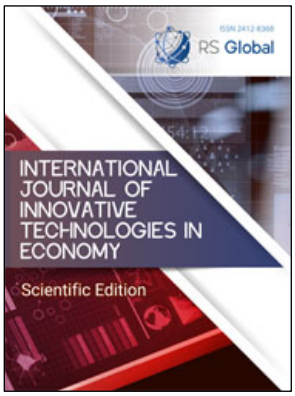

International Journal of Innovative Technologies in Economy

e-ISSN: 2414-1305

Scholarly Publisher
RS Global Sp. z O.O.
ISNI: 0000 0004 8495 2390

Dolna 17, Warsaw,
Poland 00-773
+48 226 0 227 03
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ARTICLE TITLE	THE EFFECT OF BRAND VALUE ON MARKET CAPITALIZATION: AN EMPIRICAL STUDY ON BANKING INDUSTRY
ARTICLE INFO	Bouthina Heriat, Safa Nid, Sara Abdelli (2025) The Effect of Brand Value on Market Capitalization: An Empirical Study on Banking Industry. *International Journal of Innovative Technologies in Economy*. 1(49). doi: 10.31435/ijite.1(49).2025.3272
DOI	https://doi.org/10.31435/ijite.1(49).2025.3272
RECEIVED	11 January 2025
ACCEPTED	17 February 2025
PUBLISHED	30 March 2025
LICENSE	The article is licensed under a **Creative Commons Attribution 4.0 International License.**

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THE EFFECT OF BRAND VALUE ON MARKET CAPITALIZATION: AN EMPIRICAL STUDY ON BANKING INDUSTRY

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ABSTRACT

The research objective was to determine the impact of the brand value on market capitalization of a group of banks. This type of research is quantitative. The data analysis method uses the panel data regression analysis method, with fixed effect model (FEM) of sample of five banks for the period from 2009 to 2024. All the data used in this study were collected from bank's financial statements, in addition to Brand Finance reports. Main findings of this research indicates that brand value has significant negative effect on market capitalization. In contrast, control variables Return on Assets (ROA), has a significant positive impact on the market capitalizations of the banks during the study period. However, the coefficient for GDP findings points out that within the context of this study, the GDP did not contribute positively the banks' market capitalization. In fact, the relationship was negative. In contrast, the control variables included ROA had a significant positive impact on the market capitalization of the banks. This suggests that banks' profitability (ROA) is more influential in driving market capitalization during the study period.

KEYWORDS

Brand Value, Market Capitalization, ROA, GDP, Banking Sector

CITATION

Bouthina Heriat, Safa Nid, Sara Abdelli (2025) The Effect of Brand Value on Market Capitalization: An Empirical Study on Banking Industry. *International Journal of Innovative Technologies in Economy*. 1(49). doi: 10.31435/ijite.1(49).2025.3272

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Introduction

Brands serve as critical instruments in influencing consumer preferences and purchasing decisions, functioning as intangible assets that differentiate products and establish corporate identity. They provide consumers with assurance regarding product quality, while also embodying financial value that reflects both renewal and sales potential. A brand constitutes a distinctive source of competitive advantage, as branding facilitates a firm's ability to generate stakeholder value more efficiently and effectively than its rivals. Continued discourse on brand valuation is warranted, given that the brand plays a pivotal role in generating future cash flows for the company.

The value of brand, signifies their capacity to impact a company's cash flow and market capitalization, or appreciation. The principal objective of corporate management is to enhance shareholder value and increase the firm's market capitalization. While traditional financial management often prioritizes tangible assets, it is

essential to recognize that intangible assets play a crucial role in driving sustainable financial performance and establishing competitive advantage in the long term.

In the banking sector, brands are predominantly attribute-based, relying primarily on both direct and indirect customer experiences as well as brand awareness to shape their image. This characteristic underscores the significance of service quality, the trust established over time, and the professionalism exhibited in service delivery as key drivers of value creation. The increasing significance of branding within the banking industry is further underscored by the establishment of specialized organizational structures tasked with the registration, management, maintenance, and strategic development of the brand.

Research Problem

Brand equity is increasingly recognized as a critical intangible asset in the banking sector. Existing literature has largely focused on the role of brand value in customer perception and trust, with limited attention paid to its quantitative impact on market valuation metrics. This study addresses this gap by examining the following research question: Does brand value have a statistically significant impact on the market value of the banks under study? By incorporating these control variables after controlling for return on assets (ROA) and gross domestic product (GDP).

