

The impact of marketing on regulatory investigations

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Abstract

Product safety regulators regularly open investigations into safety defects in a manufacturer's products. While a regulator's decision should be independent of the manufacturer, we show that the manufacturer's marketing can influence the regulator. Specifically, we empirically test whether marketing actions (lobbying and advertising) and assets (brand equity and product reliability) influence the number of investigations opened by the U.S. automobile safety regulator against automobile brands. We find that lobbying and advertising suppresses, brand equity increases, and lastly, product reliability decreases the number of investigations. Further, an event study documents that the opening of a high-severity investigation damages the firm's stock return. The findings showcase marketing's impact on outcomes in a firm's non-product market environment. They provide managers with marketing levers to influence the opening of these investigations and helps them know the financial consequence thereof.

Keywords: *regulatory investigation; brand equity; product reliability*

Track: Product and Brand Management