J. of the Acad. Mark. Sci. (2013) 41:586–600
DOI 10.1007/s11747-013-0325-x

ORIGINAL EMPIRICAL RESEARCH

Are sponsorship announcements good news for the shareholders? Evidence from international stock exchanges

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Received: 10 May 2012 / Accepted: 3 January 2013 / Published online: 23 January 2013
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Abstract The objective of this study is to analyse investors' perceptions of sponsorship's ability to increase brand equity, through the impact of sponsorship announcement on stock market value. An event study method, based on a unique sample of 293 worldwide sponsorship announcements from 2010, shows substantial negative abnormal returns following announcement dates. In addition, a cross-sectional regression analysis reveals the influence of several featured factors. Philanthropic sponsorships and sponsorships of events with distinctive values are less negatively perceived by investors, but US companies exhibit more negative returns in shareholder value than other firms. This study offers no support for varying impacts of event audience, renewal agreement, property sponsorship and title sponsorship on abnormal returns though.

Keywords Event study · Sponsorship · International marketing · Finance

It has become virtually impossible to find a major sporting event that does not have a sponsor of some kind. In the past 40 years, sponsorship has evolved from simple, short-term corporate donations that boosted management egos into long-term, economic-based relationships between sponsor and sponsees or properties, typically grounded in complex legal agreements (Quester and Thompson 2001). Sponsorship spending also has increased significantly in the past 30 years, from just $2 billion worldwide in 1984 (Sponsorship Research International 1996) to $48.6 billion in 2011 (International Events Group 2012). Although the range of sponsored activities has increased steadily, sports remain the most dominant area, garnering 69% of total spending (International Events Group 2012). The increase in sponsorship spending reflects a growing assumption that developing a brand through associations with an event may build brand equity more effectively than can traditional marketing communications, such as advertising (Keller 2003). Yet we know little about this hypothetical added value of sponsorship or its magnitude. Both academics and professionals thus have called for more research that compares the returns on sponsorship and advertising (Olson and Thjømøe 2009).

Because examining the effect of brand-building activities on shareholder wealth is central to understanding the financial impact of marketing (Conchar et al. 2005; Madden et al. 2006), this research focuses on shareholders' views of sponsorship and its potential added value. In particular, this study examines whether the stock market values sponsorship. Using a large, unique database of 293 sponsorship announcements (much larger than prior studies' samples, for which 114 was the most announcements) from 2010 and an event study method, this research extends previous studies and reveals that investors view sponsorship negatively.

We also investigate and validate a complex model that includes both established and novel relationships to improve understanding of stock market reactions to sponsorship announcements. The proposed model reveals the role of 13 explanatory variables (compared with 7 at a maximum in prior studies), which increases the reliability of our findings. The new factors may influence abnormal returns around

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sponsorship announcement dates, such as the nature of the sponsored event (commercial vs. philanthropic), the nature of the sponsorship agreement (title sponsorship vs. other), or whether the sponsored property organizes the event. Moreover, this study investigates the effects of event differentiation and the event audience on shareholders' sponsorship evaluation. This initial, international sponsorship study includes firms from 24 countries, which enables a comparison of market reactions, in line with Marshall (1992) and Quester et al.'s (1998) assertions that sponsorship attitudes differ across countries. Finally, we examine the effects of factors previously identified as significant determinants of abnormal returns, such as congruence between the event and the sponsors, the sponsor industry, the actual sponsorship contract amount, the size and cash flow of the company, brand equity, and whether it is a renewal sponsorship. Shareholders, especially in the United States, appear to value sponsorship investments negatively, unless they perceive the sponsored event as unique or philanthropic.

Relationship between sponsorship and business performance

Measuring the impact of sponsorship activities on business performance is an important research objective. Morgan (2012, p. 102) emphasizes "the need to link marketing with business performance," because "marketers have been forced to defend the value of their activities and budgets during the current global recession." He further suggests that "researchers and managers are fundamentally interested in two different aspects of business performance: product-market performance and financial performance" (Morgan 2012, p. 114). The former refers to the impact of the marketing mix on target customers' and prospects' behavior (Morgan et al. 2002). In this context, research into the positive effects of sponsorship on consumers is well developed; studies suggest effects on key outcomes such as brand awareness, affect, trust, and loyalty, as well as on purchase intentions (Cornwell 2008; Mazodier and Merunka 2012; Simmons and Becker-Olsen 2006; Speed and Thompson 2000).

However, investigations of sponsorship's effects on the financial side of business performance are less clear. The shareholder value principle suggests that a business should maximize returns on shareholders' investments (Joshi and Hanssens 2010), such that every marketing investment seemingly demands justification from a shareholder perspective. Organizational success then is measured by accounting indicators, such as cash flows or profitability, as well as financial market indicators of investor value (Srivastava et al. 1999). According to signaling theory, investors also respond to announcements about the firm's decisions by buying stock if they foresee potential or approve (Asquith and Mullins 1986). That is, both financial and marketing information influence analysts' forecast accuracy (Ngobo et al. 2012).

Research evidence about the potential beneficial effects of sponsorship for brand equity and sales then might imply a positive impact of sponsorship announcements on firms' stock prices, assuming that the stock price represents the discounted value of expected future cash flows, which should increase due to an association with a valuable event. Furthermore, sponsorships entail significant costs, so the announcement of a sponsorship may signal the good financial health of the company.

However, mixed results about stock market responses to sponsorship announcements justify an investigation into whether the market really views sponsorship positively. Marketing studies traditionally suggest that investors hold a favorable view of commercial sponsorships (Calderon-Martinez et al. 2005; Clark et al. 2002; Miyazaki and Morgan 2001; Pruitt et al. 2004), but Cornwell et al. (2005) could not find any significant positive abnormal returns after firm announcements of sponsorship status. Clark et al. (2009) also failed to find evidence of positive sponsorship announcement effects in either abnormal returns or cumulative abnormal returns. Cobbs et al. (2012) even report significant negative abnormal returns for Formula 1 sponsorship announcements. Thus, the question of whether investors view sponsorships negatively or positively remains a point of contention.

