Balancing
Research and **Teaching**

Natalie Mizik

49th AMA–Sheth Foundation Doctoral Consortium

2014

Select one:

My true passion is

a) **Research**, and **Teaching** is the necessary evil I have to endure

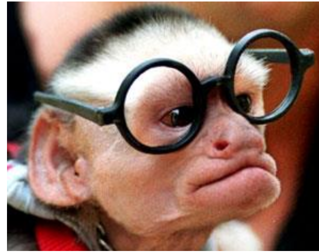
b) **Teaching**, and **Research** is the necessary evil I have to endure

Resolving Time Constraint/Conflict (Improving Efficiency)

- **Teaching**
  - **learn** local culture
  - **borrow** notes, lectures, examples, HW assignments, best practices, talk to colleagues
  - **share** your best notes, lectures, examples, HW assignments, best practices

Do not re-invent the wheel !!!

Resolving Time Constraint/Conflict (Improving Efficiency)



- **Research**
  - **ReSearch** questions and topics that drive you
  - **Find** collaborators you trust and enjoy working with
  - **Talk** to your colleagues, students, industry contacts (guest speakers) to find

    inspiration, **research topics**, **data**

First-day core MBA marketing class, Fall 2003

Professor: ***"What is Marketing?"***

MBA student: ***"Marketing is Cost. Whatever you give them, in marketing, they spend, and they have nothing to show for it."***

Lesson for the Professor:

The impact of Marketing on financial performance is not well understood

Solution: Research

From: XXXXXXX XXXXX [mailto:xxxxxx@xxxxxxxxx.net]
Sent: Sunday, July 03, 2005 6:18 AM
To: Natalie Mizik
Cc: mailto:rgh1@columbia.edu
Subject: your article

I really think you are part of the divide between the MBA and the PhD in business.

Most business academic publishing in business and in most fields is worthless because the academic feels compelled to publish at the end of the study even if the work is worthless – they make up the value.

Yours is clearly worthless, it's just a bunch of pointless mathematic goop that doesn't describe anything.

The point you are missing is that while your results are statically significant they are mired in the noise.

Marty Starr and I used to lament at the bull shit that was presented to TIMS that was effectively bull shit covered in a chocolate coating of mathematical formulas that 99% of the readers don't understand.

As an alum I am voting against tenure for your lousy work!

XXXXXXX XXXXX
MBA 66
xxxxx@xxxxxxxxxx.net

Lesson for the Professor:

Academic Research

is not well understood

Solution: Teaching

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Myopic Marketing Management: Evidenc Phenomenon and Its Long-Term Perfor Consequences in the SEO Context

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Managers often have incentives to artificially inflate current-term earnings by cutting m tures, even if it comes at the expense of long-term profits. Because investors rely on cur ing measures to form expectations of future-term profits, inflating current-term results can current-term stock price. We present evidence that some firms engage in this type of "myopi agement" at the time of a seasoned equity offering (SEO). In particular, a greater proportio typical report earnings higher than normal and marketing expenditures lower than normal a SEO. Although they realize that firms might be undertaking strategies to artificially inflate ings, the financial markets are not adequately identifying and properly valuing the firms doi indicate that myopic firms are able to temporarily inflate their stock market valuation, but i the consequences of cutting marketing spending become manifest, they have inferior stock ma We propose some actions that might reduce the incentives for myopic behavior.

Key words: myopic marketing management; marketing strategy; marketing resource allocatio long-term financial performance; abnormal stock returns
History: This paper was received September 20, 2005, and was with the authors 5 months fo processed by Carl Mela.

Introduction

At times, managers face incentives that might cause them to emphasize current-term results at the expense of long-term performance. Managers might feel pressure to meet the quarterly earnings expectations of financial analysts, their compensation and job security might be tied to stock market reactions, or they might be evaluated based on current-period accounting performance measures. These conditions can cause an overemphasis on strategic options that generate immediate results at the expense of long-term profits, that is, myopic management. For example, managers might seek to artificially inflate current-term results by cutting "discretionary" spending, such as R&D and advertising. Myopic firms inflate current-term results to give the appearance of enhanced long-term business prospects. This overemphasis on short-term results has long attracted significant interest by academics, practitioners, the financial markets, and government agencies (Hayes and Abernathy 1980, Laverty 1996).

Myopic management is of particular importance to marketers. A host of marketing activities involve expenditures in the near term th longer term, for example, buil (Shugan 2005) and product qu and Golder 2006). Some past r that firms do engage in myop ment by underspending on ma ing marketing strategies that pr profits with those that genera back.[1] Aaker (1991, p. 10), for e is tempting to 'milk' brand equ brand-building initiatives, such notes that a decline in brand e ately obvious. Furthermore, A increased use of sales promoti diately observable results, but terious long-term effects) as e

[1] Myopic marketing management has c tic concept of "marketing myopia" Le lack of farsightedness. However, while tizes problems with defining the bus marketing management relates to an ov term financial performance and the use current profitability measures.

