Economics is the mother discipline of both marketing and finance. In recent years, marketing researchers have largely looked to scholars in psychology and sociology for inspiration. The economic roots of marketing are sometimes forgotten. One way to recapture this lost heritage is by turning to the sister discipline of finance, an area of inquiry that has made great strides in terms of applying economic principles to business problems. The purpose of this special issue is to explore the interface between marketing and finance. The following essay provides an introduction to this issue. It also provides a background for thinking about the ways in which the two disciplines diverge and the ways in which they are complementary.

As disciplines, marketing and finance approach the practice of business in very different ways. These views are not necessarily contradictory or irreconcilable. Rather, they can be viewed as complementary. This special issue is devoted to examining the interface between marketing and finance; and, as such, it examines the areas where the two disciplines intersect. At the same time, the special issue serves to highlight the different assumptions and approaches of the two underlying disciplines.

This article is divided into three sections. The first section identifies areas where the two disciplines diverge. The second section acknowledges these conflicts, but also outlines some grounds for agreement and cooperation. The third section provides a detailed introduction to this special issue.

Two Divergent Approaches

In this issue, de Ruyter and Wetzels describe marketing and finance as living in “different thought worlds.” Coming from “different worlds,” scholars and managers from these two disciplines sometimes prescribe divergent solutions and recommendations to top management. One example that R&W discuss in some detail is differences in recommendations about optimum inventory. Financial managers, concentrating on the efficiency of working capital, often advise that inventory should be kept at low levels. Such a recommendation creates value for a firm by freeing up working capital and reducing funding needs. In contrast, marketing managers, who focus on demand and sales, may recommend higher inventory levels.

In recent years, technology has provided a solution to this dilemma. Through sophisticated decision support systems, managers can monitor inventory levels very closely as they move through the production process and as they move through a channel of distribution. As a result, just-in-time delivery systems create cost savings for individual firms and society as a whole. Thus, in modern corporations, this inherent conflict raised by de Ruyter and Wetzels disappears. In general, marketing and finance have different management perspectives. In finance, managers concentrate on resource allocation and asset management. Marketers focus on identifying and satisfying consumer needs.

Hozier and Schatzberg describe the differing orientations of marketing and finance research. Finance researchers examine investor expectations of future cash flows that are inferred from stock price movements. Thus, stock price is a major dependent variable, and the firm is viewed from the perspective of owners. Key independent variables might include: firm decisions (e.g., expenditures on advertising, debt levels) and firm characteristics (e.g., financial ratios as derived from financial statements).

In contrast, academic marketing researchers tend to concentrate on managerial, societal, or behavioral issues that derive from customers and their reactions to marketing strategies. Thus, major dependent variables include: customer attitudes, perceptions, and behaviors (e.g., purchases in stores, clicks on the World Wide Web). When marketers want to
measure firm performance, they think of variables such as sales, profits, or market share. The use of different dependent measures by the two groups of scholars is not a difference that is fatal to potential cooperation between the two groups. It just means that marketing and finance professors focus on different phenomena and different stakeholder groups (e.g., customers vs. owners).

Two Complementary Approaches

In this section, divergent perspectives are acknowledged. Taking these differences as a starting point, attempts are made to show how the two fields are complementary. Sometimes, cooperation between the two groups is apparent in current business practice. Other times, it remains an ideal.

Levels of Aggregation

As described by Hozier and Schatzberg, marketing and finance work at very different levels of aggregation. In finance, data are often aggregated at the firm or industry level (e.g., as compiled by CRSP or COMPUSTAT). In contrast, marketing studies rarely investigate firm-level data. Instead, marketing scholars investigate individual consumers (i.e., through surveys or in-depth interviews) or investigate groups of consumers who are in the same market segment. Some marketing studies with a strategic focus may examine data that are collected at the brand level. However, when many marketing scholars think of performance, they rely upon such variables as sales or profits or market share. Finance scholars, on the other hand, typically think of shareholder wealth or market returns to assess firm performance.

