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A Research on The Effects of Marketing Spending on Firm Value

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Extensive Summary

Introduction

Marketing expenses are considered as expenditure according to generally accepted accounting procedures and principles. One of the most important indicators of this consideration is the inclusion of marketing expenses in operating expenses columns of the companies' incomes statements. On the other hand, the idea of considering marketing expense as an investment that will contribute in the value of the company in future rather than counting it as expenditure has become prominent in recent years in line with certain approaches in the field of finance.

The main expenditure of a company consists of operating expenses. And operating expenses consist of "Research and Development," "General Management," and "Marketing" expenditures. Undoubtedly, marketing expenses of companies constitute their most important expenditure. In theoretical discussions, certain writers have produced studies focusing on various countries and have argued that marketing expenses are to be considered as an investment which will create value for the company in the future. Indeed, the majority of studies conducted on this topic have provided results indicating positive relations between marketing expenses, and company profitability, company value or company sales.

Methodology

The purpose of this study is to investigate the influence of "Marketing Expenses" on firm value. In other words, the study aims at determining whether marketing expenses have a diminishing effect on companies' profitability, or they are an investment that contributes to the value of the company. The study uses data belonging to 120 firms which are traded in Borsa Istanbul (BIST) in the period of 2009-2012. All data utilized in the study have been obtained from the official web site of ISE. Multiple regression and correlation methods have been used in empirical analyses. Durbin-Watson d statistic has been used to test if there is an autocorrelation of first degree

between the error terms of the sample. Additionally, variance inflation factors (VIF) method has been used to determine multicollinearity. Dependent and independent variables used in the study are as below.

Table 1: Descriptions of Variables Used in Analysis

Variables	Description
Dependent Variables	
Return on Assets (ROA)	Net Profit of the Period/Total Assets
Return on Equity (ROE)	Net Profit of the Period/Total Equities
Tobin's q (Q)	Market Value/Book Value
Independent Variables	
Concentration of Marketing Spending (MARKET)	Marketing Expenses / Total Sales
Control Variables	
Debt level (DEPT)	Total Debts/ Total Equity
Firm size (SIZE)	Logarithm of Total Assets
Liquidity degree (LIQUID)	current assets / Short Term Debts

Below regression models and hypotheses have been developed based on dependent and independent variables introduced in Table 1 as well as considering the studies of Core (2003); Sougiannis (1994); Erickson and Jacobson (1992); Han and Manry (2004); Cheng and Chen (1997); Chauvin and Hirschey (1994); Tsai (2001); Notta and Oustapassidis (2001); Graham and Frankenberger (2001); Paton and Williams (1999); Megna and Mueller (1991) found in literature.

Model I: $(ROA)_{it} = \beta_{it} + \beta 2\ MARKET_{it} + \beta 3\ DEPT_{it} + \beta 4\ SIZE_{it} + \beta 5\ LIQUID_{it} + e_{it}$

Model II: $(ROE)_{it} = \beta_{it} + \beta 2\ MARKET_{it} + \beta 3\ DEPT_{it} + \beta 4\ SIZE_{it} + \beta 5\ LIQUID_{it} + e_{it}$

Model III: $(Q)_{it} = \beta_{it} + \beta 2\ MARKET_{it} + \beta 3\ DEPT_{it} + \beta 4\ SIZE_{it} + \beta 5\ LIQUID_{it} + e_{it}$

H_1: There is a positive relation between marketing expenses and ROA.

H_2: There is a positive relation between marketing expenses and ROE.

H_3: There is a positive relation between marketing expenses and Q.

Direct and indirect impacts of marketing expenses on company value are presented below.

