Sample solution exercise 8: Sponsorship-linked marketing and the financial success of brands

Task #1.1

Why do event studies consider not only the exact announcement date, but also an event window (here: five days)?

A time window is important because there is often a time lag between the sponsorship activities and when behavioral decisions take place. When the time window has been defined, confounding events that occurred in the investigated time window period need to be identified; and if there was such a confounding event, the data must be excluded (such as unexpected dividend or earnings announcements, takeover bids, merger negations, changes in key executives, restructuring, joint ventures, major contract awards, significant labor disputes, significant liability suits, and announcements of major new products).

The event studies and the window event are used because of the unanticipated stock market changes, which is why looking at one day only is not sufficient. It is used in order to better understand these changes and the effects they might have on investments. The regression model helps "estimate what the normal stock return should be at the day of the event, as well as some days prior to and after the event." This data, together with the abnormal returns, are needed to indicate whether a marketplace evaluated the investment into sponsorship-linked marketing favorably or unfavorably. Furthermore, there might also be events where information leakage takes place prior to the event, making it necessary to also expand the event window to a couple of days before the event.

Task #1.4

Interpret the *t* test results (bright red box).

In our case, only the actual stock market prices of RBS (not UM@N and not KAM) are significantly different from the expected ones. The forecasted prices were significantly higher than the actual prices (*t* test result RBS = –4.02), meaning that investors invested less money in the company than expected. However, just looking at this development (without any reference) does not give us an indication of whether the sponsorship influenced this trend. In general, the negative slope in the regression analysis may be explained by the beginning of the financial crisis in 2007. To assess whether sponsorship announcement had an influence on investments made (as regard RBS and the other companies), we also take into account the relevant stock market index (FTSE). This will be done in Task 2.

Task #2.4

Interpret the results of the *t* tests (for the three companies) and give a brief statement regarding possible factors that might have influenced the results.

Comparing the data of the event window, there are different results for the three companies. To assess whether the results are significant, you have to use a *t* test table.

For **RBS's AR *t* test results**, we can see that the value of the AR *t* test turns positive (but nonsignificant) on the day of the announcement (0.54) and that it reaches its greatest value one day after the event day (1.72), where the value is significant at the 10% level (alpha = 10%), which is a very common threshold used in event study literature. Therefore, the sponsorship announcement had only a significant influence on the return of investment one day after the event.

The trend is different for **UM@N's AR *t* test results**. The values are negative and turn positive on the day of the announcement (0.92). However, on the day after, the AR *t* test turns negative again (–1.21). We find the greatest *t* value two days after the event day (1.33), yet the value (like all other values) is not significant at the 10% level. Therefore, the sponsorship announcement had no significant influence on the return of investment.

If we look at **KAM's AR *t* test result**, all *t* values from one day before to two days after the announcement were negative (but nonsignificant), which means that the expected stock value was always higher than the actual return. Therefore, the sponsorship announcement had no significant influence on the return of investment.

Factors that might have influenced the results are the following:

- 2007 was the year when the financial crisis began
- Different degrees of media attention might have lead to different reaction times of shareholders. For example, the event window might have been too small when media attention (and hence, awareness) was low
- Potential mergers or acquisitions that are viewed as more important (apart from the companies under consideration) might cloud an event such as sponsorship announcement. The focus of shareholders (based on confounding events) may thus have influenced the results