**The value of branding for B2B service firms—
The shareholders’ perspective**

**ABSTRACT**

Increasingly fierce competition in many B2B service industries led managers to seek a competitive advantage through branding, as many firms operating in B2C markets have done. Although advertising spending in B2B service industries has soared and branding could be relevant for customers’ purchase decisions, the distinct characteristics of B2B service transactions can make the creation of brand equity challenging. Conceptual arguments thus both support and question the net financial value of B2B service brands and, since empirical research on that value is missing, managers are left with no agreed upon and validated guidance. Drawing on observations of the brands and shareholder values of 380 U.S.-based public B2B service firms, this study introduces a shareholder perspective to empirically examine the financial value of B2B service brands. Results reveal that B2B service brands have positive value to shareholders. However, the extent of that value depends on a firm’s branding strategy (corporate branding vs. multi-branding) in conjunction with the type of services offered (professional services vs. other B2B services) but not in conjunction with the breadth of services offered (degree of diversification). This research provides new insights for researchers and managers with regard to B2B service brands’ value and important contingency factors.

Keywords: Brand value; branding strategy; B2B service brands; professional service brands; diversification; shareholder value

**1. Introduction**

The economic importance of business-to-business (B2B) services is increasing. The professional service sector (e.g., consulting services, engineering services) is a particularly good example of that increase, with this sector gaining significance in terms of the number, size, and influence of the firms operating in it (Greenwood et al., 2005). However, like other firms, B2B service firms face growing competitive pressure due to commoditization and globalization, which are resulting in increased customer power and fewer strong customer relationships (Keränen et al., 2012; Leek & Christodoulides, 2011a). In response, many firms have started to brand their offerings to differentiate from competitors and build customer trust (Baumgarth, 2008; Walley et al., 2007).

 Despite the growing use of brands, empirical research on B2B branding is limited (Mudambi, 2002; Roper & Davies, 2010), with several scholars explicitly noting that the branding of B2B services requires research attention (Biedenbach & Marell, 2010; Davis et al., 2008; Roberts & Merrilees, 2007; Seyedghorban et al., 2016). In particular, the literature on B2B service branding has been described as limited in scope, fragmented, conflicting, mostly conceptual in nature, and with no focus on financial performance outcomes (Glynn et al., 2007; Keränen et al., 2012; Roberts & Merrilees, 2007; Seyedghorban et al., 2016). Especially the latter issues present managers with difficulty in determining whether branding B2B services will be of value to their firms, and if so, what that value contribution will be. This knowledge gap could lead managers to under-invest in assets that require substantial on-going investments (Leek & Christodoulides, 2011b).

Scholars additionally note the absence of research providing managers with guidance on how to brand B2B services effectively (Keränen et al., 2012). In this regard, a key strategic choice for firms is selecting an appropriate branding approach. Specifically, firms may use either a corporate branding strategy or a multi-branding strategy, but the literature offers no validated advice on which strategy may be more suitable for B2B service firms. Also, strategy suitability may depend on the nature of the business service offered (Davis et al., 2008; de Chernatony & Dall'Olmo Riley, 1999), as well as the extent to which the firm markets a diversified business portfolio (Gabrielsson & Gabrielsson, 2004). In terms of the nature of the service, professional services gain increasing importance within the business service sector (von Nordenflycht, 2010). Professional services are distinct from other business services (e.g., installation and operation services) in that they are knowledge-intensive and therefore characterized by very high customer uncertainty[[1]](#footnote-1), resulting from the imperfect information of customers who usually lack the service provider’s specialized knowledge and therefore cannot readily evaluate the quality of the service (Greenwood et al., 2005; von Nordenflycht, 2010). Hence, an excellent reputation may even be more relevant for business success to professional service firms than to other B2B service firms, although effective branding can also be more difficult to achieve for professional service firms (Greenwood et al., 2005). Moreover, it remains unclear whether a corporate brand (e.g., to create an image for breadth of expertise) or a tailored brand (e.g., to create an image of specialization) is more useful to achieve an excellent reputation for professional services (e.g., Greenwood et al., 2005; Nayyar, 1990). In addition, many firms have diversified their business service offering to counter growing competition and continue to grow. In this regard, it also remains unclear whether diversified B2B service firms achieve greater brand value by conveying an image of broad expertise using a corporate brand or of specialization using a tailored brand (e.g., Greenwood et al., 2005; Kapferer, 2012; Ruef & Scott, 1998). Closing these voids in knowledge is not only relevant from a research perspective, but it is also of critical importance to managers, who want to exactly know which branding strategy offers greater economic value given their firms’ breadth of services offered (degree of diversification) and type of services offered (professional services vs. other business services).

This study introduces the shareholders’ perspective to the B2B service branding literature. This perspective and the data we collected for our empirical examination have several advantages that allow us to contribute to the literature. First, adopting the shareholders’ perspective allows us to introduce greater focus on financial outcomes to the B2B service branding literature. Shareholders value brands to the degree that they allow firms to earn future cash flows with little risk (Srivastava et al., 1998). Following this logic, we conceptually discuss how distinct characteristics of B2B service transactions (i.e., uncertainty, co-creation, and actor multiplicity) give rise to an enhanced relevance of brands, but also to challenges in creating brand equity, and how these different brand-related effects translate into financial effects on firm-level cash inflows, cash outflows, and cash-flow risk. Doing so allows us to systematically consider aspects unique to branding B2B services and, using cash flows as a common denominator, to meaningfully integrate relevant concepts and arguments from the extant literature in order to examine the financial value of B2B service brands. Our discussion pinpoints conflicting effects, resulting in a set of open research questions of major interest to marketing researchers and practitioners.

Second, we put our research questions to a robust empirical test. Among other data, we used for this test hand-collected brand data and financial stock-market value data of 380 publicly traded U.S. B2B service firms. The financial stock-market value data we used reflect the shareholder value that firms have created (measured with Tobin’s q). Shareholders buy and sell stocks and thereby determine firms’ stock-market values reflecting the *objective fair value* of firms’ assets, including their brands (Srivastava et al., 1998). Since efficient financial markets rationally price firm assets, stock-market values comprise an externally validated, objective value estimate for B2B service brands (Fama, 1991; Srinivasan & Hanssens, 2009). To price firm assets, shareholders take into account the anticipated future cash flows those assets will generate. Thus, examining our stock-market value data allows us to derive what the cash-flow effects we conceptually discuss for branding B2B services aggregate up to in the view of shareholders.

Third, firms in our sample operated in a number of different B2B service industries (Table 2), making our findings generalizable across different industries. Scholars have explicitly called for multi-industry B2B branding research (Homburg et al., 2010; Keränen et al., 2012). Prior studies in that area have frequently focused on only one industry, limiting the confidence with which their findings can be assumed to hold in other industry contexts (Keränen et al., 2012).

In the following, we discuss in detail how shareholders conceptualize the value of a brand. We then relate this conceptualization of financial brand value to characteristics of B2B service transactions and explain how these characteristics affect the relevance of brands as well as the building and maintaining of brand equity. We detail the impact on shareholders’ valuation, also taking into account different branding strategies (corporate branding vs. multi-branding) in conjunction with the breadth of services offered (degree of diversification) and type of services offered (professional services vs. other business services). Following our conceptual discussion, we explain the measures and model used for our empirical investigation. We conclude by discussing our results and deriving implications for theory and practice.

**2. Branding B2B services—shareholders’ perspective**

Generally, shareholders value a brand, or any other asset, to the extent that it allows a firm to create positive cash flows in the future (Lindenberg & Ross, 1981; Srivastava et al., 1998). Hence, the value of a brand can be conceptualized using the discounted cash flow (DCF) model (Rappaport, 1986).

(1) $Brand value ≈ DCF = \sum\_{}^{}\frac{E[ΔNet cash flow\_{t}]}{(1+E[i])^{t}} = \sum\_{}^{}\frac{ΔCash inflows\_{t} - ΔCash outflows\_{t}}{(1+ i(σ\_{CF}))^{t}} $

The model operationalizes brand value as the ratio of expected incremental net future cash flows from employing the brand asset to the expected costs of capital used to build, maintain, and grow the brand asset. Equation 1 suggests that a brand’s value is determined by the level of incremental future cash inflows itcreates (ΔCash inflowst), the level of incremental future cash outflows (e.g., brand-building costs and other brand-related investments) it causes (ΔCash outflowst), and the cash flows’ volatility and vulnerability (i.e., risk; σCF) affecting capital costs (Srivastava et al., 1998). In efficient financial markets, investors in aggregate formulate rational expectations regarding the net future cash-flow contributions and risk of a B2B service firm’s assets, including its brand assets, and factor those expectations into the firm’s stock price (Fama, 1991). Thus, a B2B service firm’s stock-market value (stock price x shares outstanding) reflects investors’ valuation of the firm’s brands and other assets.

