KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY

COLLEGE OF HUMANITIES AND SOCIAL SCIENCE

DEPARTMENT OF MARKETING AND CORPORATE STRATEGY

SCHOOL OF BUSINESS

IMPACT OF ADVERTISEMENT EXPENDITURE ON FIRM'S PERFORMANCE: AS EVIDENCED FROM SELECTED SERVICE FIRMS LISTED ON THE GHANA STOCK EXCHANGE.

BY:

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NOVEMBER, 2015

KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY

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A THESIS SUBMITTED TO THE KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY IN PARTIAL FULFILLMENT OF THE REQUIREMENT FOR THE AWARD OF MASTER OF BUSINESS ADMINISTRATION IN STRATEGIC MANAGEMENT AND CONSULTING

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DECLARATION

I, EDWIN OYEH, hereby declare that, with exception of the references and quotations from other sources which have been duly acknowledged, the entire project work is my own effort towards MBA and to the best of my knowledge, it contains no material previously published by another person's nor materials which has been accepted for the awards of other degrees of the university.

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DEDICATION

To my mum **Vincentia Oware** for all the support

To **Bernice Oyeh** for all the motivation

To **Victoria Arthur** for everything else

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I thank the Almighty God for how far he has brought me.

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ABSTRACT

The ever-growing competition in today's business environment creates dynamic challenges to firms. Today, advertisements are going international at a much faster speed leading to a universal response to advertisement, the forms of advertisement are changing to include electronic advertisement and mobile advertisement to the overall advertisement portfolio of firms. This leads to changes in the costing patterns of advertisement which could lead to a fall in firms' performance. This thesis examines empirically the effect of advertisement expenditure on the banking firms' performance in Ghana.

Taking data from five commercial banks listed on the Ghana Stock Exchange from 2007 to 2013, sampled out of a possible nine commercial banks listed on the Ghana stock exchange due to the availability of data for the given period, it is shown after data analysis from the five sampled banks that the impact of advertisement expenditure on sales is positive and significant while it has adverse significant effect on return on equity.

The study posits that, advertisement intensity has negative and significant effect on profitability. Hence, the study reasons that advertisement expenditure does not cause return on equity to increase as a measure of performance. There is therefore no value added to the shareholders wealth as managers spend on advertisement to promote the banks. It is therefore recommended that firms with low margins might need dissimilar planned marketing mixes than high-margin firms.

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CHAPTER ONE

1.0 Introduction

This chapter comprises and discusses issues of background of the study, statement of problem, objectives of study, research questions, justification of the study, methodology, scope of the study, organization of the study in relation to the holistic plan to the actualization of the thesis.

1.1 Background of study

The dynamic challenges business environments face today is ever-growing competition. Product and brand extensions pose a challenge in terms of getting customer attention (Mahendru, 2014**)**. Marketing metrics has become a serious event for marketers, who apply a variety of tools to daze the competition. Advertisement as a tool used by marketers is vital to selling their services and/or products. Advertisement gets to consumers through their radios, magazines, newspapers, mailboxes, TV sets and many others. In the twenty-first century, the use of adverts is a measure of building long-term competitive advantage over other competitors. During the nineteenth century little attention was paid to advertisement by economists. Bagwell et al.(1997) opines that economists of nineteenth century were interested in examining mostly the theory of perfect competition, which failed to see any significance of advertisement in the global arena. Pigou (1924) (as cited by Mahendru, 2014**)** argued that there is no merit in advertisement as the market will take as much as any seller wants to sell at the market price under perfect competition. It was suggested that advertisement expenses has no returns to producers under perfect competition.