Conceptual framework and hypotheses

As intangible assets, brands contribute to firm performance and shareholder value (Madden et al. 2006). In particular, a firm's brand building activities, such as advertising and promotion, influence its financial performance (Conchar et al. 2005), as investors well understand. In line with the efficient market hypothesis, which asserts that the stock price reflects all public information about the firm, new information such as a sponsorship announcement should change the price of a stock (Fama et al. 1969). However, investors' responses also reflect their perceptions of the firm's ability to strengthen its brand equity and generate cash flows through such marketing activities. Celebrity endorsement research reveals that though such strategies should enable cash flows (Agrawal and Kamakura 1995), some firms capture only incremental profit and others overestimate the related gains (Knittel and Stango 2010). According to Ding et al. (2011), the abnormal returns that occur near announcements of celebrity endorsement deals depend on the firm's sector and the match between celebrities and endorsed products. Similarly, stock market

responses to sponsorship announcements should depend on whether the sponsorship seems likely to enhance brand equity; in this study, we consider several explanatory factors, both new and extant, that predict the true effect of sponsorship announcements.

Research hypotheses

Investors' judgments of the value of a firm's marketing investment depend on the investment's perceived consumer impact (Lane and Jacobson 1995). Sponsorship worth depends on its ability to build brand equity with consumers. Sponsorships can increase brand equity by building brand awareness, brand image, and brand loyalty. The influence of sponsorship activities on brand awareness is relatively well established (Lardinoit and Derbaix 2001; Quester and Thompson 2001). Sponsorships also can improve brand images, such as innovativeness (Gwinner and Eaton 1999; Michaelis et al. 2008). Mazodier and Merunka (2012) show that sponsorship increases brand loyalty to a greater degree than advertising does, though some practitioners claim they can achieve similar results from heavy advertising or ambush marketing (Olson and Thjømøe 2009). Moreover, audiences are at best inaccurate in their recall of sponsors, such that many firms benefit from audiences' mistaken belief they are sponsors when they are not (Sandler and Shani 1989). Therefore, Olson and Thjømøe (2009) emphasize that managers should look more critically at whether the returns on sponsorships are sufficient. For example, the managers of well-known firms such as Lenovo, Kodak, and Johnson & Johnson have halted their sponsorship of the Olympics.

Thus, the potential added value of sponsorship remains a point of debate for academics and managers, and to resolve it, we turn to stock market reactions; a sponsorship has a positive impact on a firm's stock price if shareholders believe that the sponsorship is more efficient in terms of generating cash flows than other marketing communication strategies (Wiles et al. 2012). As we detail in Table 1, prior research into the impact of sponsorship announcements on stock market value has offered mixed results. Because the most recent studies report negative abnormal stock market returns for firms announcing sponsorships (Cobbs et al. 2012; Evans 2010), we anticipate negative financial returns from sponsorships:

H1: Announcements of sponsorships have negative impacts on stock market returns.

This hypothesis also could be affected by specific sponsorship characteristics (Table 1). We therefore begin by considering whether the market perceives commercial (e.g., professional sports, major events, high-class arts) versus philanthropic (e.g., charities, nonprofits, community-based events) sponsorships more or less positively. The smaller average audience for philanthropic events may reduce the magnitude of the stock market response (D'Astous and Bitz 1995), especially because a commercial sponsorship likely creates more media coverage, and such coverage appears directly related to market reactions to new sponsorship announcements (Calderon-Martinez et al. 2005; Koku et al. 1997). However, the cost of commercial sponsorships can be prohibitive, so some sponsors turn to philanthropic sponsorships that can deliver a smaller but more engaged audience, while also boosting their corporate social responsibility reputations (Lacey et al. 2010). Maignan et al. (1999) provide evidence that corporate citizenship has a positive effect on business performance, and Luo and Bhattacharya (2009) show that corporate social performance increases shareholder wealth, which suggests investors should respond favorably to announcements of philanthropic sponsorships (Wiles et al. 2012). Furthermore, consumers prefer local causes to national ones (Drumwright 1996). Community-based sponsorships can focus their communications on one geographic region and a more homogenous audience than national events, which supports concentrated activities and a more effective uniform message (Pegoraro et al. 2009). Firms can improve connections with stakeholders, such as investors and shareholders, by addressing their issues (Ferrell et al. 2010). Therefore, shareholders concerned about corporate citizenship issues may develop a stronger identification with companies that sponsor charities and causes and perceive them as more attractive (Dutton et al. 1994; Ferrell et al. 2010). We predict:

H2: The abnormal stock market returns to firms announcing official sponsorships are more negative for commercial sponsorships than for philanthropic sponsorships.

For both these types of sponsorships, attaining title rights is likely beneficial. Clark et al. (2009, p. 170) define a title sponsorship as "the right to share the official name of the property, event, or activity in exchange for the payment to the current property, event, or activity owner," such that they offer very high visibility to sponsors. The amount of media coverage of an announcement depends on the importance of the new information (Koku et al. 1997), and because the title sponsorship is "one of the most sought after sponsorship activities" (Clark et al. 2009, p. 170), more stock market investors should receive this information, which should exert a greater impact on stock prices. That is,

H3: The abnormal stock market returns to firms announcing title sponsorships are more positive than those for other types of sponsorships.

Table 1 Prior studies on the effects of sponsorship announcements on shareholder value

Source	Cumulative average abnormal returns	Significant independent variables	Insignificant independent variables	Number of announcements	Location	Period of study	Events
Miyazaki and Morgan (2001)	Positive	None	None	27	US	1996	1996 Summer Olympics
Clark et al. (2002)	Positive	High technology (+) Market value (−) Contract length (+) Winning percentage (+) Local sponsor (+)[a]	Yearly cost Host city population	49	US	1985/2000	Corporate stadium sponsorships in the NFL, the NBA, the NHL and the MLB
Pruitt et al. (2004)	Positive	Winning percentage (+) Corporate/division (+) Functional relatedness (+) Cash flow (−)	Size	24	US	1995/2000	NASCAR
Calderon-Martinez et al. (2005)	Positive[a]	Commercial/ philanthropy(+) Congruence (−) Size (+)	New event	58	Spain	1992/2000	Heterogeneous
Cornwell et al. (2005)	Positive	Market share (−) Congruence (+) High technology (+)	Market value Cash flow	53	US	1990/2003	Official product sponsorship: NFL, MLB, NHL, NBA, PGA
Clark et al. (2009)	Insignificant	Market value (+) High tech (+) Congruence (+)	Cash flow Renewal	114	US	1990/2004	Title sponsorships in the PGA, LPGA, tennis tournaments, NASCAR races and NCAA bowl games
Evans (2010)	Negative	None	None	Not available	Not available	Not available	The Olympics
Cobbs et al. (2012)	Negative	Level of investment (+) Nationality congruence (+)	Functional relatedness	73	Asia, Europe, US	2007	Formula 1

