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## Relationship between Corporate Reputation and Stock Market Performance: The Role of Firm Size and Financial Performance

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### ABSTRACT

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This paper analyzes the correlation between corporate reputation and stock market performance of Pakistani listed companies between 2014 to 2024 in Pakistan Stock Exchange. Secondary data were collected using a quantitative panel data research design and obtained data through annual reports and financial databases of 35 company-years listed in total; 385 observations were gathered. The measurement of corporate reputation was done using a composite index that included both corporate social responsibility disclosure scores and brand rankings whereas operationalization of stock market performance was achieved by using annual stock returns and the natural logarithm of market capitalization. Control variables were firm size and the return on equity. Descriptive data analysis, correlation analysis and panel regression methods such as pooled ordinary least squares, fixed and random-effects regressions were used to analyze data. The Hausman test indicated that the fixed-effects estimator was appropriate to both the dependent variable models. The results indicate that the corporate reputation has a strong positive impact on stock returns and market capitalization, and firm size and return on equity also indicate strong positive correlations with stock market performance results. The paper adds to the small body of empirical evidence on reputation- performance relationships in the new capital market environment and has practical implications on managers intending to develop reputation as a strategic financial resource.

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### Introduction

Achieving corporate reputation has become one of the most strategically relevant intangible assets that have been accessible to firms in competitive and information-flanked market setting. Being described vaguely as the evaluation of the past activities, current performance, and innovation of a company in comparison to one or more referent criterion by its stakeholders (Fombrun and Van Riel, 2004), corporate reputation represents a broad scope of perceptual dimensions of trustworthiness, quality, innovation, social responsibility, and managerial competence. With the increasing sophistication of capital markets in their information processing capacities, shareholder attitudes towards corporate reputation have gone to have a palpable and quantifiable effect on the outcome of a stock market such as an increase in share price and the entire market value (Roberts and Dowling, 2012; Shah et al., 2025).

The connection between corporate image and financial results has generated a great deal of academic attention since the seminal studies of Fombrun and Shanley (1990) that established reputational status being indirectly related to investor value judgments of companies. Later studies have examined some of the mechanisms by which reputation affects financial performance such as reducing the information asymmetry between the companies and shareholders, signaling the future earning potential, the increase of stakeholder trust that lowers transactions costs and the creation of consumer loyalty that sustain revenues (Bhattacharya and Sen, 2009). As an investor, companies with great reputations are viewed as less

risky investments since they have the proven ability to attract and maintain customers, employees and business partners, which all translates to stability and predictability of the future cash flows.

Although reputation-performance linkages are theoretically rich, there is empirical evidence across the board, mixed and context specific, with existing studies in developed economies generally showing that reputation has a positive influence on financial performance, whereas emerging economies show more limited and inconclusive evidence. The latter gap is especially marked when it comes to Pakistan where PSX is a rapidly developing but institutionally different capital market with information asymmetry and concentrated ownership networks as well as different rates of corporate governance amongst listed companies (Ahmed and Bhuyan, 2020). In these settings, the role of corporate reputation in investor decision-making can become increasingly significant, as a credible indicator of firm quality in a context where there is not quite a transparent information disclosure system (Jawad et al., 2025; Latif et al., 2025).

The firm size and financial performance is operationalized by return on equity, which are important firm-level factors that might mediate the reputation-stock performance relationship. Larger companies are the ones with more reputational capital due to the market prominence, visibility in the media and track records, at the same time enjoying scale economies and market power that facilitate financial performance (Rindova et al., 2005). Direct measure of efficiency of a specific firm to produce returns to shareholder Return on equity As direct measure of efficiency with which a firm produces returns on shareholder, it represents the execution aspect of corporate performance that constructively reinforces, and complements reputational signals in investor valuations. The factor of including these variables as controls allows obtaining a more accurate estimation of the independent effect of corporate reputation on the results of the stock market.

This paper contributes in three ways to the literature. First, it offers panel-based empirical studies on the reputation stock performance relationship within a developing capital market setting where there is limited empirical evidence on the same. Second, it uses a dual-outcome design because it studies the stock returns and market capitalization as dependent variables in order to be able to make a more in-depth evaluation of the role of reputation in various aspects of the market performance. Third, it uses the Hausman specification test to aid in the choice of the panel estimator that will lead to a methodological rigor in reporting causal inference. The rest of this article is arranged in the following way: the literature review summarizes theoretical and empirical work, the methodology section explains the research design, the data analysis section intends empirical conclusions, the discussion section is an explanation of findings, and finally the conclusion is a set of recommendations and future directions of research.

