

# Brand risks

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## **Abstract:**

Executives rate brand and reputation risks as one of the most important business challenges. However, literature lacks systematic insights into nonfinancial risks whereby the actual contribution of brands to business performance remains unclear. This study addresses this research gap. It defines the new construct brand risk to capture the expected uncertainty or volatility of brand ratings, discusses the expected relation of brand risk to firm performance, and introduces a taxonomy of brand risk. Two studies provide an empirical demonstration of the relationship between brand risk and performance. For 1,007 brands across 29 sectors observed monthly between 2013 and 2017 in the U.S., the first analysis examines how brand risk relates to consumer response (i.e., market share growth and its volatility). For a subset of 225 publicly listed firms, the second analysis explores the link between brand risk and investor response (i.e., stock return and its risk). These comprehensive analyses bring many novel findings. The results show that brand risk (i) is relevant for firm performance, (ii) marks a boundary condition for the performance-enhancing effects of brand value improvements, and (iii) consists of systematic and idiosyncratic as well as upside and downside components that exert asymmetric effects on consumers and investors.