[a] Statically significant at the 10% level

Similarly, property sponsorship usually enjoys greater visibility than does participant sponsorship. To provide value for sponsors and avoid possible confusion, event properties often limit the number of sponsors accepted and establish clean zones inside and around event venues, where they allow only communications from sponsors (Farrelly et al. 2005). Such property sponsorship should cause consumers to believe the sponsoring firms are providing a service to society (Gwinner 1997), which in turn may increase their positive feelings toward the sponsor (Meenaghan 2001). That is, the more consumers perceive sponsors as helpful for the event, the more positive their attitudes (Meenaghan 2001; Polonsky and Speed 2001). Whereas sport team sponsorships may seem less helpful (Polonsky and Speed 2001), because a property-related sponsorship helps the event take place, it should lead to more favorable attitudes by stock market investors.

H4: The abnormal stock market returns to firms announcing property sponsorships are more positive than those for other types of sponsorships.

Stock market reactions also depend on whether the marketing investments lead to strong brand equity and generate future cash flows. We introduce two new independent variables that may relate to sponsorship objectives: awareness and image improvements (Thjømøe et al. 2002). Sponsorship literature indicates that the main goal of a sponsorship is to increase brand awareness by reaching a large audience (Crowley 1991; Lardinoit and Derbaix 2001; Quester and Thompson 2001; Thjømøe et al. 2002). The most common evaluation of sponsorship success thus measures the frequency of exposures that a brand achieves through media coverage (Thjømøe et al. 2002). Brand awareness, as a component of consumer-based brand equity, positively influences shareholder wealth (Madden et al. 2006; Mizik and Jacobson 2008). Therefore, investors may perceive sponsorship announcements involving events with large audiences more favorably.

H5: The abnormal stock market returns to firms announcing sponsorships are positively related to the event audience size.

In a sponsorship context, a transfer model implies that meaning or associations transfer from the event to the sponsors, through their simultaneous presentation during the event (Gwinner 1997; Gwinner and Eaton 1999; Keller 2003; Michaelis et al. 2008). Speed and Thompson (2000) use classical conditioning theory to suggest that pairing a sponsor with an event results in event associations becoming attached to the brand in consumers' memory. Therefore, sponsors should benefit from distinctive attributes of an event, such that a sponsorship may create brand differentiation (Chang and Davis 2012). Mizik and Jacobson (2008) argue that brand differentiation enhances stock returns, so investors should appreciate a sponsorship of an event with distinctive attributes.

H6: The abnormal stock market returns to firms announcing sponsorships are positively related to event differentiation.

Control variables

Spector and Brannick (2011) advocate the use of control variables to rule out the possibility that any observed relationships are due to variables extraneous to the hypotheses being tested. However, they also indicate that researchers should provide theoretical evidence for including particular control variables and predict the sign of their relationship. We introduce the following variables because prior research has suggested that they might influence abnormal returns around sponsorship announcements.

First, sponsor–event fit (also referred to as congruence, relatedness, or match) is a critical facet of sponsorship effectiveness (Johar and Pham 1999; Olson and Thjømøe 2011). However, whether congruence between sponsor and event influences the abnormal stock market returns to sponsorship announcements is uncertain. Pruitt et al. (2004), Cornwell et al. (2005), and Clark et al. (2009) suggest that event-congruent sponsorships enjoy more positive consideration from the marketplace, but Calderon-Martinez et al. (2005) find a negative and substantial relationship. According to Heider's (1958) balance theory, incongruent information tends to be ignored (Aaker and Sengupta 2000), whereas congruity theory suggests that incongruent information leads to better recall and recognition (Jagre et al. 2001). Similar to consumers, market analysts and investors may evaluate incongruent sponsorship positively or negatively, according to situational and individual variables (Aaker and Sengupta 2000; Meyers-Levy and Tybout 1989). Therefore, though we expect no effect of congruence on abnormal stock market returns, we test for it (as control variable C1).

Second, it seems worthwhile to investigate how investors use actual expenditures to assess a sponsorship's net value. Because "the level of investment may carry a positive connotation of increased exposure" (Cobbs et al. 2012, p. 82), sponsors' investments (monetary, technology, logistic, and other) can exert negative returns on shareholder value, in that the expenditures outweigh the sponsorship benefits, in shareholders' view. However, Clark et al. (2002) find no relationship between the actual price paid for corporate sponsorships and abnormal returns. Using signaling theory, they propose that stock market investors do not consider the fees excessive, because they assume prices paid for event sponsorships reflect

their underlying true economic value. Moreover, Clark et al. (2002) study the effect of the relative, instead of absolute, cost of sponsorship. Investors should evaluate sponsorship agreements according to their relative cost for the company (Jones 1990). Because Cobbs et al. (2012) focus on one specific activity and use an absolute aggregation of sponsor investment, we expect no influence of the relative cost paid by the company for the sponsorship (control variable C2).

Third, Clark et al. (2009) discover that renewing Professional Golf Association (PGA) sponsorships evoke more negative perceptions than new sponsorships, which they explain by the increasing price of contracts renewals. But Clark et al. (2009) find opposite results for National Collegiate Athletic Association (NCAA) bowl sponsorship announcements. In this case, sponsorship renewal seems to enhance image continuity. Because image continuity likely limits perceptions of dynamism and innovativeness, we expect no difference between the abnormal stock market returns for firms announcing sponsorship renewals or announcing initial sponsorships (control variable C3).

Fourth, studies report positive relationships between abnormal returns and high-tech firms announcing a sponsorship (Clark et al. 2009; Cornwell et al. 2005). Investors may perceive a technology firm's sponsorship announcement as a positive signal, because the company is strong enough to bear such substantial and long-term marketing costs. Therefore, we expect that high-tech firms are associated with positive abnormal returns to sponsorship announcements (control variable C4).

