

THE HONG KONG POLYTECHNIC UNIVERSITY DEPARTMENT OF MANAGEMENT AND MARKETING

Departmental Research Seminar



The Effects of the Disclosure of Advertising Spending on Investors' and Analysts' Uncertainty By

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Date : 1 Apr 2019 (MON)

Time : 10:30 am – 12:00 nn

Venue : M802

Abstract

Whereas advertising spending is widely viewed as a key driver of firm value, almost 60% of publicly listed firms do not disclose their advertising spending. Current regulations, in fact, provide managers with the discretion to decide whether to disclose or not to disclose their advertising spending in the annual reports. Surprisingly, there is no systematic examination of the current regulations, against this background, this study examines the effect of disclosure of advertising spending by publicly listed firms on the uncertainty faced by investors and analysts about future earnings of a firm. Analyzing disclosure decisions of 2,523 publicly listed firms over 22 years, the study finds that disclosure of advertising spending has a significant negative impact on investors' and analysts' uncertainty about future earnings of a firm. The negative effect of disclosure of advertising spending on investors' uncertainty is weaker for firms with lower cash flows but stronger for firms with higher levels of intangible assets. In addition, the negative effect of disclosure of advertising spending on analysts' uncertainty is weaker for firms with lower cash flows but stronger for firms in industries where disclosures of advertising spending by peer firms are scarce. To address concerns related to potential endogeneity of disclosure of advertising spending, this study proposes an instrumentation strategy that draws upon insights from economic geography and auditor norms. Empirical tests show that the instruments are both relevant and valid. Taken together, this study has direct implications for Securities and Exchange Commissions and Financial Accounting Standard Board, and identifies specific conditions which disclosure of advertising spending is more (or less) useful.

Sungkyun Moon is a Ph.D. candidate, Kapil R. Tuli is Professor of Marketing at the Lee Kong Chian School of Business, Singapore Management University. Anirban Mukherjee is Visiting Assistant Professor of Marketing at INSEAD.

Prof. Kapil Tuli is Professor of Marketing, Director of Retail Centre of Excellence, Lee Kong Chian School of Business, Singapore Management University. His research interests include Marketing Strategy, Digital and Social Media Strategy, Service Excellence, and Financial Impact and Marketing. He has published in and served as Editorial Review Board member at *Journal of Marketing*, *Journal of Marketing Research*, *International Journal of Research in Marketing*, and *Journal of Service Research*. He is the recipient of 2018 ISBM-David T. Wilson-Sheth Foundation Award for Long Term Impact in B2B Marketing, and also 2017 Journal of Marketing Sheth Foundation Long Term Impact Award, for "Rethinking Customer Solutions: From Product Bundles to Relational Processes." (with Ajay Kohli and Sundar Bharadwaj), published in the *Journal of Marketing*, 2007, 70 (3). He also received. He also received 2016 Outstanding Reviewer Award for the *Journal of Marketing*, 2016 Varadarajan Award for Early Career Contributions to Marketing Strategy Research, among others. In addition, he raised approximately \$10 million in funding for Retail Centre of Excellence (RCoE) at SMU from Economic Development Board, Enterprise Singapore, and Foundation Members Companies, i.e., DFS, Microsoft, Popular Ltd, IKEA, Harvey Norman, Tiffanys', Decathlon, and Visa.

All interested are welcome.



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