Investors Horizons Matter for Marketing Expenditures, Even When CEO Compensation and Blockholders Are Taken into Account

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Abstract

Despite the popular press's widespread reporting of the negative effects of short-term investor pressure on top executives, there is little evidence concerning their effects on marketing spending decisions. Reasoning that business decisions taken in response to varying levels of short-term investors in firms affect discretionary budgets, we show that high investor turnover, our proxy for investor horizon, is associated with a higher probability to reduce marketing expenditures. We test the direction of causality to ensure that our results are not driven by firms with myopic management of marketing resources attracting short-term investors. We find that blockholders mitigate the effect of high investor turnover and that CEOs with higher long-vs-short term compensation do not mitigate the effect of short-term investors. This first study to assess short-term investors through a marketing lens reveals negative effects of short-term investor pressure on marketing expenditures. Rewards designed to ensure long-term shareholder loyalty may help reduce the myopic management of marketing expenditures.

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