

Copyright
by
Debika Sihi
2013

**The Dissertation Committee for Debika Sihi Certifies that this is the approved
version of the following dissertation:**

Uncovering Key Actors in the Marketing-Firm Value Link

Committee:

Rajashri Srinivasan, Supervisor

Vijay Mahajan

Leigh McAlister

Jade DeKinder

Michael Clement

Uncovering Key Actors in the Marketing-Firm Value Link

by

Debika Sihi, BBA; MPA

Dissertation

Presented to the Faculty of the Graduate School of
The University of Texas at Austin
in Partial Fulfillment
of the Requirements
for the Degree of

Doctor of Philosophy

The University of Texas at Austin

May 2013

Dedication

I dedicate this dissertation to my wonderful, patient, supportive husband Tom without whom none of this would be possible. Thank you for your endless encouragement and for being my best friend. I also dedicate this work to my parents, Debasish and Supriya. Obviously I am biased; however, I am quite certain I have the most wonderful parents in the world. Thank you for always believing in me and letting me always choose my own path.

Acknowledgements

I would like to acknowledge Raji Srinivasan, my advisor, who has motivated and inspired me to become a researcher and scholar. Raji, you are a passionate, methodical, and patient teacher. I am grateful for all your guidance and support. I would also like to acknowledge my tremendous dissertation committee: Vijay Mahajan, Leigh McAlister, Jade Dekinder, and Michael Clement. Vijay, thank you for sharing your wisdom and for all the support you have given me during my time in the PhD program. Leigh, I thank you for introducing me to academia and for challenging me to investigate issues which are important and relevant to the field of marketing. Jade, I appreciate all your guidance, your mentorship, and above all your compassion and willingness to always help. Thank you for being such a wonderful example of what it means to be a scholar. Michael, I am grateful for your infinite wisdom and your endless support. There are few people who can inspire someone to try to be better both professionally and personally, you are one of those people, and I am truly grateful to work with you. I would also like to acknowledge Sandy Leeds, David Platt, and Kelly Kamm who were so helpful in contributing to the development of Essay 1. Thank you to all the other PhD students in the Department of Marketing; you are wonderful colleagues and friends. Helen Anderson, Susannah Raulino, and Josephine Mabry, thank you for all your support and encouragement always. Finally, I would like to acknowledge my amazing husband and parents who inspire me to work harder and be a better person each and every day.

Uncovering the Key Actors in the Marketing-Firm Value Link

Debika Sihi, Ph.D.

The University of Texas at Austin, 2013

Supervisor: Rajashri Srinivasan

The objective of this dissertation is to provide insights on key actors who affect the link between marketing and firm value. The first essay examines financial analysts who provide earnings estimates about firms, thereby connecting firm and the stock market. The author uncovers whether and how financial analysts link market-based assets (e.g., brand equity) to a firm's cash flows, drivers of firm value. The author predicts market-based assets affect a firm's cash flow level, volatility, and acceleration through two marketing strategies, the ability to charge price premiums and penetrate new product markets. Hypotheses are tested using data from surveys of 220 North America based financial analysts. Based on analysts' feedback, brand and channel equity affect a firm's ability to penetrate new product markets, and brand equity also affects a firm's ability to charge price premiums. The ability to charge price premiums increases cash flows level while the ability to penetrate new product markets enhances cash flow level and acceleration of cash flows. Finally, channel equity directly lowers cash flow volatility and market intelligence enhances cash flow level. The findings offer evidence that analysts connect a firm's market-based assets to the generation of its cash flows. This has important implications for managers who maintain communications with the financial analyst community.

In the second essay, the author examines the impact of a firm's shareholders and board of directors on the marketing-firm value link. The author hypothesizes that a firm's shareholders and board of directors affect how its advertising and R&D dollars are spent and also affect stock market participants' perceptions of this spending, thereby affecting its firm value. Hypotheses are tested using data on 575 publicly listed firms in the United States. The findings indicate that higher shareholder governance and higher marketing spending (both advertising and R&D spending) increase firm value. However, somewhat interestingly, higher board governance and higher advertising spending decrease firm value. These results highlight the importance of considering corporate governance when analyzing the marketing-shareholder value link and offer yet another important reason for the marketing function to have a voice in the firm's boardroom.

Table of Contents

Table of Contents	viii
List of Tables	xi
List of Figures	xii
ESSAY 1: UNDERSTANDING FINANCIAL ANALYSTS' VALUATION OF MARKET-BASED ASSETS	1
Chapter 1: Introduction.....	1
Chapter 2: Theory and Hypotheses.....	6
Brand Equity	7
Channel Equity.....	8
Market Intelligence	10
Chapter 3: Method	13
Data	13
Measures	13
Brand Equity	14
Channel Equity.....	14
Market Intelligence	15
Marketing Strategies	15
Cash Flows.....	15
Control Variables	16
Chapter 4: Results.....	17
Analysis.....	17
Additional Analysis	18
Mediation Analysis	18
Model Comparisons	20
Sampling Variations.....	20
Responder Confidence	21

Tests for Non-Response Bias.....	21
Chapter 5: Discussion.....	22
Theoretical Contributions	22
Implications for Marketing Practice	24
Limitations and Future Research	25
ESSAY 2: WHEN IS MORE OR LESS GOVERNANCE BETTER? THE DIFFERENTIAL IMPACT OF SHAREHOLDER AND BOARD GOVERNANCE ON THE RELATIONSHIP BETWEEN MARKETING SPENDING AND FIRM VALUE	27
Chapter 6: Introduction.....	27
Chapter 7: Theory	33
Value Relevance of Advertising and R&D Spending.....	33
Shareholder Governance Structure	34
Board Governance Structure.....	35
Chapter 8: Method	39
Data	39
Measures	41
Advertising and R&D Spending.....	41
Shareholder Governance Structure	42
Board Governance Structure.....	42
Firm Value	42
Control Variables	43
Chapter 9: Results.....	44
Modeling Approach	44
Model Selection	44
Tests of Hypotheses	45
Additional Analysis	46
Sampling Variations.....	46
Alternate Measures	46
Nature of Spending versus Amount.....	46

Data Sample	47
Effects on Dispersion of Analysts' Forecasts	47
Chapter 10: Discussion	50
Theoretical Contributions	50
Implications for Practice	52
Limitations and Future Research	53
Appendix A.....	68
Appendix B.....	71
References.....	74

List of Tables

Table 1: Essay 1 - Measures, Reliabilities, and Sources.....	60
Table 2: Essay 1 - Correlations	61
Table 3: Essay 1 - Results of Final Model.....	62
Table 4: Essay 2 - Definitions, Data Sources, & Literature Sources	63
Table 5: Essay 2 - Correlations and Descriptive Statistics of Measures.....	64
Table 6: Essay 2 - Results for the Contingent Impacts of Corporate Governance on the Effect of Advertising and R&D Spending on Firm Value.....	65
Table 7: Essay 2 - Additional Analysis with Sampling Variations	66
Table 8: Essay 2 - Additional Analysis with Alternate Measures and the Effects on Analysts' Earnings Forecast Dispersion	67

List of Figures

Figure 1: Essay 1 - Conceptual Framework and Hypothesized Relationships	56
Figure 2: Essay 1 - Analysts' Assessments of Market-Based Assests and Cash Flows	57
Figure 3: Essay 2 - Conceptual Framework: The Effects of Corporate Governance and Marketing Spending on Firm Value	58
Figure 4: Essay 2 - Variance (Cross-Sectional) of Shareholder and Board Governance	59

ESSAY 1: UNDERSTANDING FINANCIAL ANALYSTS' VALUATION OF MARKET-BASED ASSETS

Chapter 1: Introduction

Financial analysts are important information intermediaries between a firm and the stock market. Prior work in marketing has provided inconsistent findings as to whether and how financial analysts value marketing activities in their forecasting efforts. Researchers have found that firms' efforts in building customer satisfaction and spending on advertising affect analysts' estimates and recommendations and ultimately stock prices (Luo, Homburg, and Wiseke 2010; Luo and de Jong, 2012). However, other research suggests that analysts do not incorporate firms' advertising spending in their valuation models (Kim and McAlister 2011). With this work, I examine whether financial analysts account for market-based assets (e.g., brand equity) in their valuation efforts. I collaborate directly with financial analysts in an attempt to uncover the processes through which analysts link market-based assets to firm value. My objective is to shed greater insight on analysts' mental models related to marketing and to offer greater evidence related to analysts' ability to value marketing, specifically market-based assets.

Recent marketing studies (e.g., Ngobo, Casta, and Ramond 2012) have drawn attention to the importance of considering analysts as conduits of marketing information for the stock market. Srinivasan and Hanssens (2009, p. 308) issued a call for research on "how analysts' interpretations of marketing activities impact stock returns." With this work, I am able to not only generate more insights on the marketing-firm value link, via the financial analyst, but I am also able to provide more knowledge about analysts' mental models and the ways in which they value market-based assets.

In addition, while there is substantial empirical evidence on the effects of brands (e.g., Mizik and Jacobson 2008; 2009; Morgan and Rego 2009) and channels (e.g., Srinivasan 2006) in increasing firm value, all of the studies rely on secondary measures of shareholder value. While secondary shareholder value metrics (e.g., stock returns, intangible value) have many advantages, including reliability, they offer few insights on the mechanisms underlying these effects. By focusing on analysts' insights, I am able to examine two marketing strategies, the ability to charge price premiums and penetrate new product markets, by which analysts perceive market-based assets to impact a firm's cash flows. In doing so, I pry open the "black box" between the firm's marketing activities and its shareholder value.

Finally, Srivastava, Shervani, and Fahey (1998) classify market-based assets into two categories: (1) relational market based assets, such as brand and channel equity, which are generated from a firm's relationships with external stakeholders, and (2) intellectual market-based assets, such as market intelligence, which is the knowledge a firm possesses about the environment. Beyond this conceptualization of market intelligence, no work to date has examined the how market intelligence impacts firm value. I posit this may be due to the proprietary nature of market intelligence which makes it difficult for a researcher or third party to gain knowledge on this topic. However, financial analysts, who engage in communications and interviews with firms' management teams, are likely to have an idea of the amount and nature of intelligence the firm gathers. Thus, I believe the use of primary data also allows me the ability to provide initial insights on the linkages between market intelligence and firm value.

From a managerial perspective, I contend that better understanding the implications of market-based assets on firm value, from analysts' perspectives, is critical for managers who are responsible for the firm's communications with analysts and

investors. By understanding how analysts relate market-based assets to a firm's cash flows, managers can improve such communications.

In addition, insights on the link between market-based assets and firm value offer marketing managers an opportunity to better manage communications with members of other departments within the firm. Verhoef and Leeflang (2009) state that in order to increase marketing's influence within the firm "marketing departments should become more accountable for the link between marketing actions and policies and financial results." The results of this paper may assist managers to better explain the link between market-based assets and firm value to colleagues in other departments. This can aid in not only enhancing marketing's influence within the firm, but may also affect budgetary allocations to marketing initiatives.

I draw on a conceptual framework outlined by Srivasatava, Shervani, and Fahey (1998), linking market-based assets to a firm's cash flows via two marketing strategies, the ability to charge price premiums and penetrate new product markets. I also conducted in-depth interviews with ten financial analysts to support the theoretical foundation of this work. I hypothesize that a firm will be able to leverage its brand equity and market intelligence to charge its customers higher price premiums and/or penetrate new product markets in turn, increasing the level and speed of cash flow and decreasing cash flow volatility. I hypothesize parallel effects for channel equity with the exception of linking channel equity to price premiums, as I find no theoretical basis for this hypothesis.

To test these hypotheses, I surveyed 220 financial analysts at investment banks, mutual fund management firms, and private equity research firms, who cover U.S. publicly traded securities. There is empirical precedent for surveying financial analysts in the accounting (e.g., Imhoff 1992), finance (e.g., Block 1999), and management (e.g.,

Westphal and Clement 2008) literatures. For the survey, I adapted measures from prior research, where available, and developed new measures where necessary. I estimated a path model relating (1) the effects of brand equity, channel equity, and market intelligence, on two marketing strategies: the ability to charge price premiums and the ability to penetrate new product markets and (2) the effects of the marketing strategies on the level, speed, and volatility of cash flows.

Based on analysts' feedback, the findings indicate that brand and channel equity enhance a firm's ability to penetrate new product markets while brand equity also enhances the ability to charge price premiums. A firm's ability to charge price premiums and to penetrate new product markets, fully mediate the relationship between brand equity and cash flow level. Analysts' perceptions of a firm's ability to penetrate new markets also fully mediate the relationship between both brand and channel equity and cash flow acceleration. Market intelligence directly enhances cash flow level while channel equity lowers cash flow volatility. The findings are robust to sampling variations and alternate model specifications.

Thus, the findings indicate the analysts are able to link market-based assets with the generation of a firm's cash flows. From a theoretical perspective, the results offer evidence that analysts value market-based assets, specifically brand equity, channel equity, and market intelligence. I am able to uncover processes through which analysts link these three market-based assets to cash flows, providing more insights on the marketing-firm value link and answering the call for research (Srinivasan and Hanssens 2009) to better understand how analysts value marketing. The paper's findings also have implications for a firm's managers who can use the results to tailor communications with analysts by connecting the firm's investments in market-based assets with the firm's cash flow creation.

The remainder of the paper is organized as follows. I first develop the hypotheses. Then I follow with details of the data, empirical analysis, and the results of the tests of hypotheses followed by additional analysis. I conclude with a discussion of the theoretical and managerial implications and identify limitations of this work and opportunities for future research.

Chapter 2: Theory and Hypotheses

Intangible assets such as brand equity, channel equity, and market intelligence are often not adequately accounted for in firm financial statements (Lev 2001; Srivastava, Shervani, and Fahey 1998), and analysts often have difficulty assessing this intangible value (Amir, Lev, and Sougiannis 2003). However, to enhance the accuracy of their forecasts, I propose that analysts do make an effort to evaluate the link between market-based assets and firm value. I assert that in order to assess how these intangible assets affect firms' cash flows, analysts first try to understand the impact of market-based assets on marketing strategies, which directly affect consumers' purchase decisions. For example, higher brand equity allows a firm to earn higher price premiums which likely generates higher cash flow levels. I propose that analysts are able to infer the impact of market-based assets on marketing strategies (which are directed at consumers) both through market research and by adopting a consumer's perspective (perspective taking). Social perspective taking is "the ability to free oneself of one's own view and to recognize and understand the thoughts, feelings, and motives of the self and others" (Shantz 1983). To adopt the perspective of the consumer, analysts must have both the ability and the motivation to do so (e.g., Selman 1980). Analytical thinking is an essential component of financial analysts' job functions (Bureau of Labor Statistics, 2009). Hence, I anticipate that an analyst will have the requisite ability to engage in perspective taking. In addition, analysts are likely to be both able (as consumers of goods and services themselves) and sufficiently motivated, because of negative career consequences (e.g., job turnover) which arise from providing incorrect firm valuations (Mikhail, Walther, and Willis 1999), to assume consumer perspectives. Thus, I propose that analysts are likely to integrate their firsthand consumer experiences with their market research (i.e. from

industry reports) to adopt a consumer's perspective with which to evaluate the impact of market-based assets on marketing strategies (aimed at consumers) and cash flows.

I start by hypothesizing the effects of market-based assets on two marketing strategies: the ability to charge price premiums and penetrate new product markets and in turn, their effects on cash flows. In model testing, I include direct paths between market-based assets and cash flow measures; however, I do not include these relationships in hypotheses development as I posit these relationships will be fully mediated by the marketing strategies. In building the hypotheses, where necessary, I supplement theoretical arguments using insights from in-depth interviews with ten financial analysts. Figure 1 provides a conceptual framework of the hypothesized relationships.