Adopting a shareholder value lens, in the following, we develop arguments related to the cash-flow implications of B2B service branding.[[2]](#footnote-2) Equation 1 makes clear that to conceptually understand B2B service brands’ value to shareholders, this value needs to be derived from the brands’ impact on future cash inflows, cash outflows, and cash flow risk, with the brand value being the aggregate of those cash flow effects (Srivastava et al., 1998). A critical result of the following conceptual discussion is that, due to the inherent characteristics of B2B service transactions, shareholders usually need to trade off cash-flow benefits of B2B service branding with cash-flow costs related to effectively building and maintaining brand equity for B2B services, making the ultimate net financial value that shareholders arrive at conceptually uncertain. From our conceptual discussion we derive important and unresolved research questions, which motivate and guide our empirical examination. Fig. 1 illustrates our conceptual framework.

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*2.1. B2B service brands’ value to shareholders*

In line with a shareholder perspective, B2B service brands have value to the degree that branding positively affects business customers’ purchase and repurchase decisions, such that firms that own brands can generate greater cash inflows and are less exposed to cash-flow risk since repeat purchases create stable demand. At the same time, however, B2B service firms need to be able to build and maintain brands effectively for shareholders to value brands, since investments in brands create cash outflows and have uncertain future returns when firms’ branding efforts do not systematically result in brand equity. As we summarize in Table 1, we argue that brands could play a critical role in B2B service transactions but may be challenging to build and maintain, making their value to shareholders uncertain.

Branding may be especially relevant in the context of B2B service purchases for several reasons. First, B2B service transactions frequently involve a high degree of *uncertainty* on the part of customers, resulting in high perceived purchase risk. In particular, business customers often want customized services that can require more complex solutions, thereby increasing customers’ uncertainty regarding whether the eventual service will match their needs and abating their ability to evaluate service quality (high level of intangibility) (Gounaris, 2005). Moreover, B2B services usually serve as critical input to customers’ business and transactions are of high value, further enhancing customers’ level of uncertainty (Campbell et al., 2010). Signalling theory suggests that branding B2B services plays an important role to alleviate that uncertainty (Erdem & Swait, 1998). Brands signal quality and expertise, serving as a cue that helps bridging imperfect information of customers regarding the likely quality of a service offering (Aaker & Joachimsthaler, 2000; Bendixen et al., 2004). As a result, branding its services may allow a B2B service firm to reduce customers’ perceived purchase risk and to acquire new business more readily with positive effects on its future cash inflows.

In addition, signalling theory indicates that firms are motivated to be truthful in their service claims and to deliver on their promises in order to maintain the strength and credibility of their brands’ quality signal in the future (Erdem & Swait, 1998). This motivation serves as a reassurance for customers, decreasing uncertainty and creating trust. Trust is a key ingredient to building customer relationships and, hence, can increase customer loyalty. Also, the ability to create customer trust by way of branding may increasingly gain in importance, as opportunities to form personal ties decrease due to a rise in digital communication (Baumgarth, 2010). Thus, B2B service brands may be important tools to build and maintain customer relationships, allowing firms that own them to generate repeat purchases, which increase these firms’ future cash inflows and reduce their cash-flow risk.

Second, since B2B services often are customized to the needs of customers, the input of the customer organization plays an integral part in creating a high quality service. For example, if a customer requires a tailored software solution, detailed specifications need to be developed by the customer organization, such that the firm *co-creates* the service it eventually receives. However, co-creation tasks can be burdensome next to handling day-to-day business. Affective commitment to the service provider can increase customer motivation to engage in co-creation (Auh et al., 2007). Branding may allow service-providing firms to promote customer affective commitment through the relationship building function of brands. As a result, service quality is likely to increase with positive effects on customer satisfaction and retention, leading to greater cash inflows and lower cash-flow risk.

Third, B2B service transactions frequently involve *multiple actors* from the service providing and buying firm (McDonald et al., 2001; Webster & Keller, 2004). Quality perceptions in the customer organization are driven by the extent to which the eventual service delivery meets customer expectations. Given that B2B services are often delivered by teams, a difficulty that service firms face is to ensure that each service employee performs in line with service claims and customer expectations. Building a strong brand permits creating a shared vision of the service, providing guiding principles for employee behaviour (Webster & Keller, 2004). Thus, branding may allow B2B service firms to assure consistently high-quality service performance, which has positive effects on customer perceived quality, satisfaction and retention as well as, ultimately, on cash flows and risk reduction.

Also on the customer side, several employees, often with different roles in the organization, may be involved in the purchase decision. Such organizational buying centres perform a systematic information search and assessment of available options, which might reduce customer uncertainty and hence the need for a quality signal, possibly attenuating the benefits from branding for B2B service providers (Bonoma et al., 1977; Brown et al., 2011). However, given that B2B services frequently are highly intangible, systematic information searches may not be sufficient to eliminate customer uncertainty and the quality signal of brands may still play a vital role in the decision process.

While brands are likely to be germane to reducing customer uncertainty, building customer relationships, motivating customer participation, and guiding employee service behaviours in B2B service contexts, the characteristics of B2B service transactions may at the same time hinder building and maintaining brand equity effectively. Brand equity is driven by customers’ brand awareness, perceived brand quality, brand associations, and brand loyalty (Aaker, 1991). Due to the active part that customer organizations play in creating the service, a B2B service firm has comparatively low control over the factors underlying brand equity. First, the service-providing firm is often dependent on customers’ input, as described above, and customers may not provide enough information or participate sufficiently to receive optimal outcomes, even if the service is critical for them (Gallan et al., 2013). As a result, service quality outcomes can differ from customer to customer. Given the level of customer uncertainty involved in B2B service transactions, customers and prospective customers often search for and collect experience-based information on a brand from different sources, including other customers (Aarikka-Stenroos & Makkonen, 2014). Inconsistent quality experiences with a brand weaken overall perceived brand quality and hence the credibility of the brand signal, which is also likely to reduce brand loyalty.

Second, when customers co-create the service, they also co-create their brand associations in that their own actions influence the extent to which B2B service firms can deliver on the value propositions of their brands. As a result, customers’ brand associations may not fully reflect the intended value propositions and corresponding brand attributes, reducing the clarity of the brand.

Third, service firms normally can promote brand awareness by means of brand presentation in their service facilities, which communicate the identity of the brand through visual elements (Berry, 2000). B2B service firms may have less opportunity to present their brands using their own facilities, as their services are often co-created and/or delivered at customers’ premises, which likely lowers customers’ brand awareness. Overall, the higher degree of customer co-creation involved in delivering B2B services and the more limited ability of B2B service firms to positively influence brand equity increases brand-related cash-flow risk since their brand investments may not pay off.

In addition, the larger number of actors from the service-providing and buying firm typically involved in the service transactions can also affect B2B service firms’ ability to build and maintain their brands’ equity effectively. First, all interactions between service employees and employees from the customer organization contribute to customers’ brand associations and quality perceptions, making a B2B service brand vulnerable to employee behaviours that are not in line with service claims and the brand’s identity (Davis et al., 2008). Managing and controlling employee behaviour is complex and may not always work, raising cash-flow risk and increasing cash outflows associated with internal marketing activities such as training programs, recruitment of qualified employees, as well as incentives to motivate employees and align their service behaviours.

Finally, firms typically target a homogeneous sub-set (i.e., segment) of the market, which allows tailoring the brand and associated marketing program to this customer group’s needs and characteristics. Conversely, in a B2B service context, employees from the customer organization who are involved in the purchasing process are likely to be more heterogeneous in their needs due to having different functional roles and, hence, priorities (Brown et al., 2011). Thus, constructing a brand promise that resonates with all stakeholders may be difficult, hampering the creation of universally strong brand awareness and compelling brand associations. As a result, cash flows from B2B service brands may be risky and uncertain.

In summary, shareholders are likely to value B2B service brands for their positive effects externally on customers and internally on employees, increasing shareholders’ expected cash inflows and reducing expected cash-flow risk. However, shareholders also take into account the challenge for B2B service firms of building strong brands due to interdependencies and intense interactions with customers that create obstacles to delivering consistently high service quality as well as due to heterogeneous stakeholders, both of which increase the risk that brand investments may not pay off and that cash flows from brands are volatile. To the degree that shareholders perceive the cash flows related to B2B service brands to be overly volatile and uncertain compared with the cash flow benefits these marketing assets promise to generate, shareholders may completely discount the financial value of B2B service brands. Against that background, we pose the following research question:

**Research question 1:** Do B2B service brands have positive value to shareholders?

*2.2. B2B service brands—branding issues and the value to shareholders*

In the following, we develop arguments suggesting that the financial value of B2B service brands is likely to depend on a firm’s chosen branding strategy (i.e., corporate branding vs. multi-branding) in conjunction with the breadth of services offered (degree of diversification) and the type of services offered (professional services vs. other business services). Drawing on the relevant characteristics of B2B service transactions (uncertainty, co-creation, and actor multiplicity) identified earlier, we discuss the cash-flow impact of those strategy and business portfolio variables next.

