134	-0.119	0.318	-0.112	-0.004
$t+10$	0.197*	-0.018	-0.218**	-0.023	0.149	0.080	0.000	-0.329**	-0.033	-0.022
$t-10, t-1$	-0.293	-0.367*	-0.108	-0.822*	0.764	0.094	-0.121	0.525	-0.237	-0.063
$t, t+10$	0.090	0.243	-1.120**	-0.209	-1.098	0.007	0.271	-0.667	-0.352	-0.315*

Table 4: One-Year Returns following Announcements for Various Portfolios

Strategy	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	Av. (std. dev.) - All Years
FTSE All-Share	24.83	15.38	21.24	12.45	25.06	-2.58	-13.44	-17.58	13.00	8.71 (16.09)
Abnormal Return for Companies with a Score	-5.69** (222)	-0.64 (211)	-9.01** (227)	-10.22** (231)	-1.30 (120)	12.04** (126)	8.56** (123)	1.03 (125)	14.16 (223)	0.99 (14.06)
Abnormal Return Top 100 Companies	-6.47* (87)	-1.71 (90)	-1.31 (90)	-8.38* (90)	3.07 (94)	10.35** (95)	5.57 (95)	2.46 (96)	6.14** (97)	1.08 (14.07)
Abnormal Return Top 50 Companies	-6.95 (46)	-0.30 (44)	-11.08* (48)	-4.05 (46)	-7.33 (45)	16.80** (48)	17.70** (47)	-0.79 (49)	26.42* (48)	3.38 (15.14)
Abnormal Return Top 10 Companies	-4.95 (9)	-15.86 (9)	-4.25 (10)	13.85 (10)	-34.93 (9)	10.78 (10)	19.47 (10)	-12.21 (10)	15.04 (10)	-1.45 (18.63)
Abnormal Return Companies whose ranks have risen	-	-2.84 (89)	-9.47* (112)	-13.09** (102)	-6.58 (39)	11.53* (40)	13.67** (45)	-1.54 (43)	17.14** (65)	1.10 (14.67)
Abnormal Return Companies whose ranks have fallen	-	0.60 (103)	-7.26* (84)	-13.87** (98)	1.27 (69)	9.61 (41)	2.04 (43)	8.27 (48)	1.74 (42)	0.30 (13.30)
Abnormal Return Companies whose ranks have risen by at least 50 places	-	-4.71 (29)	-17.46** (34)	-7.21 (33)	-8.19 (9)	29.99* (8)	26.07** (8)	-9.23 (14)	25.77 (25)	4.38 (19.24)
Abnormal Return Companies whose ranks have fallen by at least 50 places	-	-0.85 (31)	-13.58* (24)	-21.79** (28)	-3.74 (26)	17.67** (10)	0.90 (7)	23.86 (10)	4.43 (10)	0.86 (12.44)
Return for strategy: Buy firms with big rank rises and short sell firms with big rank falls	-	-3.86	-3.88	14.58	-4.45	12.32	25.17	-32.91	21.34	3.54 (18.85)

Notes: All portfolios are assumed to be formed on 1 December when the reputations scores are announced, and are held until 30 November of the following year, so, for example, the 1994-95 return is for the period 1 December 1994 – 30 November 1995. Abnormal returns in each case are equal to actual returns minus return on the FTSE All-Share over the same period. The entries in the last column refer to the average returns for all years with standard deviations (standard deviations calculated using raw rather than abnormal returns) in parentheses * and ** denote mean returns that are significantly different from zero at the 5% and 1% levels respectively in a two-tailed *t*-test.