This is due to the premise that, on one side the demand curve is always fixed and there cannot be direct alteration by product makers, while on the other hand, the suppliers can put to market and sell all that they can produce at the ruling market price and no one of them can supply more at that price. Marshall (1919) brings to bear, the economic analysis of advertisement. Chamberlin (1933) further builds on Marshall's work and added selling costs into theory of economics. Getting to the close of the twentieth century, advertisement was one of the strongest tools of marketing. The occurrence of across-the-boards advertisement is also attributable to IT advancement, growth of income, literacy as well as urbanization. Advertisement is regarded as being persuasive, informative and complementary with the advertised product (Bagwell et al., 1997). The American Marketing Association sees advertisement as any form of payment for products, services and non-personal ideas presentation by a recognized sponsor. Similarly, advertisement is any form of payment of non-personal announcement about an organization's service, products and ideas by a known sponsor. Burnett (2008) sees advertisement as a tool of non-personal communication aimed at disbursing selling connected information to a targeted audience, financed by firm to advertiser and the message is delivered through media communication in order to attain the set objectives by the firm. Till date studies on advertisement have centered on impact on sales and profit since the main aim of advertisement is to increase sales revenue. Leach and Reekie (1996) opines that marketing experts have advance that advertisement aid in increasing sales both short and long run.

In the past marketing was aimed at customer perspectives which in turn concentrated on marketing-sales association. In recent times, however, the practitioners have started showing keen interest in the financial impact of marketing actions (e.g. Joshi & Hanssens, 2010). They argued that advertisement is directed at increasing the sales of business, which would further lead to an increase in profits. Which therefore means that profit increase may turn to increase the market price of firm's share, thus leading to increased shareholders' wealth. Barffour (2010) believes that marketers are now targeting to achieve better financial returns with the same amount of marketing actions as needed to achieve the said target. It is very uneasy to justify the relationship between marketing expenditure and firm value with reducing budgets, unless it is linked to the stock price (Mahendru, 2014).

Effectiveness of advertisement has been on discussion for a long time now covering years in examining its significance in marketing. Even though others believe that advertisement expenditure is seen as being wasteful in its entirety, conversely, it is maintained that contribution of advertisement cannot be undermined to increasing the sales revenue and profits. Debates on sales response to advertisement has been massive in marketing and researchers are yet to establish consensus on sales-advertisement relationships (Vakratsas and Ambler, 1999).

1.2 Problem Statement

Following Shah & Akbar (2008) advertisement is a form of non-personal communication directed at increasing the sales of businesses, which is believed to lead to an increase in profits.

Increased profits may help increase the market price of the company's shares, eventually leading to increased shareholders' wealth (Esteve & Requena, 2006). Therefore, it is imperative for a marketer or firms to understand whether advertisement helps achieve these objectives or not and this may aid a firm to consider if it is worth taking more advertisement to increase expenditure. Empirical studies on whether or not advertisement expenditure is able to achieve these goals has been inconclusive. Example Joshi & Hanssens (2010), Agyapong et al. (2011) Banerjee et al. (2012) provide evidence of the impact of advertisement expenditure on performance revenue. On the other hand Doyle (2000), Andras & Srinivasan (2003), Sharma and Sharma (2009) find only a minor or no relationship between advertisement and performance.

Mixed results with regard to the contribution of advertisement expenditure in firm's performance as shown in the above empirical studies focusing on numerous countries and numerous industries lead managers to no clear-cut suggestion as to how much they should spend on advertisement (Mahendru, 2014). Hence, there is a real need to explore country-specific and industry-specific studies about the influence of advertisement expenditure in firm's performance. Also, the years of economic liberalization together with the information technology revolution and changing lifestyles have redefined entire business dynamics (Sharma & Sharma, 2009; Mahendru, 2014). Today advertisements are going international at a much faster speed leading to a universal response to advertisement, the forms of advertisement are changing to include electronic advertisement and mobile advertisement to the overall advertisement portfolio of firms. This leads to changes in the costing patterns of advertisement. Besides, there is evidence of studies on relationship between advertisement, sales and profits, but majority of these studies focus on developed countries (Burnett, 2008). In recent years, the developing economies such as Ghana is emerging in global fronts as business leaders in the ECOWAS region in growth rates, making them favorite end point for firms and marketers (Barffour, 2010). Barffour (2010) further added that studies about effectiveness of advertisement expenditure on performance is limited in developing and emerging economies, and this is a gap this research wants to fill. Hence, following the above there is a solid need to conduct research studies about effectiveness of advertisement expenditure to cover most recent past in developing country.