*2.2.1 Branding strategy*

B2B service firms can use different branding strategies to market their service offerings. Most firms start with one service offering, which they usually market under the name of the corporation, thus using a corporate branding strategy (Rao et al., 2004). When adding new services, some firms continue using their business name to market those services while others create new brand names, thus using a multi-branding strategy. While empirical evidence is missing to date, corporate brands rather than service-specific brands (i.e., multi-branding) have been recommended for the marketing of services (Berry et al., 1988). In the following, we discuss the comparative financial value of corporate brands vis-à-vis service-specific brands with regard to their relevance and the difficulty of building and maintaining them in B2B service contexts.

First, corporate brands and service-specific brands differ in terms of their signal content and, hence, in the ways they are relevant to reducing customer uncertainty. Corporate brands often have been built up over decades and are therefore effective reliability signals and reservoirs of B2B service firms’ long-run reputation earned in the marketplace (Berry et al., 1988; de Chernatony & Dall'Olmo Riley, 1999; Dobree & Page, 1990). The reliability and experience signalled by corporate brands can make them effective means to reduce customer uncertainty given that B2B services often are critical to the business of customers and involve significant investments. Nevertheless, customer uncertainty related to whether the service offering will match customers’ needs may be more effectively addressed with service-specific brands. The value proposition of service-specific brands can be tailored to specific customer needs, which allows creating focused brand messages and, hence, is likely to give service-specific brands an edge over corporate brands in terms of the distinctiveness of brand associations. Moreover, due to the accelerating pace of change in consumer and business markets, business customers increasingly seek service providers that are flexible and innovative with an ability to provide customized solutions (e.g., Yu et al., 2015). Corporate brands, which signal tradition and heritage, could be less effective than service-specific brands to signal those sought after associations about B2B service providers. As discussed earlier, the signalling effect of brands may allow B2B service firms to reduce customer uncertainty such that they can generate greater cash inflows and reduce their cash-flow risk. From the shareholders’ perspective, corporate brands have a financial value advantage over service-specific brands to the extent that shareholders believe that in B2B service contexts reliability and experience are more effective signals to generate customer preference than are focus and flexibility.

Second, shareholders may expect corporate brands to be more effective in creating brand equity despite the larger number of employees involved in the delivery of B2B services (actor multiplicity). Corporate brands are capable of creating a shared vision and hence service standards, since brand identity can be embedded in organizational culture providing employees with one unifying identity with no equivocality created by competing messages from other brands of the firm (Dobree & Page, 1990; George, 1990; Grönroos, 1990; McDonald et al., 2001). Thus, building a corporate brand instead of several service-specific ones is likely to help B2B service firms save on costs for internal marketing programs and reduce cash flow risks associated with inconsistencies in employee–customer interactions. However, also service-specific brands can make B2B firms’ cash flows less risky by limiting reputational costs from failing service innovations and service failures to individual brands and preventing spillovers to other service offerings (Hsu et al., 2016; Lei et al., 2008).

In sum, one critical insight from our discussion is that corporate brands vis-à-vis service-specific brands of B2B service firms differ in terms of their signal’s content, both of which can have positive cash flow effects by reducing customer uncertainty. Moreover, corporate brands are likely to create positive cash-flow effects by being more effective tools to align service employee behaviours, yet service-specific brands have advantages with regard to containing business risks associated with failure. The overall comparative financial value advantage that shareholders attribute to corporate brands compared with service-specific brands therefore ultimately depends on the relative importance that investors attach for their valuation to the discussed aspects, motivating the following research question:

**Research question 2:** Do corporate B2B service brands have greater value to shareholders than service-specific B2B brands?

*2.3. Diversification*

Due to increasing competition in their traditional service markets and the need to identify new growth opportunities, many B2B service firms have begun to offer new services, some of which differ considerably from the firms’ traditional service offering. For instance, the Nasdaq-listed U.S. firm ADP started as a provider of manual payroll processing, later expanding operations to general human capital management and consulting services on taxes, retirement, and insurance. The firm further diversified by offering retirement plans and insurances, and by creating tailored services for government agencies and business productivity services for dealers of cars, trucks, and marine vehicles. Literature suggests that a firm’s diversification—the degree to which it operates in different industries—is an important strategy decision variable. Positive financial effects from greater diversification are likely to result from market power advantages (e.g., from predatory pricing in one service line cross-subsidized by revenues from another service line) and synergies from diversified offerings, for instance in marketing and through the use of common technologies (e.g., Grant et al., 1988; Rumelt, 1974). From a brand value perspective, the benefits of diversification for B2B service firms are however less clear and, importantly, are not independent of firms’ branding strategy.

First, when a B2B service firm is more diversified, a corporate brand signals broader expertise. This signal can make a service provider more relevant to business customers, since they can deal with one trusted partner on multiple matters (e.g., payroll administration *and* employee insurance), which decreases their search costs. Signalling broad expertise also communicates that offered solutions integrate wisdom from multiple areas (e.g., retirement plans *and* tax optimization), reducing customer purchase uncertainty. Customers have been shown to transfer quality associations with corporate brands to diversified service lines, even in unrelated markets (Kapferer, 2012; Völckner et al., 2010). This positive quality transfer can safeguard demand for all of the firm’s different service lines as well as facilitate service innovations into new markets, increasing the firm’s cash inflows and reducing its cash-flow risk. Moreover, corporate brands allow B2B service firms to benefit from synergies in advertising spending, decreasing cash outflows required for brand building and maintenance. In particular, spillover effects let all diversified service lines benefit from advertising expenditures on the corporate brand, and the corporate brand in turn benefits from recursive spillover effects from advertising efforts for individual service lines (Balachander & Ghose, 2003).

However, compared to service-specific brands, corporate brands can also have financial disadvantages when a B2B service firm is diversified. First, because the firm serves diverse markets, customers may develop differing brand associations, such that the clarity of the corporate brand may become impaired (e.g., Aaker & Keller, 1990; John et al., 1998). As a result, the signalling effect of the brand can be weakened, limiting its positive cash-flow effects. In contrast, service-specific brands are tailored, leading to clearer brand associations, as discussed earlier. Thus, when B2B service firms are diversified, building service-specific brands may involve fewer challenges in creating brand equity, reducing cash-flow risk. Also, because customers are likely to be unaware that a firm provides the separately branded service lines (e.g., Ruef & Scott, 1998), building service-specific brands also reduces the risk of negative image spillovers on a firm’s other business, such as when a service offering has to be discontinued (Sullivan, 1990), which is a scenario that becomes more likely with diversification since the firm leaves familiar territory.

Our discussion reveals that, for diversified B2B service firms, the comparative financial value of corporate brands vis-à-vis service-specific brands depends on how shareholders weigh multiple cash flow advantages of corporate brands against several cash flow disadvantages. In particular, shareholders trade off comparative cash flow gains related to corporate brands’ ability to signal broad expertise, transfer quality associations to diversified service lines, and create synergies in advertising spending with comparative cash flow costs related to a less clear and hence weaker brand signal as well as greater risk of negative spillovers from discontinued service lines. Therefore:

**Research question 3:** For more highly diversified B2B service firms, do corporate brands have greater value to shareholders than service-specific brands?

*2.2.3. Professional services*

A professional service presents a distinct type of B2B service in that its delivery relies on complex knowledge of a highly educated workforce (Greenwood et al., 2005). The professional service sector has been described as prototypical for an increasingly knowledge-based economy, and is one of the most profitable and strongly growing economic sectors (von Nordenflycht, 2010). Examples of professional services are consulting, engineering, advertising, and software development services (von Nordenflycht, 2010). The distinct characteristics of professional services make branding particularly relevant to drive customer purchase decisions, but they also create challenges for professional service firms to effectively build and maintain brands.

From a brand relevance perspective, more than other B2B services, professional services are particularly characterized by imperfect information of customers, who usually lack the service provider’s specialized knowledge and therefore cannot readily evaluate the quality of the service (Greenwood et al., 2005). Branding can hence be particularly effective to assuage customer purchase uncertainties and customers are likely to pay particular attention to quality cues such as brands, given that professional services also often have significant implications for customers’ firm performance and possibly survival. Professional service solutions are usually highly customized such that customer input, or lack thereof, largely determines service outcomes. For instance without customer input, including a detailed understanding of the client’s business and processes, a consulting firm would find it impossible to derive effective improvement recommendations (Smith, 2002). This makes brands’ relationship building function and ability to drive customers’ affective commitment and motivation to co-create particularly relevant for professional service firms. In addition, professional services, more than other B2B services, are usually delivered in a team (Robertson et al., 2003), such that brands’ ability to generate a shared vision and guide employee behaviour can be particularly relevant for professional service firms to assure a consistent and high quality service delivery.

Shareholders are likely to positively value the additional relevance of brands for professional service firms compared with other B2B service firms to reduce customer uncertainty, build customer relationships and motivate co-creation, and gear employee behaviour in service delivery teams to consistency and quality. These effects indicate larger cash inflows and reduced cash flow risk from brands via enhanced customer preference, satisfaction, and retention, as well as premium prices that professional service firms may be able to charge for the peace of mind customers obtain by selecting a provider with a strong brand.