BRAND EQUITY

I propose that brand equity affects a firm's ability to charge revenue premiums and enter new product markets (Srivastava, Shervani, and Fahey 1998). Consumers often pay price premiums for brands with high equity (Aaker 1996) due to attributions of quality (Erdem and Swait 1998). Branding reduces uncertainty that new consumers may experience when deciding whether or not to try a new product or service (Erdem and Swait 1998). Firms with high equity brands are often able to enter new markets faster (Robertson 1993), and their lines extensions are more readily accepted by consumers (Keller 1993) because of consumers' affinity for their brands. Consumers also pay premiums for branded products versus private label goods (Ailawadi, Lehmann, and Neslin 2003). In addition to adopting a consumer perspective, I assert that analysts are themselves consumers of branded products, and thus, will have personal experiences (e.g., willingness to pay, loyalty to brands) with brands. Thus, they are likely to use both

their adopted consumer perspective (offers a consensus perspective for the analyst) and their own personal experiences with which to value brand equity.

I propose that analysts will be able to understand the ability of a firm to leverage high brand equity both into price premiums and the penetration of new product markets.

One analyst I interviewed said,

If you take the example of Nike, they can charge more because of the brand. Also, no-brand companies will have weaker competitive positions than Nike because if another no-brand comes along with a cheaper shoe they will be out of luck. So they are in a weaker competitive position than the firm with a strong brand who can introduce more products.

Another analyst said,

When a five year old wants a hamburger he doesn't want Chick-Fil-A or Whataburger, he wants McDonalds. Even at that young age, the brand value of the firm comes through. This should have an impact on increasing sales. Firms like McDonalds, who have a brand that is known, can also charge more for their products because people know about them.

Finally, one analyst I interviewed said,

People don't even know what the new iPad is going to look like or how it will differ from the iPad2, but there is already a ton of demand for it even from customers who own the earlier version of the Ipad, and there will be lines three miles long of people waiting to buy it at 12:01 am on the day of its release—in other words, demand exists just because it's an Apple product.

Thus, I anticipate that analysts will perceive the higher a firm's brand equity, the higher its ability to generate price premiums and penetrate new product markets.

CHANNEL EQUITY

I conceptualize channel equity as satisfaction among channel partners. Channel satisfaction improves morale and cooperation among channel members (Hunt and Nevin 1974). Channel satisfaction also lowers dysfunctional conflict among channel members (Lusch 1976). Neither analysts nor consumers are privy to full details regarding the

relationships between channel members. However, consumers are affected by the outcomes of these relationships as effective channel relationships can make it possible for firms to enter new product markets. Collaboration between channel members allows firms to enter new markets efficiently (e.g., Jap 1999), increasing the availability of products and services for consumers, an attribute which I propose that (stock) market participants will value. Prior work suggests that the stock market values stakeholder satisfaction, since customer satisfaction (e.g., Luo, Homburg, and Wiseke 2010; Ngobo Casta, and Ramond 2012) and employee satisfaction (Edmans 2011) both garner positive returns in the market. Thus, I posit that analysts will similarly value satisfaction in channel relationships as a critical factor in distributing products and services to end consumers.

My discussions with analysts suggest that they have an understanding of the effects of channel relationships and new market penetration¹. One analyst I spoke with said,

For Walgreen's, store traffic is driven by the number of Walgreen's locations. The availability of products and the turnover of these products (on the shelf) is affected by corporate's relationships with supplier and retail partners at each of these locations. Many Wall Street analysts have a clear understanding of this and how it ties to a company's profitability.

Thus, I predict from a financial analyst's perspective, the higher a firm's channel equity, the higher its ability to penetrate new product markets.

¹ I did not find any theoretical support or glean any information from the interviews with the financial analysts that suggests that channel equity affects a firm's ability to charge price premiums. Thus, I did not offer a hypothesis related to this relationship.

MARKET INTELLIGENCE

Srivastava, Shervani, and Fahey (1998) propose that intellectual market-based assets may be used to leverage marketing strategies and impact cash flows similar to the manner in which relational market-based assets (brand and channel equity) do. They define intellectual market-based assets as the types of knowledge a firm possesses about the environment, such as the emerging and potential state of market conditions and the entities in it, including competitors, customers, channels, suppliers, and social and political interest groups. This broad conceptualization captures any information or knowledge a firm gathers to give itself a competitive advantage in the market. I focus on market intelligence a firm gathers about industry conditions, its competitors, and customers.

Although, firms do not disclose all of the intellectual capital or market intelligence they have gathered, analysts are privy to a substantial amount of information regarding a firm's market intelligence. In presentations to sell-side analysts and post-earnings communications, firms disclose information about a firm's strategic direction, customers, and processes, while they are less forthcoming about research and development (R&D) knowledge (Garcia-meca, Parra, Larràn, and Martínez 2005). Analysts, themselves, engage in environmental scanning and gathering of market intelligence (Whitwell, Lukas, and Hill 2007) to enhance the accuracy of their forecasts. Given the similarity of analysts' and firms' market information gathering efforts, I presume an analyst will value a firm's efforts in gathering market intelligence to better meet and satisfy consumer needs. My interviews with the analysts confirm this view as one analyst commented, "Companies have to keep their pulse on the industry all the time, otherwise they fall behind on all the trends, and consumers know it." Therefore, I propose that from a financial analyst's perspective, the higher the firm's market intelligence, the

higher its ability to charge price premiums for its products and penetrate new product markets.

Marketing Strategies and Firm Cash Flows

As stated earlier, performance of their job functions necessitates that analysts be proficient in analytical and critical thinking (CFA Institute 2011). I posit that their strong backgrounds in finance and training in analytical thinking, allow analysts to translate the impact of price premiums into higher margins (Vishwanath and Mark 1997), which then result in increased levels of cash flow. Prior research lends support to this proposition, as Quelch and Harding (1996) find that when Marlboro cut the price of its cigarettes to compete with other brands, analysts punished them in the stock market believing that lowering the price premium would dampen cash flow levels in the long term, thereby indicating analysts' cognizance of the effects of price premiums on cash flow levels.² Based on this reasoning, I hypothesize that from a financial analyst's perspective, the higher the firm's ability to charge price premiums, the higher its cash flow level.

I now turn to analysts' perceptions of a firm's ability to penetrate new product markets on cash flows. A key function performed by financial analysts is providing investment recommendations and advice to investors (Whitwell, Lukas, and Hill 2007). Analysts typically recommend investors to hold diverse stock portfolios to hedge against risk. I propose that analysts are likely to perceive new product markets similar to the way in which they view a diversified stock portfolio. Hence, analysts may perceive that a firm's ability to penetrate new markets can hedge against downturns in current markets, thereby lowering cash flow volatility. In addition, new product markets offer firms the

² I do not anticipate any effect of price premiums on either cash volatility or cash flow acceleration, thus these effects are not hypothesized. However, subsequently, I empirically test for and find no support for these relationships.

ability to generate new revenue streams quickly, the way a new equity investment might. Thus, I predict from a financial analyst's perspective, the higher the firm's ability to penetrate new product markets, the higher its cash flow level, the lower its cash flow volatility, and the higher its cash flow acceleration.

Chapter 3: Method

DATA

To test the hypotheses, I surveyed financial analysts based in North America who covered U.S. publicly traded securities. I collaborated with chartered financial analyst societies (CFA) across the United States and gathered analysts' contact information from publicly available directories of investment banks, money management firms, and equity research firms. Using a sample of 1,455 e-mail addresses, I received 220 useable responses resulting in a response rate of 15%. The final sample consists of analysts employed at firms such as Deutsche Bank, Sterne Agee, Morningstar, Inc, and numerous others. I emailed the survey to the analysts explaining the nature of the project. To ensure honesty and accuracy in response, the respondents were assured of anonymity. Given the proprietary nature of financial analysts' evaluations, I also had them focus on a specific firm in an industry that they covered, when responding, but did not require them to disclose the name of that firm in the survey. To motivate participation, I offered to donate a small amount to a charity for each complete survey response.

MEASURES

I adapted measures from prior research, whenever available, and developed new measures when necessary. To develop the measures, I first interviewed ten financial analysts to ensure that the terminology was interpreted in a consistent manner to that intended. I also ran pilot surveys with a student financial analyst group at a large, public university in the United States and two CFA societies. The measures are provided in Appendix A. I provide the reliability statistics (Cronbach's alpha) and descriptive statistics for all the measures in Table 1. I then checked for measure reliability as suggested by Fornell and Larcker (1981). All measures had composite reliability values

above the prescribed 0.700 threshold (Nunnally 1978) and average variance extracted values greater than the 0.500 threshold (Fornell and Larcker 1981). The composite reliability values range from 0.759 to 0.930, and the values for average variance extracted range from 0.525 to 0.817.

Brand Equity

To assess analysts' perceptions of customer-based brand equity, I adapted Yoo and Donthu's (2001) customer-based brand equity measures. Yoo and Donthu's measures are framed from a customer perspective, but I modified them to fit the perspectives of analysts evaluating the firm. For example, one of the original items capturing brand awareness states "Some characteristics of Brand X come to my mind quickly." I rephrased this item to state, "Characteristics of the company's brands come to customers' minds quickly." I included two items capturing brand loyalty (as evinced by purchase intent), two items capturing brand quality, and four items capturing brand awareness. These measures are consistent with marketing's characterization of brand equity as "the differential effect of brand knowledge on consumer response to the marketing of the brand" (Keller 1993, p. 1). The composite measure for brand equity has average variance extracted of 0.538 and composite reliability of 0.900.

Channel Equity

For channel equity, I adapted measures developed by Geyskens and Steenkamp (2000). I included four items capturing economic satisfaction with channel partners and one item capturing social satisfaction with channel partners. Economic satisfaction is "a channel member's evaluation of the economic outcomes that flow from the relationship with its partner" (e.g. sales volume, margin etc.) (Geyskens and Steenkamp 2000). Social satisfaction is "a channel member's evaluation of the psychosocial aspects of its

relationships and interactions with the exchange partner that are fulfilling, gratifying, and facile” (Geyskens and Steenkamp 2000). The composite measure for channel equity has average variance extracted of 0.549 and composite reliability of 0.858.

Market Intelligence

I created a five-item measure to capture market knowledge gathered by the firm. The items are based on the conceptualization of market intelligence outlined in Srivastava, Shervani, and Fahey (1998), and it captures information a firm gathers about its competitors, industry environment, and customers. The average variance extracted for this measure is 0.534 and the composite reliability is 0.850.

Marketing Strategies

I developed new measures reflecting a firm’s ability to charge price premiums and penetrate new product markets. I used a three-item reflective measure for the firm’s ability to charge price premiums for its products, and a four-item reflective measure for the firm’s ability to penetrate new markets with its products. The measures for price premiums and new market penetration have values of average variance extracted of 0.705 and 0.570 respectively, and composite reliabilities above 0.877 and 0.841, respectively.

Cash Flows

I developed new, four-item, reflective measures for cash flow level and cash flow volatility and a three-item, reflective measure for cash flow acceleration. I included reverse coded items for both cash flow level and volatility to account for acquiescence bias. Each of the three cash flow measures has average variance extracted above 0.650 and composite reliabilities above 0.850.

Control Variables

I controlled for both firm and industry level factors when conducting the analyses. At the firm level, I control for firm size which is measured as the average total annual sales of the firm. I also controlled for firm profitability using a three- item, reflective measure of return on assets (ROA) that I created. At the industry level, I controlled for marketing turbulence and competitive intensity, adapting measures from Jaworski and Kohli (1993). I provide the correlations among the measures in Table 2.

Chapter 4: Results

ANALYSIS

I used AMOS to estimate a structural path model. I created paths based on prior theory (e.g., Srivastava, Shervani, and Fahey's (1998) framework linking market-based assets and marketing strategies to cash flows³) and the proposed conceptual model. I also controlled for the effects of the two industry conditions (market turbulence and competitive intensity) and the effects of firm size and profitability on analysts' perceptions of cash flows. Based on high values of modification indices, I correlated errors that were theoretically substantiated. Before analyzing the hypothesized relationships, model fit was verified based on prescribed fit standards for root mean square error of approximation (RMSEA) (Browne and Cudeck 1993), comparative fit index (CFI), and Tucker-Lewis fit index (TLI) (Hu and Bentler 1998). The model has an RMSEA value of 0.038, the CFI value is 0.955, and the TLI value is 0.948, indicating good fit.

I first discuss the effect of market-based assets on the two marketing strategies: the ability to charge price premiums and penetrate new product markets. I find analysts perceive a positive effect of brand equity on a firm's ability to charge price premiums ($b = 0.385, p < .05$). In addition, analysts perceive brand equity to have a positive effect on a firm's ability to penetrate new product markets ($b = 0.445, p < .01$). I find a positive impact of channel equity on product market penetration ($b = 0.141, p < .05$). I do not find effects of market intelligence on the ability to charge price premiums ($b = 0.107, ns$) or cash flow acceleration ($b = 0.010, ns$).

³ In Srivastava, Shervani, and Fahey (1998) Figure 1, the authors propose effects of market-based assets on the ability to charge price premiums and to penetrate new markets, and thereby affect cash flows.

Next, I turn to the effects of the two marketing strategies—the ability to charge price premiums and penetrate new product markets—on firms’ cash flows. Analysts’ perceive a positive impact of a firm’s ability to charge price premiums cash flow level ($b = 0.625, p < .01$). Analysts also perceive effects of the firm’s ability to penetrate new product markets on cash flow level ($b = 0.162, p < .10$) and acceleration ($b = 0.217, p < .01$). New market penetration is not perceived by analysts to affect cash flow volatility ($b = 1.222, ns$). These results are summarized in Table 3.

I controlled for the effects of firm characteristics and industry conditions on analysts’ perceptions of cash flow. I find firm profitability lowers cash flow volatility ($b = -0.503, p < .05$), and firm size enhances cash flow level ($b = 0.355, p < .01$). At the industry level, market turbulence lowers cash flow level ($b = -0.178, p < .05$), while competitive intensity increases cash flow volatility ($b = 0.304, p < .01$). I also included direct paths between the market-based assets (brand equity, channel equity, and market intelligence) and the cash flows. The mediation results, discussed in the next section, indicate that the impact of brand equity on cash flows is fully mediated by the two marketing strategies, the ability to charge price premiums and penetrate new product markets. However, channel equity directly lowers cash flow volatility ($b = -0.341, p < .05$). In addition, market intelligence enhances cash flow level ($b = 0.373, p < .05$). I next report the results of additional analysis that was performed to assess the robustness of the results.

ADDITIONAL ANALYSIS

Mediation Analysis

I used the approach proposed by Baron and Kenny (1986) to examine the direct and mediation effects of the market-based assets on cash flows. Since the impact of

market intelligence on market strategies was not significant, I limited this analysis to brand and channel equity. I tested the impact of brand equity and channel equity on cash flows directly, and then tested their effects on the two marketing strategies, the ability to charge price premiums and penetrate new product markets. Finally, I tested the effects of the marketing strategies on the three facets of cash flows while including each market-based asset (brand equity and channel equity) as a control measure in this model. I conducted Sobel tests of mediation to assess whether the mediation effects are statistically significant. In addition, I used an Aroian version of the Sobel test which includes a third denominator term (the variance estimate) and is strongly recommended in Baron and Kenny (1986). I begin with a discussion of the findings related to brand equity. I find support for the ability to charge price premiums as a mediator between brand equity and cash flow level at the $p < .05$ alpha level (Sobel test statistic = 2.075, $p = 0.038$; Aroian test statistic = 2.017, $p = 0.044$). New product market penetration mediates the effect of brand equity on cash flow level (Sobel test statistic = 1.724, $p = 0.085$; Aroian test statistic = 1.686, $p = 0.092$) and cash flow acceleration (Sobel test statistic = 2.032, $p = 0.042$; Aroian test statistic = 1.990, $p = 0.047$) at the $p < .10$ and $p < .05$ alpha levels, respectively. I then analyzed market penetration as a mediator between channel equity and cash flow level and acceleration. I find support for new market penetration as a mediator between channel equity and cash flow acceleration at the $p < .10$ alpha level (Sobel test statistic = 1.711, $p = 0.087$; Aroian test statistic = 1.646, $p = 0.099$); however I do not find the ability to penetrate new product markets as a mediator between channel equity and cash flow level (Sobel test statistic = 1.422, $p = 0.155$; Aroian test statistic = 1.343, $p = 0.179$). In addition, I do not find that either marketing strategy, the ability to charge price premiums or penetrate new product markets, mediates the impact between brand and channel equity and cash flow volatility. I discuss these findings in the

Discussion section and also provide a mapping of analysts' assessments of the linkages between brand equity, channel equity, market intelligence, and a firm's cash flows in Figure 2.