How Do Marketing Variables Influence Firm Performance?

For a variety of reasons, there is not a general consensus about how strategic marketing variables influence overall firm performance. Marketing scholars rarely address the issue of firm performance or stockholder wealth. Thus, the effectiveness of marketing activities is more often assumed than empirically verified. In fact, this remains one of the large unanswered questions in marketing. Does marketing work? Do marketing expenditures pay off? Because it is difficult to answer this sort of question, some commentators argue that the questions should be ignored altogether. For example, some advertising agencies advise their clients to look at ad expenditures as an expense, not an investment. This advice is consistent with accounting practice, where ad expenditures are treated as current expenses and not capitalized.

In some ways, this ad agency perspective is logical. If a firm in a competitive, mature industry does cut its ad budget, the result is often that market share declines. In future quarters, firms find it very difficult and expensive to regain this lost share. Many mature industries operate as oligopolies with relatively few competitors. Each of the competitors would be better off if they could cut their advertising budgets. In a mature industry, customers are relatively well informed about products and brands; so advertising loses some of its value as a source of information. In the case of mature products, a main purpose of advertising and promotion is, therefore, to get customers to switch from one established brand to another. If all the firms in a mature industry could simultaneously agree to cut ad spending, then all of the firms would be better off. Of course, such simultaneous action is illegal, as it is deemed to be collusion.

In the 1970s, the U.S. government required that cigarette manufacturers reduce certain kinds of ad expenditures (e.g., expenditures on TV commercials). In the short term, the result was that all tobacco companies were much better off in terms of earnings and profitability. The reduced promotional expenditures were beneficial to all competitors. Those competitors which enjoyed large market shares, prior to the government intervention, especially profited. Of course, in the long term, tobacco companies are not so well off. But, this fact is partly due to the massive publicity campaign that the government has mounted against smoking in general. Not only were tobacco companies forced to cut their expenditures, but also the government spent considerable promotional funds to de-market the whole industry.

Complementary Methods

Fortunately, the finance literature has developed a group of methods that have the potential to shed light on this key issue: do marketing activities contribute to overall firm performance? One such method is the event study, a technique introduced into the economics and finance literature by Fama et al. (1969). The event studies found in the business literature form part of a larger group of methods which can be termed “event history analysis” (Yamaguchi, 1991).

In essence, the event study method (ESM) involves measuring excess returns on a sample of common stocks that results from specific announcement (e.g., a firm may announce that a new ad agency has been hired). Thus, researchers can use ESM to evaluate the shareholder-wealth effect resulting from the announcement of such events as stock splits, regulatory changes, changes in marketing strategy (e.g., introducing a new ad campaign), or new product introductions. By relying on capital market efficiency principles, the stock’s price response around the event date is an indication of the stock market’s perception of the likely influence of the particular event on the future cash flows to be realized by the shareholders. Abnormally high (low) returns around the event date, after adjustments for risk and overall stock market fluctuations, are reflective of positive (negative) wealth effects (Verbrugge, 1997; Zinkhan and Zinkhan, 1994).

Time frame is another key difference between marketing and finance research. Longitudinal research is quite common in finance, but it is more rare in marketing. With the advent of electronic scanner data, marketing researchers are investi-
gating buying patterns over time. Historically, most published marketing research has been cross-sectional. The majority of marketing research does not contain data about multiple firms. Again, this is an issue where marketing scholars could derive inspiration from the kind of multiple-firm research that is routinely conducted in the finance literature.

The Articles in this Issue

The ten articles in this issue are summarized in Table 1. As shown in the table, two of the articles are analytical. Of the eight remaining articles, six report empirical studies based on U.S. data. The remaining two articles report the results of European studies, one in the Netherlands and one that used data from 14 different countries in the European community. Because this issue contains data from both the U.S. and Europe, then the results should be generalizable to business practice in the Western world.