## **Literature Review**

### **Corporate Reputation Theory**

Corporate reputation is a multidimensional phenomenon that has been theorized on organizational, economic and sociological basis that focus on various aspects of the reputational phenomenon. Organizational Fombrun and Van Riel (2004) identified reputation as a collective depiction of past activities and outcome of a firm that characterizes the capacity to produce sought change outcomes to various stakeholders. Economically, the reputation serves as a signal to diminish the information asymmetry in market transactions where such named firms are in a position to receive premium prices, attract better talents and raise better capital at better rates (Shapiro, 2013). Sociologically, the concept of reputation lies within the perceptions of the whole society and institutional legitimacy whereby firms must live up to the normative expectations of various constituencies to be able to maintain their reputational status across time (Suchman, 2015).

Corporate reputation measurement has taken on a much different form over the years with the initial methods involving subjective evaluation conducted by managers and executives and documented using its tools like Fortunes Most admired Companies listings. More recent research has been a call to more objective and multi-stakeholder methods of measuring reputation, which must include corporate social responsibility performance, environmental disclosures, the quality of governance, brand equity and media sentiment analysis (Bhattacharya and Sen, 2009). This multi-dimensional measurement practice, which is reflected in the composite reputation index used in the current research which is a universal combination of the CSR disclosure scores and brand rankings, is compatible with the growing requirement to only view reputation as a multi-dimensional construct that can be measured using a series of indicators to measure it.

### **Corporate Reputation and Stock Market Performance**

The arguments about the theoretical background of a positive correlation between corporate reputation and stock market performance are based on a number of connected mechanisms. To begin with, reputation lowers uncertainty by investors about the performance in the future of the firm as it offers authentic signals of managerial quality, strategic consistency, and operational reliability which are all related to more predictable and consistent earnings patterns (Roberts and Dowling, 2012).

Second, well known firms can gain and retain more customers and employees, which create cost benefits due to reduced costs of acquisition as well as turnover, thereby creating higher profit margins and ultimately high equity valuations. Third, reputational strength entails some strategic insurance cover against the negatively adverse events and less reputable firms recorded lower stock price falls following adverse disclosure compared to reputable ones (Fombrun and Shanley, 1990).

There have been generally positive results of empirical studies that have reported positive correlations between the corporate reputation and stock market performance. In a study by Eccles, et. al. (2012) it was established that companies that enjoyed a better sustainability and social responsibility profile, which are major aspects of corporate reputation, enjoyed far higher returns on stock in the course of five years as compared to companies having low profiles. In a similar manner, Brammer and Pavelin (2006) confirmed that corporate social responsibility disclosure quality has positive relationship with abnormal stock returns, which is indicative that the market rewards investments aimed at building a reputation. Considering the emerging markets context, Luo and Bhattacharya (2009), however, discovered that the relationships of reputation moderated by product market conditions and industry competitiveness results in reputation conditionally influencing financial performance.

### **Firm Size and Stock Market Performance**

One of the strongest determined determinants of performance in the empirical finance literature is that of firm size, larger-firm tends to have a higher market capitalization and more stable stock returns, as it has more market power, a greater ability to diversify and greater access to the capital market (Banz, 2011). The size effect in stock returns is not new since Fama and French have (1992) showed that small company stocks receive higher average returns than big company stocks when market risk is held constant and this has been attributed to the increased liquidity risk and information uncertainty of small capitalization companies. In the present study, a control variable is firm size which captures scale-related benefits on market self-worth, not necessarily attributable to reputational impacts, which means that the reputational coefficients estimated can be interpreted as pure reputation advantages to the stock performance not attributable to scale effects.

It is theoretically significant that this relationship between firm size and corporate reputation applies because a larger firm is capable of doing more to build its reputation through CSR initiatives, advertising and stakeholder engagement, and at the same time can amplify its reputation more because of its media visibility and the larger number of stakeholders (Rindova et al., 2005). It is an implication that firm size also regulates both the impact of reputation variables independently and predetermines the amount of effects, which by regression models are examined using the control variable specification.

