How Do Marketing Expenditures and Innovation Affect Stock Returns?

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1 Abstract

Managers in public companies are under pressure to improve the financial performance of investors, as well as communicate consumers and retaulers for expected financial returns through sales incentives, advertising, and research and development. This paper investigates the impact of how such factors affect stock returns across the grocery manufacturing industry using panel quantile regression with an instrument variable. We approach signaling under asymmetric information on stock returns. Through Securities and Exchange Commission(SEC),COMPUSTAT, and CRSP, this study looks at 25 grocery industry categories based on their 3-digit industry code. The final sample consisted of 101companies over each of the 4 years during which they were identified as making promotional payments, which corresponded to the years between 1998 and 2001 and a total of 404 observations. This time period was used as the original financial statements and revised statements were available for reduced net sales by the sales incentive amount, as required by the FASB (2001). We consider variables such as sales incentives, advertising, R&D, firm size, firm age, and HHI. We find that marketing and R&D capabilities have an overall positive effect on stock returns at all quantile levels. However, advertising and sales incentives effectiveness was higher than R&D capabilities because of the low tech-nature of the grocery manufacturing industry.