UNIVERSITÄT
BERN

Wirtschafts- und
Sozialwissenschaftliche Fakultät

Departement Betriebswirtschaft

Institut für Finanzmanagement

The impact of celebrity endorser scandals on stock returns

Master Thesis

Director of the Institute: Prof. Dr. Claudio Loderer

Supporting Assistant: Oliver Dichter, M Sc in Economics

Author: Roman Thomet
Wohlen b. Bern
Matriculation number: 07-120-967
Viktoriastrasse 61
3013 Bern

Bern, 12. January 2015

Prof. Dr. Claudio Loderer
Institutsdirektor
Engehaldenstrasse 4
CH-3012 Bern
www.ifm.unibe.ch

I. Executive Summary

This thesis examines the impact of celebrity scandals on stock returns of corporations for which the scandalous celebrity advertises for. Recently, several celebrities caused scandals. Examples are Tiger Woods, who had numerous extramarital affairs over a number of years, or Oscar Pistorius who was accused, and recently convicted, for murdering his girlfriend. This scandals received huge public attention which resulted in a severe loss of reputation and integrity of the involved celebrity. The list of celebrities who were involved in either scandalous drug abuse or violence is quite long. In certain sports, such as cycling, almost every year, athletes catch public's attention for doping abuse.

Nevertheless, firms are still willing to engage celebrities for their advertisements. The current literature provides several reasons for such frequent engagements of celebrities for advertisements. There is evidence that celebrities outperform common commercial endorsers in terms of credibility, expertise and attractiveness, which are success factors determining the impact of the advertising source (McCracken, 1989; Thill & Shimp, 1998). Therefore, celebrities can increase the effectiveness of the advertising campaign.

An event study examines whether stock returns are affected by scandalous behaviour of a celebrity that represents the firm in its advertising campaign. Further, a regression analysis will be performed to evaluate the main drivers of the effect on stock returns.

The results show that there is a negative effect of celebrity scandals on the corporation's stock returns. On average, a celebrity scandal reduces the corporation's stock return by -0.39% on the event day. The results show that the impact is not confined on the event day but spread over seven days after the event. The cumulative abnormal return over an event window of 21 days is -1.35%. Over the post event window which includes the 10 days after the event, the CAR (0;10) is -1.11%.

The magnitude of the negative impact of a celebrity scandal on the stock returns depends on the relationship intensity, the size of the corporation, the type of the scandal and the age of the involved celebrity. The negative impact of the scandal increases with the intensity of the relationship between the celebrity and the corporation as well as the size of the corporation. Further, drug scandals and scandals because of unethical behaviour have a stronger negative im-

pact on the stock returns compared to scandals because of violent felony, undesirable behaviour or doping abuse. Finally, the magnitude of the impact depends also on the age of the celebrity. The older a celebrity is the lower is the negative impact in case of a scandal.

Conclusively, the analysis suggests that, the decision on whether to engage a celebrity for advertising campaigns has to consider the trade-off between the positive impact on the advertisement's effectiveness and its potential drawbacks in case the celebrity is involved in a scandal. Consequently, corporations have to be aware that celebrity endorsements are a risky marketing strategy which has to be carefully assessed.