Research Focus

This study focuses on examining the impact of brand value as a non-financial driver of market capitalization in the banking sector. The research was conducted within the context of five banks (ICBC, HSBC, Bank of America, BNP Paribas, Deutsche Bank) over the period 2009–2024, a time period in which the dynamics of each sector and the critical role of brand perception in investor decision-making are clearly evident. By integrating profitability ratio (ROA) and Macroeconomic Indicator (GDP), the study provides a comprehensive understanding of the factors driving market capitalization in the banking sector.

Research Aim and Research Questions

The study aims to provide empirical insights and check whether there is a significant effect of brand value on market capitalization within the banking industry. his goal is further developed through specific research objectives, which include evaluating the relationship between brand value and market capitalization, assessing the impact of ROA and GDP as control variables, and exploring sector-specific dynamics where brand perception plays a critical role.

Table 1. Variables, Definitions and Hypothesis.

Variables	Definition/measurement	Hypothesis
Market capitalization	calculated by multiplying the total shares outstanding by the market value per share. It shows the financial wealth of a company in an open market. MC further shows the total funds available to a company to finance its business operations. (Farooq, Tabash , Anagreh, & Khudoykulov, 2022)	Dependent Variable
Brand value	Brand value is a result of combining financial and non-financial assets and operations and can be best estimated through considering both financial and non-financial factors and returns (Kayali, Saygilib, & Demirlioglu, 2017)	**Hypothesis 1:** Brand value has a statistically significant effect on Market capitalization
Return to asset (ROA)	This is a measure of financial performance calculated by dividing net income by assets. (Thi Xuan , Thu , Thi, Thi , & Thi Kim , 2020)	**Hypothesis 2:** ROA has a statistically significant effect on Market capitalization
Gross domestic product (GDP)	used to describe the market value of all finished goods and services produced in a nation within a specific time period. (Abbas, Akbar, Nasir, Ullah, & Naseem, 2011)	**Hypothesis 3:** GDP has a statistically significant effect on Market capitalization

*Source***:** Author's development**.**

Literature Review

Brand value is a result of combining financial and non-financial assets and operations and can be best estimated through considering both financial and non-financial factors and returns (Kayali, Saygilib, & Demirlioglu, 2017, p. 220) is often defined as the amount of money ready to pay the other party to a company's brand (SADALIA, DAULAY, MARLINA, & MUDA, 2019, p. 82)

the financial-based approach defines brand value: "The tangible wealth emanated from the incremental capitalized earnings and cash flows achieved by linking a successful, established brand name to a product or service"(BASGOZE, YILDIZ, & CAMGOZ, 2016, p. 1254). Powerful brand value provides benefits to a business such as this customer loyalty, greater flexibility, and profitability in crisis, more positive customer response to price differences, licensing or brand expansion (Karaca & Karaca , 2019, p. 5)

According to (JONES, 2005) brand value emerges from the interactions between the brand and various stakeholders. Notably, brand value transcends a singular relationship, such as that between the brand and the consumer; it is contingent upon a network of interdependent relationships that facilitate value creation for both the enterprise and its clientele.

Several methods for measuring what a brand may be worth have emerged over the years (DE MORTANGES & RIEL, 2003, p. 522) According to (IRIMIEŞ, 2012) introducing brand values in the companies' financial reports lead to the diversification in which brand evaluation is used. Consequently, brand evaluation is usually used by companies for the following purposes:

1. Introducing brand values in the financial balances;
2. The use of brand value in commercial or legal litigations;
3. The use of brand value for establishing the brand strategy;
4. The use of brands value for measuring the efficiency of the investments;
5. The use of brands value in case of purchase offers;
6. The use of brands value for obtaining financing;
7. The use of brands value in case of insolvency;
8. The use of brand value as PR measure.