The current study builds on the existing literature by studying the inter-linkage between advertisement expenses, sales and profits in the emerging economy of Ghana. Furthermore, the study focuses on the service industry because most studies have been conducted in manufacturing sector, whereas the service sector happens to be the most concentrated industry in terms of product portfolio. Considering these factors, the study seeks the relationship between advertisement expenses, sales and profits in Ghanaian service industry with a specific reference to those listed on Ghana Stock Exchange.

1.3 Objectives of study

Following the above statement of the problem, the study is carried out to achieve the under-listed objectives.

1. To examine trend of advertisement expenditure of listed service firms

2. To examine trend of performance of listed service firms.

3. To examine the impact of Advertisement on performance of listed service firms.

1.4 Research Questions

On accounts of the above objectives the following questions are posed in order to achieve the stated purpose.

1. What is the trend of advertisement expenditure of listed service firms?
2. What is the trend of performance of listed service firms?

3. What is the impact of Advertisement on performance of listed banking firms?

1.5 Justification of the study

This study is conducted primarily to understand the usefulness of advertisement expenditure in terms of its ability to power a firm's performance. The advertisement outlay now seems to be higher in service companies than the manufacturing firms.

It is expected that the findings of the study will be of particular interest to the marketers and managers as well as consultants in arriving at decisions regarding the advertisement budget of a firm. The study aims to establish the advertisement effectiveness in relations to impact to profit, sales and firm value. If the findings of the study show that advertisement expenditure impacts on profits and sales, marketers will be tempted to stretch their advertisement budgets in order to build a competitive edge over the competitors. Besides, currently, the shareholders are observed to be closely tracking every development in the firm. Shareholders are keeping a close eye on the advertisement expenditure by the firm, the amount spent on public relations by the firm and other related events. The findings of the study with regard to the contribution of advertisement expenditure in firm value will be of keen interest to the shareholders. As it stands now, the investors and firm owners are not in a position to establish if an advertisement campaign is beneficial to them or not. The result that will come out of this study will make strategic inputs to the shareholders in their decision making.

1.6 Methodology

Since the study expects to establish the impact of advertisement expenditure on firm performance, existing literature will be explored thoroughly in order to develop relevant hypothesis on advertisement and performance indicators. This will aid in development of relevant models that would be used to regress the established variables so as to ascertain the level of impact. General Ordinary Least Square (OLS) technique is expected to be used for the analysis, if variables are able to meet the normality test, otherwise Generalized Least Square (GLS) will be appropriate.

The study does look at firms listed on the Ghana Stock Exchange for a period of seven year. i.e. 2007-2013. As the seven years period is the most recent and findings are expected to give a new direction to current studies. Data for the study will be derived from audited annual reports of the selected service firms. Thus, data gathered will be secondary in nature to examine the objectives of the study.

1.7 Scope of the study

Due to lack of availability of financial statements and annual reports of service firms not listed at the Ghana Stock Exchange, the study is restricted to only service firms listed on Ghana Stock Exchange (GSE) where all the relevant information require to aid examine to achieve the objectives of the study can be found on the Stock Exchange library. Also as stated above, the research digs into a period of seven years starting from 2007 to 2013.

1.8 Organisation of the Study

This thesis comprises five chapters. Chapter One accounts for the introduction and includes background to the study, problem statement, objectives of the study, research questions, justification of the study, delimitation of the study and organisation of the study.

Chapter Two reviews related literature under headings and sub-headings clearly marked from different sources on the issue being investigated into, that is performance with regards to advertisement expenditure.

Chapter Three indicates the study methodology used. It addresses the research design, population, sample size, techniques, method of data collection, data analysis procedures and module specification as well as organizational profiles.

Chapter Four entails the results and discussion. Finally, Chapter Five provides a summary of the major findings of the study, the conclusions and recommendations.

CHAPTER TWO

REVIEW OF LITERATURE

2.0 The evolving study of advertisement

It was in the twentieth century that Economic literature started paying attention to advertisement. Hither to, there was no evidence of economic thinkers stressing on the value addition of advertisement for a firm. In the nineteenth century economists mainly interested in theory of perfect competition. Perfect competition hardly sees any role for advertisement (Blagwell, 2005). Under perfect competition, the market takes as much seller wants to offer for sales at the market price, thus making advertisement a negligible tool.