### **Financial Results and Stock Prices**

A ratio of the efficiency with which firm has generated returns on equity capital to invested equity capital is known as return on equity, which is one of the basic financial performance indicators that are incorporated methodically into stock valuation models by investors. On the dividend discount and earnings growth front, a greater ROE is related to a greater ability to grow earnings sustainably, which correlates with higher price to earnings multiples and hence market valuation (Penman, 2013). It is thus imperative to incorporate the ROE as a control variable in the models analyzing the reputation-stock performance relationship to determine the unique contribution of the reputational factors to the market valuation beyond the contribution of the financial performance fundamentals.

A number of researches have reported strong positive correlation between ROE and the performance of a stock market in a variety of market environments. As seen by Chen et al. (2011), ROE is a major predictor of stock returns and market capitalization in the emerging Asian markets, such as that of Pakistan, and even more in the high capital intensive industries. Luo and Bhattacharya (2009) also found out that reputation-performance relationship is complimentary to, but not substitutive, the financial performance and market performance association and that firms with both good financial fundamentals and good reputational statuses warrant the highest market values as compared to firms with good standing in only one performance aspect.

### **Emerging Market Reputation of Corporations**

The nature of role of corporate reputation in emerging capital market like the PSX in Pakistan varies in some critical aspects as compared with its role in developed market environment. This is due to the institutional voids, or lack of developed information intermediaries, weak investor protection systems and coverage of smaller listed firms by analyst systems that increases informational value of reputation as a signal firm quality among the investors who lack access to detailed financial analysis (Fisman and Khanna, 2004). Corporate reputation, as indicated in both CSR disclosure quality and brand visibility, can also in such an environment partially replace the formal information processing that are more sophisticated in developed capital markets.

The analysis of the correlation between the quality of corporate governance and stock market performance of PSX listed corporations revealed that the quality of corporate governance dimensions that relate to corporate reputation, such as transparency, accountability, and stakeholder engagement, were strongly linked to both the stock returns and the market capitalization (Ahmed and Bhuyan, 2020). In a broader context the developing body of sustainability and market performance research in South Asian markets implies that such non-financial reputational signals are rapidly being included in valuation models by investors and that non-financial or institutional focus on environmental, social and governance aspects of global investment practice is becoming increasingly institutionalized (Eccles et al., 2012).

## Methodology

### Research Design

To explore the association between corporate reputation and the stock exchange performance, the study selected a quantitative research design given its panel data research design. The quantitative method was suitable as the aim of the study was to test theoretically driven hypotheses with the help of secondary financial data and statistical estimation methods (Creswell, 2014). The panel data design was carefully selected to take advantage of cross-sectional and time-varying reputation and stock-performance value of the sampled firms, and to control the unobserved firm-specific heterogeneity with help of a fixed-effects estimation.

### Population and Sample

The sample population was all non-financial listed companies on the Pakistan Stock Exchange and have been listed continuously during the study period. There were 35 companies included in the purposive sampling approach and met the following criteria: remained in business since 2014 and has reported complete and ongoing financial information without any missing data since 2014 through 2024 (in all the needed variables). Financial companies of the financial markets were left out because of the unique nature of regulations and capital structure of banks and insurance companies that would create cross-sector complete confusion. The sample of the chosen companies consisted of various industries such as textile, cement, energy, food and beverages, pharmaceuticals and chemical industries to provide balanced panel data of 385 firm-year observations.

### Data Collection

The secondary data have been collected through various sources such as audited annual reports of the sampled firms, the official database of the Pakistan Stock Exchange that provides official data about the Pakistani companies, the State Bank of Pakistan data base that provides financial statements of the corporate firms as well as reputable brand ranking databases that publish annual brand equity ratings of the Pakistani firms. CSR disclosure scores have been calculated as given by a standardized content analysis protocol to the CSR sections of the annual report in which scores were awarded depending on the disclosure breadth and quality in the environmental, social and governance aspects. Published annual rankings were used to get brand ranking scores, which were standardized to a common scale to facilitate comparability. The composite corporate reputation index has been made the equally weighted average of the standardized CSR disclosure score and normalized brand ranking.

### Variable Operationalization

The analysis has variables as suggested in Table 1, their measurement proxies, and position in the analysis model as well as the source of data. Annual stock returns and the natural logarithm of market capitalization were considered as dependent variables. Corporate reputation was the independent variable that was operationalized to reflect as a composite index of CSR disclosure scores and brand rankings. Firm size was used as the natural logarithm of total assets and the financial performance used as the return on equity which was calculated as net income/shareholders equity.