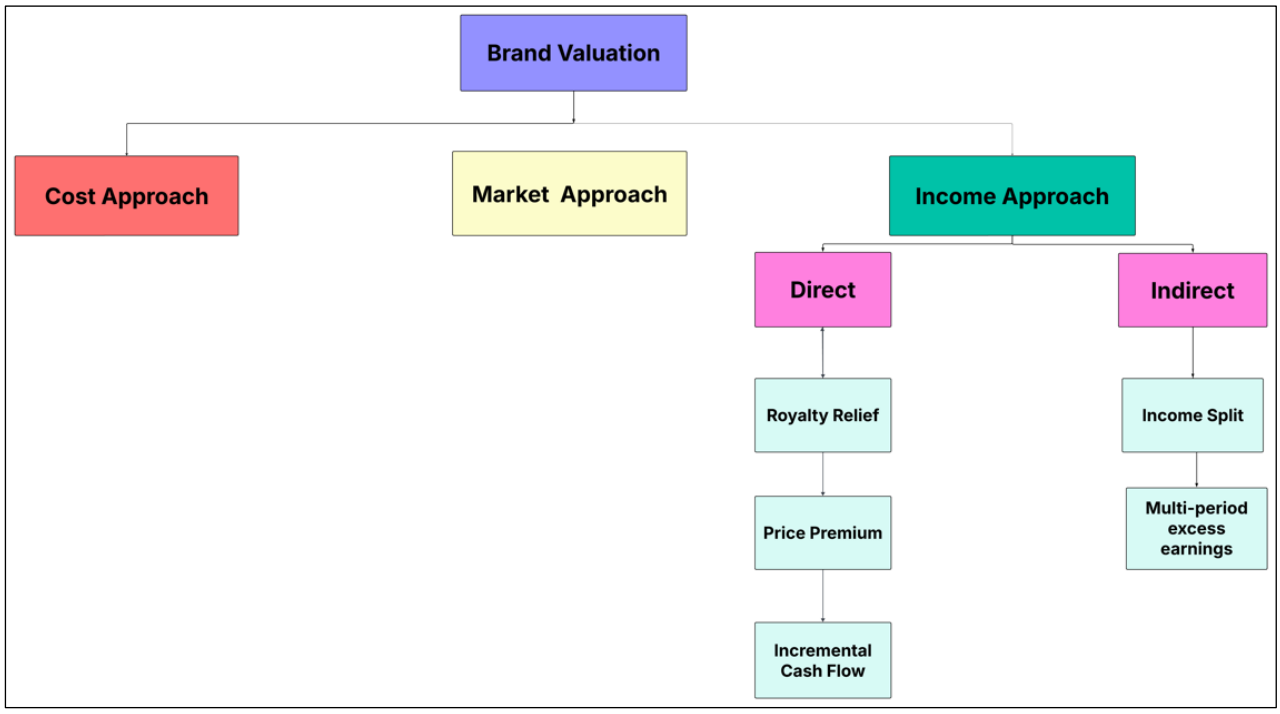

Fig. 1. *International Standard of Brand Valuation based on ISO 10.668.*
Source: (Araujo, Lucas, & Yanaze, 2023)

Building value as the main goal of the company should take into account the social responsibility of entities resulting from their functioning in the socio-economic environment. (Tarczyński, Tarczyńska-Łuniewskaa, & Majewski, 2020, p. 2686) Market capitalization makes a remarkable contribution to contribution to company's

management, index calculation, classification of companies, a desideratum for the investment strategies for investor and measuring and overall growth of the stock market. (Prasad & Shrimal, 2014, p. 126). These investor expectations were previously primarily influenced by tangible assets, but in recent decades, as the economy has shifted from being primarily manufacturing to being service and information oriented, the role of intangible assets in generating value for businesses has grown dramatically. (Crispim & Dornelles, 2020) highlight that tangible assets were once the primary determinants of investor expectations. However, in recent decades, with the transition from a manufacturing-based economy to one centred on services and information, the role of intangible assets in generating company value has significantly grown. This shift underscores the increasing relevance of intangible resources in influencing investor perceptions.

