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Laudatio for “Sturm & Drang Preis” of Simone Wies

Wies, Simone, Arvid O.I. Hoffmann, Jaakko Aspara, and Joost M.E. Pennings (2019), “Can Advertising Investments Counter the Negative Impact of Shareholder Complaints on Firm Value?,” Journal of Marketing, Vol. 83, Issue 4, 58–80.

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Imagine that you are a shareholder of Domino's Pizza but you are very unhappy about how Domino's handles its environmental footprint and its contribution to climate change. Then, you could submit a shareholder complaint. A shareholder complaint, also called "shareholder proposal", is a formal complaint of a shareholder about a firm that is submitted to the U.S. Securities and Exchange Commission (SEC). It requires the firm to put it up for vote at the next Annual General Meeting (AGM), unless the shareholder withdraws it or the SEC provides permission to exclude it from consideration. Proposals are generally confrontational and negative in tone, but voting results are nonbinding.

That is what several large pension funds did in 2017. They complained about Domino's use of palm oil linked to tropical deforestation and requested the firm to revisit its supply chain strategy. As a result, Domino's had to put this complaint and request for change up for vote at the annual meeting. It gained support of roughly 25% of shareholder votes. Due to this minority of votes or other reasons, Domino's Pizza did not directly react to the complaint at that point.

So, shareholder complaints give shareholders a voice and shareholders actually make use of this opportunity. From 2001 until 2016, the observation period of Simone Wies' study, all the 2,017 firms together in the S&P 1500 index received 15,727 shareholder complaints. 411 firms of these firms did not receive any complaints (and later served as the control group). The complaints pertain to a broad range of perceived firm deficiencies, including poor financial performance and governance, insufficient new product introductions, incoherent strategy, or turnover in leadership.

These complaints came from three major groups: 34% from individual investors, 49% from coordinated activist investors and 17% from institutional investors. So, the majority of shareholder complaints came from non-institutional investors. 55.52% of these complaints where actually discussed at the annual meeting. Shareholders supported the claims by average voting results of 20%. Management, however, reacted in a minuscule number of those cases by implementing the requested actions

So, at first sight it looks like management does not care too much. Yet, Simone Wies identifies another subtler reaction that management takes: advertising. Essentially, Simone Wies finds that shareholder complaints yield to higher advertising spending, which she labels as “advertising investment response”. This response is more pronounced if shareholder complaints (i) come from institutional and, thus, more powerful investors, (ii) address nonfinancial topics (e.g., topics of Corporate Social Responsibility, CSR), and (iii) are about topics that receive larger media attention such as, for example, excessive CEO compensation, as was the case in 2015 when Microsoft received a shareholder complaint from a mutual fund about its executive compensation.

Importantly, Simone Wies finds that this advertising investment response is successful in mitigating the negative effects that are associated with shareholder complaints. According to the results of Simone Wies, these shareholder complaints were, on average, perceived negative by the stock market. They decreased Tobin’s Q, which is the ratio of a firm’s market value to the replacement cost of its tangible assets and provides a measure of the premium (or discount) that the market is willing to pay above (below) the replacement costs of a firm’s tangible assets, and as such a measure of firm’s long-term success, by on average 8%. The observed increase in advertising spending, however, brought, on average, the negative effect of shareholder complaints on Tobin’s Q down to below 5%.

Interestingly, Simone Wies finds that the management of the majority of firms in her study should have reacted even stronger. More precisely, if the shareholder complaint comes from an institutional investor (17% of all complaints), then management increases advertising close to an optimal level. In the remaining 83% of complaints, however, management should have increased even stronger.

I enjoyed reading the paper and I love the interdisciplinary work that Simone Wies does on the interface between marketing and finance. The basic idea that Simone Wies follows is a very nice one: we know much (in marketing) about customer complaints but we do not know much about complaints of other customers of the firm, namely investors. Simone Wies put in a tremendous amount of effort in collecting the data: 16 year covering all complaints of S&P 1500 firms. In total, 15,727 complaints, while studies the closest to the current paper rely on samples from 78 to 522 complaints. She complements these empirical studies with eight in-depth interviews with executives of publicly-listed firms that were all conducted in Frankfurt and makes Goethe-University also a great place to work for Simone Wies.

On behalf of the other member of the jury of the Sturm und Drang Prize, I congratulate Simone Wies for having published the best paper this year!

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