Model Comparisons

I compared the proposed model with five other models. Since all of the models are nested in the proposed model, I used the difference in the log likelihoods and degrees of freedom for model comparisons. The first comparison model did not include mediating marketing strategies (market-based assets directly impacted cash flows). There is significant improvement in model fit with the addition of the marketing strategy variables in the model ($\Delta\chi^2 = 437.172$ $\Delta df = 9$, $p < .01$). Then I compared the proposed model with a model which included only one of each of the market-based assets: only brand equity ($\Delta\chi^2 = 248.349$ $\Delta df = 9$, $p < .01$), only channel equity ($\Delta\chi^2 = 217.066$ $\Delta df = 10$, $p < .01$), and only market intelligence ($\Delta\chi^2 = 236.047$ $\Delta df = 9$, $p < .01$). Again, I found that including all three market-based assets in the model results in significant model improvement. Finally, I tested a model with only the relational market-based assets (brand and channel equity), leaving out market-intelligence, since most research to date as focused on these intangible assets. Again, the addition of market intelligence resulted in significant improvement of model fit ($\Delta\chi^2 = 126.179$ $\Delta df = 5$, $p < .01$), and supported my proposed model.

Sampling Variations

I also tested whether the proposed model was robust to sampling variations. I dropped 5% of the observations using five different randomly generated set of observations. In each case, the model results were consistent with the final model, indicating that the model was robust to sampling variations.

Responder Confidence

For a sub-sample of the respondents (n=63), I asked participants to assess their level of confidence in their responses to the survey. The rating was done with a single question using a seven point Likert Scale. The average level of confidence indicated “strong confidence.” This lends support to my assessment of analysts’ ability to assess a firm’s market-based assets, both relational and intellectual.

Tests for Non-Response Bias

Finally, I divided the sample into “early” (n=176) and “late” responders (n=44) based on the length of time it took a survey participant to respond from when they received the e-mail with the survey link (Armstrong and Overton 1977). I compared the means and variances of all the measures in the model. I did not find significant differences between the two responder groups, suggesting that non-response bias is unlikely to distort the findings of the analysis. Overall, the results indicate that the proposed model relating market-based assets to firms’ cash flows is supported, and is robust to alternative model specifications.

Chapter 5: Discussion

With one of the first studies of its kind, I explore how financial analysts link market-based assets to their assessments of a firm's cash flows. This work suggests that financial analysts, who are drivers of firm value in the stock market, perceive brand equity, channel equity, and market intelligence to affect a firm's cash flows through different mechanisms. I conclude with a discussion of the paper's contributions to marketing theory and managerial practice and the paper's limitations and opportunities for further research.

THEORETICAL CONTRIBUTIONS

My findings extend Srivastava, Shervani, and Fahey's (1998) framework linking market-based assets to shareholder value. I am able to use this framework to decompose how analysts connect market-based assets to cash flows. This work uncovers that (1) analysts believe brand equity allows a firm the ability to charge its customers higher price premiums and penetrate new product markets, thereby increasing its (the firm's) cash flows levels and accelerating their receipt, (2) analysts assess channel equity among channel partners to result in ease of new market penetration accelerating cash flows, while this equity directly insulates the firm from cash flow volatility, and (3) analysts believe that a firm can utilize market intelligence to enhance cash flows. While these findings offer deeper insights in to how analysts value market-based assets, they also suggest opportunities for future research. It is possible, given that nature of market intelligence, that firms use this knowledge for more proprietary marketing strategies (e.g., product development) rather than the consumer-focused strategies (e.g., price premiums), which I analyzed. Thus, future work on market intelligence would be a worthy endeavor to uncover process though which market intelligence is assessed (by analysts) to affect

cash flows. In addition, future research aimed, at decomposing marketing strategies through which market-based assets affect cash flow volatility would be worthwhile as none of the mediated relationships I proposed or tested affected cash flow volatility.

Second, the findings also extend the marketing literature on the role of financial analysts as information conduits between a firm and the stock market. Prior research has offered mixed results regarding whether analysts actually understand the value-relevance of marketing. There is research which indicates that analysts' earnings forecasts partially mediate the impact of changes in advertising spending on firms' stock market returns (Luo and de Jong 2012) while other work (Kim and McAlister 2011) finds that analysts do not account for advertising information when forecasting firm value. The focus in each of these papers is on marketing spending. With this work, I examine market-based assets, and the results indicate that analysts, indeed, consider market-based assets to be value-relevant. Similarly, Luo, Homburg, and Wiseke, (2010) also find that analysts value customer satisfaction, which can either be viewed as a market-based asset or an outcome of customer relationships. With either conceptualization of customer satisfaction, it is a result of marketing spending and initiatives. Thus, it is plausible that despite their difficulty evaluating intangible assets, analysts are still better able to relate such assets (e.g., brand equity), to firm value rather than the marketing spending (e.g., advertising spending) from which such assets are generated. This research lends some support in this direction; however, more work is necessary to draw stronger conclusions.

Finally, my findings answer the call for research (in Srinivasan and Hanssens (2009, p. 308) to understand how analysts' assessments of marketing activities affect their forecasting. I am able to show several processes through which analysts relate three market-based assets to cash flows. I believe this is a useful first step in understanding the firm's "information consumers." There is a strong paradigm in marketing research

focused on understanding how consumers of a firm's products and services respond to its marketing efforts. I assert that it is equally important to understand analysts' assessments of marketing, as they are also consumers of the firm. However, rather than being consumers of the firm's products and services, they are consumers of information which they use to greatly impact firm value. Thus, better understanding these "information consumers" allows marketers to better understand the marketing-firm value link.

IMPLICATIONS FOR MARKETING PRACTICE

My findings indicate that analysts do perceive market-based assets, specifically brand equity, channel equity, and market intelligence, to affect cash flows. This provides reassurance, for marketing managers, of the value relevance of marketing, as analysts' opinions are heavily relied upon by investors. In addition, my emphasis on the processes through which analysts perceive these market-based assets to affect cash flows offers managers an opportunity to improve their communication efforts with analysts.

For example, financial analysts perceive brand equity to accelerate cash flows through the ability to penetrate new product markets. Therefore, including marketing disclosures, which link brand building efforts with market growth objectives, is likely to enhance analysts' opinions of the value relevance of such activities through perceived effects on cash flow acceleration. Another example is analysts' perceptions regarding the direct impact of channel equity in reducing cash flow volatility. Managers can include information relating relationships with channel partners to consistency in cash flow streams, again improving analysts' assessments of the firm's cash flows.

In a book aimed at providing managers with guidance on investor and analyst relations, the authors (Ryan and Jacobs 2005) note,

If a chief executive officer or a chief financial officer wanted to hire an outside agency to help management more effectively interact with sell-side analysts,

investment bankers, and portfolio managers, it would seem obvious that best person to hire, especially if the shareholder implication of the decision were really thought through, would be someone who had senior-level, first-hand experience as a sell-side analyst, an investment banker, or portfolio manager.

Not every firm will be able to employ a former analyst to manage the communications with analysts and investors. However, with this work, I am able to provide managers with insights from analysts that may aid them in their communication efforts.

Finally, understanding the processes by which analysts link market-based assets to cash flows may aid marketing managers in their communications and collaborations with members of other departments with the firm (e.g., finance department) who are more accustomed to discussions focused on firm value. This may be a useful tool for the marketing department when negotiating for marketing budgets as well.

LIMITATIONS AND FUTURE RESEARCH

As with any research endeavor, there are limitations to this work. Obtaining data from analysts is challenging, given their time-constraints and their desire to retain competitive advantages by not disclosing too much information about their forecasting and estimation techniques. However, I believe that this is a small, first step in better understanding how financial analysts' link market-based assets to their cash flow assessments, and ultimately their forecasts.

Future areas for research include investigation of the effects of other marketing decisions on analysts' perceptions. I focused on firms' market-based assets; however, future work could analyze analysts' perceptions of dollars spent on advertising strategies to further insights on analysts' evaluations of marketing expenditures. Research of this nature would offer more evidence as to whether there are differences in analysts' abilities to evaluate marketing spending versus market-based assets.

I only surveyed North American analysts for this research. Financial reporting standards and firm practices differ across countries and may impact that way the marketing information disclosures affect analysts' perceptions. Future scholars may consider examining cross-cultural variations in analysts' perceptions of the value relevance of marketing information disclosures.

In sum, in this initial study I focused on (1) understanding if financial analysts value market-based assets and (2) decomposing processes through which they link market-based assets to firm value. I hope this study motivates other research aimed at better understanding the processes through which market participants link marketing and firm value, including research which involves collaboration not only with financial analysts, but also other stock market participants including institutional investors, day traders, and retail investors.

ESSAY 2: WHEN IS MORE OR LESS GOVERNANCE BETTER? THE DIFFERENTIAL IMPACT OF SHAREHOLDER AND BOARD GOVERNANCE ON THE RELATIONSHIP BETWEEN MARKETING SPENDING AND FIRM VALUE

Chapter 6: Introduction

What factors affect the valuation of advertising and research and development (R&D) spending in the stock market? Advertising and R&D generate intangible assets such as brand equity and proprietary knowledge (Srivastava, Shervani, and Fahey 1998). Yet such intangible assets are not adequately accounted for in firm financial statements (Lev 2001; Srivastava, Shervani, and Fahey 1998), and investors and analysts are often unable to account for the intangible value generated from marketing spending (Amir, Lev, and Sougiannis 2003). Thus, I propose that investors and analysts rely on other firm characteristics to draw inferences about the effects of marketing spending in building intangible, market-based assets, and in turn, on shareholder value. In this paper, I focus on one aspect of the firm “ecosystem,” the firm’s corporate governance structure, which I suggest, affects the value relevance of its marketing spending.

Corporate governance is “the balance of power between shareholders and managers” (Gompers, Ishii, and Metrick 2003). Corporate governance structure encompasses the abilities of a firm’s shareholders and its board of directors to influence the actions of the firm’s managers (e.g., Fama and Jensen 1983; Shleifer and Vishny 1997). A survey conducted by McKinsey and Company in 1996 found that investors were willing to pay, on average, an 11% premium on the stock of a company with superior corporate governance (Felton, Hudnut, and van Heeckeren 1996). Following the passage of the Sarbanes-Oxley Act (SOX) in 2002, aimed at corporate reforms, the issue of corporate governance has become salient to investors and financial analysts. Post SOX,

most publicly traded firms have created corporate governance sections on their websites where investors can obtain copies of a firm's bylaws, certificate of incorporation, and proxy statements (e.g., <http://www.chevron.com/investors/corporategovernance/>) providing investors with information about the roles of shareholders and boards of directors in the firm. In addition, investors are able to track shareholder ownership of equity (voting stock) from a firm's Schedule 13-D filings with the Securities and Exchange Commission (SEC) which are required to be filed when a shareholder acquires 5% or greater of a firm's voting class of stock.

I propose that a firm's corporate governance structure impacts the value relevance of advertising and R&D spending in two ways. First, it affects stock market participants' (i.e. investors and analysts) assessments of the value relevance of marketing spending in context with this structure. Corporate governance structures which offer shareholders and boards of directors greater influence and monitoring ability are apt to make a firm's managers more vested in the interests of a firm's shareholders. As shareholders are owners of the firm, their interests are likely to be the interests of the firm (e.g., Fama and Jensen 1983). Thus, investors may perceive that the firm's managers will make better decisions including more value relevant marketing spending decisions. I also posit such corporate governance structures align managerial behavior with the interests of the firm and shareholders, thereby directly impacting advertising and R&D spending by guiding such spending towards value-generating activities (e.g., brand-building rather than sales promotions). In this work, I focus on corporate governance structures related to two key stakeholders of the firm: shareholders and board of directors. To the best of my knowledge, past work has not examined the impact of these stakeholders on the relationship between marketing and firm value, which this work addresses.

This work contributes to the existing marketing literature in three ways. First, it extends prior work which has documented the positive impact of marketing spending on firm value (e.g., Mizik and Jacobson 2003; Chauvin and Hirschey 1993). Recent work in the marketing literature (e.g., Currim et.al. 2012) has highlighted the importance of firm “influentials” or decision makers who directly and indirectly affect the link between marketing spending and firm value. Currim et al. (2012) find that when executives are compensated with long-term equity compensations (versus bonuses) their firms spend more on advertising and R&D, and the authors also provide supporting evidence of the marketing-shareholder value link. By analyzing marketing spending in conjunction with a firm’s corporate governance structure, this work draws attention to marketing as one component of the larger firm ecosystem in which it must operate and sheds light on the roles of two other firm influentials, shareholders and directors.

Second, strong evidence exists of the impact of corporate governance structures on firm value (e.g., Gompers, Ishii, and Metrick 2003) within economics, finance, and management literatures. In this paper, I focus on two aspects of corporate governance: (1) governance structures related to shareholders and (2) governance structures related to boards of directors. Prior work suggests that governance structures which offer shareholders more rights and greater influence enhance firm value (e.g., Gompers, Ishii, and Metrick 2003; Becht, Franks, Mayer, and Rossi 2010). The evidence regarding boards of directors offers mixed evidence as to whether greater board involvement enhances or lowers firm value (e.g., Gillette, Noe, and Rebello 2003; Hermalin and Weisbach 2003). By exploring both types of governance, in conjunction with marketing spending, I extend this literature by offering insights on the joint impact of corporate governance and marketing on firm value.

Third, while considerable work exists on the impact of firms' marketing actions on shareholder value (see Srinivasan and Hanssens 2009 for a full review), there is some evidence that a reverse relationship exists. In other words, shareholder value can drive a firm's marketing actions. A firm's past stock market behavior influences managerial decision making related to product portfolio decisions (Markovitch, Steckl, and Yeung 2005) and in setting marketing budgets (Chakravarty and Grewal 2011). In this project, I shed more light on how corporate governance structures related to shareholders (e.g., the rights held by shareholders) may influence the value relevance of marketing spending.

This work also offers implications for managers. I posit that investors and analysts evaluate a firm's spending decisions and governance structures in combination, rather than separately. Past research (Bushman, Piotroski, and Smith 2004) indicates that investors use governance disclosures to reveal not only which individuals have control of governing the firm, but also how financial resources have been invested. Therefore, understanding how corporate governance structures affect the value relevance of marketing spending may aid managers to more effectively communicate the value relevance of these investments to investor and analyst communities.

In addition, by providing evidence of the implications of corporate governance on the valuation of a firm's marketing spending, I show that the marketing function is not fully in control of how such spending efforts are valued in the stock market. Policies related to a firm's corporate governance structure are typically set in the C-Suite (e.g., CEO and Chief Financial Officer). Thus, I offer an important reason for marketing managers to be involved with, or at least consulted about, firms' corporate governance structures. I show that marketing must retain its voice in the boardroom (McGovern et. al., 2004) as boardroom activities impact the value relevance of marketing spending.

To test my hypotheses, I obtained data on corporate governance from Institutional Shareholder Services, Inc. (ISS). Given investor pressure to understand firms' corporate governance structures, ISS began collecting this data in 2010 for firms within the Russell 3000 index (largest 3000 U.S. firms representing 98% of the investable U.S. equity market). I obtained this data for a three year period between 2009 and 2011. I integrated this data with data from Standard and Poor's COMPUSTAT and The Center for Research in Security Prices (CRSP). The final sample consists of 575 firms across 161 industries (based on four-digit standard industry classification (SIC) codes), observed for an average of 1.50 years for a total of 865 firm-years.