However, shareholders weigh these cash flow benefits against the cash flow disadvantages from brand equity building and maintenance, which are likely to be more challenging for professional service firms than for other B2B service firms. Professional service firms strongly depend on well-educated employees, whose high human capital gives them bargaining power over the firm, often making them more difficult to direct (Greenwood et al., 2005). Since employees with high human capital frequently demand a greater degree of autonomy, some scholars have likened managing them to “herding cats” (Løwendahl, 2000, p. 68). As a result, professional service firms may have more difficulty creating a shared vision and making employees live it, negatively impacting the consistency with which those firms’ brands are represented to customers. Also, training programs to influence employees’ behaviours may be less effective and hence more costly*.* Moreover, since professional service employees strongly use their personal knowledge and judgement to deliver the service customers often attribute service outcomes foremost to individual employees’ competencies (Løwendahl, 2005), which aggregate to a perception of the general competencies of the service-providing firm. As a result, customers’ brand associations can be particularly vulnerable to employee attrition, increasing the challenge for professional service firms to maintain brand equity. Shareholders trade off branding’s relative (i.e., compared with other B2B service firms) cash-flow advantages (from higher relevance) with cash-flow disadvantages (from higher difficulty to build and maintain brand equity) to determine the value premium or discount of professional service brands vis-à-vis brands of other business service firms.

**Research question 4:** For professional service firms, do B2B service brands have greater value to shareholders than they have for other B2B service firms?

With regard to the most suitable branding strategy for professional service firms, a corporate brand can be more effective than service-specific brands to attenuate customers’ perceived purchase risk and win new business. Since a firm usually initiates its branding efforts with a corporate brand, that brand will be intimately connected with the established service reputation of the firm, encapsulating the expertise and history of client problems that have been solved successfully. Reputation is critical to successfully market professional services, the quality of which is difficult to assess for customers, often even after the service has been delivered (Løwendahl, 2005). Corporate brands may hence also facilitate the cross-selling of other related service offerings to customers, who may stick with the well-known brand owing to risk aversion and convenience.

To assess any financial superiority, or disadvantage, of corporate brands for professional service firms, shareholders compare the cash inflow benefits from corporate brands with the cash flow advantages that service-specific brands offer in terms of facilitating the building and maintenance of clear and consistent brand associations. Highly educated employees want to have their say in the (brand) identity they shall represent and tend to oppose imposed standards (von Nordenflycht, 2010). Decentralized service-specific brands offer greater opportunity for employees than centralized corporate brands to shape the brand identity, making service-specific brands more effective in promoting consistent behaviour and reinforcing customers’ brand associations. Moreover, with reputation being germane, major service failures are likely to be particularly harmful for a professional service firm, enhancing the negative effect of potential spillovers to other service offerings. Service-specific brands effectively contain negative reputational spillovers to the general business. Thus, service-specific brands can reduce the vulnerability of cash flows. Shareholders of professional service firms weigh the stronger signalling effect of corporate brands to reduce customer purchase risk against the reduction in cash-flow risk that service-specific brands offer. Thus:

**Research question 5:** For professional service firms, do corporate brands have greater value to shareholders than service-specific brands?

**3. Methodology**

*3.1. Sample and data sources*

To empirically explore the value of B2B service brands from the shareholders’ perspective, we used as our sampling frame U.S.-based public firms operating in a B2B service industry. Table 2 displays the list of B2B service industries our sample firms operated in. We focused on publicly listed U.S. firms because the data we required for our investigation are most comprehensively available for these firms. Further, the U.S. financial market is globally one of the most efficient financial markets (Fama, 1991), suggesting that investors are highly accurate in their evaluation of B2B service brands and impound their expectations of those brands’ cash-flow impact into stock prices without delay.

-- Insert Table 2 about here --

We collected our data in 2014. Specifically, for the 62 B2B service industries in our sample, we manually collected the number of brands owned by firms operating in those industries. We drew from publicly available sources, such as the firms’ websites, annual reports, and filings with the U.S. Securities and Exchange Commission (SEC). We followed established conceptualizations defining a brand as a distinguishing name or symbol (e.g., Aaker, 1991), and we collected data on a firm’s separate brands, including corporate brands (e.g., Halliburton), sub-brands (e.g., McGraw Hill Education), and local brands (e.g., Halliburton’s Permedia brand in Canada) marketed in North America, Europe, Japan, and the BRIC countries (i.e., Brazil, Russia, India, and China).[[3]](#footnote-3) Table 2 displays descriptive statistics for the number of brands that firms owned in the B2B service industries in our sample. We used these data to operationalize our B2B service brand measures.

For our examination of B2B service brands’ value to shareholders, we combined our manually collected brand observations with data from two additional sources for the financial year ending 2014 (and ending 2015 for our one-period ahead Tobin’s q measure as explained below). Specifically, the COMPUSTAT databases provided accounting data, market value data, and information on firm characteristics used for our dependent variable, moderating variables, and control variables (Fig. 1). From the U.S. Patent and Trademark Office (USPTO) database we obtained information required for one of our control variables. Merging these various data sources resulted in a sample of 380 publicly listed B2B service firms with complete data used for our empirical investigation.[[4]](#footnote-4) The average firm in our sample had $4.2 billion in total assets and $3.9 billion in revenues. The operationalization of the variables in our data set are summarized in Table 3 and described next.

-- Insert Table 3 about here --

*3.2. Measures*

*3.2.1. B2B service brands*

We used the brand data described above to derive two B2B service brand measures. For the first measure, we followed prior research in the consumer branding literature and used the number of brands owned by a firm (e.g., Morgan & Rego, 2009). We took into account industry differences in terms of the typical number of brands firms with a multi-branding strategy own (Table 2), normalizing a firm’s number of brands with the corresponding industry-specific mean number of brands. Moreover, we separately coded firms with a corporate branding strategy, by following prior studies in the brand strategy literature and assigning a value of one to firms with only one brand, which usually is the business name (e.g., Rao et al., 2004). We assigned a value of zero to the corporate branding variable for firms with more than one brand. As we explain below when discussing our model, the first brand measure (number of brands) enables us to isolate the financial value that shareholders attribute on average to an individual B2B service brand. In addition, the second brand measure (corporate branding indicator) allows us to tease out any value (dis)advantage shareholders attribute to a corporate brand compared with a service-specific brand.

*3.2.2. Diversification*

Investigating firms’ degree of diversification has a long tradition, particularly in the management literature (e.g., Bettis & Mahajan, 1985). We followed common approaches and measured a B2B service firm’s diversification with the number of different industry segments (four digit SIC codes) the firm operates in. For instance, ADP, an example of a diversified firm discussed earlier, operates in six industry segments: tax return preparation services (SIC 7291), computer programming services (SIC 7371), computer integrated systems design (SIC 7373), computer processing and data preparation and processing services (SIC 7374), computer facilities management services (SIC 7376), and management services (SIC 8741).

*3.2.3. Professional services*

Our operationalization of professional services follows common definitions in the literature, characterizing professional services as services encoded with complex knowledge and delivered by a highly educated workforce (Greenwood et al., 2005; von Nordenflycht, 2010). Two coders used representative lists of professional services from the literature (von Nordenflycht, 2010, Table 1 & 2) and assigned a value of one to firms that predominantly provided professional services, as judged on the basis of descriptions from firm web sites as well as segment reports (if detailing industry segments) and narrative texts in annual reports. Inter-rater agreement was greater than 80%. Disagreement was resolved through discussion, and two experts with substantial experience in B2B marketing and services marketing verified the validity of services identified as professional services. Professional service firms in our sample provided engineering services (SIC 1382 and 8711), financial services (SIC 6163, 6200, 6792, 6795 and 7323), real estate services (SIC 6552), research services (SIC 6794 and 8731), advertising services (SIC 7310 and 7311), IT services (SIC 7370, 7373 and 7374), medical laboratory services (SIC 8071 and 8734), and management and consulting services (SIC 8741, 8742 and 8744).

*3.2.4. Shareholder value*

We measured shareholder value using Tobin’s q, which is a forward-looking capital market-based performance measure widely used in the literature (Srinivasan & Hanssens, 2009). Tobin’s q captures the incremental intangible value a firm has created for its shareholders over the replacement costs of assets utilized (Anderson et al., 2004). This intangible value includes the financial value shareholders attribute to the firm’s brands. As discussed above, this attributed value reflects, *in aggregate*, the cash inflows, cash outflows, and riskiness of cash flows that shareholders anticipate the firm to generate from employing its brands (Srivastava et al., 1998). Since our theoretical discussion revealed ambiguity with regard to the *aggregated* value of B2B service branding to shareholders (see the five research questions), Tobin’s q is appropriate to investigate the identified research questions.