Many studies have reported a link between brand value and market capitalization. Especially, contribute the value generation process in the banking sector, challenging the traditional view that brands are of marginal importance in this field. According to (Arora & Chaudhary, 2016), brand value has a big influence on banks' financial performance. (Bagna, 2018) mentioned that brand value has a major impact on the value creation process in the banking industry, suggesting that brands are more important than previously thought, the author employed regression analysis on a dataset of major European banks, analysing the correlation between their market capitalization and brand values reported by Brand Finance from 2008 to 2017, thereby establishing a link between brand value and market performance. (Ullas, 2015) empirically investigated the impact of brand value on market capitalization a study of banking sector, focusing on whether strong global bank brands outperform the market based on their market capitalization. By utilizing data from the 2013 of Brand Finance Banking 500 report, and applied correlation and regression analysis to assess this relationship. The research stated that brand value significantly influences the market capitalization of banks, underscoring its vital role in signaling stock volatility to investors. This highlights the essential function of branding in distinguishing banks in a competitive environment. there is limited research undertaken into the impact of the negative effect of brand value on a company’s market capitalization. In a study conducted by (Zavalii , et al., 2023) on the impact of intangible assets and their key role in value creation, specifically determining the impact of disclosed intangible asset management on the market value of 97 U.S. technology companies. The top 10 most valuable global brands of 2020 were analysed using ratings from leading brand valuation firms (Interbrand, Forbes, Brand Finance, Kantar), for the period 2016-2020. It was found that disclosed intangible assets were not considered a significant factor influencing their market value. A study on the effect of intangible asset value on the capitalization of major food retailers in the Russian and international markets (Loseva, Fedotova, & Bogatyreva, 2021) supported this. The investigation discovered that a close correlation between market capitalization and intangible assets is not always evident, particularly when intangible assets are not effectively managed to enable companies to enhance their capital and investment attractiveness.

There are different profitability measures, bank and macroeconomic factors which have an impact on the market capitalization of any company. (Qurashi & Zahoor, 2016) Companies seek to achieve profit through investing in their capital. Return on asset is a commonly used analysis by investors and corporate leaders, to measure how much profit can be the right owner's own capital (Purnamasari , 2015) .This observation is also supported by (Asmaul & Ibnu , 2019), who highlight that high profitability reflects strong company prospects, leading investors to respond positively to such signals. Numerous studies show that return on assets (ROA) significantly and favorably affects a company's market capitalization. (OMIDIJI,, ADEGBIE, & AJAYI-OWOEYE, 2020) (Al-Nimer, 2015) (Almumani & Almazari , 2021) as it reflects a company's ability to generate profit from its assets. Companies with higher ROA are more likely to achieve higher market valuations due to increased investor confidence and positive market sentiment. This highlights the importance of improving profitability and asset efficiency as a strategy to enhance firm value.

Most of the researchers proved in their studies that the economic growth of any country is strongly related to the performance of the banking sector. In any economy, financial institutions like banks provide financial assistance to businesses. (Reddy, Mubeen, Raju, Jalaja , & Basha, 2023) gross domestic product (GDP) measures the country’s economic health. (Etale & Tabowei, 2019) Numerous studies have highlighted the impact of GDP on market capitalization, demonstrating that it exerts a significant positive influence (Vinayaranjan, Narasimha Rao, & Sravani, 2022) (Bolouprem & Agboufa, 2023) . This relationship can be attributed to the fact that GDP growth drives corporate earnings, enhances investor confidence, increases liquidity, and fosters macroeconomic stability all of which contribute to higher market valuations.

Materials and Methods

The research framework includes three main variables: the dependent variable is brand value which; the independent variable is market. In order to avoid the possibility of obtaining bias estimations due to the omission of relevant variables, we included control variables which are represented by ROA, and GDP.

In order to find out the impact of the brand value on market capitalization the study uses a panel data dataset for five conventional banks (ICBC, HSBC, Bank of America, BNP Paribas, Deutsche Bank) for the period 2009–2024, at annually frequency. The banks' financial data were obtained from the banks' balance sheets and income statements, while the brand value data were gathered from Brand Finance reports. Following are the regression equations:

$$\boldsymbol{Market\ Capitalization_{it} = \beta_0 + \beta_1 Brand\ Value_{it} + \beta_2 ROA_{it} + \beta_3 GDP_{it} + \varepsilon_{it}}$$

In the equation above, $\boldsymbol{\beta_0}$ is constant, $\boldsymbol{\beta_1}$, $\boldsymbol{\beta_2}$, $\boldsymbol{\beta_3}$ are coefficients of variables, and $\boldsymbol{\varepsilon_{it}}$ it is the regression's residual error. All estimation has been performed using econometrical software EVIEWS and ordinary calculation.