Fifth, brand size is a common control variable in marketing and finance literature, though findings about its role have not been consistent (Table 1). Calderon-Martinez et al. (2005) and Clark et al. (2009) report a positive relationship between brand size and abnormal returns around sponsorship announcement, whereas Pruitt et al. (2004) and Cornwell et al. (2005) find no significant relationship, and Clark et al. (2002) indicate a negative relationship. Although we include brand size as a control variable, we expect no effect on the abnormal returns around sponsorship announcements (control variable C5).

Sixth, we introduce brand equity, in line with other research into the effect of marketing decisions on stock returns (Wiles et al. 2012). Cornwell et al. (2005) find negative associations of sponsorship announcements with market value, likely because companies with dominant positions cannot use sponsorships effectively to raise awareness or improve their image, unlike firms with a much smaller base. However, sponsorships also may be less effective for less known brands (Olson and Thjømøe 2009), because they are unlikely to be identified as sponsors (Johar and Pham 1999). Therefore, we posit a null relationship between brand equity and abnormal stock market returns for firms announcing sponsorships (control variable C6).

Seventh, many studies use cash flow or cash flow/sales as proxies for agency risk (Clark et al. 2009; Pruitt et al. 2004). The basic logic of agency risk effects is that the firm suffers from unfavorable investment opportunities when its cash flow level is high, which creates a potential agency problem if the firm decides to overinvest in sponsorship campaigns that are not in shareholders' best interest. However, when a company is not able to turn revenues (sales) into cash flows (low cash flow/sales ratio), it could miss interesting investment opportunities. Pruitt et al. (2004) find a negative effect of cash flow on abnormal returns around sponsorship announcements, whereas Cornwell et al. (2005) and Clark et al. (2009) document no significant relationship. We expect no effect as well (control variable C7).

Methodology

Data description

The sponsorship announcement list analyzed for this research comes from a database from BrandRapport France, a sponsorship consulting agency that has maintained a systematic list of most sponsorship announcements worldwide in 2010, collected from different sources. In addition to the sponsor, sponsored property, and date of announcement, the database contains information such as the contract length, amount paid by the sponsor, event scope, event nature, and deal country. The BrandRapport France database reports 1,642 sponsorship announcements worth $28.6 billion—more than 60% of total 2010 sponsorship spending (International Events Group 2011). We first deleted announcements from companies not listed on a financial market. Then, to determine the sales, cash flows, prices, and benchmark series of listed companies, we turned to DATASTREAM. The benchmark used to calculate abnormal returns is the S&P Global BMI Index, which includes all companies publicly traded in worldwide stock markets. With this benchmark, we could compare the abnormal returns of stocks floated in different stock exchanges around the globe. Aktas et al. (2004) show that there is no difference in using global versus local indexes to calculate abnormal returns.

For each sponsorship announcement, we confirmed the date with the Factiva database or the web pages of the sponsor. Events for which precise announcement dates could not be ascertained were excluded. If a sponsorship was announced during a weekend, we followed Ding et al. (2011) and used the subsequent Monday as the announcement date, because it coincides with the first trading date. These steps limited the number of usable announcements to a final sample of 293 sponsorship announcements by companies listed on 24 stock exchanges: 75 by U.S. companies, 148 by European companies, and 70 by companies from the rest of the world. The complete list of announcements is available on request.

Empirical methodology

In line with prior research, we used an event study methodology, based on the market model proposed by Brown and Warner (1985), developed to calculate abnormal returns and well confirmed through testing.[1] We used the 140-day estimation window prior to the event but excluded the 15 days immediately before the announcement event. Then we calculated abnormal returns for 15 days before and after the announcement date, which we call day 0. Instead of the Brown and Warner Z-test, we used Corrado's (1989, 2011) nonparametric rank method to assess statistical significance. Because it is nonparametric, the Corrado test is not affected by the severe problems that influence standard parametric tests in hypothesis testing.[2] We provide a mathematical delineation of the abnormal return estimation in the Appendix.

Empirical results

Abnormal stock returns around sponsorship announcements

In this section, we analyze the short-term effects of a sponsorship announcement on stock prices. Table 2 contains the average abnormal returns, as well as cumulative abnormal returns across the event window. The Corrado rank test offers strong statistical evidence of substantial negative returns for the 2 days following the announcement day and depicts a real impact of sponsorship announcements on analysts' forecasts. Our findings indicate that sponsorship announcements have a statistically significant negative influence on financial analysts' predictions, in support of H1. We document no announcement day abnormal returns, likely because companies often make sponsorship announcements after the closing bell of their local stock exchange.

With regard to the cumulative abnormal returns throughout the event window, in Fig. 1, we depict both the cumulative average abnormal returns (CAAR) and average abnormal returns (AAR) over a 3-week period. As this figure illustrates, abnormal returns react negatively to sponsorship announcements.

In Table 3 we summarize the mean CAAR by region. Except for Europe, markets appear to react negatively to sponsorship announcements, though the negative cumulative abnormal returns are statistically significant only in the United States (0 to 1 event interval).

Table 2 Average abnormal returns around announcement date

Event day	Abnormal Returns (AAR%)	Corrado Rank Z Test	Cumulative Abnormal Returns (CAAR%)
−15	−0.10	−1.43	0.90
−14	0.05	0.44	1.00
−13	0.16	1.43	0.95
−12	−0.06	0.05	0.79
−11	−0.04	−0.67	0.86
−10	0.14	0.87	0.90
−9	0.23	1.93	0.76
−8	−0.18	−1.52	0.53
−7	0.11	0.81	0.71
−6	0.06	0.05	0.60
−5	0.12	1.36	0.54
−4	0.04	0.30	0.42
−3	0.10	0.67	0.38
−2	0.16	0.92	0.28
−1	0.06	0.61	0.12
0	0.06	0.60	0.06
1	−0.26	−2.99[a]	−0.20
2	−0.23	−2.00[b]	−0.43
3	0.08	0.34	−0.35
4	0.13	1.42	−0.22
5	−0.04	−0.36	−0.26
6	0.06	−0.42	−0.20
7	0.03	0.87	−0.16
8	0.11	1.17	−0.06
9	−0.03	0.48	−0.08
10	0.14	1.70	0.06
11	−0.12	−0.50	−0.06
12	0.32	1.21	0.26
13	0.01	0.51	0.28
14	−0.09	−0.71	0.19
15	0.11	1.17	0.30

[a] Statically significant at the 5% level

[b] Statically significant at the 1% level

Cross-sectional regressions

We also investigate whether the announcement return depends on specific characteristics. In addition to the hypothesized and control variables, we introduce one ad hoc variable to test whether U.S. investors react more negatively to sponsorship than others. Specifically, we integrate the following explanatory variables:

[1] Brown and Warner (1985) show there is no significant difference between the abnormal returns derived from their method and previous methods, such as Scholes and Williams's (1977).