Our measure of Tobin’s q is similar to Chung and Pruitt’s (1994) measure, which is widely accepted in the economics, finance and marketing literatures (Anderson et al., 2004; Berger et al., 1996; Chung & Pruitt, 1994; Morgan & Rego, 2009). We operationalized Tobin’s q as the ratio of the market value of common stocks plus the book values of preferred stocks, long-term debt, inventories, and current liabilities, minus the book value of current assets to the book value of assets net goodwill. We applied the adjustment for goodwill suggested in the recent finance literature to correct for the effect of acquisition activity unfairly biasing downward q values of firms with many past acquisitions compared with q values of firms with fewer or no acquisitions. That bias stems from accounting regulations mandating acquirers to add goodwill of acquired firms to their total assets (Custódio, 2014). To address endogeneity concerns related to simultaneity and reversed causality, we used the one-period ahead Tobin’s q value in our analysis, thus ensuring that our observations of independent variables precede observed Tobin’s q values.

*3.2.5. Control variables*

We took into account multiple factors that could affect a B2B service firm’s shareholder value and branding approaches. Specifically, we controlled for a firm’s innovation investment and legally protected innovation assets, both of which contribute to shareholder value (e.g., Bharadwaj et al., 1999; Griliches, 1981). We hence controlled for R&D spending, measured as the ratio of R&D expenditure to revenue, and we took into account the number of patents owned. Moreover, we included market shares, measured as the ratio of a firm’s revenue to the total revenue generated in the industry the firm operated in. A B2B service firm’s market power, reflected in its market share, is a valuable asset in itself and may help the firm to save on brand-related investments (e.g., advertising spending) without having adverse effects on demand (e.g., Morgan & Rego, 2009; Srivastava et al., 1998). Moreover, we controlled for possible idiosyncrasies in more monopolistic industries by taking into account industry concentration, which we measured using the Herfindahl-Hirschman Index (HHI), defined as the sum of squared market shares of all firms operating in a particular industry (Smirlock et al., 1984). In addition, we took into account Tobin’s q values from the previous period, since this step is an effective means to control for potential endogeneity from time-varying omitted variables—that is, additional factors that may have an impact but cannot be directly observed for data availability reasons (e.g., Jacobson & Aaker, 1987).

Table 4 displays descriptive statistics and correlations for those variables. Since all correlations are below suggested thresholds (< .70), multicollinearity is not a concern in our data (Cohen et al., 2003).

-- Insert Table 4 about here --

*3.3. Model*

The shareholder value contribution of a B2B service firm’s brands is a component of its total shareholder value, and hence part of its Tobin’s q value (Srinivasan & Hanssens, 2009). As discussed above, Tobin’s q reflects the incremental intangible firm value created over the replacement costs of employed tangible assets, and this value is a function of the future cash inflows, cash outflows, and cash-flow risks shareholders attribute to a firm’s intangible assets. B2B service brands contribute to that incremental intangible value, as do other factors. We follow the logic suggested in prior research (e.g., Lindenberg & Ross, 1981), decomposing Tobin’s q in a set of factors that contribute to the incremental firm value (i.e., anticipated future cash-flow effects) for shareholders:

(2) $q= Brands^{β\_{1}}Cbrand^{β\_{2}}R\&D^{β\_{3}}Patents^{β\_{4}}Share^{β\_{5}}HHI^{β\_{6}}e^{α+ε}$.

Specifically, Tobin’s q is assumed to be a function of the aggregated economic benefits (i.e., cash inflows) less costs (i.e., cash outflows and risks) from B2B service brands (Brands) (*Research question 1*), any value (dis)advantage of corporate brands (Cbrand) relative to service-specific brands (*Research question 2*), R&D investments (R&D) and patents owned (Patents), market share (Share), and industry concentration (HHI). Linearizing Equation 2 results in:

(3) ln q = α + β1 ln Brands + β2 ln Cbrand + β3 ln R&D + β4 ln Patents

 + β5 ln Share + β6 ln HHI + ε

Expanding the model with potential contingency effects (*Research questions 3−5*) on the value of B2B service brands from diversification (Divsf) and professional services (Pserv), and using one-period-ahead Tobin’s q to address simultaneity and reversed causality concerns, as well as the current-period Tobin’s q to control for endogeneity from time-varying omitted variables, results in the following model used for our empirical investigation:[[5]](#footnote-5)

(4) ln qt+1 = α + β1 ln Brands + β2 Cbrand + β3 Cbrand x ln Divsf + β4 ln Brands x Pserv

 + β5 Cbrand x Pserv + β6 ln Divsf + β7 ln Brands x ln Divsf + β8 Pserv
+ β9 ln R&D + β10 ln Patents + β11 ln Share + β12 ln HHI + β13 ln qt + ε

Importantly, for the investigation of our research questions, β1 is related to the effect of owning one additional brand on B2B service firms’ shareholder value.[[6]](#footnote-6) Thus, β1 reflects the average value shareholders attach to B2B service brands (*Research question 1*). In contrast, β2 is related to any shareholder value premium or disadvantage of a corporate brand relative to a service-specific brand and this premium or disadvantage is in addition to the shareholder value those firms generate from owning one B2B service brand (i.e., the effect is in addition to β1). The coefficient β2 is closely aligned with, and thus required to test, *Research question 2*, which asks for whether corporate brands are *superior or inferior* compared with service-specific brands in terms of their value to shareholders of B2B service firms (i.e., a *differential effect* to the value that β1 estimates). Moreover, β3 allows for an additional value premium or disadvantage for corporate brands of more highly diversified B2B service firms (*Research question 3*);[[7]](#footnote-7) β4 estimates any value premium or disadvantage (i.e., compared with β1) for B2B service brands of professional service firms (*Research question 4*); and β5 allows for an additional (i.e., in addition to β4 and β2) value premium or disadvantage for corporate brands of professional service firms (*Research question 5*).

**4. Results and Discussion**

We estimated two versions of our model—Model 1, including only main effects, and Model 2, additionally containing the interaction terms. Estimation results are reported in Table 5. Both models adequately fit the data (R2 > .80; F-value > 144; *p* < .01). As the estimated main effects and corresponding significance levels are very similar between the two models, we focus our discussion on Model 2. Following standard protocol, all variables involved in interaction terms were mean-centred to address collinearity between main variables and interaction terms. The maximum variance inflation factors for both models (VIFmax ≤ 3) are well below standard cut-off values (< 10), indicating that multicollinearity is not a particular problem in our regressions (Neter, 1996).

-- Insert Table 5 about here --

*4.1. Research question 1: Do B2B service brands have positive value to shareholders?*

We estimated a significant positive relationship (β = .096, *p* < .01) between the number of brands a B2B service firm owns and its shareholder value. Standard interpretation of the corresponding regression coefficient (i.e., indicating the average change in shareholder value for a one-unit change in the number-of-brands variable) suggests that B2B service brands have positive value to shareholders. This finding is important in itself, since it has remained conceptually unknown what importance shareholders ultimately attach to the cash flow advantages of B2B service brands (e.g., from reducing customer uncertainty) compared with the cash flow disadvantages related to the challenges in building and maintaining brand equity (e.g., due to the criticality of service employee behaviours, which are however difficult and costly to adapt). Notwithstanding the likely cash flow disadvantages, our results demonstrate that shareholders attach significant economic net value to B2B service brands.

*4.2. Research question 2: Do corporate B2B service brands have greater value to shareholders than service-specific B2B brands?*

In contrast to some suggestions in the literature, we find no clear evidence of a systematic value advantage to shareholders from B2B service brands that are corporate brands as opposed to service-specific brands. In particular, estimating the model containing no interaction terms resulted in a positive but insignificant effect (Model 1: β = .090, *p* > .10), which became weakly significant when interaction terms were added (Model 2: β = .101, *p* < .10). We conservatively interpret these findings as mixed evidence of the relative financial advantage of corporate brands over service-specific brands from a shareholder perspective. As our conceptual discussion revealed, shareholders value corporate brands but also service-specific brands for their distinct signals that can mitigate customer purchase uncertainty and for their respective advantages with regard to brand equity building and maintenance. In this regard, our result suggests that cash flow effects balance from the shareholders’ perspective, making corporate B2B service brands not more valuable to shareholders *per se*.[[8]](#footnote-8) Notwithstanding, shareholders may view corporate branding as more beneficial for some B2B service firms, depending on their degree of diversification and the type of services offered. We examine these possibilities next.

*4.3. Research question 3: For more highly diversified B2B service firms, do corporate brands have greater value to shareholders than service-specific brands?*

We did not estimate a significant interaction effect between corporate branding and diversification on shareholder value (β = −.021, *p* > .10), suggesting that shareholders of diversified B2B service firms do not regard corporate brands as more valuable than service-specific brands. Our conceptual discussion revealed that corporate brands have distinct cash flow advantages for diversified B2B service firms (e.g., related to signalling broad expertise and promoting transfer of quality associations and advertising synergies) but can also have cash flow disadvantages (e.g., related to unclear brand associations and vulnerability to negative spillovers between diversified service lines). Our result indicates that those financial advantages and disadvantages balance in shareholders’ view.

