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# What is the value of corporate sponsorship in sports?☆☆☆



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### ABSTRACT

This paper investigates the stock market reaction to investor mood swings resulting from the Indian Premier League (IPL) cricket matches. We find that stocks listed on the Bombay Stock Exchange (BSE) that sponsor the IPL cricket are unaffected by the cricket matches. This finding is robust along two lines: (a) the effect is insignificant both statistically and economically which we demonstrate using a simple trading strategy; and (b) results hold across a wide range of portfolios. Our results, both statistical and trading strategy-based, suggest that the portfolios of companies that sponsor cricket in India are efficient. Our findings stand in sharp contrast to the evidence obtained by the broader sports literature suggesting that sports actually impact stock returns, driven principally by psychological factors.

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## 1. Introduction

In this paper, we examine whether investor mood affects stock returns on the Indian stock exchange.<sup>2</sup> Our measure of investor mood is motivated by the sports-stock returns literature, where, typically, sports events and/or outcomes dictate investor psychology, which has implications for investment decisions and,

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<sup>2</sup> For recent studies that examine the profitability of the Indian stock market, see Narayan and Bannigidadmath (2015), Bannigidadmath and Narayan (2016), Narayan et al. (2014a), and Narayan et al. (2014b)

ultimately, stock market performance. We investigate the sport of cricket—the most popular sport in India with huge commercial interests—and examine whether it impacts on stock market performance. Using a sample of 22 stocks listed on the Bombay Stock Exchange (BSE) of India, we find two interesting results. First, unlike the rich body of evidence accumulated in the literature that sports influence stock returns, we find no such evidence. Second, apart from statistical tests, we undertake an economic significance analysis of the effect of cricket on stock returns. Using both a simple buy–sell trading strategy and the widely used momentum trading strategy, we fail to find evidence that investors can devise a successful/profitable trading strategy based on cricket match events. This evidence, both statistical and economic, suggests that cricket is not a source of stock market inefficiency in India.

There are four differences between our study and the literature. First, when it comes to investor mood and sports events, soccer typically appears as the most influential sporting event affecting stock markets. This is not surprising as soccer is the world's most popular sport and, naturally, influences human behaviour and, as a result, investor behaviour. It is true that soccer is the most dominant global sport. It is also true that in some countries, such as India, it is not soccer which stops the nation; rather, it is the sport of cricket (see [Mishra and Smyth, 2010](#)). We, therefore, consider a different sport, namely, cricket and examine how cricket-induced mood change affects stock market performance in the case of India.<sup>3</sup> In India cricket is by far the largest sport. The introduction, in 2007, of a new form of cricket, a short-version of cricket played over four hours known as Indian Premier League (IPL) Twenty20 cricket, was established by the Board of Control for Cricket in India (BCCI).<sup>4</sup> It generated significant public as well as commercial interest. For example, in November 2012, Pepsi won the title sponsorship of the IPL for five years (2012–2017) by paying US\$72 million to the BCCI ([Gupta et al., 2013](#)). The overall estimated sponsorship for the IPL in 2013 was US\$272 million ([Brand-Finance, 2013](#)).

Similarly, for cricket players, IPL gives the best opportunity to earn money. As per the Annual Review of Global Sports Salaries published by [sportingintelligence.com](#) in April 2010, the IPL was the second highest-paid league in the world after the National Basketball Association ([Chakraborty et al., 2012](#)). In the IPL 2013 auction, 37 players were bought by various franchises for US\$11.89 million ([BCCI, 2013](#)). The Annual Report states that, “the viewers of IPL 2013 reached 100 million in the first seven games of the season, and 175 million in the first 48 games, which is 12 million more than the whole 2012 season” (p. 88). The overall brand value of IPL is estimated to be around US\$3.03 billion ([Brand-Finance, 2013](#)).

The IPL has attracted huge interest not only in India but also globally. It follows that our choice of cricket as a sport that induces mood change adds to the already rich body of literature based on the impact of soccer on stock market performance.

Second, the literature when examining the impact of sports on stock markets considers in its sample all stocks listed on a stock exchange. Since the empirical model is almost always cross-sectional, it means inevitably stocks are included which are relatively unaffected by sports as not all stocks are affected by investor mood swings generated by sports events. Our treatment of stocks is different, however. We only consider those company stocks most likely to be affected by sports. In our sample, therefore, we only consider those company stocks that are directly affiliated with the IPL cricket, thus the 22 stocks we have chosen are all

<sup>3</sup> While [Mishra and Smyth \(2010\)](#) also consider cricket there are important differences between the two studies. First, we consider a new version, T20, of cricket introduced only recently. The T20, as we explained here, is commercially driven drawing the interest of sponsors—firms that are also listed on the national stock exchange. In this regard, there is a direct relation between T20 and the Indian stock market. Second, we only consider stocks that sponsor cricket in India as opposed to the entire set of listed stocks. Third, we focus on the economic significance, through using trading strategies, of the effect of cricket on the stock market. In other words, we go beyond the statistical analysis.

<sup>4</sup> The IPL follows a franchise system, by creating franchises in eight major cities in India. The franchise rights of eight major cities were sold by the IPL for 10 years through an auction, where the highest bidder won the rights to own the team representing a city. The auction took place on January 24, 2008, with the total base price of US\$400 million. The auction went on to fetch US\$723.59 million and attracted some of the top industrialists and other celebrities in the country. Similarly, the broadcasting rights for the IPL matches scheduled to be played over a month-and-a-half every year were sold for around US\$1000 million, to be paid over a period of ten years ([Chakraborty et al., 2012](#)). The IPL gathered more than a hundred sponsorship contracts between events/teams and brands belonging to different industries, in different categories such as title sponsor/partner, official sponsor/partner and associate sponsor/partner. To sponsor the event, Indian real estate developer, Delhi Land and Finance (DLF) group, paid US\$50 million to the IPL for acquiring the title sponsorship, naming the tournament as DLF-IPL, for the initial first 5 years (2008–2012).

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