The results indicate that higher shareholder governance and higher marketing spending (both advertising and R&D spending) increase firm value. However, higher board governance and advertising spending lower firm value, and there is no effect of board governance and R&D spending (jointly) on firm value. The findings are robust to sampling variations and alternate model specifications.

Given the proposition that investors' and financial analysts' uncertainty about marketing spending causes them to make use of corporate governance structures (to make inferences about such spending), I also explore the effects of corporate governance and marketing spending on financial analysts' earnings forecast dispersion, a measure of stock market uncertainty. I find that shareholder governance reduces marketing uncertainty about marketing spending (both advertising and R&D spending) resulting in lower analyst forecast dispersion. However, I do not find any contingent effects of board governance. Thus, the findings from the analysis using analyst forecast dispersion provide partial support for the proposed theoretical mechanism.

The remainder of the paper is organized as follows. I provide an overview of the relevant theory and hypotheses development. I follow with details of the data, measures,

empirical analysis, and results of the study. I conclude with a discussion of the theoretical and managerial implications and identify limitations of the work and opportunities for future research.

Chapter 7: Theory

VALUE RELEVANCE OF ADVERTISING AND R&D SPENDING

Since spending on advertising is discretionary, advertising spending signals the financial well-being of firms to investors (Simpson 2008). Spillover effects result from brand awareness and brand quality perceptions, created from advertising, and cause greater investment in the stocks of well-advertised firms (Grullon, Kanatas, and Weston 2004). In addition, advertising enhances consumers' brand equity perceptions (Aaker 1991) and thereby, increases a firm's sales (Leone 1995) and profits (Erickson and Jacobson 1992).

R&D spending results in the generation of intangible knowledge and new products, and such investments are rewarded by the stock market (Chan, Lakonishok, and Sougiannis 2001). New product introductions increase firm value and long term financial performance (Pauwels et.al. 2004). Preannouncements about new product developments generate positive long-term returns (Sorescu, Shankar, and Kushwaha 2007). In addition, the stock market rewards firms which have a high orientation on value creation (R&D emphasis) when they engage in more R&D related activity (Mizik and Jacobson 2003).

Thus, one way advertising and R&D spending increase shareholder value is through the creation of intangible assets such as brand equity or intellectual knowledge. Although intangible assets such as brand equity clearly generate value for the firm, they are often hard to measure and may require long time horizons to generate returns. Therefore, investors and analysts have difficulty valuing intangible assets and the spending (e.g., advertising spending) related to the creation of such assets (e.g., Amir, Lev, and Sougiannis 2003). In addition, managers who are often evaluated on the basis of short-term metrics (e.g., quarterly performance) may feel compelled to focus spending efforts on marketing activities which simply bolster short term gains rather than generate

value for the firm. While past work (Mizik 2010) has emphasized whether or not managers cut marketing spending, I focus on the nature of such spending and investors' assessments of how marketing dollars are being spent. Corporate governance structures which allow shareholders and directors greater ability to oversee and influence managerial decision making are likely to generate decisions which are more in-line with the long term interest of the firm, since shareholders (the owners of the firm) and directors (representatives of shareholders' interests) are presumed to be vested in the long-term value of the firm. A priori, I do not hypothesize main effects of corporate governance on firm value, but I include them in the empirical model for completeness.

SHAREHOLDER GOVERNANCE STRUCTURE

Governance structures related to shareholders determine the rights and privileges to which shareholders are entitled to as owners of the firm. An example of a right is the voting privilege given to a shareholder. A firm may offer majority or supermajority voting requirements. A majority voting requirement necessitates lower voting thresholds than a supermajority requirement and thus, offers shareholders greater rights. Naturally, the possession of greater rights enhances shareholders' involvement in the firm (Becht, Franks, Mayer, and Rossi 2010), thereby increasing their influence. When shareholders possess greater influence, managers are likely to feel greater accountability towards them, and this is likely to affect their decision making (e.g., Jensen 1986). As owners of the firm, I contend that shareholders' interests are likely to reflect the long-term interests of the firm. Thus, governance structures which provide shareholders with greater rights and influence are likely to generate managerial decision making that enhances firm value, including those related to advertising and R&D spending decisions.

As stated earlier, because marketing spending generates intangible assets, which are difficult for investors and analysts to evaluate (e.g., Amir, Lev, and Sougiannis 2003), I contend that they (investors and analysts) make inferences about the value relevance of such spending decisions based on other firm factors. I propose that investors and analysts are likely to assess a firm with higher shareholder governance (in my conceptualization of shareholder governance, greater rights offered to shareholders equates a higher level of governance) as one in which firm managers are encouraged to direct spending efforts on those marketing activities that create value for the firm. Thus, I posit that shareholder governance structures directly impact managerial behavior and also affect the investor market's assessments about such behavior. I propose parallel effects for advertising and R&D spending since both activities result in the creation of intangible market-based assets which are generally unlisted on financial statements and may possess uncertain time horizons. Therefore, I hypothesize that higher advertising spending and higher the shareholder governance result in higher the firm value. In addition, I posit that higher R&D spending and higher shareholder governance, also result in higher firm value.

BOARD GOVERNANCE STRUCTURE

Governance structures related to boards of directors determine the rights and privileges to which directors are entitled to as agents of the shareholders (owners) of the firm. Given that directors are agents of shareholders, *who* these directors are is also likely to affect managerial decision-making, so board composition may be considered an element of board governance. Thus, my conceptualization of board governance is comprised of several factors including: (1) the characteristics of the directors on the board, (2) the discretion given to directors to act without the consent of management, and (3) the extent to which directors are involved in board meetings.

I offer a discussion of directors' characteristics, specifically their independence. An independent director is a director from an external organization serving on the firm's board. Following the passage of the Sarbanes-Oxley Act (SOX) (2002), there was a push for independence on a firm's board to mitigate opportunism that may arise if a firm's insiders (employees of the firm) controlled its board. Increased involvement of independent directors improves decision making related to firm operations (e.g., Core, Holthausen, and Larcker 1999; Gillette, Noe, and Rebello 2003) and firm performance (Chhaochharia and Grinstein 2006). Independent directors are likely to be more focused on a firm's long term viability rather than short term metrics since, unlike the firm's managers and inside (employee) directors, their pay is often tied to stock option grants and compensation linked to long-term firm success (Strauss 2011). Thus, when such directors have greater influence in firm decision-making, managers are likely to be more focused on value-enhancing activities. Independent directors also introduce outside perspectives into the firm which is likely to alleviate "groupthink," (e.g., Dunphy 2004) and improve decision making, including spending decisions.

Greater director autonomy and director involvement (the other two facets of the board governance construct) are likely to enhance the influence of directors in firm decision-making. Since directors have a fiduciary duty to shareholders, this should, again, guide managers to spend advertising and R&D dollars in more value relevant ways. Thus, I posit that investors are likely to view a higher proportion of independent directors on the board and greater rights and involvement of the directors to generate more value-relevant advertising and R&D spending (in my conceptualization of board governance, a higher proportion of independent directors, greater director autonomy, and more involved directors equate to higher board governance). Therefore, I hypothesize the higher the advertising spending and the higher the board governance, the higher the firm value. I

propose a parallel effect for the joint impact of R&D spending and board governance on firm value.

Despite evidence which suggests that board governance structures with a higher proportion of independent directors, greater director autonomy, and more involved directors may improve decision making within a firm, there is substantial evidence to the contrary. Hermalin and Weisbach (1998) suggest that independent directors imposed on a firm by regulations or other pressures may actually be less effective than directors who are chosen by the firm if such regulations did not exist. They show that the relative bargaining power held by CEOs and directors, in negotiations, may be more critical in limiting managerial opportunism than whether or not directors are from an external organization. In addition, despite serving as agents of shareholders, there may be a lack of overlap between directors' and shareholders' interests (Hermalin and Weisbach 2003). Directors may be less vested in the long-term interests of the firm and more interested in maintaining their board seats for their own professional advancement. In addition, as director autonomy and involvement increases, board duties are often relegated to the least experienced directors because directors who serve on fewer boards are likely to have more time to attend to such duties. However, "overboarded" directors, i.e. directors who serve on several boards, are often more experienced directors and superior firm monitors compared to directors who are able to devote more time to board duties (Harris and Shimizu 2004). Thus, greater shareholder autonomy and involvement may cause managers to be disproportionately influenced by inexperienced directors leading to less effective and less value-relevant decision-making. I posit that investors may harbor similar concerns and based on these reasons, I hypothesize that higher advertising spending and higher the board governance will lower firm value. I also propose that the higher the R&D spending and the higher the board governance, the lower the firm

value. I resolve the opposing hypotheses empirically. Figure 3 provides a conceptual framework of the hypothesized relationships.

Chapter 8: Method

DATA

I obtained data on corporate governance from ISS Group. Previous research has used data from the Investor Responsibility Research Center (IRRC) to measure shareholder governance, including the seminal work of Gompers, Ishii, and Metrick (2003) in which the authors used items related to shareholders' rights from the IRRC database to create a shareholder governance index. This index has been used in papers in the *Journal of Finance* (Cremers and Nair 2005) and the *Journal of Financial Economics* (Villalonga and Amit 2006). In 2005, ISS acquired IRRC. Following the acquisition, in 2010, ISS launched Governance Risk Indicators (GRId) which collects in-depth data on governance related to firms' shareholders and boards of directors with feedback from the ISS clients and the market. To the best of my knowledge, this is the first research to use this new, comprehensive data set, although the items used to capture shareholder governance largely map onto the methodology used by IRRC and Gompers, Ishii, and Metrick (2003). I obtained data for 2009-2011 for firms in the Russell 3000 index. The data covers United States based, publicly traded firms in a variety of industries including: high technology, restaurant, airlines, retail, food products, insurance, and more. Examples of firms in the dataset are SofTech, Inc., McDonald's Corporation, Southwest Airlines Co., The Children's Place Retail Stores, Inc., Smithfield Foods, Inc. and AFLAC, Inc. The firms range from \$319,000 in annual sales (Cell Therapeutics, Inc.) to over \$230 billion (ConocoPhillips).

ISS uses a methodology which consists of many questions designed to evaluate a firm's corporate governance structures. The questions are answered using data collected by the ISS research and data teams. Each of the different corporate governance categories (e.g., shareholder governance) are composed of different subcategories which together

represent the overall governance structure. For example, board governance includes five subcategories: board composition, composition of committees, board practices, board policies, and related party transactions. Each of these subcategories is composed of several questions (the answers to which are found by the ISS research and data teams). For instance, the board composition subcategory includes the question “What is the independent director composition of the board?” The answer to this question is the proportion of independent directors to total directors on a firm’s board. Other questions may be answered with similar scaled responses or with binary (yes/no) responses. For example, the board policies subcategory includes the question “Can directors hire their own advisors without management approval?” ISS assigns points to each question based on the relative importance of the question and the nature of the practice (based on good versus bad practice). My conceptualizations of shareholder and board governance are consistent with this practice (e.g., a higher proportion of independent directors, greater director autonomy, and more involved directors are considered good practice and higher levels of these factors result in a higher board governance score). Negative scores represent scores which fall below market practices in the industry and raise concerns for potential investors. Higher levels of governance correspond to a higher score for each of these categories. Total scores are calculated for subcategories (e.g., board composition) by summing all answers (to the questions). The overall score board and shareholder governance scores, for a given firm, are then summed across the different subcategories. Scores are normalized and range from 0 to 100. The average shareholder governance scores (with standard deviations in parentheses) are 55.33 (19.83), 56.52 (20.03), and 45.69 (19.94) for 2009-2011, respectively. The average board governance scores are 68.01 (15.38), 67.22 (16.64), and 61.66 (16.21) for those same years. I provide the subcategories and questions related to ISS governance scores in Appendix B.

In Figure 4, I illustrate the considerable variation in shareholder and board governance across firms. For example, in 2011, the shareholder governance scores were 27, 45, and 87 for three firms in our sample, Abercrombie & Fitch Inc., Lifeway Foods Inc., and Value Line, respectively. In the same year, the board governance scores for these three firms were 64, 32, and 14 respectively. With this work, I provide insights on what these variations in corporate governance structures mean for the value relevance of a firm's marketing spending.

I used multiple sources to collect other data required to test our hypotheses. Information on marketing spending (advertising and R&D spending) and firm characteristics (e.g., firm size, firm leverage) was collected from Standard and Poor's COMPUSTAT. I obtained data on stock returns from The Center for Research in Security Practices (CRSP) and for Fama-French-Carhart factors (used in model estimation) from Kenneth French's data library⁴. The final data sample consists of 865 observations of 575 firms across 161 industries (based on four-digit SIC codes), observed for an average of 1.50 years.

MEASURES

Advertising and R&D Spending

Advertising spending is measured as the ratio of reported advertising spending scaled by sales revenue and R&D spending is measured as the ratio of reported R&D spending scaled by sales revenue (McAlister, Srinivasan, and Kim 2007). Both measures were obtained from COMPUSTAT.

⁴ http://mba.tuck.dartmouth.edu/pages/faculty/ken.french/data_library.html

Shareholder Governance Structure

Governance structures related to shareholders determine the rights and privileges to which shareholders are entitled to as owners of the firm. The questions used to assess shareholder governance fall into four subcategories: one share one vote policies, takeover defenses, voting policies, and voting formalities. ISS RiskMetrics sums the scores of these four subcategories to arrive at the final shareholder governance score.

Board Governance Structure

Board governance structure is comprised of several factors including the independence of the directors on the board, the discretion given to directors to act without the consent of management, and extent to which directors are involved in board meetings. The board governance measure addresses each of these aspects. The questions used to assess board governance fall into five subcategories: board composition, composition of board committees, board practices, board policies, and related party transactions (of board members). ISS sums the scores of these five subcategories to obtain the board governance score.

Firm Value

I use stock-price based return as the measure of firm value. I use the extended Fama-French-Carhart model (Carhart 1997) to measure the expected return from financial markets:

$$(1) R_{it} - R_{ft} = \beta_{0i} + \beta_{1i}(R_{mt} - R_{ft}) + \beta_{2i}SMB_t + \beta_{3i}HML_t + \beta_{4i}UMD_t + \varepsilon_{it}$$

R_{it} are the returns for firm i at time t . R_{ft} is the risk-free rate of return at time t while R_{mt} are the average market returns. SMB_t are size effects. HML_t are value effects and UMD_t are Carhart momentum effects. Abnormal stock returns are then calculated as the difference between observed returns and expected returns:

$$(2) ASR_{it} = (R_{it} - R_{ft}) - [\beta'_{0i} + \beta'_{1i}(R_{mt} - R_{ft}) + \beta'_{2i}SMB_t + \beta'_{3i}HML_t + \beta'_{4i}UMD_t]$$

Control Variables

I include a variety of firm and industry level control variables which have been found to affect firm value. Firm size is calculated as the natural log of a firm's total assets (Sorescu, Shankar, and Kushwaha 2007). Firm profitability is measured using return on assets, a measure of accounting profit (Sorescu and Spanjol 2008). I include controls for firm leverage, measured as the ratio of a firm's debt to assets (Luo and Bhattacharya 2006), and firm liquidity, measured as the current ratio (Luo, Homburg, and Wieseke 2010). Finally, I include a control variable for industry concentration using the Herfindahl industry concentration index (Morgan and Rego 2009). Specifically, the Herfindahl industry concentration index = $\sum_i s_{ij}^2$ where s_{ij}^2 is the ratio of the firm i's sales to the total sales of industry j in which firm i is a member (Hou and Robinson 2006). The industry is determined by the two-digit SIC code. Table 4 contains definitions, data sources, and marketing literature sources for all the measures. Table 5 contains the correlations among the various measures and descriptive statistics. The smallest correlation (0.0001) is between shareholder governance and liquidity. The largest correlation (-0.411) is between the measures for liquidity and leverage. This value is negative as highly liquid firms are less highly leveraged. These correlations suggest that multicollinearity may not be a threat to the validity of the findings.

