Companies battling shareholder complaints have a potent weapon: Advertising

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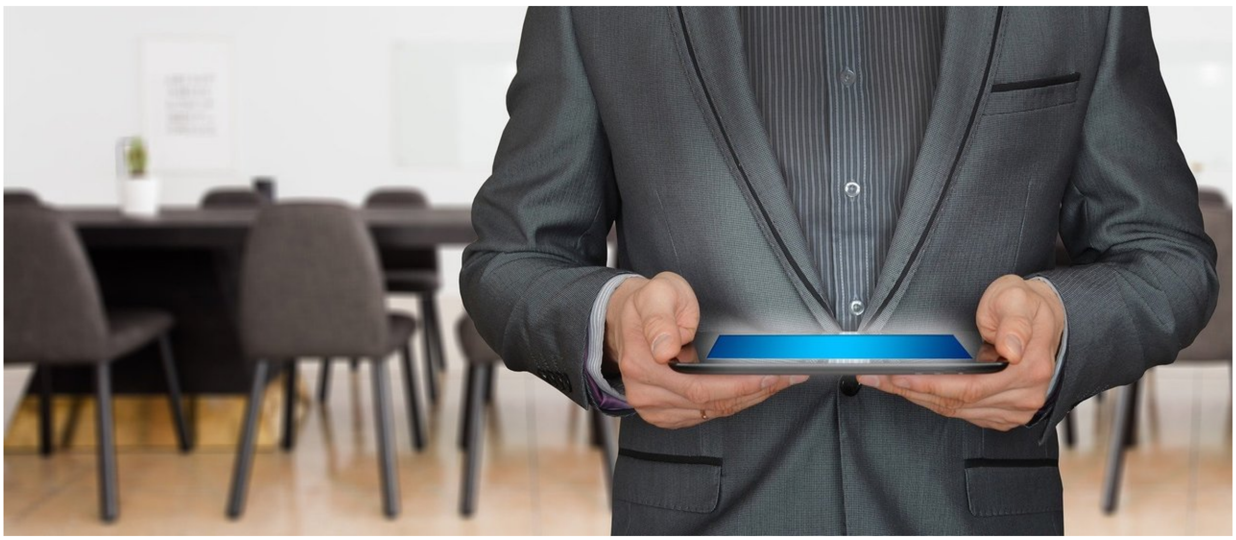

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An international team of researchers from Goethe University Frankfurt, University of Adelaide, Hanken School of Economics, and Maastricht University published a new paper in the *Journal of Marketing*, which finds that advertising can be used to respond to shareholder complaints.

The study forthcoming in the July issue of the *Journal of Marketing* titled "Can Advertising Investments Counter the Negative Impact of Shareholder Complaints on Firm Value," is authored by Simone Wies, Arvid Hoffmann, Jaakko Aspara, and Joost Pennings.

Companies not only deal with revenue and customer pressures, but often face difficult challenges brought by shareholder activists. These activists submit proposals, or complaints, that criticize the firm's strategic direction. However, they also take their complaints to the streets, gaining media coverage of their demands. In the process, shareholder activists can inflict significant financial damage on firms by tarnishing their reputations, undermining investor confidence, and imposing administrative costs. Stock prices are often negatively affected by these complaints and their media attention.

A new study in the *Journal of Marketing* explores how marketers can configure their advertising investments to respond to and limit the damage from shareholder complaints. Using a data set from 2001 until 2016 covering all shareholder complaints submitted to S&P 1500 firms, the researchers answer these questions:

1. Do firms increase advertising investments in response to shareholder complaints?
2. How does shareholder complaint salience shape a firm's advertising investment response?
3. If firms adjust advertising investments in response to stakeholder complaints, what is the effect of such a strategy on firm performance?

Key findings include:

- Firms that receive shareholder complaints experience substantial decline in firm stock value.
- An average firm in their sample increases advertising investments by up to $8.08 million following an increase in shareholder complaints.
- This advertising investment response is larger when complaints are submitted by institutional investors, relate to nonfinancial

concerns, or if the topics covered in the complaints receive a great deal of media attention.
- Increasing advertising investments is an effective firm response: it helps mitigate the decline in firm value following shareholder complaints.

The authors suggest that advertising investments following shareholder complaints are effective at mitigating a post-complaint decline in firm value because they increase the visibility of and emotional connection to the firm, signal the firm's financial health and sound business strategy, and prevent complaints from contaminating other stakeholders' attitudes.

Despite this opportunity, Wies notes that "The majority of firms investigated in the study underinvest in advertising following shareholder complaints" She recommends that "To maximize the effectiveness of this strategy, managers should coordinate an advertising investment response to shareholder complaints with other functions in the firm, such as public relations." The team also advises managers to team up with external partners such as investment analysts to better communicate their firm strategy to the investor community, amplify the potential effect of advertising investments, and try to prevent shareholder complaints being submitted in the first place by winning support for their strategy.

More information: Simone Wies et al, Can Advertising Investments Counter the Negative Impact of Shareholder Complaints on Firm Value?, *Journal of Marketing* (2019). DOI: 10.1177/0022242919841584

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