Results

Data description

The descriptive statistics is performed to check the variables statistics such as maximum, minimum, mean and standard deviation. The descriptive analysis includes both dependent and determinants of banks under study for a period of 16 years (2009–2024), with a total observation of 80 illustrated in Table 2. The results indicated that the mean value of MARKET CAPITALIZATION is 166.1231, with a standard deviation of 122.6380. The mean and median of Brand value are 24033.48 and 19835.50, respectively. The minimum Brand Value in the banks under the study is 3510.000, while the maximum is 80791.00, with a standard deviation of 17966.27 percent. This gives an indication that there is a significant variation in brand value among the banks.

In case of control variables, Table 2 demonstrates all statistics values, the average return on assets (ROA)is 0.55, with minimum and maximum values ranging from -0.42 to 1.30 and a standard deviation of 0.43. The results indicate that while the majority of banks are profitable, there is variability in performance, with some banks underperforming (negative ROA).

The mean GDP value is 8357.550, with minimum and maximum values ranging from 2235.000 to 28456.00 and a standard deviation of 7442.459. reflects the external economic environment, indicating significant fluctuations in economic conditions over the study period. These fluctuations could have impacted the banks' performance.

Table 2. *Descriptive statistics.*

	MARKET_C...	BRAND_VA...	ROA	GDP
Mean	166.1231	24033.48	0.550625	8357.550
Median	146.1600	19835.50	0.485000	3801.500
Maximum	472.8400	80791.00	1.300000	28456.00
Minimum	12.58000	3510.000	-0.420000	2235.000
Std. Dev.	122.6380	17966.27	0.429549	7442.459
Skewness	0.654141	1.710317	0.109731	1.038095
Kurtosis	2.346715	5.632634	2.159851	2.714668
Jarque-Bera	7.127947	62.10502	2.513380	14.63993
Probability	0.028326	0.000000	0.284594	0.000662
Sum	13289.85	1922678.	44.05000	668604.0
Sum Sq. Dev.	1188166.	2.55E+10	14.57647	4.38E+09
Observations	80	80	80	80

Source: Author's calculation through EVIEWS software.

Correlation analysis

This study performs the correlation test to find the statistical relationships among the variables by using a correlation matrix. The outcomes mentioned in Table 2 expose that how the explanatory variable (BRAND_VALUE, ROA, GDP) is related to the dependent variable (MARKET Capitalization). Clearly, the findings revealed that MARKET Capitalization in the selected banks under study has significant relationship with the selected variables.

Table 3. Matrix of correlations

	MARKET_CAPITALIZATION	*BRAND_VALUE*	*ROA*	*GDP*
MARKET Capitalization	*1.000000*			
BRAND_VALUE	*0.607310*	*1.000000*		
ROA	*0.809410*	*0.539157*	*1.000000*	
GDP	*0.582217*	*0.639373*	*0.500933*	*1.000000*

Source: Author's calculation through EVIEWS software.

Test of multicollinearity

There are different methods that will be applied by researchers in order to see if there is multicollinearity problem in the study variable. In this study, the researchers used the variance inflation factor (VIF) analysis to diagnostic of multicollinearity issues among the explanatory variables. VIF test results are introduced to verify the possibility of multicollinearity. (Hou, Cheng, & Yu, 2012) A good regression model is considered free of multicollinearity once VIF value is <10 and tolerance value is >0.10. The results of the VIF test as shown in Table 3.

Table 4. Multicollinearity Test

Variables	*VIF*	*Tolerance (1/VIF)*
MARKET_CAPITALIZATION	*1.896640*	*0.527248*
ROA	*1.496927*	*0.668035*
GDP	*cc*	*0.5568*
MEAN VIF	***1.729848***	

Source: Author's calculation through EVIEWS software.

Based on the results displayed in Table 4, the Variance Inflation Factor (VIF) in relation to all the variables considered are consistently less than 10 and also the Tolerance value statistics are consistently greater than the common threshold of 0.10 for all the variables under consideration, thus, it is safe to claim that there is no multicollinearity between the independent variables in the model.

Normality Test

For testing the assumptions of regression model, firstly, normality of the models was checked figure (2) shows the normality histogram along with some statistics that indicate the normal distribution of the error terms.