[2] Campbell and Wasley (1993), Maynes and Rumsey (1993), and Bartholdy et al. (2007) note problems that make standard parametric event study tests poorly specified; the rank test outperforms parametric tests.

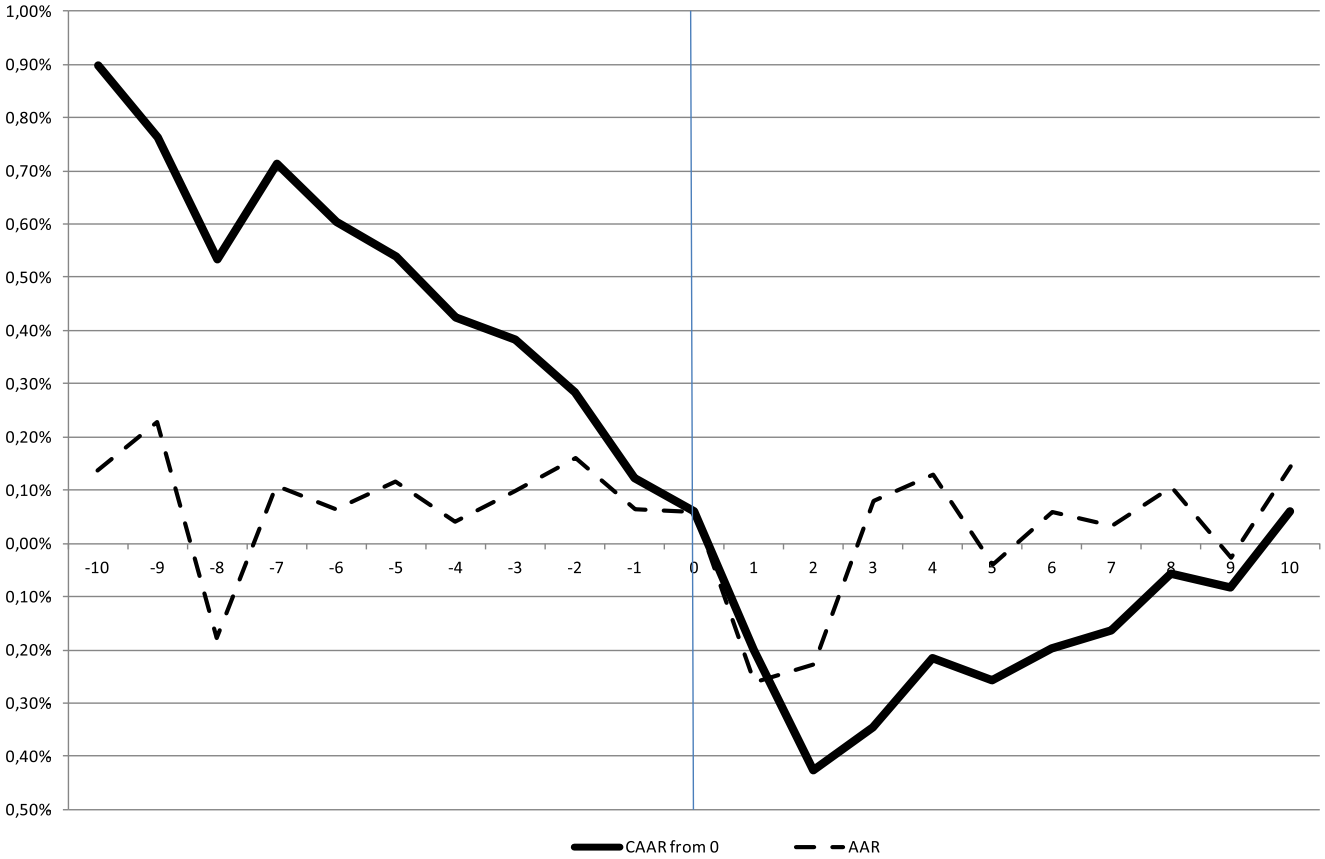

Fig. 1 Evolution of average abnormal returns (AAR) and cumulative average abnormal returns (CAAR) around the sponsorship announcement day (−10,+10). Cumulative abnormal returns are aggregated from the event day

- A dummy variable COMMERCIAL (commercial = 1; philanthropic = 0), to assess if commercial sponsorships are perceived more or less positively by the market than philanthropic sponsorships. The variable was coded independently by two researchers, according to D'Astous and Bitz's (1995) definitions of commercial and philanthropic sponsorships. Interjudge reliability was greater than 92%, and all disagreements were discussed and resolved (Perreault and Leigh 1989).
- The dummy TITLE variable (title sponsorship = 1; otherwise = 0), to determine whether securing the right to share the official name of the property, event, or activity influences investors' behavior.
- A variable indicating whether the sponsored activity is the PROPERTY or organizer of the event. Leagues and organizing committees were coded 1; clubs, teams, and venues were coded 0.
- The dummy event AUDIENCE variable, coded with Wiles et al.'s (2012) approach. We used two independent coders who were unaware of research objectives but highly experienced with sponsorships. We asked them to distinguish events that reach a local audience from events that reach a national or international audience (international or national = 1; local = 0). Interrrater agreement was greater than 98%. All instances of intercoder disagreements were discussed and resolved.
- The event DIFFERENTIATION variable, coded by the same two experts following a similar procedure. We asked them if events exhibited "unique" or "distinctive" attributes according to Mizik and Jacobson's (2008) definition of brand differentiation. We trained the coders with 20 events that were not part of the final sample. The two judges then defined if the events from the sample had distinctive attributes (yes = 1; no = 0). Interjudge reliability was greater than 86%, and all instances of intercoder disagreements were discussed and resolved.
- A CONGRUENCE variable (congruent sponsorship = 1; otherwise = 0). Similar to Cornwell et al. (2005) and Clark et al. (2009), we used two independent coders with substantial sponsorship experience to code the variable with Cornwell et al.'s (2005) definition of congruence. Interrater agreement was greater than 90%. All instances of intercoder disagreements were discussed and resolved.
- The AMOUNT/SALES variable, to assess differences in the relative cost paid by each company for its sponsorship.