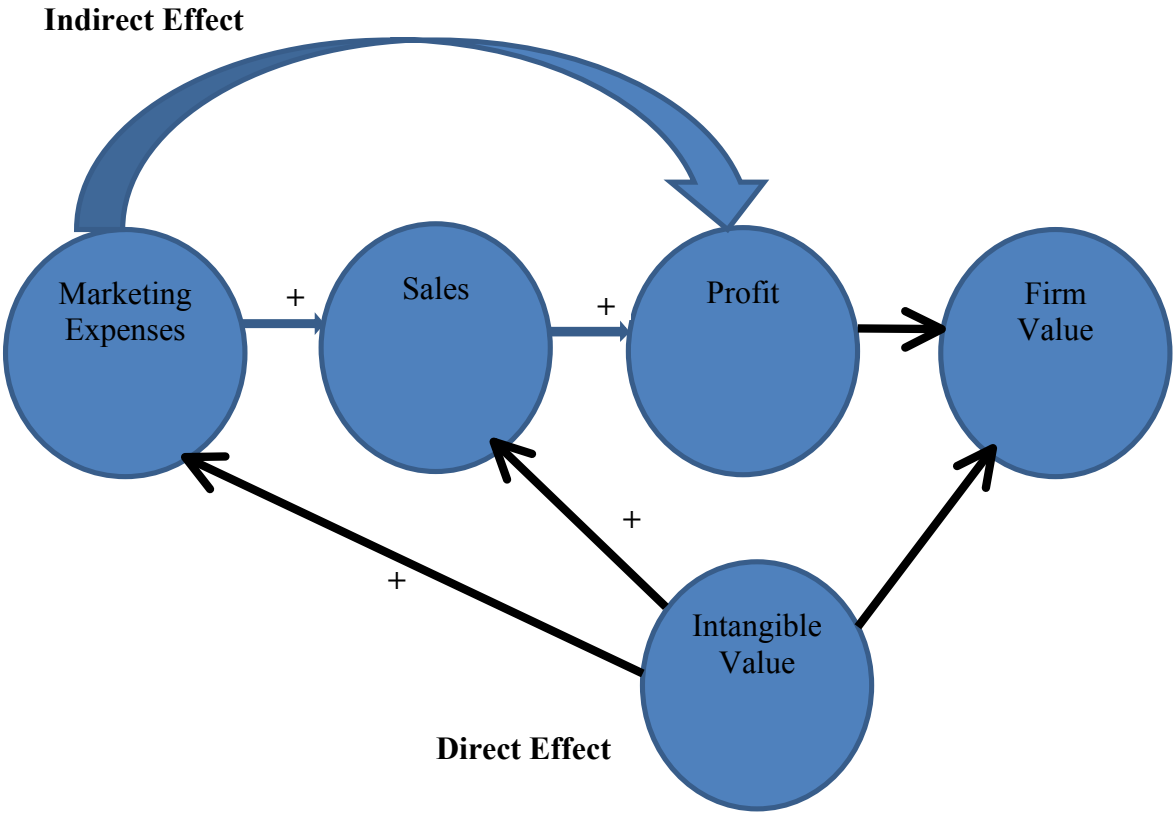

Figure 1: Marketing Expenses and Firm Value
Reference: Joshi and Hanssens, 2010, p. 40.

Findings and Discussion

The purpose of this study is to investigate the influence of "Marketing Expenses " on firm value. The study uses data belonging to 120 firms which are traded in Borsa Istanbul (BIST) in the period of 2009-2012. The independent variables used in the study consist of "Return on Assets" (ROA) and "Return on Equity" (ROE) which are accounting based performance indicators. The other is "Tobin's q" ratio which is market-based ratio. The regression and correlation analysis have been employed in empirical analyzes.

The most important finding of the study was the evidence of positive relations that marketing expenses have both with accounting-based performance indicators (ROA and ROE) and market-based performance indicator (Tobin's Q). That is to say, the increase in marketing expenses causes both company profitability and company value to increase. To conclude, companies should consider marketing expenses as an investment that creates value for the company rather than as expenditure. However, customers gained through marketing activities are not to be considered as an investment that will create a lifelong income.

When control variables have been analyzed, the results suggested that there was a negative relation between leverage ratio of the companies, and their ROA and ROE, while there was a positive relation between Tobin's Q, and the leverage ratio. A positive relation between total assets which in an indicator of size, and ROA and ROE was detected; on the other hand, a negative relation between Tobin's Q and total assets was indicated. And there was a positive relation between current ratio as the last control variable, and ROA, ROE and Tobin's Q.

There are some limitations to this study which analyzes the relation between marketing expenses and company value. First of all, the findings of the study should be interpreted in terms of companies operating in manufacturing industry section of Istanbul Stock Exchange. Moreover, there is a period limitation to the study as it utilizes data of 120 companies belonging to the period between 2009 and 2012. Future studies may be conducted in order to include a longer period or an industrial distinction while analyzing the impact of marketing expenses on company value.