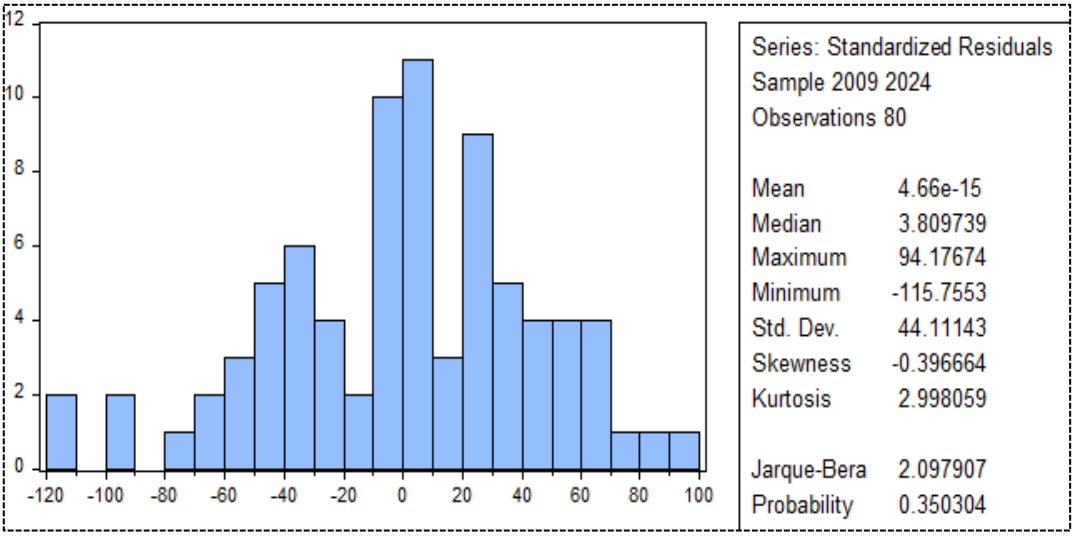

Fig. 2. *Tests of normality.*
Source: Author's calculation through EVIEWS software.

From the results above Figure 2, If the p-value is less than 0.05, H0 is rejected and H1 is accepted; if it is greater than 0.05, H0 is not rejected and H1 is rejected. The results of the normality test indicate that the data matches the assumption of a normal distribution because the fallow Jarque-Bera value of 2.09 is greater than α (0.05), preventing the null hypothesis from being rejected.

An Empirical Model

The panel data was subjected to a number of estimate techniques, such as the random effect model (REM), pooled OLS, and fixed effects model (FEM). To examine which model is more appropriate, we applied Hausman test to choose whether a fixed effects model or a random effects model should be used. Two hypotheses have been generated in this regard:

H_0: Random effect model is adequate and fixed effect model is inadequate for the current study;

H_1: Fixed effect model is adequate and random effect model is inadequate for the current study.

Table 5. Hausman test

Test	*Purpose*	*Results*	*P-value*	*Decision*
Hausman Test	***Random effect versus fixed effect models***	***F (4, 72) Chi-square (4) =52.36***	***0.0000***	***Fixed effect model is appropriate***

Source: Author's calculation through EVIEWS software.

Table 5 shows results for Hausman test. The **p-value = 0.0000**, which lead to the rejection of null hypothesis **H_0** and **H_1** is accepted, because the value is less than **0.05** and use of fixed effect model is effective in this study.

Test of heteroscedasticity

Heteroskedasticity occurs when the variance of the unobservable error, conditional on independent variable, is not constant. It is often by-product of other violations of assumptions. (Shrivastav & Kalsie, 2016) The Breusch-Pagan-Godfrey test states a null hypothesis of homoscedasticity versus alternative hypothesis of heteroscedasticity. (ILORI & TANIMOWO, 2022) The hypotheses of the Heteroscedasticity Test show as below:

H_0: There is no heteroscedasticity;

H_1: There is heteroscedasticity.

Table 6. Heteroscedasticity Test Results

Test	*Chi-squared (χ2)*	*Prob > chi²*
Breusch-Pagan LM	*24.48116*	*0.6420*

Source: Author's calculation through EVIEWS software
$chi^2(10) = 24.48116$
Prob > chi2= 0.6420

The outcome shows in Table 6 that the **chi²** value is below the **0.05** (significance) level. Hence, the study rejects the null hypothesis. Therefore, there is a presence of heteroscedasticity in the fixed effect regression estimates.

