



When does CEO endorsement of sales & marketing leaders help firms? The role of heavy marketing emphasis

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ABSTRACT

The purpose of this paper is to examine the impact of CEO endorsement (measured by the presence of a CEO quotation in a press release) of sales and marketing leaders on firm performance when the organization has a heavy marketing emphasis. Our study on over 800 appointment announcements shows that enhanced expectations raised by the CEO's endorsement of sales and marketing leaders suffer a mismatch with high customer relationship turbulence due to changes in the sales and marketing organization. We find that CEO endorsement of sales and marketing appointment announcements at firms with a heavy marketing emphasis hurts firm performance in the year-end. The findings also reveal that CEO endorsement hurts in both the immediate and year-end horizons, since CEO endorsement as a measure of internal, firm-level assessment has the perception of being uninformed and subjective. Extant research has studied the impact of appointment announcements on firm performance, while neglecting the role of CEO endorsement. Thus, this study has implications for the appointment of sales and marketing leaders who under certain conditions could enhance the expectations of the firm's continued existence in a market. Theoretically, we contribute by developing a field at the intersection of research related to sales and marketing managerial succession, endorsements and corporate announcements. We emphasize the role of a new construct - CEO endorsement - on firm performance given a heavy marketing emphasis context.

1. Introduction

Endorsement as a marketing tool has been germane to business strategy for over a century (Erdogan, 1999; Knoll & Matthes, 2017). Originally, endorsements in marketing started with brands and products and gradually spread to political, health, and non-profit marketing. Knoll and Matthes (2017, p.55) state that in the United States “every fourth or fifth advertisement incorporates this strategy,” while indicating that in countries such as Taiwan and Japan, this statistic may well be 45% and 70%, respectively.

However, what appears to have gone largely unnoticed is that firms are now taking the idea of endorsement to a whole new level as they engage internal celebrities, such as CEOs, to endorse the quality of new appointees in communications to the firm's customers and shareholders. As our study finds, often such endorsement is executed through CEOs' quotations in press releases announcing managerial succession, a stream of research focusing on the managerial labor market that determines top management appointments and turnover and stock price reactions. We follow extant literature (e.g. Wang, Saboo, & Grewal, 2015) to recognize that when firms make CEO endorsements through

appointment announcements, managerial succession variables could be endogenous where the previous manager could be fired, strategically replaced or naturally succeeded. We use a control function approach to correct for endogeneity (Petrin & Train, 2010).

Our estimate, based on a comprehensive study on 820 such announcements by publicly listed U.S. firms, is that about 70% of press releases announcing executive appointments carry a CEO's quotation. Our sample, spanning almost a decade from 2006 to 2014, shows that the presence of CEOs' quotations in press releases related to managerial succession is a non-trivial endorsement that merits further inquiry. This sample shows that such quotations are drafted to endorse the new executive and are prevalent across industries.

Nevertheless, the extant literature contains little about the consequences of such executive action, since research has largely focused on the executive being appointed. In fact, firms announce new appointments through official press releases to draw the attention of both customers and shareholders after much strategic deliberation with respect to the new hire and consideration to the timing of the press release.

For example, take the July 2012 endorsement made by ShoreTel's

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CEO. Here ShoreTel CEO Peter Blackmore not only announces the appointment of David Petty, Senior Vice President Worldwide Sales, but also praises his “extensive knowledge” and “wealth of experience.”

“I am pleased with the new sales structure we have implemented — with an enhanced focus on our core and international markets as well as channel management and sales training,” said Peter Blackmore, ShoreTel president and CEO. “David’s tremendous success in global sales simply reinforces our sales and customer momentum. He has extensive knowledge of sales leadership and brings with him a wealth of experience in general management plus U.S. and international executive sales.”

This and many other CEO quotations or CEO endorsements have prompted us to probe the conditions under which firms incorporate CEO endorsements in press releases on managerial succession. In this paper, we ask:

- (a) Does a CEO's endorsement help firm performance?
- (b) Are there factors such as a firm's emphasis on marketing that enhance the impact of a CEO's endorsement on firm performance? Our measure of heavy marketing emphasis proxies shareholders' apprehension related to a firm's future performance given their assessment of a firm's myopic orientation as the firm is focused on advertising related (vs. R & D) exploitation of current opportunities (Han, Mittal, & Zhang, 2017; Josephson, Johnson, & Mariadoss, 2016).
- (c) Does the impact of a CEO's endorsement vary by function? When compared to non-market-facing functions, such as finance and accounting, do market-facing functions, such as sales and marketing, benefit more or less from such endorsements?
- (d) Does the impact of a CEO's endorsement on firm performance vary by the time horizon (immediately after the appointment announcement vs. year-end)?

Given the two horizons, the authors first analyze the impact of CEO endorsements through an event-study analysis, and then follow up the CEOs' endorsements of those appointments to the year-end through a control-function analysis.