*4.4. Research question 4: For professional service firms, do B2B service brands have greater value to shareholders than they have for other B2B service firms?*

Our data suggest a systematic value premium for brands of professional service firms compared to the brands of other B2B service firms (β = .249, *p* < .01). Some arguments indeed suggested a value premium, indicating comparative cash-flow advantages from brands to sell complex, highly intangible, and usually expensive professional services that require customers’ commitment to provide necessary inputs (e.g., detailed specifications). However, other arguments indicated higher training costs and greater vulnerability of professional service brands, for instance because highly educated employees of professional service firms are more difficult to get to share and live the brand and behave consistently with the brand identity (i.e., the challenge of herding cats). Our results suggest that the cash-flow advantages of professional service brands significantly outweigh possible disadvantages from the shareholders’ perspective.

*4.5. Research question 5: For professional service firms, do corporate brands have greater value to shareholders than service-specific brands?*

The positive effect on shareholder value we estimated from the interaction between corporate branding and professional services (β = .331, *p* < .01) suggests that shareholders of professional service firms more highly value corporate brands than service-specific brands. Our finding is consistent with arguments from our conceptual discussion suggesting that signalling experience and reliability is key to sell professional services and that a corporate brand reflecting a firm’s heritage allows communicating experience and reliability more effectively than service-specific brands do. On the other hand, our result attenuates arguments discussed earlier that question the cash-flow advantages of corporate brands for professional services (e.g., the risk of harmful reputational spillover from service failures to the general business).

*4.6. Other effects*

We find that being more or less diversified does not have a main effect on the shareholder value of B2B service firms, suggesting that general market power advantages and synergies from diversification materialize less systematically for those firms than for other firms. However, our results indicate that the brands of more diversified B2B service firms are, on average, worth less to shareholders (β = −.030, *p* < .05) than are the brands of less diversified B2B service firms. The managerial complexity related to operations in multiple industries (i.e., diversification) is known to lessen managerial attention to individual business segments (e.g., Custódio, 2014; Dittmar & Shivdasani, 2003). Deficiency of managerial attention can result in suboptimal brand management and can thus explain the lower brand value we observed in the data for more diversified B2B service firms. In addition, our data indicate that professional service firms enjoy a general shareholder value premium compared with other B2B service firms (β = .082, *p* < .05). One explanation for this premium is that because professional services rely on complex knowledge of a highly educated workforce, customers cannot easily substitute those services, allowing professional service firms to command premium prices and enjoy superior cash inflows with smaller risk than other firms do (La et al., 2009).

Related to the additional covariates included as control factors in our model, results do not indicate a systematic shareholder value effect for B2B service firms from R&D spending and patents, suggesting that the financial market perceives as uncertain the future economic benefits from those innovation investments and assets. Further, while the shareholder value effects we estimated are positive for market share and industry concentration, these effects are not statistically significant, similar to results reported in prior studies that failed to detect systematic links between these variables and firm performance (Kurt & Hulland, 2013; Wernerfelt & Montgomery, 1988). These results suggest that the financial market does not anticipate more or less impact of market share and industry concentration on B2B service firms’ future cash-flow performance than on other firms’ future cash-flow performance. Moreover, our results show that the current-period shareholder value is a strong predictor of the one-year-ahead shareholder value, indicating effects from omitted factors that we took into account by including the current-period shareholder value as a regressor in our models.

**5. Implications**

This study presents the first comprehensive examination of B2B service brands’ value to shareholders and makes several important contributions to the literature. First, we introduce the shareholders’ perspective to the B2B service branding literature. By combining characteristics of B2B service transactions with a cash-flow logic, we develop an argumentation framework that illustrates how brands become relevant for the creation of value in B2B service contexts, but may also be challenging to build and maintain. We show how this approach can help identify key decision areas (e.g., branding strategy choice) related to branding B2B services that conceptually have opposing cash flow effects and that are hence interesting to study in terms of the actual financial value to shareholders.

Second, we contribute to the B2B branding literature by providing first empirical evidence that shareholders highly value the brands of B2B service firms. Arguments expressed in the literature have implicitly questioned the financial cash-flow contribution of B2B service brands, pointing for instance to the high rationality of organizational decision processes as well as the costs to build those brands and their high vulnerability. Qualifying those arguments, our findings show that shareholders see B2B service brands as net contributing assets. Our results thus make a strong and externally validated case for the financial benefit of B2B service brands. Also, in drawing on a large-scale data set containing objective brand and stock market data, our empirical investigation addresses criticism that B2B service branding research is predominantly conceptual and lacks empirical validation.

Third, our research contributes to an on-going debate as to the relative superiority of using corporate branding versus a multi-brand strategy for business goods and services. To the best of our knowledge, our study provides the first empirical test of that suggested superiority for services, indicating that the financial advantage of using a corporate brand to market B2B services is less systematic than sometimes assumed in the literature and depends on characteristics of the services that B2B service firms sell. Specifically, our results indicate that shareholders expect professional service firms, but not other B2B service firms, to extract larger future cash flows from a corporate brand than from a service-specific brand. This finding hence generally supports a contingency perspective for the relative superiority of branding strategies for B2B firms. However, our research also underscores the importance of empirically validating conceptually proposed contingency factors: Despite suggestions that highly diversified B2B service firms benefit from using a corporate brand instead of service-specific brands, and vice versa, our results do not suggest that shareholders value those brands systematically different.

Fourth, we contribute to the professional services literature by conducting the first empirical examination of the value that shareholders attach to professional service firms’ branding efforts. Generally, discussions in the marketing literature have not specifically focussed on brands and branding strategies for professional services, and our findings indicate that this omission is not trivial: Professional service firms seem to benefit more than other B2B service firms from establishing brands and making the right branding strategy choices. In addition to clarifying the financial value to shareholders of branding professional services, our results also provide insights into shareholders’ valuation of professional service firms themselves (i.e., beyond the brands these firms own). In this regard, we find a novel shareholder value premium for professional service firms, indicating that shareholders expect those firms to earn future cash flows superior to those of other B2B service firms.

From a managerial perspective, our research quantifies B2B service brands’ substantial financial value to shareholders. Specifically, our results indicate that the financial market attributes on average a value of $76 million to B2B service brands for the firms in our sample, with no separate value premium for corporate brands irrespectively of the degree of diversification.[[9]](#footnote-9) This substantial net value contribution provides marketing managers in B2B service firms with a strong basis to argue for building those important marketing assets and for defending budgets for brand building against myopic cuts. Referring to the financial value of brands ensures that firms’ boards hear marketing managers’ voice, as boards usually adopt the language of firm owners (i.e., shareholders) and hence “speak finance” (Luo & Homburg, 2008).

For B2B service firms that predominantly offer professional services, our results indicate that a corporate brand creates financial value superior to that from branding B2B services individually. Specifically, our findings suggest that the financial value of a corporate brand, as opposed to a tailored service brand, is larger by $737 million for professional service firms. In addition to those branding strategy considerations, our results indicate that the financial market pays a premium for professional service firms, suggesting that shareholders anticipate superior future net cash flows from professional service offerings. From this perspective, our study provides a compelling firm value-based rationale for B2B service managers to add to the business portfolio auxiliary professional services (e.g., consulting services), which managers should market using the firm’s corporate brand.

**6. Limitations and directions for further research**

Our data set has limitations that create opportunities for further research. First, while using observations from one of the largest and most efficient stock markets in the world has advantages, our data are from U.S. public B2B service firms. Further research could examine how findings differ from, or are similar to, our results regarding the firm value contribution of branding in non-U.S. B2B service firms and privately held B2B service firms. This research would help determine the degree to which the findings reported in this study can be generalized to other international contexts and company types. Second, our findings are based on secondary observational data. These data enabled us to conduct a large-scale examination and we took precautionary steps to rule out alterative explanations from omitted variables, while acknowledging that alternative explanations can never be completely ruled out in a non-experimental setting like ours (Rossi, 2014). Although an experiment is practically impossible to conduct for our investigation since B2B service firms cannot be randomly assigned to branding strategies, further research could conduct interviews with financial market investors or analysts to triangulate our findings concerning the shareholder value contribution of B2B service brands.

Our research also opens up additional avenues for further research. First, while literature suggests that choosing an appropriate branding strategy is one of the most fundamental and important branding decisions for B2B service firms, other branding strategic variables exist (e.g., premiumizing service offerings through higher price points), for which the financial value contribution has not been established empirically. While we could not investigate those variables for data availability reasons, anecdotal evidence from business practice suggests that those variables could influence B2B firms’ financial performance. As an example, many management consulting firms tend to charge premium prices to create a perception of high quality, and hence induce higher demand, for a highly intangible service. Second, we discovered a shareholder value premium for professional service firms, raising the question as to the origin of that premium. Monopoly theory suggests that since professional services require complex knowledge and educated staff, these characteristics may create an entry barrier in professional service markets, regulating competition and generating monopolistic rents that are reflected in professional service firms’ shareholder values. However, anecdotal evidence indicates fierce competition in some professional service markets (Greenwood et al., 2002; Maister, 2003), raising the need for additional explanations for the detected shareholder value premium, and this need creates opportunities for further impactful conceptual and empirical research.