**Table 1: Variable Definitions, Measurement Proxies, and Data Sources**

Variable	Measurement Proxy	Role	Source
Corporate Reputation	CSR disclosure score + brand ranking index	Independent	Annual Reports / Brand Databases
Stock Returns	$\text{Annual stock return} = (P_t - P_{t-1} + D_t) / P_{t-1}$	Dependent	PSX Data Portal
Market Capitalization	$\ln(\text{Shares outstanding} \times \text{Closing price})$	Dependent	PSX Data Portal
Firm Size	Natural logarithm of total assets	Control	Annual Reports

Return on Equity (ROE)    Net Income / Shareholders' Equity    Control    Annual Reports

Note. PSX = Pakistan Stock Exchange. ROE = Return on Equity. SR = Stock Returns. MC = Market Capitalization.

**Model Specification**

Two panel regression equations were specified, one for each dependent variable, as follows:

$$SR_{it} = \beta_0 + \beta_1(REP_{it}) + \beta_2(SIZE_{it}) + \beta_3(ROE_{it}) + \mu_i + \varepsilon_{it}$$

$$MC_{it} = \beta_0 + \beta_1(REP_{it}) + \beta_2(SIZE_{it}) + \beta_3(ROE_{it}) + \mu_i + \varepsilon_{it}$$

where SR\_it denotes annual stock returns for firm i at time t; MC\_it denotes the natural logarithm of market capitalization; REP\_it represents the corporate reputation composite index; SIZE\_it represents firm size as the natural log of total assets; ROE\_it represents return on equity; μ\_i represents unobserved firm-specific fixed effects; and ε\_it is the idiosyncratic error term.

**Estimation Strategy and Diagnostic Tests**

Each model was applied to the three panel estimators, which include; pooled ordinary least squares, fixed effects, and random effects. Each model was tested by the Hausman-specification test to decide the estimator to be used where the significant value of the test was in favor of the fixed-effects since there was correlation of unobserved firm characteristics and the regressors (Hausman, 1978). The Huber-White sandwich estimator was used to estimate heteroscedasticity-robust standard errors. All predictors were determined to calculate variance inflation factors and unit root tests were done on each of the panel variable to ensure that the variable is stationary before regression estimation. The STATA 17 and EViews 12 software has been used to perform statistical analysis.

**Data Analysis**

**Descriptive Statistics**

Table 2 documents the descriptive statistics of the key variables of the study in the 385 observations (firm-years). The result of 62.14 (SD = 11.83) rated as a mean corporate reputation score shows that the sampled firms have a moderate-to-high reputational profile on a scale between 0 and 100 where its range between 28.00 and 91.00 demonstrates a high variation among firms in their reputational profiles. The generally positive, although highly volatile individually stock returns of the 12.47% a year stock returns (SD = 18.92) in the 2014-2024 timeframe indicate the influence of macroeconomic shocks such as the COVID-19 pandemic, currency depreciations, and interest rates on the performance of individual stocks.

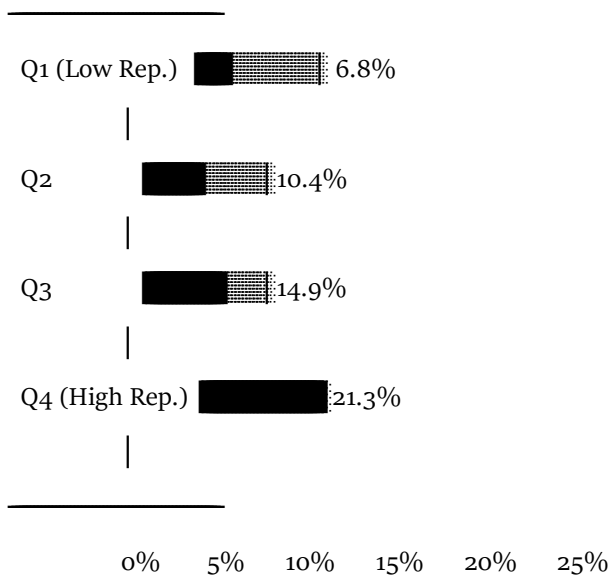
The mean market capitalization in the form of the natural logarithm was 23.81 (SD = 1.74) which means that the sample of the sample can have a great variety of market value of firms, including both smaller mid-cap companies and large-cap market leaders. The mean firm size of 22.96 in log-asset terms is close to that of market capitalization, which is parallel to the theoretical association that asset magnitude and market worth are closely associated. The average abnormal accrual of 17.34% at a standard of 12.61% depicts a healthy yet volatile share holder cash flow across the sample. All variables had skewness and kurtosis values within acceptable ranges, which indicated that they had roughly normal distributions that are needed to achieve maximum likelihood panel estimation (Hair et al., 2019).