Chapter 9: Results

MODELING APPROACH

To accommodate firm specific, unobservable heterogeneity I model the effects of changes in advertising spending and corporate governance structure on changes on firm value (e.g., Boulding and Staelin 1995). I empirically test the contingent impact of corporate governance on the effects of marketing spending on firm value by estimating the following model:

$$\begin{aligned}(3) \Delta FV_{it} = & \Omega_0 + \Omega_1(\Delta \text{Advertising}_{it}) + \Omega_2(\Delta R\&D_{it}) \\ & + \Omega_3(\Delta \text{Shareholder Governance}_{it}) + \Omega_4(\Delta \text{Board Governance}_{it}) \\ & + \Omega_5(\Delta (\text{Advertising}_{it} \times \text{Shareholder Governance}_{it})) \\ & + \Omega_6(\Delta (R\&D_{it} \times \text{Shareholders Governance}_{it})) \\ & + \Omega_7(\Delta (\text{Advertising}_{it} \times \text{Board Governance}_{it})) \\ & + \Omega_8(\Delta (R\&D_{it} \times \text{Board Governance}_{it})) + \Omega_9(\Delta ROA_{it}) + \Omega_{10}(\Delta \text{Size}_{it}) \\ & + \Omega_{11}(\Delta \text{Leverage}_{it}) + \Omega_{12}(\Delta \text{Liquidity}_{it}) \\ & + \Omega_{13}(\Delta \text{Industry Concentration}_{it}) + \omega_{it}\end{aligned}$$

I include both firm and industry level covariates as controls in the model. At the firm level, I include controls for firm profitability, firm size, firm leverage, and firm liquidity. At the industry level I include a control for firm industry concentration, since how highly concentrated an industry is can affect a firm's performance in the stock market.

MODEL SELECTION

Due to the inclusion of multiplicative (interaction terms) in the model, I tested for multicollinearity. The variance inflation factors (VIFs) for all the terms were less than 10

and condition indices were all below 30, the acceptable thresholds for VIF and condition indices (e.g., Kutner, Nachtsheim, and Neter 2004), respectively.

I compared the proposed model with two baseline models, (1) a model with only the control variables included (Model I, Table 6) and (2) a model including the control variables and the variables for marketing spending (advertising and R&D spending) (Model II, Table 6). Both these models are nested within the proposed model (Model III, Table 6) thus, I conducted incremental F-tests to determine if the addition of the corporate governance and marketing spending interaction terms were significantly meaningful. A comparison of the proposed model ((F (13, 851) = 7.65, $p < .01$), and R-squared (within) = 0.11) and the baseline model with only control variables ((F (5, 859) = 13.34, $p < .01$), and R-squared (within) = 0.070) resulted in a significant difference between the two models ($p < .05$). A comparison of the proposed model and a baseline model with control variables and the variables for marketing spending (advertising and R&D spending) included ((F (7, 857) = 11.76, $p < .01$), and R-squared (within) = 0.082) also resulted in a significant difference between the two models ($p < .05$), supporting my model specification.

TESTS OF HYPOTHESES

I begin with a discussion of the hypothesized relationships and then report the effects of control variables. I find that higher shareholder governance and higher advertising spending increase firm value ($b = 0.116$, $p < .05$). Similarly, higher shareholder governance and higher R&D spending also increase firm value ($b = 0.380$, $p < .05$). Higher board governance and higher advertising spending lower firm value ($b = -0.164$, $p < .05$), but I find no joint impact of board governance and R&D spending on firm

value. I also do not find main effects of either shareholder or board governance on firm value.

With respect to the control variables, I find that firm profitability ($b = 0.002$, $p < .05$), leverage ($b = 0.110$, $p < .01$), and industry concentration ($b = 0.825$, $p < .01$) all increase firm value. However, I do not find any effect of firm size or liquidity on firm value.

ADDITIONAL ANALYSIS

Sampling Variations

I tested whether the model was robust to sampling variations. I dropped 5% of the observations using three different randomly generated set of observations. In each case, the model results were consistent with the model used for hypotheses testing (Model used for Hypotheses Testing, Table 6), indicating that the model is robust to sampling variations. I provide the results of these models in Models I-III in Table 7.

Alternate Measures

I ran a model using alternate measures of advertising spending (reported advertising spending scaled by a firm's assets), R&D spending (reported R&D spending scaled by a firm's assets), and accounting profit (return on equity which is measured as operating income divided by shareholders' equity). The results, which are shown in Model I of Table 8, mirror the findings in the model used for hypotheses testing.

Nature of Spending versus Amount

My theory is based on how marketing dollars are spent rather than on the amount of dollars being spent. In order to ensure that I am capturing changes in the nature of spending and not the amount, I compared the mean level of advertising spending and

R&D spending for the firms which had the top twenty percent ($n=173$) of shareholder governance scores with those which ranked in the lowest twenty percent. There are no significant difference in advertising ($p < 0.13$) and R&D spending ($p < 0.65$) between the two groups. I ran a similar analysis comparing the top and bottom quintiles according to board governance score and, again, find no significant difference in advertising ($p < 0.21$) and R&D ($p < 0.37$) spending between the two groups.

Data Sample

The final data sample consists of firms which reported both advertising and R&D spending amounts. Thus, firms which reported R&D spending, but not advertising (and vice-versa) were left out of the data sample. To examine whether the results were driven by characteristics specific to firms which report both advertising and R&D spending (firms which presumably value marketing), I ran the analysis with firms which reported only R&D spending and firms which reported only advertising spending. For the firms which reported only R&D spending, I, again, find that the joint impact of shareholder governance and R&D spending enhances firm value ($p < 0.10$) while the effect of board governance and R&D spending is not significant. For the firms which reported only advertising spending, I find that the joint impact of shareholder governance and advertising spending enhances firm value ($p < 0.01$) while the effect of board governance and advertising spending lowers firm value ($p < 0.01$). These findings are consistent with model used for hypotheses testing suggesting the results were not driven by characteristics specific to firms which report both advertising and R&D spending.

Effects on Dispersion of Analysts' Forecasts

As stated earlier, I propose that investors and analysts make inferences regarding how a firm's marketing dollars are spent by analyzing other firm characteristics, since

marketing spending often generates intangibles assets which are difficult to quantify and evaluate. I argue that higher levels of shareholder governance should reduce some of the uncertainties held by investors and financial analysts about managerial decision making related to marketing spending, while I empirically resolve the impact of board governance. Market uncertainty may be captured through the variance in financial analysts' earnings forecasts or analyst forecast dispersion. The dispersion in analysts' forecasts refers to disagreement among financial analysts about the expected earnings per share of the firm (Athanasakos and Kalimpalli 2003). Dispersion in analysts' forecasts proxies for both uncertainty about future firm earnings (Barron and Stuerke 1998) and a lack of consensus among market participants about the firm's future earnings (Barron et al. 1998). *Ceteris paribus*, stocks with higher dispersion in analysts' earnings forecasts earn lower, future returns (e.g., Diether, Malloy, and Scherbina 2002), and have higher future stock return volatility (e.g., Abarbanell, Lanen, and Verrecchia 1995). Given my assumptions about investors' assessments about the impact of corporate governance on marketing spending, I empirically tested the hypotheses using analyst forecast dispersion as the dependent measure (results in Model II, Table 8).

I measured analyst forecast dispersion as the standard deviation of the earnings forecasts (Clement, Frankel, and Miller 2003; Lang and Lundholm 1996), which was obtained from Institutional Brokers Estimate System (I/B/E/S). Based on my reasoning, I expect higher shareholder governance will reduce analyst uncertainty related to marketing spending (both advertising and R&D spending) and reduce forecast dispersion. In addition, based on the results of the model for hypotheses testing, I also expect that higher board governance will exacerbate analysts' uncertainties related to advertising spending and will result in higher analyst forecast dispersion. Consistent, with these expectations, the joint impact of shareholder governance and advertising spending results

in lower analyst forecast dispersion ($b = -1.201$, $p < .01$) as does the effect of shareholder governance and R&D spending ($b = -1.810$, $p < .05$). I do not find support for the joint effect of board governance and advertising spending on analyst forecast dispersion. However, the interaction is in the direction (positive) expected ($b = 0.266$, not significant) and consistent with the model for hypotheses testing. Thus, these results provide partial support for the theoretical mechanisms I propose.

Chapter 10: Discussion

I investigate how a firm's corporate governance structure affects the value relevance of firms' advertising and R&D spending. I examine the joint effects of shareholder governance (shareholders' ability to influence a firm's managers) and board governance (board of director's ability to influence a firm's managers) and marketing spending (advertising and R&D spending) on firm value.

The findings suggest that higher shareholder governance and higher advertising spending increase firm value. Similarly, I find that higher shareholder governance and higher R&D spending also increase firm value. However, higher board governance and higher advertising spending lower firm value, and I find no joint impact of board governance and R&D spending on firm value. I discuss these findings and the paper's contributions to marketing theory and managerial practice. I conclude with a discussion of this paper's limitations and opportunities for further research.

THEORETICAL CONTRIBUTIONS

In sum, the findings identify the impact of a firm's corporate governance structure, specifically those related to its shareholders and board of directors, on the relationship between marketing spending and firm value. In doing so, I add to a growing body of work on the effects of the larger "firm ecosystem" which affects the marketing function. Recent work (Currim et.al. 2012) highlights the link between a firm's executive compensation structures and its allocations toward advertising and R&D spending. In the spirit of this work, I focus on the impacts of corporate governance structure and marketing spending on firm value. These relationships have not been accounted for in past studies examining the links between advertising and R&D spending and shareholder value. My findings show differential effects of shareholder and board governance and

thus, necessitate consideration of both of these factors in the marketing-firm value framework.

I find opposite effects of shareholder governance and board governance related to advertising spending (higher shareholder governance and higher advertising spending increase firm value while higher board governance and higher advertising spending lower firm value). In addition, I while find this impact of board governance and advertising spending on firm value, there is no joint effect of board governance and R&D spending on firm value. I propose these findings are a result of (1) the role of shareholders versus directors who function as agents of shareholders (2) investors' assessments regarding the distinctions between advertising spending and R&D spending. I infer that corporate governance structures which offer greater influence to a firm's board of directors (whose interests may not align with firm interests) and increased advertising spending lower firm value because such dollars are both spent on less value relevant initiatives (e.g. promotions versus brand building) and also perceived (by investors) to be spent ineffectively. I propose that I do not find an effect for R&D spending and board governance due to the nature of the R&D activities. R&D projects tend to be larger in scale and more complicated in nature than advertising investments. Thus, investors may be uncertain, given the size and scope of such R&D projects, as to whether directors have any influence on R&D spending decisions. For example, Lockheed Martin, IBM, Wal-Mart, Nike, and many other firms now run teams called "skunkworks" which are secret, R&D development centers out of the reach of a firm's bureaucracy (e.g, Nisen 2013). It is plausible that directors, many of whom are firm outsiders, are intentionally kept in the dark about such highly proprietary activities. Thus, investors may discount the influence of the board to affect the effectiveness of R&D spending and may perceive these

decisions to be more directly managed by the owners (e.g., through shareholder voting) of the firm themselves.

I show that a firm's governance structures can indirectly impact firm value through functional level strategies (e.g., marketing spending) and that the effects on firm value may vary based on the type of governance (shareholder versus board of director). In areas such as marketing, where investors often struggle to ascertain the value relevance of spending decisions, the impact of corporate governance may have more pronounced effects due to investor reliance on firm attributes such as corporate governance to make inferences about nature of the spending. Through this work, I am able to extend the literature linking shareholders (e.g., Gompers, Ishii, and Metrick 2003) and boards of directors (Gillette, Noe, and Rebello 2003) to firm value. I show that the effects of corporate governance structures on firm value are due in part to the impact these structures have on functional level strategies.

Third, prior literature has emphasized the amount of advertising and R&D spending (e.g., McAlister, Srinivasan, and Kim 2007; Mizik and Jacobson 2003). With this work I infer that the nature of the spending, which is influenced by shareholders and directors, is equally critical. A useful extension to this work would be research aimed at decomposing the nature of advertising and R&D spending (e.g., through manager surveys) and then determining the relationship between the type of spending and firm value.

IMPLICATIONS FOR PRACTICE

The paper's insights also generate useful implications for managerial practice. First, the impact of shareholder and board governance on the value relevance of marketing spending suggests that investors and analysts assess marketing spending in

context with the firm's corporate governance structure. I find that higher shareholder governance and higher marketing spending (both advertising and R&D spending) increase firm value, while higher board governance and higher advertising spending has a negative impact on firm value. This suggests that the (investor) market may not always believe that governance structures which offer stakeholders more autonomy and greater rights result in more effective decision making. Thus, managers should consider addressing these implications when managing their investor relations efforts. For example, if a firm's board governance is high (high proportion of independent directors and directors have considerable rights and autonomy) and advertising spending is high, then managers may consider emphasizing the strategic planning related to their advertising spending as this may be a source of concern for investors and analysts.

This work also offers evidence on why marketing executives must be involved in a firm's boardroom activities. Corporate governance structures are set in the boardroom by top management team members, and we find that these structures impact the valuation of marketing spending. Thus, the marketing department is not fully in control of how marketing spending is valued in the stock market. Therefore, it is imperative that marketing have a voice in the boardroom, or at least be consulted, in the planning of firm's corporate governance structure. The value generated through marketing spending is important not only for marketing managers, but for the firm itself.

LIMITATIONS AND FUTURE RESEARCH

I was fortunate to be able to obtain unique and comprehensive data on corporate governance from ISS. However, since data collection on these measures began in 2010, the sample consists of a relatively short time window. Nevertheless, I had sufficient data across firms and across years to empirically test my hypotheses and provide a first step in

the consideration of a firm's corporate governance structure on the marketing-firm value link.

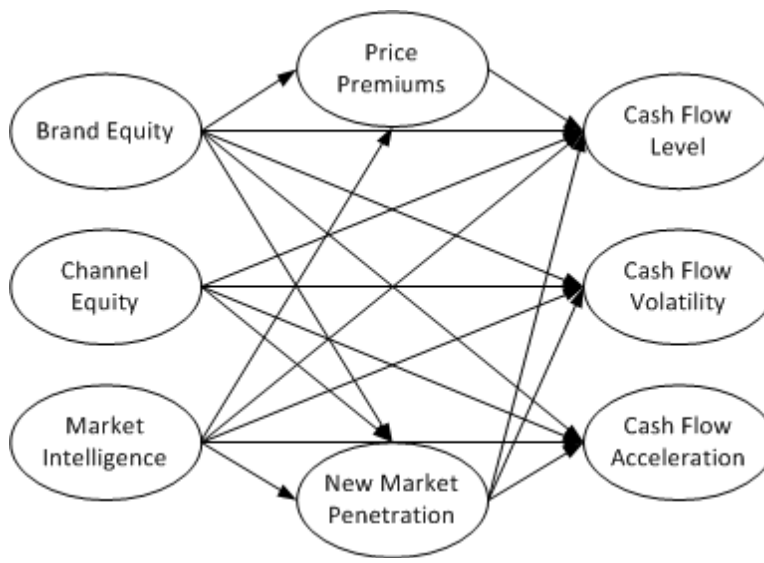
Given my interest in understanding the impact of shareholder and board governance on advertising and R&D spending, the data sample was limited to firms which separately report advertising and R&D spending. However, firms have considerable discretion in reporting advertising (SEC Financial Reporting Release 44) and R&D (Statement of Financial Accounting Standards 2; Chan, Lakonishok, and Sougiannis 2001) as separate expense items. Thus, the data sample used in the analysis is likely to be comprised of firms in which advertising and R&D activities are valued (e.g., firms pursuing differentiation strategies). However, I believe this sample is suitable for the objective of offering a better understanding of how corporate governance structures affect the value relevance of marketing spending, as this impact would only be relevant to firms in which marketing activities are considered material or critical.