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**Table 1**

Cash-flow effects of branding B2B services

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Relevant characteristics of B2B service transactions |   | Relevance of brands▼Increase of cash inflows and reduction of cash-flow risk (+ cash flow advantage) |   | Challenges of building and maintaining brand equity▼Increase of cash outflows and cash-flow risk(− cash flow disadvantage) |
| Uncertainty[usually high purchase value, degree of customization and complexity, and importance for customers' business functioning] |  | Brands are quality signals that can reduce purchase risk (+)Brands are tools for customer relationship building (+) |  | -- |
| Co-creation[customer input is critical for successful service delivery] |  | Affective commitment to service provider (e.g., from brand liking) increases customers' motivation to co-create (+) |  | Services are often delivered at the customers' location, limiting branding opportunities (e.g. via servicescape design etc.) (−)Customers often do not participate at levels to optimize outcomes of the service delivery (−)Brand associations are co-created with customers and therefore the eventual brand image will differ for different customers (−) |
| Actor multiplicity |  |  |  |  |
| − Provider-side [service delivery team] |  | Brands help create a shared vision, making the service delivery more consistent (+) |  | Internal marketing programs are costly and complex (−) Large number of actors from service provider involved can impede consistency of service delivery (−) |
| − Customer-side [buying centre] |   | Rational and systematic information searches of buying centres limit relevance of brand signal (−) |   | Buying centre members differ in terms of the brand images that appeal to them (−) |

**Table 2**

Overview of branding in different business service industries.

| SIC code | Industry description | Firms with corp. brand. | Firms with multi-brand. | Descriptives multi-branding | Exemplary firms |
| --- | --- | --- | --- | --- | --- |
| M | SD |
| 700 | Agricultural services | 2 | 0 | — | — | — |
| 1382 | Oil and gas field exploration services | 7 | 2 | 3.5 | 0.7 | Global Geophysical Services, CSI Compressco |
| 1389 | Oil and Gas field services | 13 | 8 | 6.8 | 7.2 | Halliburton, Superior Energy Services |
| 2790 | Service industry for the printing trade | 0 | 0 | — | — | — |
| 4100 | Local and suburban transit and interurban Hwy passenger transp. | 1 | 0 | — | — | — |
| 4213 | Trucking (no local) | 12 | 6 | 5.5 | 4.9 | YRC Worldwide, ArcBest Corporation |
| 4412 | Deep sea foreign transportation of freight | 3 | 0 | — | — | — |
| 4512 | Air transportation, scheduled | 13 | 3 | 2.3 | 0.6 | Republic Airways, Skywest |
| 4581 | Airports, flying fields and airport terminal services | 3 | 1 | 5.0 | — | Macquarie Infrastructure Company |
| 4610 | Pipe line transportation (no natural gas) | 15 | 0 | — | — | — |
| 4731 | Arrangement of transportation of freight and cargo | 9 | 1 | 7.0 | — | Radiant Logistics |
| 4922 | Natural gas transmission | 23 | 2 | 3.5 | 2.1 | Energy Transfer Partners |
| 4950 | Sanitary services | 10 | 0 | — | — | — |
| 4953 | Refuse systems | 7 | 0 | — | — | — |
| 4955 | Hazardous waste management | 10 | 1 | 3.0 | — | Clean Harbors |
| 4991 | Co-generation services and small power producers | 14 | 3 | 25.3 | 38.7 | Forcefield Energy, American DG Energy |
| 5000 | Durable goods wholesale | 4 | 0 | — | — | — |
| 5010 | Motor vehicles, motor vehicle parts and supplies wholesale | 2 | 1 | 4.0 | — | China Auto Logistics |
| 5013 | Motor vehicle supplies and new parts wholesale | 1 | 2 | 18.5 | 20.5 | Genuine Parts, American International Industries |
| 5030 | Lumber and other construction materials wholesale | 0 | 1 | 17.0 | — | Beacon Roofing Supply |
| 5031 | Lumber, plywood, millwork and wood panels wholesale | 4 | 0 | — | — | — |
| 5040 | Professional and commercial equipment and supplies wholesale | 1 | 0 | — | — | — |
| 5045 | Computers, peripheral equipment and software wholesale | 9 | 3 | 63.0 | 102.2 | Tech Data Corp, Scansource  |
| 5047 | Medical, dental and hospital equipment and supplies wholesale | 2 | 4 | 6.0 | 2.9 | Patterson Companies, Schein Henry |
| 5051 | Metals wholesale | 8 | 2 | 27.0 | 25.5 | Reliance Steel & Aluminum Co, MRC Global |
| 5063 | Electrical apparatus, equipment and wiring supplies wholesale | 3 | 2 | 12.0 | 12.7 | WESCO International, Universal Power Group |
| 5065 | Electronic parts and equipment wholesale | 8 | 4 | 12.8 | 15.7 | Richardson Electronics, Yosen Group |
| 5070 | Plumbing and heating equipment and supplies wholesale | 1 | 2 | 6.0 | 1.4 | Watsco, CCOM Group |
| 5072 | Hardware wholesale | 0 | 1 | 14.0 | — | Park Ohio Holdings |
| 5080 | Machinery, equipment and supplies wholesale | 7 | 2 | 9.0 | 9.9 | Applied Industrial Technologies, EnviroStar |
| 5084 | Industrial machinery and equipment wholesale | 5 | 1 | 3.0 | — | Transcat |
| 5090 | Miscellaneous durable goods wholesale | 1 | 1 | 4.0 | — | Bulova Technologies Group |
| 5110 | Paper and paper products wholesale | 1 | 1 | 4.0 | — | Sugarmade |
| 5122 | Drugs, proprietaries and druggists' sundries wholesale | 9 | 2 | 39.5 | 41.7 | McKesson Corporation, Prestige Brands Holdings |
| 5150 | Farm product raw materials wholesale | 2 | 0 | — | — | — |
| 5160 | Chemicals and allied products wholesale | 6 | 2 | 3.0 | 1.4 | CTD Holdings, CD International Enterprises |
| 5171 | Petroleum bulk stations and terminals | 18 | 3 | 3.0 | 1.0 | Rose Rock Midstream, Cheniere Energy |
| 5172 | Petroleum and petroleum products wholesale (no bulk stations) | 5 | 3 | 13.3 | 17.9 | World Fuel Services, Sunoco |
| 5190 | Miscellaneous non-durable goods wholesale | 5 | 0 | — | — | — |
| 6163 | Loan brokers | 2 | 0 | — | — | — |
| 6200 | Security and commodity brokers, dealers, exchanges and services | 11 | 1 | 4.0 | — | CME Group |
| 6512 | Operators of non-residential buildings | 7 | 0 | — | — | — |
| 6552 | Land sub-dividers and developers | 17 | 0 | — | — | — |
| 6792 | Oil royalty traders | 18 | 1 | 2.0 | — | Marine Petroleum Trust |
| 6794 | Patent owners and lessors | 23 | 9 | 15.6 | 21.5 | Choice Hotels International, Iconix Brand Group |
| 6795 | Mineral royalty traders | 4 | 0 | — | — | — |
| 7310 | Advertising services | 14 | 2 | 4.0 | 0.0 | Chinanet Online Holdings, Next 1 Interactive |
| 7311 | Advertising agencies | 3 | 2 | 46.5 | 61.5 | Interpublic Group Of Companies (IPG), Inuvo |
| 7323 | Credit reporting services | 5 | 1 | 6.0 | — | McGraw-Hill Financial |
| 7370 | Computer programming and data processing services | 196 | 35 | 5.6 | 5.6 | Verisign, Moduslink Global Solutions |
| 7373 | Computer integrated systems design services | 49 | 10 | 2.7 | 0.9 | Leidos Holdings, Henry Jack & Associates |
| 7374 | Computer processing and data preparation services | 27 | 3 | 3.3 | 1.5 | CompuMed, Alliance Data |
| 7380 | Miscellaneous business services | 3 | 1 | 3.0 | — | ADT Corporation |
| 7381 | Detective, guard and armoured car services | 0 | 2 | 3.5 | 2.1 | Brink's Company, Command Security Corp |
| 7389 | Other Business services | 16 | 8 | 4.4 | 1.8 | KAR Auction Services, AMREP Corp |
| 8071 | Medical laboratories | 12 | 5 | 5.0 | 3.4 | Quest Diagnostics, BioReference Laboratories |
| 8711 | Engineering services | 12 | 5 | 4.4 | 0.5 | Layne Christensen, Argan |
| 8731 | Commercial physical and biological research | 17 | 3 | 2.7 | 0.6 | Exact Sciences Corp, Manhattan Scientifics |
| 8734 | Testing laboratories | 2 | 0 | — | — | — |
| 8741 | Management services | 6 | 1 | 7.0 | — | Butler National Corp |
| 8742 | Management consulting services | 20 | 2 | 3.0 | 1.4 | Corporate Executive Board (CEB), Pharma-Bio Serv |
| 8744 | Facilities support management services | 2 | 0 | — | — | — |

