The Financial Value of Winning in PGA Tours: An Examination of Stock Market Response to Sponsored Golfer’s Performance

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Introduction

Despite huge amount of financial resource required, the corporate sponsorship of sporting events and athletes as a marketing strategy is continuously growing. Sponsorships are typically seen as a useful tool in building awareness, brand image, and corporate image (Quester, 1997), hence, sponsorship is expected to generate favorable financial outcomes including profit increase and improved stock returns. However, measuring the financial effectiveness of an event or athlete sponsorship encounters a problem due to the result of the highly proprietary nature of individual product sales data (Cornwell, Pruitt, & Van Ness, 2001). For this reason, researchers have turned their attention to the investigation of stock price changes for sport sponsorship using the event study analysis. The theory underlying event study is the efficient market hypothesis (Fama, 1969) which stock prices incorporate all relevant information that is available to market traders. When investors make a buying or selling decision, they make judgments concerning the impact of various market events upon the sales, net revenues, and riskiness of the affected companies (Cornwell, et al., 2001). While the increased use of event study analysis on sport sponsorship study, majority of research has focused on stock price changes associated with sponsorship announcements. No studies have attempted to investigate the economic value of sponsored athlete’s winning in stock market. The purpose of this study is to investigate the stock price performance for the companies that sponsor the winning golfers in the PGA Tour. Within the broad spectrum of sport sponsorship, professional golf tours have proven to be an especially popular form of marketing strategy due to the highly visibility offered to sponsors. Sponsors’ logos and names are placed on a golfer’s hat, t-shirt, and bag during four days of event. Moreover, most of PGA Tours games are covered by the national TV networks and major cable channels from the first round to the final round. Like advertising, increased media exposure of sponsor’s logos or names may be undertaken to increase public awareness of a company and ultimately lead to increase corporate sales. For this reason, the net-of-market changes in the stock prices of the sponsors of the winners will provide critical insights into the market’s examination of overall value of the championships to the sponsoring corporations.

Methodology

To measure the financial performance of sponsored golfer’s winning, this study will conduct the event study analysis. The use of event study has allowed researchers to examine the direction, magnitude, and speed of security price reactions to a wide variety of new information in the marketplace (Lei, Ghosh, & Srinivasan, 2010). According to Bhagat and Roberta (2007), event study analysis is consisted of five steps: (1) defining the event and dates when the information became public; (2) measuring the target security’s actual return on the dates of interest; (3) estimating the target security’s expected return based on the relationship between such security and the market as a whole; (4) computing the abnormal return by subtracting the expected return from the actual return; and (5) assessing the statistical significance of the abnormal return. In this study, we define the “event” as sponsored golfer’s winning on PGA Tours. The event must be initiated by or connected to a sponsor company which is publicly traded in US stock markets (AMEX, NYSE, and NASDAQ) and a golfer must use the corporation’s logo and/or name on his hat and/or t-shirt (i.e., Tiger Wood wore Nike logo hat and t-shirt during his winning at the Players Championship in 2013).

From 2012-2013, two season winners (n=80) will be collected then each winner’s sponsor(s) will be identified. In order to generate a market return, a market model is estimated for each individual firm using stock trading days of returns against the market value, S&P 500. This is employed to compute the cumulative abnormal return (CAR).
within 1 day (0,+1), 2 day (0,+2), and 3 day (0,+3) time windows. Z-test and the generalized sign test are applied to test the significance of abnormal returns (ARs) and cumulative abnormal returns (CARs). A set of multiple regressions will be used to investigate other financial variables (e.g., market value, cash flow, and ROA). Firm-specific financial information will be collected from the COMPUSTAT annual file and CRSP database at the University of Chicago. The data will be analyzed using the Eventus Software and the SPSS Package.