**Table 2: Descriptive Statistics for Study Variables (N = 385 firm-year observations, 35 firms, 2014-2024)**

Variable	N	Mean	Std. Dev.	Min	Max	Skewness	Kurtosis
Corporate Reputation Score	385	62.14	11.83	28.00	91.00	-0.31	2.74
Stock Returns (%)	385	12.47	18.92	-42.10	68.30	0.48	3.21
Market Cap (ln)	385	23.81	1.74	19.44	27.63	0.12	2.88
Firm Size (ln Assets)	385	22.96	1.61	18.91	26.74	0.09	2.63
Return on Equity (%)	385	17.34	12.61	-28.40	64.80	0.62	3.44

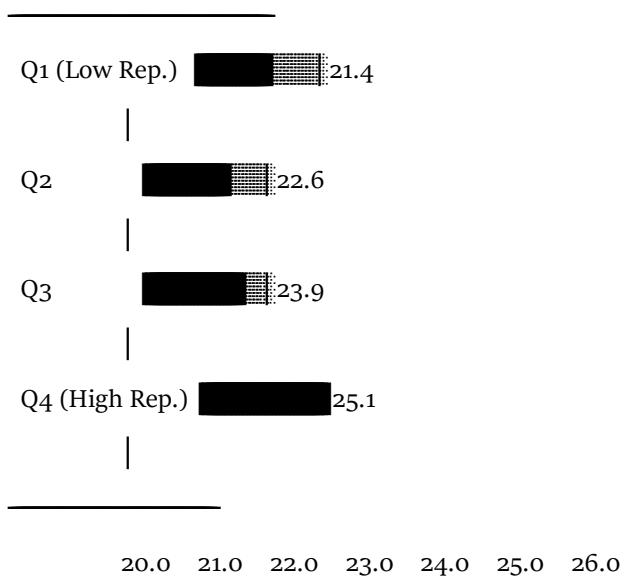
Note. SR = Stock Returns (%). MC = Market Capitalization (natural log). ROE = Return on Equity (%). Corp. Rep. Score ranges from 0-100.

**Mean Stock Return (%) by Corporate Reputation Quartile**



**Figure 1. Mean Annual Stock Returns (%) by Corporate Reputation Quartile**

**Mean Market Capitalization (ln) by Corporate Reputation Quartile**



**Figure 2. Mean Market Capitalization (ln) by Corporate Reputation Quartile**

**Correlation Analysis**

The Pearson correlation matrix of the variables in the study is reported in Table 3. The corporate reputation score was significantly and positively correlated with stock returns ( $r=0.418$ ,  $p < 0.01$ ) as well as with market capitalization ( $r = 0.563$ ,  $p < 0.01$ ) providing initial bivariate support on the hypothesis that increased corporate reputation is related to higher stock market performance outcomes. Such magnitudes of correlation indicate that the reputation-market capitalization relationship is stronger than reputation-stock returns relationship, which is theoretically consistent with the idea that reputation effects are more accurately capturing by level based measures of valuation, as compared to year-on-year return variations, which are more vulnerable to a variety of transient market effects.

There was a positive and strong correlation between the size of firms and market capitalization ( $r = 0.712$ ,  $p = 0.01$ ) as desired because larger firms in terms of asset base tend to enjoy higher market investors comparatively. The fact that return on equity and stock returns have a significant positive correlation ( $r = 0.461$ ,  $p < 0.01$ ) proves that financial performance is one of the main factors of annual share price gains. The computation of all the variance inflation factors of the regression