The following sections describe Table 1 in more detail. A special emphasis is placed on comparing and contrasting the methods used by the various authors in this issue. In addition, the major independent and dependent variables are highlighted, along with a discussion of data-related problems and solutions.

Methods

It is encouraging to see that a wide variety of methods are represented in this issue. The majority of articles employ methods that are most common in financial research: analytical studies, event studies, and quantitative models estimated across many organizations in order to explain firm performance. Only one of the articles (by de Ruyter and Wetzel) uses a method (mailing out surveys) that is traditionally associated with marketing research.

Analytical articles are somewhat rare in the marketing literature; but they do appear in some journals (e.g., Marketing Science and Management Science). One advantage of an analytical study is that its results are not necessarily tied to the business practices of a single region or country. Both Baldauf et al. and Kaufman and Gordon use this approach in the present issue to add to our understanding of marketing and financial phenomena.

Two of the studies (by Hozier and Schatzberg and by Mathur and Mathur) use the event study method. This method is quite common in the financial literature; and a few such studies have begun to appear in marketing. Four other studies (e.g., Graham and Frankenberger) make use of econometric modeling approaches. The final article (by de Ruyter and Wetzel) uses a survey method.

All of the articles (with the exception of the two which are analytical) report empirical results that are based upon information from multiple firms. The event history studies have rather small sample sizes—26 firms in the Hozier and Schatzberg study and 73 firms in the Mathur and Mathur study. The largest sample is reported by Hasan et al., who concentrate upon thrift institutions in the southeast U.S. They examine the effectiveness of promotional expenditures for more than 2,500 thrifts.

Event studies often report small sample sizes. One reason for this is that firms must be carefully qualified as experiencing the event under investigation, without contamination from other events. For instance, the Hozier and Schatzberg article identifies situations where an ad agency has been terminated or has been threatened with termination (i.e., the account has been put up for review). These instances are identified and confirmed in the Wall Street Journal Index; next, stock returns are gathered from the CRSP data base. Mathur and Mathur, in the second-to-last article, identify 73 firms which made corporate announcements about green marketing activities, including recycling, offering green products, and using environmentally oriented promotions.

de Ruyter and Wetzel report the results of a survey, where they questioned 96 financial managers and 66 marketing managers about the potential efficacy of their relationship exchanges. Of course, marketing researchers did not invent the survey method; but a distinct area of inquiry in marketing journals is the continuing effort to update and improve survey techniques. For instance, the Internet opens a variety of new possibilities for conducting survey research; and marketing journals devote some amount of space to explore these emerging issues.

Choice of Independent and Dependent Variables

To a large extent, a discipline is defined by the variables that it selects to study. As mentioned above, financial researchers have frequently concentrated on the concept of firm performance. This variable can be operationalized in many ways, including earnings, stock returns, shareholder value, and so on.

As summarized in Table 1, the first six articles in this issue choose firm performance as the major criterion variable. The final four articles look at pricing policy, managerial attitudes, the decision to franchise, and emergence from bankruptcy.

Of those authors who studied performance, each selects a slightly different measure; but, essentially, the purpose of these first six articles is to answer the key question: “Do marketing activities work?” Four of the authors choose advertising and promotion as a major independent variable to address this question. It is not surprising that advertising is the most popular predictor, because advertising is one of the most tangible aspects of marketing. It is highly visible and apparent, whereas some other aspects (e.g., distribution) are more hidden and not so readily apparent to the general public. Thus, it is quite common for announcements about advertising to appear in the popular press (e.g., in the Wall Street Journal). As a result, it is fairly easy to apply an event study method to changes in advertising process or strategy.