The Cost of Myopic Management

by Natalie Mizik and Robert Jacobson

Under pressure to hit immediate performance targets, many managers inflate earnings, often by cutting expenditures. In a recent survey of 401 top financial executives, 80% said they would decrease spending on "discretionary" activities like marketing and R&D to meet short-term goals.[1] But how discretionary can such spending be, given that cutbacks in these areas can have substantial negative effects on future performance? It's true that this kind of shortsightedness may temporarily fool the stock market by giving the appearance of improved prospects. However, in our study following the financial performance of 2,859 companies over five years, firms that appeared to make short-term expense adjustments to inflate earnings when they issued equity ended up losing profits in the long run, causing their market value to drop by more than 20% four years out.

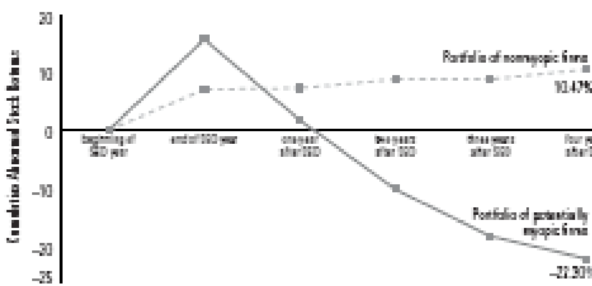
We focused on company and financial market behavior during and after seasoned equity offerings (when public firms issue additional stock) in the three decades from January 1970 to December 2001. Because the amount of capital collected by a firm depends on the stock price on the day the equity is issued, managers have an acute interest in that price and may be tempted to give it a quick boost by inflating earnings through cost cutting. After all, investors rely on current earnings measures when they form their expectations of future performance and, therefore, when they value equity. Even though market participants realize that all companies have incentives to inflate earnings to increase their SEO proceeds, they cannot tell with certainty which ones are actually doing so. As a result, they tend to give less credence to all earnings reported at these times. But only after expense cuts result in inferior profits for individual companies do the consequences materialize in lower stock prices.

To determine which SEO firms were most likely to engage in this sort of myopic management, we examined companies' profits and SG&A (selling, general, and administrative) spending—which has marketing and R&D as its primary components—around the time of their SEOs. During years in which SEOs were issued, we observed a 40% increase in the number of firms simultaneously reporting above-normal operating profits and below-normal SG&A expenditures ("normal" being what was expected given the industries' economic conditions and the firms' past performance). We grouped these firms into a "potentially myopic" portfolio and the other companies into a "nonmyopic" portfolio and then assessed the future risk-adjusted stock returns of the two groups.

If the financial markets properly valued the management strategies implemented in the year a firm issued an SEO, that company's share price would not be adjusted (either up or down) in subsequent years. As the exhibit "Short-Term Management Doesn't Pay" shows, this was essentially the case for firms in the nonmyopic portfolio—the ones that didn't simultaneously report a spike in profits and a dip in SG&A expenditures. For those companies, abnormal stock returns (the difference between actual and expected returns) were

Short-Term Management Doesn't Pay

Myopic management may boost current market performance, but it takes a big toll on long-term value.



The potentially myopic portfolio includes companies that simultaneously reported higher-than-expected profits and lower-than-expected SG&A spending the year they issued a seasoned equity offering (SEO)—that is, additional stock. The nonmyopic portfolio comprises all the other SEO companies we studied. An abnormal return is the difference between the actual return and the expected return, given the market and the firm's risk characteristics.

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From: XXXXXXX XXXXX [mailto:xxxxxx@xxxxxxxxx.net]
Sent: Friday, March 31, 2006 11:33 AM
To: Mizik, Natalie
Cc: Hubbard, R. Glenn; Capon, Noel
Subject: Detail Men

Natalie

Attached is an article in the current Atlantic Monthly suggesting the drug detail men are extremely effective and a direct rebuttal of your research suggesting they are not!

What you missed was the revolution in information technology! It's been possible for over 10 years to directly relate sales of drugs to the doctors writing the script and then directly back to the assigned detail men. These folks are probably paid more directly for performance than any other group in industry.

The drug industry spends $2 on marketing and sales for every dollar spent on research and believe me they track every penny and every penny earns its keep in productivity and sales in this case!

One wonders where the department head Noel Capon had his head when he allowed your obviously counter intuitive article to be published under the Columbia banner. Sometimes the counter intuitive theory is correct as in queuing theory but one needs to go the extra mile to be 100% sure.

Quite frankly its not really your fault as we have allowed the business schools to lapse from being competent professional schools into ivory tower bastions of academic activity totally lacking an anchor to windward in practical experience.

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