Table 5 One-Year Returns for Various Portfolios

Strategy	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	Av. (std. dev.) - All Years
FTSE All-Share	24.83	15.38	21.24	12.45	25.06	-2.58	-13.44	-17.58	13.00	8.71 (16.09)
Return for companies with no reputations score	35.48	38.58	21.73	13.83	51.25	11.91	8.68	-10.54	36.05	23.00 (19.06)
Return for companies with a reputations score	19.14	14.74	12.23	2.23	23.76	9.46	-4.88	-16.55	27.16	9.70 (14.06)
Expected return for companies with a score given their characteristics	29.93	20.27	12.68	5.16	30.14	12.64	3.18	-14.7	33.63	14.77 (15.64)
Returns for companies outside top 100	27.73	28.33	14.82	7.66	47.29	12.22	8.29	-11.91	34.49	18.77 (17.55)
Returns for companies in top 100	18.36	13.67	19.93	4.07	28.13	7.77	-7.87	-15.12	19.14	9.79 (14.07)
Expected return for companies in top 100 given their characteristics	27.11	8.03	14.59	9.91	18.95	11.6	1.07	-14.78	21.98	10.94 (12.40)
Expected return for companies in top 100 given their industry classification	22.22	24.06	16.38	9.61	32.90	12.15	4.43	-8.59	27.27	15.60 (12.79)
Return for companies whose ranks rose > 50 places	-	10.67	3.78	5.24	16.87	27.41	12.63	-26.81	38.77	11.07 (19.24)
Expected return for companies whose ranks rose > 50 places given their characteristics	-	23.72	12.90	-0.35	38.60	7.40	3.49	-18.01	31.19	12.37 (18.36)
Expected return for companies whose ranks rose > 50 places given their industry	-	30.46	11.76	25.43	42.44	6.58	1.77	-14.27	32.17	17.04 (18.80)

Notes: All portfolios are assumed to be formed on 1 December when the reputations scores are announced, and are held until 1 December of the following year, so, for example, the 1994-95 return is for the period 1 December 1994 – 1 December 1995. The entries in the last column refer to the average returns for all years with standard deviations in parentheses.

Figure 1: Daily Abnormal Returns (%) During Announcement Event Window
($t-10, t+10$)

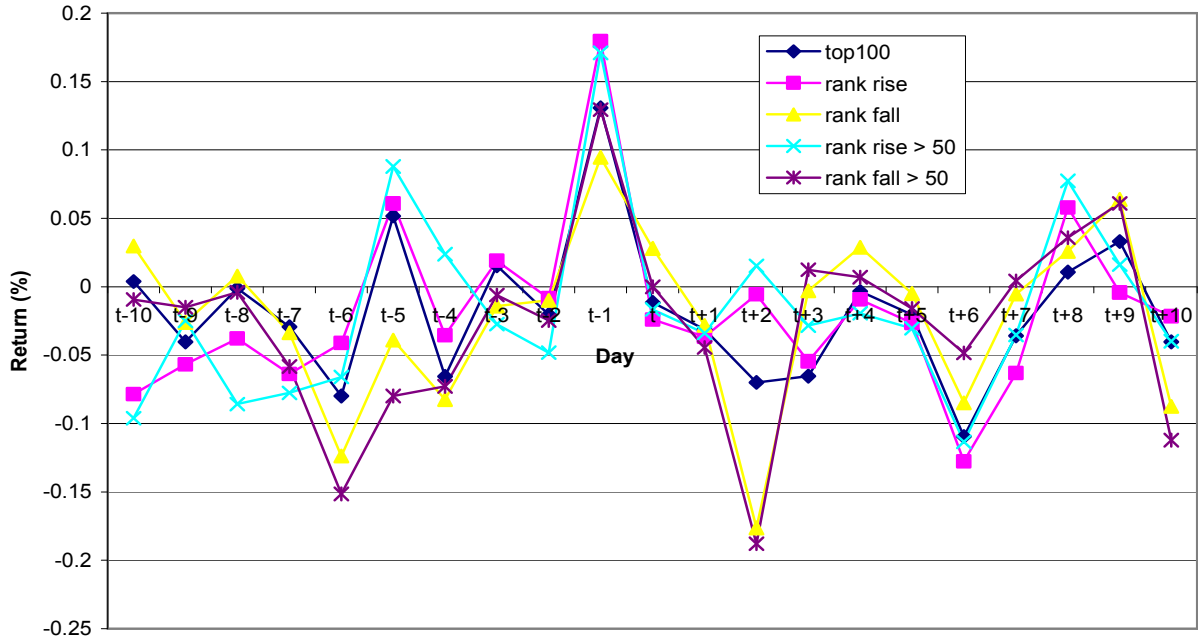


Figure 2: Daily Cumulative Abnormal Returns (%) During Event Window
($t-10, t+10$)