Table 3 Mean cumulative abnormal returns around sponsorship announcement date

Region	Announcements	Event Interval	CAAR (%)	Corrado Rank Z test
Europe	148	−10 to 0	1.41	1.78
	148	0 to 1	0.23	0.67
	148	0 to 2	−0.09	−0.22
	148	0 to 3	0.04	0.08
	148	0 to 4	0.20	0.37
	148	0 to 5	0.32	0.55
	148	0 to 6	0.29	0.45
	148	0 to 7	0.44	0.65
	148	0 to 8	0.44	0.61
	148	0 to 9	0.66	0.87
	148	0 to 10	0.85	1.07
United States	75	−10 to 0	0.06	0.10
	75	0 to 1	−0.58	−2.10[a]
	75	0 to 2	−0.55	−1.62
	75	0 to 3	−0.54	−1.38
	75	0 to 4	−0.49	−1.13
	75	0 to 5	−0.43	−0.91
	75	0 to 6	−0.41	−0.79
	75	0 to 7	−0.59	−1.07
	75	0 to 8	−0.23	−0.38
	75	0 to 9	−0.30	−0.49
	75	0 to 10	−0.21	−0.31
Asia/Australia/ Africa	70	−10 to 0	0.58	0.33
	70	0 to 1	−0.75	−1.02
	70	0 to 2	−1.07	−1.20
	70	0 to 3	−1.04	−1.01
	70	0 to 4	−1.05	−0.91
	70	0 to 5	−1.50	−1.19
	70	0 to 6	−1.25	−0.91
	70	0 to 7	−1.17	−0.80
	70	0 to 8	−1.16	−0.75
	70	0 to 9	−1.58	−0.97
	70	0 to 10	−1.57	−0.92

[a] Statically significant at the 5% level

- RENEWAL, coded as renewal sponsorship = 1 or otherwise = 0.
- A variable indicating whether firms are categorized in the TECHNOLOGY industry or not. Computer, telecommunications, electronic devices, and biotechnology industries were coded 1, whereas all others were coded 0.
- BRAND SIZE, measured by market value.
- The BRAND EQUITY variable, coded according to the Interbrand score. The Interbrand measure is widely used and includes the strongest brands (Madden et al. 2006). Brands included in the Interbrand ranking were coded 1, whereas all others were coded 0.
- The CASH FLOW/SALES variable, created to indicate potential agency problems.
- A U.S. dummy variable, because sponsorship announcements are negatively associated with U.S. stock market returns, so this variable (US = 1; otherwise = 0) tests if abnormal returns for U.S. companies differ from those in other countries.

Table 4 provides the descriptive statistics for these variables.

To determine if abnormal returns depend on any of these characteristics, we ran a cross-sectional regression analysis of the sponsorship announcement's cumulative abnormal returns between day 0 and day +2 ($CAR_{0,+2}$) and provide the cross-sectional regression results in Table 5.

The COMMERCIAL dummy is negative and statistically significant at the 5% level. When we calculated average and cumulative abnormal returns for just the philanthropic sponsorships (n=38), the Corrado rank test failed to support any sponsorship announcement effect. Therefore, commercial sponsorships are more negatively associated with abnormal returns than philanthropic sponsorships, in support of H2.

Consistent with H6, event DIFFERENTIATION was positive and statistically significant at the 1% level. We analyzed the effects of property sponsorships on stock prices (n=67) and found no impact. That is, the abnormal stock market returns of firms announcing sponsorships were negative only when investors perceived the sponsored event as not distinctive. As suggested by the CAAR levels by region, U.S. companies experienced more negative abnormal returns (p<.05).

None of the other studied variables affected the abnormal returns. Thus, TITLE, PROPERTY, and event AUDIENCE failed to yield support for H3, H4, and H5, respectively. None

Table 4 Descriptive statistics

Variable	Mean	SD	Min	Max
CAR	−0.001	0.023	−0.099	0.144
COMMERCIAL	0.910	0.285	0	1
TITLE	0.081	0.274	0	1
PROPERTY	0.672	0.470	0	1
AUDIENCE	0.535	0.499	0	1
DIFFERENTIATION	0.241	0.428	0	1
CONGRUENCE	0.382	0.487	0	1
AMOUNT/SALES	0.014	0.162	0.001	2.441
RENEWAL	0.724	0.447	0	1
TECHNOLOGY	0.204	0.404	0	1
BRAND SIZE[a]	23.625	2.835	16.264	30.244
BRAND EQUITY	0.349	0.477	0	1
CASH FLOW/SALES	16.916	12.705	−77.220	97.000
US	0.263	0.441	0	1

[a] Market value in logarithm

Table 5 Cross-sectional regression analysis of sponsorship cumulative abnormal returns ($CAR_{(0,+2)}$)

Variable	Coefficient	t-Statistics
COMMERCIAL (H2)	−0.013	−2.46[a]
TITLE (H3)	0.006	1.12
PROPERTY (H4)	−0.001	−0.13
AUDIENCE (H5)	−0.001	−0.14
DIFFERENTIATION (H6)	0.013	3.49[b]
CONGRUENCE (C1)	0.003	0.93
AMOUNT/SALES (C2)	−0.001	−0.05
RENEWAL (C3)	0.003	0.86
TECHNOLOGY (C4)	0.005	1.26
BRAND SIZE (C5)	0.001	0.77
BRAND EQUITY (C6)	−0.002	−0.51
CASH FLOW/SALES (C7)	0.001	0.44
US	−0.008	−2.47[a]
	F-statistic	2.35[b]
	Significance	0.01
	R^2	0.11
	Adjusted R^2	0.06

[a] Statically significant at the 5% level

[b] Statically significant at the 1% level

of the control variables influenced the abnormal returns around sponsorship announcements either. Although we did not expect CONGRUENCE, AMOUNT/SALES, RENEWAL, BRAND SIZE, BRAND EQUITY, or CASH FLOW/SALES to influence stock market investor reactions, we anticipated, but did not find, an effect of TECHNOLOGY on abnormal returns. We discuss the lack of support for this control variable in the next section.