Test for assumption of autocorrelation

this study performs auto regression test to check the autocorrelation issue in the model. To detect autocorrelation, we need to measure Durbin-Watson (DW) method. (Yusuf & Dai, 2020) When the Durbin-Watson test statistics are low, the null hypothesis should be rejected because it indicates the presence of autocorrelation. (Aisami, Umar, Manogaran, & Shukor, 2021) Two hypotheses have been generated in this regard:

H_0: Absence of autocorrelation on error term;
H_1: Presence of autocorrelation on error term.

Table 7. Autocorrelation Test

Metric	*Value*	*Metric*	*Value*
R-squared	*0.848950*	***Mean dependent var***	*166.1231*
Adjusted R-squared	*0.834264*	***S.D. dependent var***	*122.6380*
S.E. of regression	*49.92670*	***Akaike info criterion***	*10.75363*
Sum squared resid	*179472.7*	***Schwarz criterion***	*10.99183*
Log likelihood	*-422.1451*	***Hannan-Quinn criter.***	*10.84913*
F-statistic	*57.80898*	***Durbin-Watson stat***	*0.994598*
Prob(F-statistic)	*0.000000*		

Source: Author's calculation through EVIEWS software.

Reviewing the regression results displayed in Table 7, it indicates clearly that the Durbin-Watson (DW) statistic value 0.994598 which is below 2, so it is suspected that there is a positive serial correlation (indicating a correlation) but it is in the range of DW test values (4-dl < DW < 4) with sample =n = 80 and the number of independent variables = k = 3 then dl = 1.56 and dh = 1.72. This indicates that the model does not have (positive) autocorrelation problems. Thus, null hypothesis is accepted.

Discussions

Based on the results of the fixed effect model in the Table 8, we find that:

1. The Coefficient for brand value is -0.001532 with a probability value 0.0381. since the p-value<0.05. this indicates that Brand value has significant negative effect on market capitalization. Thus, this result is not in line to the H_1 hypothesis and failed to be supported by the result, but aligns the previous research (Zavalii , et al., 2023) and (Loseva, Fedotova, & Bogatyreva, 2021).
2. The Coefficient for ROA is 56.51376 with a probability value 0.0239. since the p-value<0.05. this indicates that ROA has significant positive effect on market capitalization: an increase in ROA by one percent leads to an increase in market capitalization by 56.51376. The result is in line to the H_2 hypothesis, and relies with the same result with (OMIDIJI,, ADEGBIE, & AJAYI-OWOEYE, 2020) (Al-Nimer, 2015) (Almumani & Almazari , 2021) .
3. The Coefficient for GDP is 0.006433 with a probability value 0.0549. since the p-value>0.05. this indicates that GDP does not a has statically significant effect on market capitalization at 5%. This result is not in the line to the hypothesis H_3, and the study does not align with the previous research cited (Vinayaranjan, Narasimha Rao, & Sravani, 2022) (Bolouprem & Agboufa, 2023)

Table 8. Fixed Effect regression

Variable	Coefficient	Std. Error	t-Statistic	Prob
Brand Value	-0.001532	0.000725	-2.112087	0.0381
ROA	56.51376	24.49314	2.307330	0.0239
GDP	0.006433	0.003297	1.951203	0.0549
C	118.0555	19.91465	5.928072	0.0000
R-squared	0.848950			
Adjusted R-squared	0.834264			
F-statistic	57.80898	**Durbin-Watson** =0.994598		
Prob(F-statistic)	0.000000			

Source: Author's calculation through EVIEWS software.

Conclusions and Implications

This study uses panel data to investigate how brand value affects market capitalization for 5 banks over the period of 2009 to 2024. In this study, classical assumptions of multicollinearity, heteroscedasticity and autocorrelation requirements are met in order to obtain a good regression model. We conducted, Hausman tests to choose the optimal model; in this instance, the fixed effect model. Additionally, the test of normality was performed to ensure that the residuals of the regression model followed a normal distribution. The dependent variable, which is brand value has insignificant effect on market capitalization. Thus, the more brand value held, the lower market capitalization by the banks under study. However, when we look at control variables partially, we concluded that ROA influences the market capitalization of the banks under study, while GDP did not contribute positively to the banks' market capitalization. In fact, the relationship was negative. Hence, this study contributes to the literature of relationship between brand value and market capitalization by proving its negative relationship.

Acknowledgements
None.

Conflict of Interest
None.

Funding
The Authors received no funding for this research.

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