Departmental Research Seminar

The Effects of the Disclosure of Advertising Spending on Investors’ and Analysts’ Uncertainty

By

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Abstract

Whereas advertising spending is widely viewed as a key driver of firm value, almost 60% of publicly listed firms do not disclose their advertising spending. Current regulations, in fact, provide managers with the discretion to decide whether to disclose or not to disclose their advertising spending in the annual reports. Surprisingly, there is no systematic examination of the current regulations, against this background, this study examines the effect of disclosure of advertising spending by publicly listed firms on the uncertainty faced by investors and analysts about future earnings of a firm. Analyzing disclosure decisions of 2,523 publicly listed firms over 22 years, the study finds that disclosure of advertising spending has a significant negative impact on investors’ and analysts’ uncertainty about future earnings of a firm. The negative effect of disclosure of advertising spending on investors’ uncertainty is weaker for firms with lower cash flows but stronger for firms with higher levels of intangible assets. In addition, the negative effect of disclosure of advertising spending on analysts’ uncertainty is weaker for firms with lower cash flows but stronger for firms in industries where disclosures of advertising spending by peer firms are scarce. To address concerns related to potential endogeneity of disclosure of advertising spending, this study proposes an instrumentation strategy that draws upon insights from economic geography and auditor norms. Empirical tests show that the instruments are both relevant and valid. Taken together, this study has direct implications for Securities and Exchange Commissions and Financial Accounting Standard Board, and identifies specific conditions which disclosure of advertising spending is more (or less) useful.

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All interested are welcome.