Advertising and promotion expenses appear in the annual report of every firm that is publicly traded. As a result, such
Table 1. Summary of Ten Articles: The Marketing/Finance Interface

<table>
<thead>
<tr>
<th>Authors</th>
<th>Data from</th>
<th>Selected Dependent Variables</th>
<th>Selected Independent Variables</th>
<th>Sample Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Graham and Frankenberger</td>
<td>U.S.</td>
<td>Firm performance (Earnings,</td>
<td>Advertising, R&amp;D, tangible assets</td>
<td>320 firms in COMPUSTAT database</td>
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<td></td>
<td></td>
<td>Market value)</td>
<td></td>
<td></td>
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<tr>
<td>Kumar et al.</td>
<td>U.S.</td>
<td>Firm performance (Shareholder</td>
<td>Market return index, cost of money</td>
<td>100 firms from 21 industries</td>
</tr>
<tr>
<td></td>
<td></td>
<td>returns)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hozier and Schatzberg</td>
<td>U.S.</td>
<td>Firm performance (stock</td>
<td>Termination of ad agency</td>
<td>26 firms that announced a termination or review</td>
</tr>
<tr>
<td></td>
<td></td>
<td>returns)</td>
<td></td>
<td>2,534 thrifts in the southeast</td>
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<tr>
<td>Hasan et al.</td>
<td>U.S.</td>
<td>Firm performance (Asset and</td>
<td>Promotional expenditures</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>liability characteristics)</td>
<td></td>
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<tr>
<td>Gleason et al.</td>
<td>14 European</td>
<td>Firm performance (ROA; pretax</td>
<td>Culture; capital structure</td>
<td>198 retailers in the European Community</td>
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<td></td>
<td>countries</td>
<td>profit margin)</td>
<td></td>
<td></td>
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<tr>
<td>Mathur and Mathur</td>
<td>U.S.</td>
<td>Firm performance (Stock price)</td>
<td>Green marketing activities; Green</td>
<td>73 firms, announcing green activities</td>
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<td>promotions; green products</td>
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<td>Long-term debt</td>
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<tr>
<td>Baldauf et al.</td>
<td>Analytical</td>
<td>Pricing policy</td>
<td>Resource dependence; fairness;</td>
<td>96 financial managers and 66 marketing managers,</td>
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<td></td>
<td>Netherlands</td>
<td>Attitudes about exchange</td>
<td>rivalry</td>
<td>selected from 361 firms</td>
</tr>
<tr>
<td>de Ruyter and Wetzels</td>
<td></td>
<td>relationships</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kaufmann and Gordon</td>
<td>Analytical</td>
<td>Decision to franchise</td>
<td>Data availability; life-cycle</td>
<td>Analytical</td>
</tr>
<tr>
<td>Evans and Green</td>
<td>U.S.</td>
<td>Successful emergence from</td>
<td>Organizational strategy (e.g.,</td>
<td>97 firms in the southeast U.S.</td>
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<td>chap. 11 bankruptcy</td>
<td>defender, prospector)</td>
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</table>
information appears in large data bases, such as COMPSTAT. Unfortunately, there is a level of aggregation problem. The large data bases report information at the firm level. In contrast, most advertising spending decisions are made at the brand level. In the annual report, ad expenditures are aggregated across all of the units and brands that operate under the umbrella of the parent organization.

There are several potential problems with the spending data that are presented in the annual report. First, there is a timing problem. Stock price, for instance, fluctuates on a continuous basis. Advertising expenditures are reported at the end of a year. What relation would this end-of-year report have to a stock price that is evolving and unfolding over a very short time frame? There are ways to overcome this timing problem; but researchers need to be careful about their study design and their model estimation techniques.

A second problem is that it is difficult to know what a particular organization might be reporting under the general expense category of “advertising and promotion.” Specifically, a single firm may change its reporting protocol from year to year. It is generally believed that promotional expenses have been increasing in the last decade, while spending on traditional advertising media has been declining. Thus, the composition of reported ad expenditure may vary over time.

