Stock Mispricing and Myopic Marketing Management

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Abstract

Although the popular press talks about the effects of stock mispricing - the deviation of stock prices from fundamentals - on corporate decisions, there is little research into its effect on marketing spending. Research in marketing suggests that investor pressure prompts firms to adopt myopic marketing management. Using a large-scale cross-industry sample for publicly traded firms from 1980 to 2016, we find that higher relative mispricing (overvaluation) leads to a lower probability of firms adopting myopic marketing practices whereas lower mispricing (undervaluation) does not have an impact. We explain this result by firms catering to investors. We examine the moderating effects of equity issuance and analyst coverage, and show they moderate the relationship between stock mispricing and myopic marketing management. We further find that myopic marketing management mediates the impact of stock mispricing on firm performance. These finding have important implications for firms and investors.

Subject Areas: *Finance, Marketing Strategy*

Track: Marketing Strategy & Theory