To the best of our knowledge, prior research applying event studies has limited analysis to only the abnormal returns generated in an event window and has not followed up on the impact of the event on other firm performance measures over a longer time horizon. Although long-term event studies test performance persistence by understanding the impact of events over a longer duration (months or years), the challenge emerges from the lack of control over multiple confounding events during the long period of the event study that could result in poor model specification and expected returns unconditional on the event (Kothari & Warner, 2004).

This paper builds on extant research on endorsements and corporate announcements, some of which include: Knoll and Matthes (2017); Bergkvist and Zhou (2016); Hattula, Herzog, Dahl, and Reinecke (2015); Waldron, Graffin, Porac, and Wade (2013); Luo, Chen, Han, and Whan Park (2010); Amos, Holmes, and Strutton (2008); Thomson (2006) and Warren and Sorescu (2017). A summary of these papers is detailed in Table 3.

Prior literature has also studied managerial succession, however, the focus has only been on the executive whose appointment is being announced. This includes studies by Zorn (2004), Hambrick & Cannella (2004), Menz & Scheef (2014), Wagner & Kemmerling (2014), among others.

Moreover, even though the extant literature on endorsements and managerial succession is an extensive and reasonably well-established field, the econometric consequences of CEOs' endorsement of managerial quality are still unexplored. We also do not know the conditions under which such internal endorsements may be found. Firms would like to know whether the CEO's endorsement of managerial quality helps the firm's performance or not. If such an element of information is beneficial for firms' shareholders, firms may want to place even greater

emphasis on the internal endorsement. It would also be consequential to know if firms with heavier emphasis on marketing activities are able to moderate the relationship between the CEO's endorsement and firm performance. For instance, shareholders may be apprehensive of a firm's future performance given their assessment of a firm's heavy marketing emphasis (advertising related) due to its myopic exploitation driven orientation (Han et al., 2017; Josephson et al., 2016). This could worsen the negative impact of CEO endorsement on firm performance. Advertising related marketing options may range from traditional sales promotion approaches to internet-driven digital marketing actions.

In this backdrop, scholars and managers might want to know: How does CEO endorsement of changes in the sales and marketing organization at a firm with a heavy marketing emphasis impact firm performance? Does customer relationship turbulence resulting from changes in the sales and marketing organization hurt firm performance? Or, how is a change in a non-market-facing appointment accompanied by the CEO's endorsement of that announcement at a heavy marketing emphasis firm perceived initially? Does that perception change by the year-end? However, if it is indeed the case that internal endorsements of managerial quality hurt firm performance, firms may want to rethink that strategy when making appointment announcements of market-facing (vs. non-market-facing) functions.

Our research refers to work by Barber and Odean (2008) and Warren and Sorescu (2017) as we characterize CEO endorsement of managerial quality through a quotation in an appointment announcement as “attention grabbing” (Warren & Sorescu, 2017, p.3). We argue that, under certain conditions, such endorsement of managerial quality should help firms “increase visibility and attract attention” (Warren & Sorescu, 2017, p.3) of both existing and new customers and new investors. This should improve the perception of stability at a time of managerial change and improve a firm's value.

Waldron, Graffin, Porac and Wade (2013, p.2592) studied stakeholder reactions to third-party endorsements of CEO quality given their level of managerial discretion, however, their study focused on external endorsements by “business press, analysts and other external arbiters of social knowledge” providing further evidence that positively valenced media coverage correlates highly with firm value in the short term and long term (Malmendier & Tate, 2009; Wade, Porac, Pollock, & Graffin, 2006).

However, our research goes beyond the extant literature by focusing: (a) on internal endorsement by the focal firm's CEO, (b) on the firm's non-CEO managers, (c) on moderating factors such as a firm's heavy marketing emphasis and (d) on various market-facing (sales and marketing) and non-market-facing (finance and accounting, operations) functions.

Our paper makes the following contributions to the extant marketing literature and practice. First, we contribute to a stream of research that has focused on the value of endorsements. While the marketing literature has focused heavily on celebrity endorsement (Knoll & Matthes, 2017), the idea that an internal endorsement of managerial quality — under certain market-relevant conditions — can have an impact on firm value is still unexplored. Our paper probes a new line of thought that establishes a link between CEO endorsement of managerial quality and firm performance. We show that, under certain market-relevant conditions, firms may be better at engaging customer and investor attention when they not only inform customers and investors of managerial succession, but also endorse the quality of the new appointee.

Furthermore, theoretically, we contribute by developing a field at the intersection of research related to sales and marketing managerial succession, endorsements, and corporate announcements. We examine an additional and theoretically overlooked marketing construct that impacts firm performance at the time of managerial succession. While extant literature (e.g. Boyd, Chandy, & Cunha, 2010; Wang et al., 2015 etc.) focuses on CMO characteristics or CMO related firm level variables, we emphasize the role of CEO endorsement on firm performance

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