In the analysis, I focused on governance structures related to a firm's shareholders and its board of directors. However, a firm's audit is also a facet of corporate governance and the firm's auditors may have an integral effect on the marketing-shareholder value link. For example, when a firm receives a negative audit opinion, investors and analysts may become concerned about the firm's entire operations, including the value relevance of marketing spending. Future researchers may consider examining a firm's audit on the marketing-shareholder value link.

Finally, the data was limited to only U.S. based firms. However, data on corporate governance for firms in other countries is now available through ISS and other sources. While it was not the objective of my work to try to uncover the differences in such practices cross-nationally, it would be worthwhile for future investigators to see how the contingent impact of shareholder and board governance (on the marketing and firm value

relationship) varies across countries and to try and understand the reasons for such variance, if it exists.

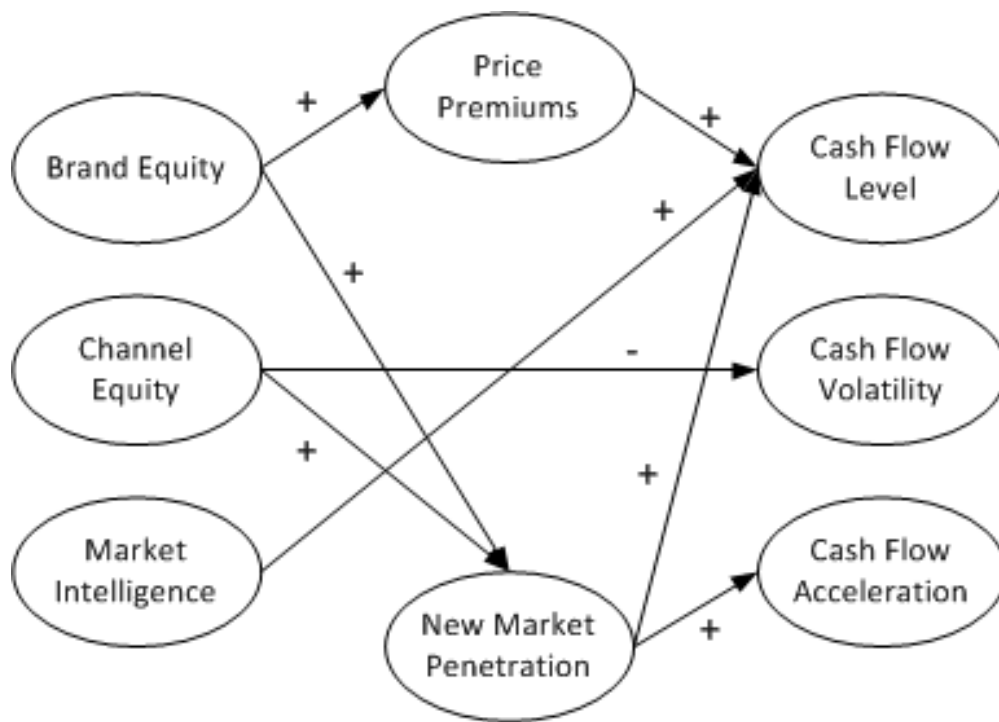
I believe this work provides a useful first-step in the consideration of a firm's corporate governance structure on the marketing and shareholder value link. I hope that I provide the groundwork for future research aimed at understanding the impact of a firm's larger "ecosystem" on the value relevance of its marketing efforts.



Expected Relationship Direction	Price Premiums	Market Penetration	Cash Flow Level	Cash Flow Volatility	Cash Flow Acceleration
Brand Equity	(+)	(+)			
Channel Equity		(+)			
Market Intelligence	(+)	(+)			
Price Premiums			(+)		
Market Penetration			(+)	(-)	(+)

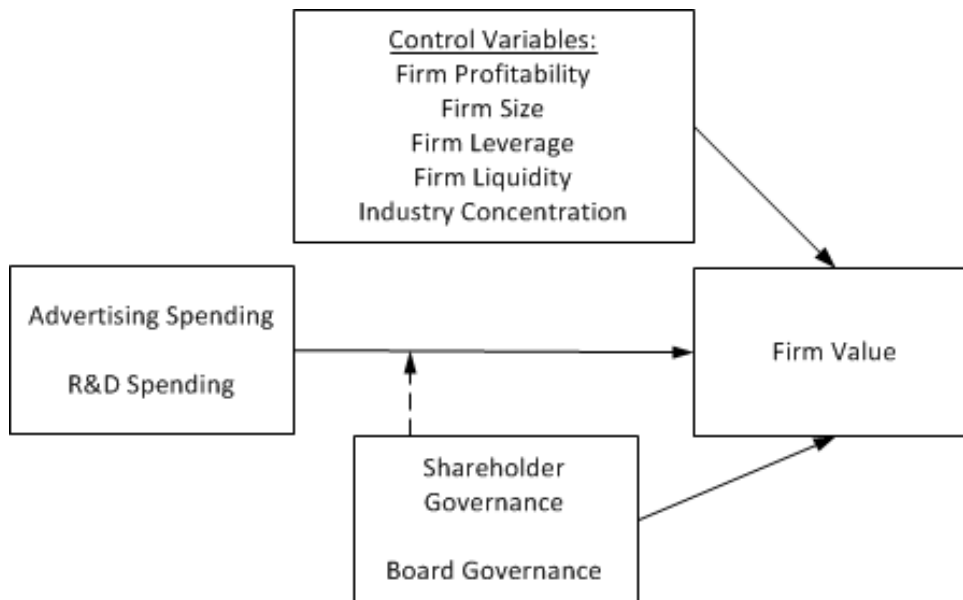
- Direct paths from the market-based assets (e.g., brand equity) to the cash flow variables are included in the model. However, I do not offer related hypotheses since mediating marketing strategies are included in the model, and full mediation is presumed.
- Control variables included the model: firm profitability, firm size, market turbulence, competitive intensity

Figure 1: Essay 1 - Conceptual Framework and Hypothesized Relationships



- New market penetration does not mediate the relationship between channel equity and cash flow level.

Figure 2: Essay 1 - Analysts' Assessments of Market-Based Assests and Cash Flows



Expected Impact on Firm Value	Shareholder Governance	Board Governance
Advertising Spending	(+)	(+/-)
R&D Spending	(+)	(+/-)

Figure 3: Essay 2 - Conceptual Framework: The Effects of Corporate Governance and Marketing Spending on Firm Value

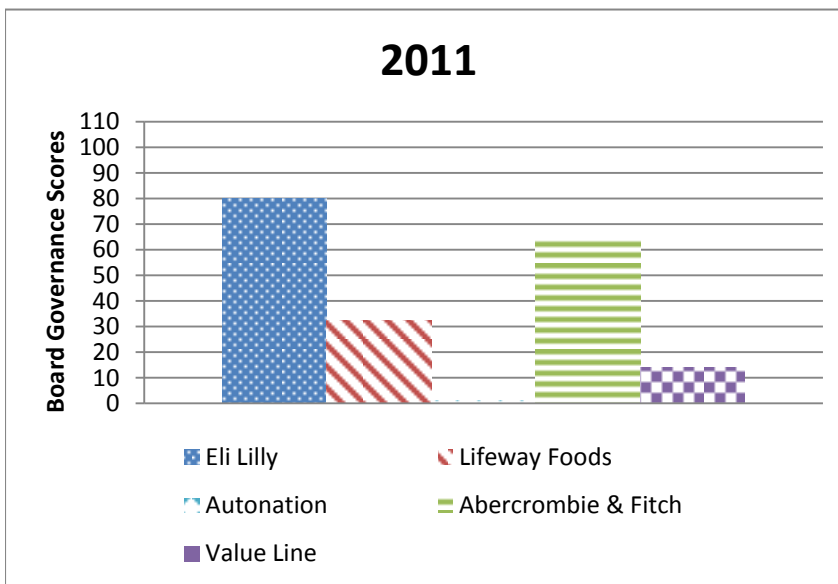
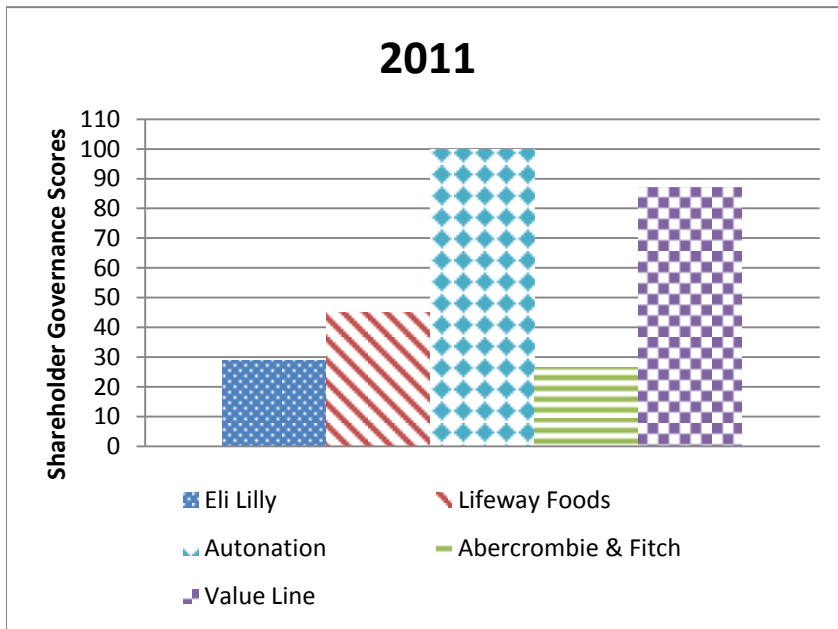


Figure 4: Essay 2 - Variance (Cross-Sectional) of Shareholder and Board Governance

Variable	Definition	Mean (Std Deviation)	Cronbach's Alpha	Number of Items	Average Variance Extracted	Composite Reliability	Source
Market-Based Assets							
Brand Equity (Customer-Based)	A composite, reflective measure of brand loyalty, brand quality, and brand awareness	5.024 (1.061)	0.909	8	0.538	0.900	Adapted from Yoo and Donthu (2001)
Channel Equity	A reflective measure of channel partners economic and social satisfaction	4.692 (0.969)	0.858	5	0.549	0.858	Adapted from Geyskens and Steenkamp (2000)
Market Intelligence	A reflective measure of a firm's propensity to gather information about competitors, industry conditions, and customers	5.969 (0.760)	0.868	5	0.534	0.850	Created based on Srivastava, Shervani, and Fahey (1999)
Marketing Strategies							
Price Premiums	A reflective measure of the ability of a firm to charge price premiums to consumers	4.188 (1.392)	0.886	3	0.705	0.877	Created
Market Penetration	A reflective measure of the ability of a firm to penetrate new product markets	4.426 (1.046)	0.845	4	0.570	0.841	Created
Dependent Variables							
Cash Flow Level	A reflective measure of the firm's cash flow levels	5.358 (0.973)	0.890	4	0.696	0.901	Created
Cash Flow Volatility	A reflective measure of the firm's cash flow stability/instability	3.483 (1.098)	0.885	4	0.657	0.883	Created
Cash Flow Acceleration	A reflective measure of the speed at which the firm generates cash flows	4.827 (1.064)	0.929	3	0.817	0.930	Created
Control Variables							
Firm Profitability	A reflective measure of the firm's profitability (return on assets).	4.812 (1.279)	0.896	3	0.764	0.905	Created
Firm Size*	A reflective measure of the firm's size as measured by total annual sales	\$751 billion-\$1billion range	n.a.	n.a	n.a	n.a	Created
Market Turbulence	A reflective measure of the rate of change of customers and their preferences	3.521 (1.141)	0.778	3	0.544	0.781	Adapted from Jaworski and Kohli (1993)
Competitive Intensity	A reflective measure of alternative products/services available in a market	5.056 (1.118)	0.736	3	0.525	0.759	Adapted from Jaworski and Kohli (1993)

*Not relevant for single item measures

Table 1: Essay 1 - Measures, Reliabilities, and Sources

Variable	1	2	3	4	5	6	7	8	9	10	11	12
1. Brand Equity	1.000											
2. Channel Equity	0.311 ***	1.000										
3. Market Intelligence	0.331 ***	0.195 ***	1.000									
4. Price Premiums	0.328 ***	0.115 *	0.064	1.000								
5. Market Penetration	0.375 ***	0.242 ***	0.208 ***	0.185 ***	1.000							
6. Cash Flow Level	0.385 ***	0.219 ***	0.391 ***	0.217 ***	0.339 ***	1.000						
7. Cash Flow Volatility	-0.246 ***	-0.227 ***	-0.212 ***	-0.251 ***	-0.188 ***	-0.403 ***	1.000					
8. Cash Flow Acceleration	0.165 **	0.175 ***	0.150 **	0.115 *	0.248 ***	0.508 ***	-0.280 ***	1.000				
9. Firm Profitability	0.270 ***	0.196 ***	0.217 ***	0.356 ***	0.289 ***	0.440 ***	-0.355 ***	0.219 ***	1.000			
10. Firm Size	0.235 ***	0.162 **	0.294 ***	-0.001	0.296 ***	0.341 ***	-0.063	0.075	0.016	1.000		
11. Market Turbulence	0.107	0.047	0.002	0.153 **	0.150 **	-0.047	-0.078	-0.028	0.082	0.050	1.000	
12. Competitive Intensity	0.156 **	0.169 **	0.130 *	-0.101	0.194 ***	0.100	0.099	0.105	-0.107	0.208 ***	0.204 ***	1.000

p<.10, p<.05**, p<.01*** (N=220)

Table 2: Essay 1 - Correlations

Estimate (Std Error) <u>Model Fit</u> Chi Squared= 1166.828 dof=881; p<.000 CFI=.955 TLI=.948 RMSEA=.038					
	Price Premiums	Market Penetration	Cash Flow Level	Cash Flow Volatility	Cash Flow Acceleration
Brand Equity	0.385 (0.133)**	0.445 (0.104)***	0.142 (ns)	-0.679 (0.459)	0.012 (0.106)
Channel Equity		0.141 (0.065)**	0.010 (ns)	-0.341 (0.172)**	0.114 (0.071)
Market Intelligence	0.107 (0.159)	0.010 (0.111)	0.373 (0.150)**	-0.302 (0.206)	0.100 (0.121)
Price Premiums			0.625 (0.210)***		
Market Penetration			0.162 (0.086)*	1.222 (0.932)	0.217 (0.078)***
Firm Profitability			0.148 (0.094)	-0.503 (.0197)**	0.096 (0.065)
Firm Size			0.355 (0.080)***	0.036 (0.106)	0.035 (0.091)
Market Turbulence			-0.178 (0.073)**	-0.054 (0.095)	-0.097 (0.082)
Competitive Intensity			0.027 (0.082)	0.304 (0.116)***	0.114 (0.097)

p<.10*, p<.05**, p<.01***

Table 3: Essay 1 - Results of Final Model

Variables	Definition	Data Source	Marketing Literature Source
Dependent Variables			
Abnormal Stock Returns	Observed Stock Returns – Expected Returns; Expected Returns calculated by Fama-French-Carhart extended model	CRSP; Kenneth French's library	Luo, Homburg, and Wieseke 2010
Independent Variable			
Advertising Spending	Reported Advertising Spending / Sales	COMPUSTAT	McAlister, Srinivasan, and Kim 2007
R&D Spending	Reported R&D Spending / Sales	COMPUSTAT	McAlister, Srinivasan, and Kim 2007
Moderating Variables			
Shareholder Governance	A composite measure including policies about shareholders' rights related to one-share-one vote, takeover defenses, voting issues, and voting formalities	ISS	First use of this data
Board Governance	A composite measure including policies about a firm's board composition, composition of board committees, board policies, board practices, and related party transactions	ISS	First use of this data
Control Variables			
Firm Profitability	Firm's Operating Income / Total Assets	COMPUSTAT	Sorescu and Spanjol 2008
Firm Size	Natural Logarithm of a Firm's Total Assets	COMPUSTAT	Sorescu, Shankar, and Kushwaha 2007
Firm Leverage	Firm's Long-Term Debt / Total Assets	COMPUSTAT	Luo and Bhattacharya 2006
Firm Liquidity	Current Assets / Current Liabilities	COMPUSTAT	Luo, Homburg, and Wieseke 2010
Industry Concentration	Herfindahl concentration index	COMPUSTAT	Morgan and Rego 2009