Discussion

Key findings

The stock market reacts negatively to sponsorship announcements (H1). Investors do not believe that sponsorships have the ability to build brand equity and generate cash flows more effectively than other marketing communication strategies. The stock market response thus depends on three factors: the philanthropic nature of the sponsored event (H2), the distinctiveness of the sponsored event (H6), and the country of the sponsor. No other variables included in our model substantially influenced investors' evaluations of sponsorships. Therefore, the findings suggest that shareholders rely mostly on the values associated with the event to assess sponsorship investments.

Our study also documents substantial negative abnormal returns for the 2 days following sponsorship announcement dates. The broader scope of our database increases the generalizability of the results from previous research. The net discounted cash flow from sponsorship deals equals, at best, zero. Contradictory arguments could explain these reactions. On the one hand, sponsorships may signal financial well-being or the firm's competitive viability, according to signaling theory (Asquith and Mullins 1986). Moreover, perceived brand equity might be improved by sponsorships and boost demand for the stock of the sponsors' companies, according to spillover theory (Joshi and Hanssens 2010). On the other hand, sponsorships—particularly those of sport properties with global appeal—are very expensive and thus can be perceived negatively by investors. Top Olympic sponsors typically pay in excess of $40 million for the rights (Evans 2010), before even considering the costs of related communication campaigns to support their sponsorship activities (Quester and Thompson 2001). These expenses bring into question sponsorships' ability to provide an adequate return on investment. Another common concern is that consumers focus their attention on the event rather than the brand being advertised (Pham 1992). One event or team might associate itself with too many brands, in which case investors might challenge the claim of visibility. Finally, ambush marketing represents a threat to sponsorship investments, because it creates associations between a non-sponsoring firm and an event, without requiring the firm to incur the costs of acquiring sponsorship rights to that event (Mazodier et al. 2012). At the end of the day, managers who perceive sponsorships negatively may react positively when they learn that companies have dropped their sponsorships. Further research that investigates abnormal returns following sponsorship exit announcements thus could provide valuable insights into sponsorship value.

Regarding the explanations for abnormal returns, we note that event differentiation has a positive impact on stock market reactions. Investors still believe in the ability of sponsorships to strengthen brand equity by transferring unique or distinctive attributes from the event to the sponsor. This brand differentiation also is key to shareholders' evaluations of marketing investments (Mizik and Jacobson 2008). Finally, though investors perceive sponsorships as effective in improving brand image, they are not necessarily more effective than other event marketing communication strategies. Indeed, some managers believe that other marketing tools, such as ambush marketing or heavy advertising around the broadcast of the event, can emulate the beneficial effects without the requisite sponsorship investments (Mazodier et al. 2012; Sandler and Shani 1989).

In contrast, the event audience is not related to the abnormal returns. We interpret this finding to indicate that the stock market does not perceive sponsorship as an effective strategy for enhancing brand awareness, compared with other marketing communication approaches that reach similar audiences. It is a surprising result; sponsors communicate within and around the event venue, which should give them a competitive

advantage. However, modern competitors have other opportunities to communicate around the event (e.g., advertising, ambush marketing), and emotions associated with events may limit the effect on brand awareness (Pham 1992). Overall, these latter two results suggest that shareholders still believe that sponsorships can transfer distinctive attributes but not increase brand awareness as well as other alternatives. Considering that the event audience variable relates positively to sponsorship fees (F=10.79; p=.001), its lack of significance may suggest that investors believe that the reach of large properties is worth the extra cost associated with sponsoring these events, even as they still perceive sponsorships of large properties negatively.

The finding that commercial sponsorships relate more negatively to abnormal returns shows that investors may regard the related expenses negatively. This result contradicts Calderon-Martinez et al. (2005) findings of a new trend. Most company executives appear to believe that engaging in social or cultural causes is important for corporate reputation and branding and increases shareholder value in the long term (Bhattacharya et al. 2011). The philanthropic character of social or cultural causes seemingly should prompt positive feelings from consumers, which could improve their attitudes toward the firm or its brand. Along these lines, Speed and Thompson (2000) conclude that a perception of sincerity associated with philanthropic sponsorship improves consumers' responses, in terms of interest, feeling, and intentions to use the product or brand. Furthermore, stock market responses to marketing strategies are conditioned by the perceived impact on consumers (Lane and Jacobson 1995). Investors thus evaluate philanthropic sponsorship effects on consumers more positively than they do commercial sponsorships. Or announcements of philanthropic sponsorships might be interpreted by investors as active managerial involvement in change. Perhaps due to the belief that "only companies that make sustainability a goal will achieve competitive advantage" (Nidumolu et al. 2009, p. 56), philanthropic sponsorships tend to generate more positive abnormal returns. This finding in turn suggests that investors may evaluate sponsorship investments without any consideration of event audience, because causes and community-based events have less visibility.

Title sponsorship announcements are not associated with positive abnormal returns. Perhaps investors dismiss their greater visibility because of the onerous fees demanded. Title sponsorships also may be perceived as risky, because title sponsors are strongly associated with the event, which may disappear from the public spotlight. Therefore, managers and academics should not overestimate the gains associated with a title sponsorship deal. Nor are sponsorships of event organizers better perceived by stock market investors. Investors apparently do not regard property sponsorships as more helpful or altruistic than team or club sponsorships. Similar to title sponsorships, property sponsorships are often more expensive and depend on the event image, so they again may be perceived as riskier.

We found no relationship between the level of fit and abnormal returns, in support of previous studies (McDaniel 1999; Prendergast et al. 2010). Prendergast et al. (2010) suggest that consumers form favorable attitudes toward the sponsor, even if there is no match between the sponsored event and the sponsor brand. Whether incongruence has negative effects is an important question for managers, because many companies are forced to sponsor something that does not fit their current brand image but offers associations that could be of benefit to them (Smith 2004). Other firms explicitly use sponsorships to support a worthy but ill-fitting cause (Olson and Thjømøe 2011; Simmons and Becker-Olsen 2006). The decision to sponsor events that do not share a natural fit with the brand thus could be both common and intentional; our findings suggest that managers can do so without jeopardizing financial performance. However, this research adopts a dominant, unidimensional conceptualization of congruence (Simmons and Becker-Olsen 2006; Speed and Thompson 2000), rather than the suggested multidimensional approach (Cobbs et al. 2012; Prendergast et al. 2010). Further research should investigate the effects of several dimensions of fit on abnormal returns following sponsorship announcements.

