

Perceived Brand Quality: Its Impact on Shareholder Value and the Moderating Role of Current Period Earnings

The current study investigates the impact of changes in perceived brand quality on three components of shareholder wealth: stock returns, the systematic risk of stock returns, and the idiosyncratic risk of stock returns. Consistent with the hypotheses derived from a utility based choice model, the authors find that changes in perceived brand quality are positively associated with stock returns and negatively associated with the changes in idiosyncratic risk. However, changes in perceived brand quality have a positive impact on the changes in the systematic risk of stock returns, that is, they make a firm's stock returns more vulnerable to market movements. In addition, the current study proposes that the impact of changes in perceived brand quality on shareholder wealth is likely to be contingent on the changes in the firm's current period earnings. Consistent with the hypotheses, the authors find that the beneficial positive impact of changes in perceived brand quality on stock returns is stronger when the current-period earnings of a firm increase. In contrast, the deleterious (positive) impact of changes in perceived brand quality on the changes in systematic risk is weakened when its current-period earnings increase.