Table 4: Essay 2 - Definitions, Data Sources, & Literature Sources

Variables	Mean (Std Dev)	1	2	3	4	5	6	7	8	9	10
1. Firm Value	-0.096 (0.419)	1.000									
2. Adv Spend	0.179 (1.900)	0.001	1.000								
3. R&D Spend	0.006 (0.321)	0.025	0.032	1.000							
4. ShHold Gov	-0.057 (0.269)	-0.171 ***	-0.007	-0.038	1.000						
5. Board Gov	-0.058 (0.238)	-0.130 ***	-0.002	-0.005	0.241 ***	1.000					
6. Profitability	6.298 (160.294)	0.063 *	-0.000	-0.030	0.065 *	0.011	1.000				
7. Size	0.017 (0.048)	0.001	-0.014	-0.057 *	-0.048	-0.032	-0.015	1.000			
8. Leverage	0.067 (0.356)	0.088 ***	-0.010	0.039	0.012	0.028	-0.019	-0.070 **	1.000		
9. Liquidity	0.034 (0.411)	-0.042	-0.004	-0.018	0.000	-0.048	0.020	0.211 ***	-0.411 ***	1.000	
10. Indus.Concen	0.033 (.106)	0.239 ***	0.002	-0.035	-0.228 ***	-0.226 ***	-0.019	-0.004	-0.048	0.001	1.000

p< .10*, p< .05**, p< .01***

All values have been rounded to the third decimal place

Table 5: Essay 2 - Correlations and Descriptive Statistics of Measures

Variables	Model I: Controls Estimates (Std Errors)	Model II: Controls & Marketing	Model III: Model for Hypotheses Tests
(Adv × Sh Gov)			0.116 (0.056)**
(R&D × Sh Gov)			0.380 (0.165)**
(Adv × Board Gov)			-0.164 (0.075)**
(R&D × Board Gov)			0.152 (0.210)
Advertising Spending		0.004 (0.0023)*	0.005 (0.008)
R&D Spending		0.022 (0.013)*	0.024 (0.043)
Shareholder Governance			-0.015 (0.086)
Board Governance			-0.021 (0.117)
Profitability	0.002 (0.001)**	0.002 (0.001)**	0.002 (0.001)**
Size	0.095 (0.294)	0.102 (0.295)	0.021 (0.291)
Leverage	0.117 (0.043)***	0.117 (0.043)***	0.110 (0.042)***
Liquidity	-0.006 (0.037)	-0.007 (0.037)	-0.009 (0.037)
Industry Concentration	0.963 (0.129)***	0.805 (0.134)***	0.825 (0.134)***
*p< .10, **p< .05, ***p< .01	n=865 Prob < F=0.000 R ² =0.070	n=865 Prob < F=0.000 R ² =0.082	n=865 Prob < F=0.000 R ² =0.11

Table 6: Essay 2 - Results for the Contingent Impacts of Corporate Governance on the Effect of Advertising and R&D Spending on Firm Value

Variables	Model I: Sampling Variation I	Model II: Sampling Variation II	Model III: Sampling Variation III
(Adv × Sh Gov)	0.116 (0.057)**	0.115 (0.057)**	0.116 (0.056)**
(R&D × Sh Gov)	0.376 (0.167)**	0.396 (0.170)**	0.381 (0.166)**
(Adv × Board Gov)	-0.164 (0.076)**	-0.164 (0.076)**	-0.166 (0.075)**
(R&D × Board Gov)	0.150 (0.212)	0.191 (0.212)	0.160 (0.211)
Advertising Spending	0.005 (0.008)	0.004 (0.008)	0.004 (0.008)
R&D Spending	0.021 (0.044)	0.016 (0.044)	0.023 (0.043)
Shareholder Governance	-0.016 (0.087)	-0.002 (0.089)	-0.012 (0.087)
Board Governance	-0.023 (0.119)	0.004 (0.120)	-0.008 (0.118)
Profitability	0.002 (0.001)**	0.002 (0.001)**	0.002 (0.001)**
Size	0.022 (0.306)	-0.001 (0.298)	-0.026 (0.300)
Leverage	0.111 (0.043)***	0.147 (0.045)***	0.111 (0.043)***
Liquidity	-0.002 (0.038)	0.007 (0.038)	-0.003 (0.038)
Industry Concentration	0.817 (0.137)***	0.829 (0.137)***	0.807 (0.136)***
	n=822	n=822	n=822
*p< .10, **p< .05, ***p< .01	Prob < F=0.000 R ² = 0.10	Prob < F=0.000 R ² = 0.11	Prob < F=0.000 R ² = 0.10

Table 7: Essay 2 - Additional Analysis with Sampling Variations

Variables	Model for Hypotheses Tests Estimates (Std Errors)	Model I: Alternate Measures	Model II: Dependent Measure: Forecast Dispersion
(Adv × Sh Gov)	0.116 (0.056)**	0.086 (0.049)*	-1.201 (0.273)***
(R&D × Sh Gov)	0.380 (0.165)**	0.391 (0.198)**	-1.810 (0.918)**
(Adv × Board Gov)	-0.164 (0.075)**	-0.157 (0.075)**	0.266 (0.203)
(R&D × Board Gov)	0.152 (0.210)	0.023 (0.186)	-0.234 (1.101)
Advertising Spending	0.005 (0.008)	0.006 (0.007)	0.133 (0.069)*
R&D Spending	0.024 (0.043)	0.034 (0.047)	-0.377(0.277)
Shareholder Governance	-0.015 (0.086)	-0.133 (0.058)**	-0.693 (0.431)
Board Governance	-0.021 (0.117)	-0.087 (0.067)	-0.260 (0.552)
Profitability	0.002 (0.001)**	0.002 (0.001)**	-0.002 (0.006)
Size	0.021 (0.291)	0.124 (0.314)	-0.297 (1.641)
Leverage	0.110 (0.042)***	0.110 (0.042)***	0.164 (0.222)
Liquidity	-0.009 (0.037)	-0.006 (0.037)	0.093 (0.181)
Industry Concentration	0.825 (0.134)***	0.812 (0.134)***	-0.432 (0.540)
	n=865	n=864	n=219
*p< .10, **p< .05, ***p< .01	Prob < F=0.000	Prob < F=0.000	Prob < F=0.002
	R ² =0.11	R ² = 0.10	R ² = 0.15

Table 8: Essay 2 - Additional Analysis with Alternate Measures and the Effects on Analysts' Earnings Forecast Dispersion

Appendix A

All ratings were done according to:

Please think of a company in one of the industries that you cover. Please keep this company in mind when answering all of the questions. Relate all the questions to the firm.

Please read the statements below and then indicate your agreement with the statement.

1= Very Strongly Disagree

2= Strongly Disagree

3=Disagree

4=Neutral

5=Agree

6=Strongly Agree

7=Very Strongly Agree

We realize you are not an employee of the company, but we would like your perceptions on the following items based on what you infer from firm disclosures (e.g. SEC filings and earnings release calls), your research, and your discussion with firm managers.

Brand Equity (Customer-Based)

The company's customers are loyal to the company's brands.

The company's brands are likely to be a customer's first choice.

The quality of the company's brands is extremely high.

The functionality of the company's brands is very high.

Customers are aware of the company's brands.

Customers can easily recognize the company's brands.

Characteristics of the company's brands come to customers' minds quickly

Channel Equity

The company's distribution channel members have provided it with a dominant and profitable market position.

The revenue generated from the company's distribution channel members is high.

The marketing and selling support provided by the company's distribution channel members is of high quality.

The high quality of the marketing and selling support provided by the company's distribution channel members generates customer traffic.

Typically, the company's managers are pleased with the overall relationship with the company's distribution channel members.

Market Intelligence

The company has information about its competitors.

The company scans its market environment to gather information.

The company has an understanding of current macro-economic conditions that may affect its business.

The company has information about developments in its industry or business domain.

The company gathers knowledge about its customers' needs and wants.

Ability to Charge Price Premiums

The company is able to charge a high price for its products/services.

The company earns a high margin on its products/services.

The company is able to offer high price premiums on its products/services.

Ability to Penetrate New Product Markets

The company is able to penetrate new markets efficiently.

The company's new products/services are adopted quickly.

The company is able to enter new markets quickly and easily.

Cash Flow Level

The company has a high level of cash flows.

The company has a high level of cash revenues.

The company's cash flows are generally low (reverse coded).

The company does not have a high level of cash revenues (reverse coded).

Cash Flow Volatility

The company's cash flows are difficult to predict.

The company's cash flows are stable (reverse coded).

The company's cash flows are difficult to forecast.

The company's cash flows are not consistent from year to year.

Cash Flow Acceleration

The company realized cash receipts rapidly.

The company's receivables turnover (when cash is received) very quickly.

The company has rapid collection of cash receipts.

Firm Profitability

The company has a high return on total assets.

The company earns high income relative to its total assets.

The company's net income is higher than the investment in total assets used to generate this income.

Firm Size

Please select the appropriate range for the company's annual sales.

Less than \$5 Million

\$5 Million-\$75 Million

\$76 Million-\$250 Million

\$251 Million-\$500 Million
\$501 Million-\$750 Million
\$751 Million-\$1 Billion
\$1.1 Billion- \$15 Billion
\$15.1 Billion-\$50 Billion
More than \$50 Billion

Competitive Intensity

Competition in the industry is cutthroat.

Price competition is the hallmark of the industry

Competition in this industry is relatively weak (reverse coded).

Market Turbulence

New customers tend to have needs/wants which are very different from the needs/wants of existing customers in this industry.

Companies within this industry cater to new customers, who are different from the customers they catered to in the past.

Companies in this industry tend to experience demand from new customer segments often.

Appendix B

Board Governance comprises of five subcategories: Board Composition, Composition of Committees, Board Practices, Board Policies, and Related Party Transactions.

Board Composition

Board Composition focuses on the independence of the board of directors and the structure of board leadership.

B1.2 What is the independent director composition of the board?

B1.7 What is the classification of the Chairman of the board?

B1.8 Are the roles of Chairman and CEO separated?

B1.9 Has the company identified a Senior or Lead Independent Director?

B1.12 What percentage of the board is related to executives or majority shareholders of the company?

B1.13 What percentage of the board are former executives of the company?

Composition of the Committees

The Composition of Committees subcategory focuses on the independence of the three key committee members of the board of directors: nomination, compensation, and audit.

B2.1.1 What is the independent status of the nominating committee members?

B2.2.1 What is the independent status of the compensation committee members?

B2.3.1 What is the independent status of the audit committee members?

Board Practices

The Board Practices subcategory focuses on issues surrounding the ability of directors to discharge their duties, such as overboarding and attendance.

B3.2 How many boards of directors does the CEO serve on?

B3.3 How many non-executives serve on an excessive number of outside boards?

B3.8 Did any directors attend less than 75% of the board meetings without a valid excuse?

B3.9 How many directors received withhold/ against votes of 50% or greater at the last annual meeting?

Board Policies

The Board Policies subcategory focuses on the policies surrounding the operation of the board of director, especially the independent directors.

B4.2 Does the company disclose board/governance guidelines?

B4.3 Did outside directors meet without management present?

B4.4 Can directors hire their own advisors without management approval?

Related Party Transactions

This subcategory focuses on related-party transactions with members of the board and with executives. These transactions have the potential to undermine the independence of the board of directors and at times may serve to separate management interests from

those of shareholders.

B5.1 What percent of the directors were involved in material RPTs?

B5.2 Do the directors with RPTs sit on key board committees?

B5.3 Are there related-party transactions involving the CEO?

The Shareholder Governance category comprises of four subcategories: One Share-One Vote, Takeover Defenses, Voting Issues (such as supermajority provisions), and Voting Formalities (such as special-meeting rights).

One Share - One Vote

One Share-One Vote focuses on whether certain classes of shareholders have rights disproportionate to their economic rights, such as special voting rights or board representation.

S1.1 Does the company have classes of stock with different voting rights?

S1.2 Are there any directors on the board who are not up for election by all classes of common shareholders?

Takeover Defenses

This subcategory focuses on mechanisms that may serve to disempower shareholders from exercising their right to accept an attractive takeover offer.

S2.7 Are all directors elected annually?

S2.8 Is the board authorized to issue blank check preferred stock?

S2.9.1 Does the company have a poison pill (shareholder rights plan) in effect?

S2.9.2 What is the trigger threshold for the poison pill?

S2.9.3 Does the poison pill have a sunset provision?

S2.9.4 Does the poison pill have a TIDE provision?

S2.9.5 Does the poison pill have a qualified offer clause?

S2.9.6 In how many years will the poison pill expire?

S2.9.7 Is the poison pill designed to preserve tax assets (NOL pill)?

S2.9.8 Was the poison pill approved by shareholders?

S2.9.9 How long has it been since the poison pill was implemented or renewed?

S2.9.10 Does the company's poison pill include a modified slow-hand or dead-hand provision?

S2.10 Does the company have a majority vote standard in uncontested elections?

S2.11 If the company has a majority voting standard, is there a plurality carve-out in the case of contested elections?

Voting Issues

These questions focus on whether a supermajority vote is required under certain circumstances.

S3.1 Does the company require a super-majority vote to approve amendments to the charter and bylaws?

S3.2 Does the company require a super-majority vote to approve mergers/business

combinations?

Voting Formalities

This section focuses on shareholders' rights to make their voice heard through convening special meetings and/or written consent solicitations.

S4.1 What is the percentage of share capital needed to convene a special meeting?

S4.2 Can shareholders act by written consent?

S4.3 Has the board failed to implement a shareholder resolution supported by a majority vote?

S4.4 Are there material restrictions as to timing or topics to be discussed, or ownership levels required to call the meeting?

References

- Aaker, David. A. (1991), *Managing Brand Equity: Capitalizing on the Value of a Brand Name*. New York: The Free Press.
- Aaker, David. A. (1996), "Measuring Brand Equity across Product and Markets," *California Management Review*, 38(3), 102-120.
- Abarbanell, Jeffery S., William N. Lanen, and Robert E. Verrecchia (1995), "Analysts' Forecasts as Proxies for Investor Beliefs in Empirical Research," *Journal of Accounting and Economics*, 20(1), 31-60.
- Ailawadi, Kusum L., Donald R. Lehmann, and Scott A. Neslin (2003), "Revenue Premium as an Outcome Measure of Brand Equity," *Journal of Marketing*, 67(4), 1-17.
- Amir, Eli, Baruch Lev, Theodore. Sougiannis (2003), "Do Financial Analysts get Intangibles?" *European Accounting Review*, 12(4), 635-659
- Armstrong, J. Scott and Terry S. Overton (1977), 'Estimating Non-Response Bias in Mail Surveys,' *Journal of Marketing Research*, 14(3), 396-402
- Athanassakos, George and Madhu Kalimipalli (2003), "Analyst Forecast Dispersion and Future Stock Return Volatility," *Quarterly Journal of Business and Economics*, 42(1/2), 57-78
- Baron, Reuben M. and David A. Kenny (1986), "The Moderator-Mediator Variable Distinction in Social Psychological Research: Conceptual, Strategic, and Statistical Considerations," *Journal of Personality and Social Psychology*, 51(6), 1173-1182.
- Barron, Orie E. and Pamela S. Stuerke (1998), "Dispersion in Analysts' Earnings Forecasts as a Measure of Uncertainty," *Journal of Accounting, Auditing and Finance*, 13(3), 245-270.
- Barron, Orie E., Oliver Kim, Steve C. Lim, and Douglas E. Stevens (1998), "Using Analysts' Forecasts to Measure Properties of Analysts' Information Environment," *Accounting Review*, 73(4):421-433.
- Barron, Orie E., Donal Byard, Charles Kile, and Edward J. Riedl (2002), "High-Technology Intangibles and Analysts' Forecasts," *Journal of Accounting Research*, 40(2), 289-312.
- Becht, Marco, Juilan Franks, Colin Mayer, and Stefano Rossi (2010), "Returns to Shareholder Activism: Evidence from a Clinical Study of the Hermes UK Focus Fund," *Review of Financial Studies*, 23(3), 3093-3129.
- Block, Stanley B. (1999), "A Study of Financial Analysts: Practice and Theory," *Financial Analysts Journal*. 55(4), 86-95.