There is a measurement problem because the advertising expenses are separated from the “firm performance” at the brand level that they were designed to enhance. It is possible (although difficult) to obtain advertising and performance data at the brand level. Such an approach seems more promising for helping us to understand how advertising works. While marketers are especially interested in understanding how ads work, financial researchers are not necessarily intrigued by this topic. Nonetheless, both are interested in the relationship between ad spending and firm performance.

The Marketing Functions,
as Represented in this Issue

There are many ways to define “marketing.” One way is to focus on the four “functions” of marketing: price, product, promotion, and distribution. It is interesting to note that all four functions are represented in this special issue. As mentioned above, four of the articles study some aspect of promotion (including advertising). The Baldauf et al. article uses an analytical method to examine new product pricing. In this sense, it is both about new products and about pricing. The Mathur and Mathur article includes “green products” (i.e., those that are environmentally friendly) as one of the variables in their event study. The final article (by Kaufman and Gordon) studies a distribution or channel structure problem—franchising. In general, it is a rare event for any journal to cover all four marketing “functions” in a single issue. But, that is the case here.

There is an interesting method vs. content area pattern that emerges in this issue. The authors tend to use financial methods (e.g., event study) to explore marketing-oriented variables or problems. Perhaps, in the future, researchers may want to consider the opposite perspective—using marketing methods to address financial problems.

Industry Differences

A number of authors in this issue examine specific industries. For instance, Hozier and Schatzberg study the advertising industry (i.e., ad agencies). Hasan et al. study thrift institutions. In general, it is a rare marketing article that attempts to study an entire industry (or even attempts to draw a sample from an entire industry). This focus on understanding the practices and relationships that operate within an industry provides several advantages, from a knowledge development perspective. This focus is a strategy that marketing researchers may learn more about by studying the finance literature.

Economics and history are two disciplines that have a longer and richer research tradition than either marketing or finance. It is interesting to note that scholars in these two social sciences (i.e., economics and history) tend to divide their discipline into smaller segments. For instance, some economists concentrate on understanding the energy business. Others concentrate on understanding the economics of higher education (and so on). Similarly, in history, scholars often concentrate on eras, regions of the world, or industries. For instance, one historian may study the evolution of the oil industry in the 20th century, while another one studies banking in Italy in the 17th century.

Of the two disciplines represented in this issue, finance is more likely to follow the “specialization” strategy. This is odd, in one respect, because the idea of segmentation is at the core of marketing thought. Nonetheless, marketing scholars are steadfast in pursuit of knowledge that will be generalizable across all times and places. In a sense, finance scholars strive for this same goal, through their mathematical and analytical models.

Note the lead article by Graham and Frankenberger, where the model is tested in three distinct industry groupings: Consumer Products, Industrial Products, and the Sales and Services Industry. In marketing, there is an implied belief that industry differences will exist. In teaching marketing, we subdivide the curriculum into separate segments, each of which is taught as a different course: (1) industrial; (2) consumer (products); (3) services; (4) advertising (and ad agencies); (5) retailing; and so forth. Each of these courses really represents a different industry (when examined from an economics or industrial organization perspective). Nonetheless, it is a very rare article in marketing that includes more than one of these industry classifications.

How are marketing scholars to generate knowledge about industry differences if all published marketing studies contain only one industry? The finance literature represents one model that marketing researchers could follow for including multiple industries within the confines of a single published study.
There is a bit of a paradox in the above discussion. Marketing scholars mainly study very specific circumstances (the effect of humor in this particular ad on this particular audience); but, in so doing, they strive to create knowledge that generalizes across all circumstances (times and places). In contrast, financial scholars make use of comprehensive databases; but they also follow a specialization strategy by seeking out patterns of industry difference.

**Summary**

This issue offers a diverse approach toward expanding our knowledge about the marketing/finance interface. For the most part, the authors in this issue have decided to employ research methods that are common in finance. However, the topics that are studied are largely marketing topics (e.g., promotion, products). The marketing/finance interface is substantial, and its importance is expanding. As outlined by the authors themselves, there are many promising areas for future research and cooperation.

**References**