Firms in high-technology sectors experience no more positive reports, a finding that contrasts with Clark et al.'s (2002, 2009) results. High-tech firms have become quite well established, so perhaps financial analysts no longer use sponsorship announcements as clues of these firms' capacity to bear substantial marketing costs.

The actual price paid in relation to the size of the sponsoring company also does not affect the economic value of the sponsorship. This finding confirms Clark et al.'s (2002) results for corporate stadium sponsorships, and it implies that investors believe that sponsorship managers get what they pay for. Moreover, the return on investment appears to matter more for investors than any signaling effects linked to high sponsorship fees.

The abnormal stock market returns of firms announcing sponsorship renewals do not differ from those of firms announcing their first sponsorship. That is, renewing sponsorships does not prompt rewards for image continuity. Because the actual price paid for a sponsorship does not influence abnormal returns, we suggest an alternative explanation: perhaps stock market investors appreciate both the pursuit of brand consistency and the search for new value. The lack of significance of the congruence variable supports this suggestion.

Finally, U.S. companies exhibit larger negative abnormal returns. Investors may be especially skeptical of sponsorships, considering the incredible number of national events that take place in the United States (e.g., NBA, NHL, NCAA, NFL, PGA, NASCAR, MLB), each with multiple sponsors.

Whereas U.S. sporting events are operated mainly by professionals interested in higher profits, in Europe they are traditionally run by non-professionals and funded by states (European Commission 1999). This status may explain why U.S. sporting events first developed sponsorships and why, in 2010, U.S. sponsorship spending accounted for 34% of the global total (International Events Group 2011; O'Reilly and Seguin 2011), whereas its advertising spending accounted for only 26% of global advertising spending (Nielsen 2011). In this saturated environment, each sponsor struggles to attract consumers' and investors' attention. Overall, this result suggests that investors may perceive sponsorships as overused and overrated in the United States, in line with current trends to limit the number of sponsors of any specific event to enhance sponsorship value and distinctiveness.

Limitations

Despite the clear benefits of the substantial external validity of our sample, we report on only 6.6% of total global sponsorship spending, most of which comes from developed countries. Therefore, further research needs to provide better sampling representativeness. The event study method also does not allow for the consideration of small unlisted companies. Although this limitation affects the generalizability of our approach, it does not affect its validity (Madden et al. 2006). Another concern with an event study methodology is that it can address the long-term impacts of changes on stock prices only if markets are perfectly efficient. However, capital markets are not always efficient (Fornell et al. 2006; Joshi and Hanssens 2010; Pauwels et al. 2004). Therefore, long-term or persistence models, in addition to event windows, should study the impact of sponsorship expenditures on firm value. Moreover, an event study methodology allows only assumptions about the reasons for significant effects and the lack of significance of other variables.

Finally, this research is limited to 1 year. Additional research should examine sponsorship investments over several years and assess the impact of economic growth. Another avenue for research would be a comparison between sponsorship announcements and other communication strategies, such as celebrity endorsements.

Conclusion

The substantial negative abnormal returns reported herein suggest that sponsorship fees and related costs have become excessive. With a large, unique database of sponsorship announcements, we provide strong support to investors who perceive sponsorship as a less efficient marketing communication strategy in terms of improving firm performance. "The lack of attention paid to measuring sponsorship effects relative to the investment made" is a common industry criticism (Olson and Thjømøe 2009, p. 504). Our findings illustrate that managers should better justify their marketing spending. Further research is needed to quantify the returns to sponsorship activities in financial terms and to convince financial analysts of their effectiveness. In particular, research should compare sponsorship investments with other event communication strategies (e.g., advertising, celebrity endorsement, ambush marketing). All these strategies intend to improve brand equity, though the massive audience that the event attracts. Marketers and investors need guidance to identify the most effective marketing activities to improve their brand equity (Joshi and Hanssens 2010; Keller 2003). Because sponsorship incurs additional expenses, it conceivably could reduce profits even as it improves brand equity. Stock prices reflect only changes in expected profit (Knittel and Stango 2010). Therefore, further research should compare the effects of sponsorship with potentially cheaper event communication alternatives, which would help investors better understand the relative value of sponsorship and answer the crucial question: "what are the most effective and efficient ways of building a strong brand?" (Keller 2003, p. 595).

This research validates a comprehensive model with both established and novel relationships and thus contributes to a better understanding of the relationship between marketing investments and financial performance (Ngobo et al. 2012). Among the 13 explanatory variables studied, only 3 had a substantial influence on stock market reactions: event differentiation, the country of the sponsor, and whether the sponsored entity is a cause, nonprofit, or community-based event. These three hypotheses are original to this study. Our findings imply that stock market investors respond negatively to sponsorship investments, especially in the United States. Therefore, managers might underemphasize sponsorship announcements, particularly when shareholders perceive the sponsored event negatively. The cross-sectional regression results also indicate that managers perceive commercial sponsorships especially negatively; that is, we provide evidence of investors' positive attitudes toward firms' commitment to social causes. However, this effect may be an effect of the relative current scarcity of this form of sponsorship, which may disappear with the growth and the trivializing of this trend (Lacey et al. 2010).

Acknowledgments The authors would like to thank Dr. Charles Bal, former General Manager of brandRapport France, who invited us to analyze the database at the core of this study. We also thank Vincent de Lavarenne for his outstanding research assistance. Finally, we greatly appreciate the constructive comments offered by editor G. Tomas M. Hult and two anonymous reviewers.

Appendix

To assess the sponsorship announcement's impact on shareholders' wealth, we implemented a market model for abnormal returns. We estimated the market model variables (α and β) for an estimation period immediately before the event period. The estimation period lasted 125 days; the event period is composed of days −15 to +15 around the announcement date.

Let R_{it} be the observed return for security i on day t and R_{mt} be the return on the index for day t. The abnormal return AR_{it} for security i on day t is

$$AR_{it} = R_{it} - (\alpha_i + \beta_i R_{mt}) \quad (1)$$

The average abnormal return on day t for a given sample of N sponsorship announcements is

$$AAR_t = \frac{1}{N}\sum_{j=1}^{N} AR_{jt} \quad (2)$$

Then, the cumulative average abnormal return between event days a and b can be calculated as:

$$CAAR_{a,b} = \frac{1}{N}\sum_{j=1}^{N}\sum_{t=a}^{b} AR_{jt} \quad (3)$$

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