- Boulding, William and Richard Staelin (1995), "Identifying Generalizable Effects of Strategic Actions on Prior Performance: The Case of Returns to Research and Development Spending," *Marketing Science*, 14 (3), G222–36.
- Browne, Michael W. and Robert Cudeck (1993), *Alternative Ways of Assessing Model Fit. in Testing Structural Equation Models*, K.A. Bollen and J.S. Long eds., Newbury Park, CA: Sage.
- Bureau of Labor Statistics (2009), "Financial Analysts," *Occupational Outlook Handbook*.
- Bushman, Robert M., Joseph D. Piotroski, Abbie J. Smith (2004), "What Determines Corporate Transparency," *Journal of Accounting Research*, 42(2), 207-252.
- Carhart, Mark M. (1997), "On Persistence in Mutual Fund Performance," *Journal of Finance*, 52(1), 57–82.
- CFA Institute (2011), "CFA Program Benefits."
- Chakravarty, Anindita and Rajdeep Grewal (2011), "The Stock Market in the Driver's Seat! Implications for R&D and Marketing," *Marketing Science*, 57(9), 1594-1609.
- Chan, Louis K., Josef Lakonishok, and Theodore Sougiannis (2001), "The Stock Market Valuation of Research and Development Expenses," *Journal of Finance*, 56(6), 2431- 2456.
- Chauvin, Kevin W. and Mark Hirschey (1993), "Advertising, R&D Expenditures, and the Market Value of the Firm," *Financial Management*, 22(4), 128-140.
- Chhaochharia, Vidhi and Yaniv Grinstein (2006), "Corporate Governance and Firm Value: The Impact of the 2002 Governance Rules," *Journal of Finance*, 62(4), 1789-1825.
- Clement, Michael, Richard Frankel, and Jeffrey Miller (2003), "Confirming Management Earnings Forecasts, Earnings Uncertainty, and Stock Returns," *Journal of Accounting Research*, 41(4), 653-679.
- Core, John E., Robert W. Holthausen, David F. Larcker (1999), "Corporate Governance, Chief Executive Officer Compensation, and Firm Performance," *Journal of Financial Economics*, 51(3), 371-406.
- Cremers, K.J. Martijn and Vinay B. Nair (2005), "Governance Mechanisms and Equity Prices," *Journal of Finance*, 60(6), 2859-2894.
- Currim, Imran S., Jooseop Lim, and Joung W. Kim (2012), "You Get What You Pay For: The Effect of Top Executives' Compensation on Advertising and R&D Spending Decisions and Stock Market Return," *Journal of Marketing*, 76(5), 33-48.

- Diether, Karl B., Christopher J. Malloy, and Anna Scherbina (2002), "Differences of Opinion and the Cross Section of Stock Returns," *Journal of Finance*, 57(5), 2113-2141.
- Dunphy, Steven M. (2004), "Demonstrating the Value of Diversity for Improved Decision Making: The Wuzzle-Puzzle Exercise," *Journal of Business Ethics*, 53(4), 325-331.
- Edmans, Alex (2011), "Does the stock market full value intangibles? Employee Satisfaction and Equity Prices," *Journal of Financial Economics*, 101(3), 621-640.
- Erdem, Tulin and Joffre Swait (1998), "Brand Equity as a Signaling Phenomenon," *Journal of Consumer Psychology*, 7(2), 131-157.
- Erickson, Gary and Robert Jacobson (1992), "Gaining Competitive Advantage Through Discretionary Expenditures: The Returns to R&D and Advertising," *Management Science*, 38(9), 1264-79.
- Fama, Eugene F. and Michael C. Jensen (1983), "Separation of Ownership and Control," *Journal of Law and Economics*, 26(2), 301-325.
- Felton, Robert F., Alex Hudnut, and Jennifer van Heeckern (1996), "Putting a Value on Corporate Governance," *McKinsey Quarterly*, 1996(4), 170.
- Fornell, Claes and David F. Larcker (1981), "Evaluating Structural Equation Models with Unobservable Variables and Measurement Error," *Journal of Marketing Research*, 18(1), 39-50.
- Garcia-meca, Emma, Isabel Parra, Manuel Larràn, and Isabel Martínez (2005), "The Explanatory Factors of Intellectual Capital Disclosure to Financial Analysts," *European Accounting Review*, 14(1), 63-94.
- Geyskens, Inge and Jan-Benedict E.M. Steenkamp (2000), "Economic and Social Satisfaction: Measurement and Relevance to Marketing Channel Relationships," *Journal of Retailing*, 76(1), 11-32.
- Gillette, Ann B., Thomas H. Noe, and Michael J. Rebelló (2003), "Corporate Board Composition, Protocols, and Voting Behavior: Experimental Evidence," *Journal of Finance*, 58(5), 1997-2032.
- Gompers, Paul, Joy Ishii, and Andrew Metrick (2003), "Corporate Governance and Equity Prices," *Quarterly Journal of Economics*, 118(1), 107-156.
- Grullon, Gustavo, George Kanatas, and James P. Weston (2004), "Advertising, Breadth of Ownership and Liquidity," *Review of Financial Studies*, 17(2), 439-61.
- Harris, Ira C. and Katsuhiko Shimizu (2004), "Too Busy to Serve? An Examination of the Influence of Overboarded Directors," *Journal of Management Studies*, 41(5), 775-798.

- Hermalin, Benjamin E. and Michael S. Weisbach (1998), "Endogenously Chosen Boards of Directors and Their Monitoring of the CEO," *American Economic Review*, 88(1), 96-118.
- Hermalin, Benjamin E. and Michael S. Weisbach (2003), "Boards of Directors as an Endogenously Determined Institution: A Survey of the Economic Literature," *Economic Policy Review*, 9(1), 7-26.
- Hou, Kewei and David T. Robinson (2006), "Industry Concentration and Average Stock Returns," *Journal of Finance*, 61(4), 1927-56.
- Hu, Li-Tze and Peter M. Bentler (1998), "Fit Indices in Covariance Structure Modeling: Sensitivity to Underparametrized Model Misspecification," *Psychological Methods*, 3(4), 424-453.
- Hunt, Shelby D. and John R. Nevin (1974), "Power in a Channel of Distribution: Sources and Consequences," *Journal of Marketing Research*, 11(2), 186-193.
- Imhoff, Eugene A. (1992), "The Relation Between Perceived Accounting Quality and Economic Characteristics of the Firm," *Journal of Accounting and Public Policy*, 11(2), 97-118.
- Jap, Sandy (1999), "Pie-Expansion Efforts: Collaboration Processes in Buyer-Seller Relationships," *Journal of Marketing Research*, 36(4), 461-475.
- Jaworski, Bernard J. and Ajay K. Kohli (1993), "Market Orientation: Antecedents and Consequences," *Journal of Marketing*, 57(3), 53-70.
- Jensen, Michael C. (1986), "Agency Costs of Free Cash Flow, Corporate Finance, and Takeovers," *The American Economic Review*, 76(2), 323-329.
- Keller, Kevin L. (1993), "Conceptualizing, Measuring, and Managing Customer-Based Brand Equity," *Journal of Marketing*, 57(1), 1-22.
- Kim, MinChung and Leigh McAlister (2011), "Stock Market Reaction to Unexpected Growth in Marketing Expenditure: Negative Sales Force, Contingent on Spending Level for Advertising," *Journal of Marketing*, 75(4), 68-85.
- Kutner, Michael H., Christopher J. Nachtsheim, and John Neter (2004), *Applied Linear Regression Models*. Chicago: McGraw-Hill Irwin.
- Lang, Mark H. and Russell J. Lundholm (1996), "Corporate Disclosure Policy and Analyst Behavior," *The Accounting Review*, 71(4), 467-492.
- Leone, Robert P. (1995), "Generalizing What Is Known About Temporal Aggregation and Advertising Carryover," *Marketing Science*, 14(3), G141-50.
- Lev, Baruch (2001), *Intangibles – Management, Measurement, and Reporting*. Washington, DC: Brookings Institution Press.
- Luo, Xueming and C.B. Bhattacharya (2006), "Corporate Social Responsibility, Customer Satisfaction, and Market Value," *Journal of Marketing*, 70(4), 1-18

- Luo, Xueming, Christian Homburg, and Jan Wieseke (2010), "Customer Satisfaction, Analyst Stock Recommendations, and Firm Value," *Journal of Marketing Research*, 47(6), 1041-1058.
- Luo, Xueming and Pieter J. de Jong (2012), "Does Advertising Spending Really Work? The Intermediate Role of Analysts in the Impact of Advertising on Firm Value?" *Journal of the Academy of Marketing Science*, 40(4), 605-624.
- Lusch, Robert F. (1976), "Channel Conflict: Its Impact on Retailer Operating Performance," *Journal of Retailing*, 52(2), 3-12.
- Markovich, Dmitri G., Joel H. Steckl, and Bernard Yeung (2005), "Using Capital Markets as Market Intelligence: Evidence from the Pharmaceutical Industry," *Management Science*, 51(10), 1467-1480.
- McAlister, Leigh M., Raji Srinivasan, and MinChung Kim (2007), "Advertising, Research and Development, and Systematic Risk of the Firm," *Journal of Marketing*, 71(1), 35-48.
- McGovern, Gail J., David Court, John A. Quelch, and Blair Crawford (2004), "Bringing Customers Back into the Boardroom," *Harvard Business Review*, 82(11), 70-80.
- Mikhail, Michael B., Beverly R. Walther, and Richard H. Willis (1999), "Does Forecast Accuracy Matter to Security Analysts," *Accounting Review*, 74(2), 185-200.
- Mizik, Natalie and Robert Jacobson (2003), "Trading off Between Value Creation and Value Appropriation: The Financial Implications of Shifts in Strategic Emphasis," *Journal of Marketing*, 67(1), 63-76.
- Mizik, Natalie and Robert Jacobson (2008), "The Financial Value Impact of Perceptual Brand Attributes," *Journal of Marketing Research*, 45(1), 15-32.
- Mizik, Natalie and Robert Jacobson (2009), "Valuing Branded Businesses," *Journal of Marketing*, 73(6), 137-153.
- Mizik, Natalie and Robert Jacobson (2010), "The Theory and Practice of Myopic Management," *Journal of Marketing Research*, 47(4), 594-611.
- Morgan, Neil A. and Lopo L. Rego (2009), "Brand Portfolio Strategy and Firm Performance," *Journal of Marketing*, 73(1), 59-74.
- Nisen, Max (2013), "17 of the Most Mysterious Corporate Labs," at <http://www.businessinsider.com/coolest-skunk-works-2013-2?op=1> accessed on March 1, 2013.
- Ngobo, Paul-Valentin, Jean-Francois Casta, and Olivier Ramond (2012), "Is Customer Satisfaction a Relevant Metric for Financial Analysts?" *Journal of the Academy of Marketing Science*, 40(3), 480-508.
- Nunnally, Jum C. (1978), *Psychometric Theory*. New York: McGraw-Hill.

- Pauwels, Koen H., Jorge M. Silva-Risso, Shuba Srinivasan, Dominique M. Hanssens (2004), "New Products, Sales Promotions, and Firm Value: The Case of the Automobile Industry," *Journal of Marketing*, 68(4), 142-156
- Quelch, John A. and David Harding (1996), "Brand versus Private Labels: Fighting to Win," *Harvard Business Review*, Jan-Feb, 99-109.
- Robertson, Thomas S. (1993), "How to Reduce Market Penetration Cycle Times," *Sloan Management Review*, 35, 87-96.
- Ryan, Thomas. M and Chad A. Jacobs (2005), *Using Investor Relations to Maximize Equity Valuation*. Hoboken, NJ: John Wiley & Sons.
- Selman, Robert L. (1980), *The Growth of Interpersonal Understanding: Developmental and Clinical Analyses*. New York: Academic Press.
- Shantz, Carolyn U. (1983), Social Cognition. In *Handbook of Child Psychology: Cognitive Development*. P.H. Mussen ed., New York: Wiley. 495-555.
- Shleifer, Mark and Robert W. Vishny (1997), "A Survey of Corporate Governance," *Journal of Finance*, 52(2), 737-783.
- Simpson, Ana (2008), "Voluntary Disclosure of Advertising Expenditures," *Journal of Accounting, Auditing, and Finance*, 23(3), 404-436.
- Sorescu, Alina B., Venkatesh Shankar, and Tarun Kushwaha (2007), "New Product Preannouncements and Shareholder Value: Don't Make Promises You Can't Keep," *Journal of Marketing Research*, 44(3), 468-489.
- Sorescu, Alina B and Jelena Spanjol, (2008), "Innovation's Effect on Firm Value and Risk: Insights from Consumer Packaged Goods," *Journal of Marketing*, 72(2), 114-132.
- Srinivasan, Raji (2006), "Dual Distribution and Intangible Value: Franchising in Restaurant Chains," *Journal of Marketing*, 70(3), 120-135.
- Srinivasan, Shuba and Dominique M. Hanssens (2009), "Marketing and Firm Value: Metrics, Methods, Findings, and Future Directions," *Journal of Marketing Research*, 46(3), 293- 312.
- Srivastava, Rajendra K., Tassaduq Shervani, and Liam Fahey (1998), "Market-Based Assets and Shareholder Value: A Framework for Analysis," *Journal of Marketing*, 62(1), 2-18
- Strauss, Gary (2011), "Corporate Directors See Pay Skyrocket," *USA Today*, at http://usatoday30.usatoday.com/money/companies/management/2011-03-04-1Adirectorpay04_ST_N.htm accessed on January 3, 2013.

- Varadarajan P. Rajan and Terry Clark (1994), "Delineating the Scope of Corporate, Business, and Marketing Strategy," *Journal of Business Research*, 31(2-3), 93-105.
- Verhoef, Peter C. and Peter S.H. Leeflang (2009), "Understanding the Marketing Department's Influence Within the Firm," *Journal of Marketing*, 73(2), 13-47.
- Villalonga, Belen and Raphael Amit (2006), "How do Family Ownership, Control, and Management," *Journal of Financial Economics*, 80(2), 385-417.
- Vishwanath, Vijay and Jonathan Mark (1997), "Your Best Brand Strategy," *Harvard Business Review*, May-June, 123-129.
- Westphal, James D. and Michael B. Clement (2008), "Sociopolitical Dynamics in Relations Between Top Managers and Security Analysts: Favor Rendering, Reciprocity, and Analyst Stock Recommendations," *Academy of Management Journal*. 51(5), 873-897.
- Whitwell, Gregory J., Bryan A. Lukas, and Paul Hill (2007), "Stock Analysts Assessments of the Shareholder Value of Intangible Assets," *Journal of Business Research*, 60(1), 84-90.
- Yoo, Boonghee and Naveen Donthu (2001), "Developing and Validating a Multidimensional Consumer-Based Brand Equity Scale," *Journal of Business Research*, 52(1), 1-14.