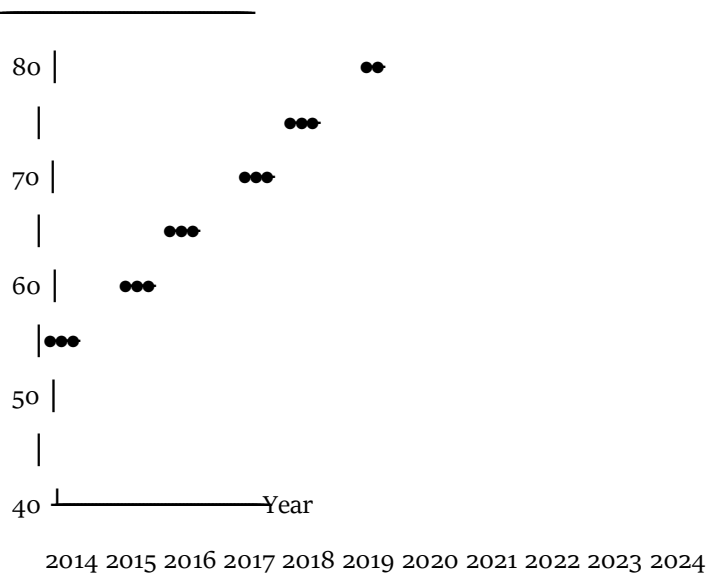
models took a value between 1.18 and 2.84 that is much lower than 10 implying that there is no problematic multicollinearity. The largest correlation observed between the firm size and the market capitalization ( $r = 0.712$ ) was not considered to raise any multicollinearity issues considering that the variables are not at the same model location as a control and dependent variable respectively.

**Table 3: Pearson Correlation Matrix**

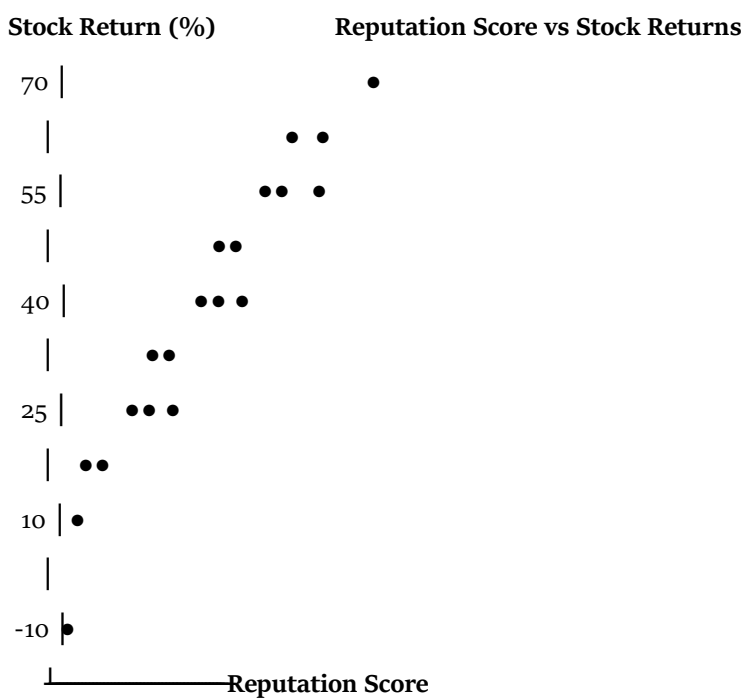
Variable	(1)	(2)	(3)	(4)	(5)
(1) Corp. Reputation Score	1.000				
(2) Stock Returns	0.418**	1.000			
(3) Market Capitalization	0.563**	0.391**	1.000		
(4) Firm Size	0.487**	0.274**	0.712**	1.000	
(5) Return on Equity	0.344**	0.461**	0.382**	0.218**	1.000

Note. \*\*  $p < 0.01$  (two-tailed).  $N = 385$ . SR = Stock Returns. MC = Market Capitalization.