**Table 3**

Independent and control variable operationalization.

|  |  |  |
| --- | --- | --- |
| Variable | Source | Definition/operationalization |
| Shareholder value | COMPUSTAT | One-year ahead Tobin’s q = (market value of common stocks+ book value of preferred stocks + book value of long-term debt + book value of inventories + book value of current liabilities – book value of current assets) / (assets – goodwill) |
| Brands | Firm websites, annual reports, SEC filings  | Number of brands a firm owns |
| Corporate branding | Firm websites, annual reports, SEC filings | Indicator with value 1 if a firm owns only a single brand, which is usually the company name, and 0 otherwise |
| Diversification | COMPUSTAT Segments | Number of different industry segments (four digit SIC code) a firm operates in |
| Professional service firm | Firm websites, annual reports, SEC filings | Indicator with value 1 if a firm predominantly provides professional services, and 0 otherwise. Coded by two independent raters with inter-rater agreement > .80. All disagreement was resolved and coding was verified by marketing experts |
| R&Dspending | COMPUSTAT | R&D spending / revenue |
| Patents | United States Patent and Trademark Office | Number of patentsa firm owns |
| Market share | COMPUSTAT | Revenue / total revenue in industry (four digit SIC code) |
| Industry concentration | COMPUSTAT | Sum of squared market shares (Herfindahl-Hirschman Index) for a firm’s industry (four digit SIC code) |
| Lagged shareholder value | COMPUSTAT | Lagged shareholder value to control for unobservable time-varying omitted factors |

**Table 4**

Descriptive statistics and correlations.

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Variables | M | SD | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
| 1. | Shareholder value | .94 | .56 | 1 |  |  |  |  |  |  |  |
| 2. | Brands | 1.01 | .52 | .05 | 1 |  |  |  |  |  |  |
| 3. | Corporate branding | .81 | .40 | .04 | −.68 | 1 |  |  |  |  |  |
| 4. | Diversification | 2.98 | 1.92 | −.12 | .03 | −.08 | 1 |  |  |  |  |
| 5. | Professional service firm | .61 | .49 | .29 | .00 | .04 | −.13 | 1 |  |  |  |
| 6. | R&D spending | .30 | .93 | .24 | .03 | .02 | .00 | .47 | 1 |  |  |
| 7. | Patents | 1.38 | 1.84 | .05 | .01 | −.03 | .16 | .23 | .46 | 1 |  |
| 8. | Market share | .07 | .13 | −.10 | .09 | −.18 | .19 | −.37 | −.22 | −.04 | 1 |
| 9. | Industry concentration | .19 | .13 | −.07 | −.01 | −.05 | .10 | −.44 | −.36 | −.09 | .54 |

Notes: Correlations with an absolute value greater than .10 are significant at the *p* < .05 level. All variables except for indicator variables were standard log-transformed, following the logic of Equation 4, decomposing shareholder value measured with Tobin’s q. See Table 3 for variable definitions. Following standard protocol, variables included in interaction terms were mean-centred before using them in the analyses.

**Table 5**

The value of B2B service branding to shareholders.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|   |   | Dependent variable: Shareholder value |   | Research question |
|  | Model 1 |  | Model 2 |  |
|   | b | t |   |   | b | t |   |   |
| *Value of a brand* |  |  |  |  |  |  |  |  |  |  |
| Brands |  | .077 | 1.97 | \*\* |  | .096 | 2.65 | \*\*\* |  | RQ 1 |
| *Value advantage of a corporate brand* |  |  |  |  |  |  |  |  |  |  |
| Corporate branding |  | .090 | 1.50 |  |  | .101 | 1.67 | \* |  | RQ 2 |
| *Interaction effects* |  |  |  |  |  |  |  |  |  |  |
| Corporate branding x Diversification |  |  |  |  |  | −.021 | −.99 |  |  | RQ 3 |
| Brands x Professional service firm |  |  |  |  |  | .249 | 3.53 | \*\*\* |  | RQ 4 |
| Corporate branding x Professional service firm |  |  |  |  |  | .331 | 2.81 | \*\*\* |  | RQ 5 |
| *Control variables* |  |  |  |  |  |  |  |  |  |  |
| Diversification |  | .006 | 1.07 |  |  | .006 | .95 |  |  |  |
| Brands x Diversification |  |  |  |  |  | −.030 | −2.21 | \*\* |  |  |
| Professional service firm |  | .079 | 2.37 | \*\* |  | .082 | 2.47 | \*\* |  |  |
| R&D spending |  | −.011 | −1.30 |  |  | −.013 | −1.51 |  |  |  |
| Patents |  | −.004 | −.53 |  |  | −.004 | −.61 |  |  |  |
| Market share |  | .107 | .97 |  |  | .051 | .46 |  |  |  |
| Industry concentration |  | .059 | .49 |  |  | .038 | .32 |  |  |  |
| Lagged shareholder value |  | .877 | 27.36 | \*\*\* |  | .871 | 27.26 | \*\*\* |  |  |
| Intercept |  | .049 | 1.26 |  |  | .063 | 1.61 |  |  |  |
| *Model* |  |  |  |  |  |  |  |  |  |  |
| N |  | 380 |  |  | 380 |  |  |  |
| Max. VIF |  | 2.73 |  |  | 2.98 |  |  |  |
| R2 |  | .80 | \*\*\* |  | .81 | \*\*\* |  |  |
| F-value |   | 152.43 | \*\*\* |   | 144.98 | \*\*\* |   |   |

Notes: All variables except for indicator variables were standard log-transformed, following the logic of Equation 4, decomposing shareholder value measured with Tobin’s q. Following standard protocol, variables included in interaction terms were mean-centred. The significance of the t-statistics is on the basis of a two-tailed test and indicated as: \*p ≤ .10, \*\*p ≤ .05, and \*\*\*p ≤ .01.

**Fig. 1** Conceptual framework – The economic value of branding for B2B service firms.



Notes: The numbering of the betas is according to the statistical model specified in Equation 4. Measurement of the constructs is indicated in parentheses and explained in detail in the text.

1. For instance, the uncertainty of customers with regard to industrial installation services is not *very* high, since whether equipment has been installed correctly customers can judge by whether it is working properly (although some uncertainty remains related to installation errors that only show after some time). In comparison, whether a market entry strategy designed by a consulting firm is of high quality is more difficult for customers to evaluate. The quality of this service can only be assessed in the long run and even then the assessment may be difficult due to contingencies and concurrent events. [↑](#footnote-ref-1)
2. For studies using a similar approach of deriving the financial value of a marketing asset from its cash-flow implications, see for instance Anderson et al. (2004), Srinivasan (2006), and Fang et al. (2008). [↑](#footnote-ref-2)
3. U.S. firms’ exports to those countries made up approximately two-thirds of total U.S. exports in 2014. [↑](#footnote-ref-3)
4. Our sample from the collection of the brand data included 865 firms. This sample was reduced due to unavailable data on variables required to calculate Tobin’s q (market value of common stocks, book value of preferred stocks, long-term debt, inventories, current liabilities, book value of current assets, book value of assets, and goodwill; 179 firms), the one-period ahead Tobin’s q (an additional 223 firms), diversification (an additional 68 firms), and control variables (an additional 15 firms). [↑](#footnote-ref-4)
5. Binary indicator variables were not log-transformed, which has no effect on estimation results but facilitates the interpretation of effects estimated for those variables. Log-transformations were applied to observed variable values + 1 to accommodate small positive values and ensure that observed values of zero (e.g., for the number of patents owned) remain zero after the transformation. [↑](#footnote-ref-5)
6. This interpretation of β1 is on the basis of standard interpretation of regression coefficients, which represent the change in the dependent variable (i.e., shareholder value) for a one-unit change in the independent variable (i.e., the number of brands). The transformations of the measures need to be considered for interpretation. [↑](#footnote-ref-6)
7. This value premium or disadvantage is compared to the value per brand of more highly diversified B2B service firms (i.e., determined by β1 and β7) and any value premium or disadvantage of corporate brands *per se* (i.e., β2). [↑](#footnote-ref-7)
8. We should note that our findings do not suggest that corporate B2B service brands have no value to shareholders. Corporate brands are B2B service brands, such that the value estimate related to research question 1 also pertains to those brands. However, we do not find a systematic *differential* value effect, in the sense of a value premium (or disadvantage). [↑](#footnote-ref-8)
9. We calculated shareholder value dollar figures by multiplying the estimated effect size of business service brands on Tobin’s q (Model 2 in Table 5) with the mean asset-net-goodwill value of $3402 million for firms in our sample, taking into account the standard log-transformation of variables (Equation 4). [↑](#footnote-ref-9)