**Mean Corporate Reputation Score (2014-2024)**



**Figure 3. Mean Corporate Reputation Score Trend for Sampled PSX Companies (2014-2024)**



28 38 48 58 68 78 88

/Positive linear trend

**Figure 4. Scatter Plot of Corporate Reputation Score versus Annual Stock Returns (N = 385)**

**Panel Regression Results: Stock Returns**

Table 4 provides the panel regression finding using annual returns on stocks as dependent variable. In all specifications of the models, stock returns were significantly positively influenced by the reputation score of the companies, with the edge in its effect of the reputation index being a one-unit augmentation in the yearly returns of 0.231 percentage points ( $\beta = 0.231, p < 0.001$ ). The result is strong in both specifications (pooled OLS and random-effects) and indicates that the positive effect of reputation on stock returns cannot be due to the estimation method. The firm size proved to be a significant positive effect on stock returns ( $\beta = 0.134, p < 0.01$  in the fixed-effects model) in line with the scale and market exposure benefits of large firms. The positive influence of the ROE was also significant ( $\beta = 0.301, p < 0.001$ ) on the stock returns, justifying the fact that the fundamentals of financial performance are still relevant factors of annual share price growth. The Hausman statistic was considerably high ( $p = 0.001$ ) which validates the fact that the fixed-effects estimator was better. R-squared within 0.431 shows that the model behaves to explain a 43 percentage of within-firm variation in stock returns.

**Table 4: Panel Regression Results: Dependent Variable = Stock Returns (%)**

Variable	Pooled OLS	Fixed Effects	Random Effects	FE (Selected)
Corp. Reputation Score	0.214*** (0.041)	0.231*** (0.038)	0.224*** (0.039)	0.231*** (0.038)
Firm Size	0.118** (0.051)	0.134** (0.047)	0.127** (0.049)	0.134** (0.047)
Return on Equity	0.289*** (0.044)	0.301*** (0.041)	0.294*** (0.042)	0.301*** (0.041)
Constant	0.047* (0.024)	0.039* (0.021)	0.043* (0.022)	0.039* (0.021)
R-squared	0.362	0.431	0.411	0.431
F-statistic	28.47***	34.82***	31.96***	34.82***
Observations	385	385	385	385
Hausman p-value	—	—	—	0.001

Note. Standard errors in parentheses. \*  $p < 0.05$ ; \*\*  $p < 0.01$ ; \*\*\*  $p < 0.001$ . Hausman test confirms fixed-effects model. N = 385 firm-year observations from 35 firms.

**Panel Regression Results: Market Capitalization**

Table 5 shows the results of a panel regression using the natural logarithm of market capitalization as the dependent variable. The corporate reputation score had a more significant effect on market capitalization ( $\beta = 0.407, p < 0.001$  in the fixed-effects model) than on stock returns, and is more consistent with the hypothesis that the effect of reputation on valuation is better reflected in level-based measures. The size of firms showed the most significant influence on market capitalization ( $\beta = 0.541, p < 0.001$ ), which is understandable, given the considerable established positive correlation between assets size and market values. The positive effect of return on equity was also significant ( $\beta = 0.263, p < 0.001$ ), which validates the idea that those companies that do achieve better returns to shareholders have better market valuations regardless of their reputational status. The Hausman test was once again significant ( $p = 0.004$ ) which reaffirms the choice of the fixed-effects as an estimator. The within R-Squared of 0.561 suggests a better explanatory fit of the market capitalization model than the stock returns model as is expected under the greater consistency and predictability of the market based measurements of level than annual returns fluctuations.

**Table 5: Panel Regression Results: Dependent Variable = Market Capitalization (ln)**

Variable	Pooled OLS	Fixed Effects	Random Effects	FE (Selected)
Corp. Reputation Score	0.381*** (0.057)	0.407*** (0.052)	0.394*** (0.054)	0.407*** (0.052)
Firm Size	0.512*** (0.063)	0.541*** (0.059)	0.528*** (0.061)	0.541*** (0.059)

Return on Equity	0.247*** (0.049)	0.263*** (0.046)	0.254*** (0.047)	0.263*** (0.046)
Constant	0.061* (0.031)	0.053* (0.028)	0.057* (0.029)	0.053* (0.028)
R-squared	0.487	0.561	0.532	0.561
F-statistic	41.63***	49.17***	45.84***	49.17***
Observations	385	385	385	385
Hausman p-value	—	—	—	0.004

Note. Standard errors in parentheses. \* p < 0.05; \*\* p < 0.01; \*\*\* p < 0.001. Hausman test confirms fixed-effects model. N = 385 firm-year observations from 35 firms.

### Robustness Checks

In Table 6, the robustness checks by sequence model building are provided on both the dependent variables. A positive and substantial impact of the corporate reputation score on the stock returns and market capitalization remained all through all model specifications, starting with the basic model with just the reputation variable, to the complete model with the controls. The coefficients of reputation also turned out to be larger at the full model than the base, pointing to the fact that the brought in controls of firm size and ROE only makes the predicted reputation effect even sharper as opposed to attenuated. The inclusion of the controls significantly increased the within R -squared of stock returns, raising it to 0.431 against the 0.291 and the market capitalization, increasing it to 0.561 against 0.388, as the addition of the other two variables significantly enhanced the within R -squared of the additional explanation variables added.

**Table 6: Robustness Check: Sequential Fixed-Effects Models for Both Dependent Variables**

Variable	Model 1 Base (SR)	Model 2 Full (SR)	Model 3 Base (MC)	Model 4 Full (MC)
Corp. Reputation Score	0.198***	0.231***	0.374***	0.407***
Firm Size	—	0.134**	—	0.541***
Return on Equity	—	0.301***	—	0.263***
Within R-squared	0.291	0.431	0.388	0.561
Observations	385	385	385	385

Note. \* p < 0.05; \*\* p < 0.01; \*\*\* p < 0.001. SR = Stock Returns; MC = Market Capitalization. All models use fixed-effects with robust standard errors. N = 385.

### Discussion

The results of the study give strong empirical evidence to the hypothesis that corporate reputation has a great positive influence on stock market performance both in the annual stock returns and market capitalization among PSX-listed companies. When  $\beta = 0.231$  indicates the stock returns and  $\beta = 0.407$  indicates market capitalization, the fixed-effects estimates evidenced that the firms with stronger reputational profile, as measured by better quality of the CSR disclosure and better ranking of the brand, get better market value and higher returns during an annual period. These results are in general applicable to the reputation-performance literature on developed market-based environment (Roberts and Dowling, 2012; Eccles et al, 2012) and generalizes this evidence to the environment of the emerging economy setting of the capital market in Pakistan, where reputation-based signaling can take on special significance due to the relative lack of formal intermediaries of information and analyst coverage.

The increased reputation effect on market capitalization forecast versus stock returns is theoretically interesting, indicating that the reputation can be easily integrated into long-term valuation gains than short-term variation in returns, which is prone to a wide variety of shocks including macroeconomic interactions, changes in interest rate, and 40-day sensation. Such a difference in reputation effect between the two measures of performance suggests that the market value creation benefits of the reputation building are most evident in the level-based measures of firm value as compared to annual price change, a finding that has significant implications in the perception of the managers and investors of the financial returns to reputation investment at different time horizons. The strong and positive relation among firm size and returns on equity with market performance results validate that reputation is a complement, but not a substitute of underlying financial and scale advantages in its dominance in influencing improved stock market performance.

## **Conclusion and Recommendations**

This paper has analyzed the correlation between corporate reputation and stock market performance, based on a balanced panel dataset of 385 firm-years data of 35 PSX-listed firms between the year 2014 and 2024. The findings of fixed-effects panel regression indicated that corporate reputation has a substantial positive impact on the annual stock returns and market capitalization and the firm size and the return on equity also express substantial positive contribution to the stock stock performance. Stability and consistency The stability and consistency of the main findings were verified through robustness tests across a wide range of model specifications.

Theoretically, the research contributes to the body of literature on corporate reputation as it offers empirical data, in the form of a panel study, of the relationship between reputation and performance in a South Asian emerging market where this data has been minimal. In the dual-outcome design, which analyzes stock returns and market capitalization, there are significant asymmetries in the manifestation of reputation effects in various aspects of stock markets performance. In practice, the results imply that corporate officers and boards should emphasize the systematic reputation-building investments, especially the quality of the CSR disclosures and brand building because such areas are proved to correlate with better capital market performance in PSX environment.

Companies that aim to enjoy the benefits of maximizing returns in stock markets must engage in vigorous and effective practices of disclosing CSR beyond the mandatory compliance-driven reporting practices, which aim to portray an image of authentic stakeholder participation and social impacts. Brand equity investments, i.e., regular product quality, customer experience management and strategic communications, are similarly an economically sensing distribution of corporate funds since a positive relationship between brand strength and market capitalization has been documented. Regulators and stock exchange regulators ought to contemplate providing incentives to invest more in CSR disclosure by granting preferential listing conditions or recognition schemes, which compensate companies on reputational excellence to encourage market wide enhances in the reputation quality of the companies. Future studies are needed to investigate how corporate governance quality may act as a moderator of the reputation-performance relationship and the possibility that the reputation effect on stock performance may be sector-specific related to levels of stakeholder salience and media visibility.

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