It was the beginning of the twentieth century that Marshall (1919) offers some insights into the economic analysis of advertisement. The study opines that advertisement can play a useful role by transmission of information to consumers about existence, location, functions and qualities of the products. Pigou (1924) also contribute significantly to the economic analysis of advertisement. However, advertisement economic analysis stops short of integrating advertisement into theory pf economic, a work that was completed by Chamberlin (1933) by embracing this integration. He argues further that a firm uses advertisement and promotional activities to further distinguish its product from those of its competitors. Advertisement induced product difference is valuable to firms as a means of increasing its market; also by advertisement, a firm creates an external shift in its demand curve. Chamberlin (1933) establishes that advertisement affects demand by passing on information to who sells the product, the price and qualities of products in a particular location (market place), thereby altering consumers' tastes.

The interest in advertisement grows significantly towards the end of the twentieth century (Tirole, 1988; Stieglitz, 1989) exploring the need for advertisement in economic and marketing activities. Further, there has been disagreement regarding how accountants should treat advertisement outlays in the books of accounts. Several studies in the existing literature support the view of advertisement having a value as fixed asset. (Example Hirschey & Spencer1992).

The conclusions however has unclear. There are other studies (such as, Aaker & Jacobson 1994; Sougiannis, 1994) who stand to support the view that advertisement does not create benefits beyond one year period in which the expenditure was produced. The problems in accounting to account for advertisement expenditure are as a result of complexity of identifying associated costs with the particular activities, achievements, how to determine the magnitude of future benefits as well as how long it should be charge against accounts. As management is able to projects current profit with more precision as compared to future financial performance, managers prefer to ordinarily write off all expenditure in the period under consideration. Han & Manry (2004) opine that financiers believe economic benefits of advertisement expenditure should terminate in the period incurred thus charging in the years accounts, as we see in other expenses. In magnitude, managers often seems more motivated to record all the expenditure on advertisement under year under review when profit levels are known with some level of certainty, rather than risking to take part of the advertisement capitalized costs. The firm might not sufficient generate revenues in future to captivate amortization of advertisement cost as capital costs. If we follow these kind of arguments, advertisement expenditure is usually charged against current year. In 1970 Peles remarks that the overriding accounting treatment is to charge advertisement expenditure to current year expenditure which produces an implicit rate of amortization of one hundred percent. This situation is based on accounting conservatism, consideration of tax benefit, and arbitrary systems of amortization. But there are still others who believe that advertisement expenditure should be capitalized and charge over a period (Hirschey & Weygandt 1985). They believe that since investment in advertisement would benefit current and the future times, it should be treated as an intangible asset and charge against current and future revenues of the firm. Abdel-Khalik (1975) stated that treatment of advertisement as expense or capitalizing over its useful life are important because of potential influence on the measurement of income and balance sheet. As expenditure on advertisement can be treated as an expense can reduce earnings but could provide tax benefits to the firm. Likewise, in matching principle; expenses of a period should be matched against revenues to determine gains or loss for the period. The matching principle becomes questionable if every advertisement expenditure is charge in one year and its benefits accrue into future years. Further, there is immediate effect of advertisement on various measurements such as return on assets and other similar indicators of the financial health of the firm. Therefore, advertisement should be treated as capital expenditure and charge for a period of time. White and Miles (1996) advanced that advertisement is strategic investment made and cash flows in future is expected. Making investment in advertisement should be exposed to capital budgeting analysis as any expenditure that yields multi-period cash flows is treated. If a firm fails to do so is inconsistent with shareholders' wealth optimization and financial objective. Barth and Kasznik (1999) used advertisement and R&D as substitutions for intangible assets and argue that 'we select R&D and expenses on advertisement because

investments made by firms in these activities has a potential to have intangible assets related to. Developed technology and brand names are not recognized in financial statements of firms. Likewise, real dollar advertisement changes are associated with market value and future earnings (Graham & Frankenberger, 2000).

Since then, empirical literature has extensively studied the concept and significance of advertisement expenditure. Academics have argued the usefulness of advertisement expenditure with regard to its capability to impact firm performance. Further, much research has been conducted on the variables of firm performance. Profitability, firm value and sales have mainly been studied as the indicators of firm performance. Some researchers have attempt to establish the link between advertisement expenditure and one or more variables of firm performance.

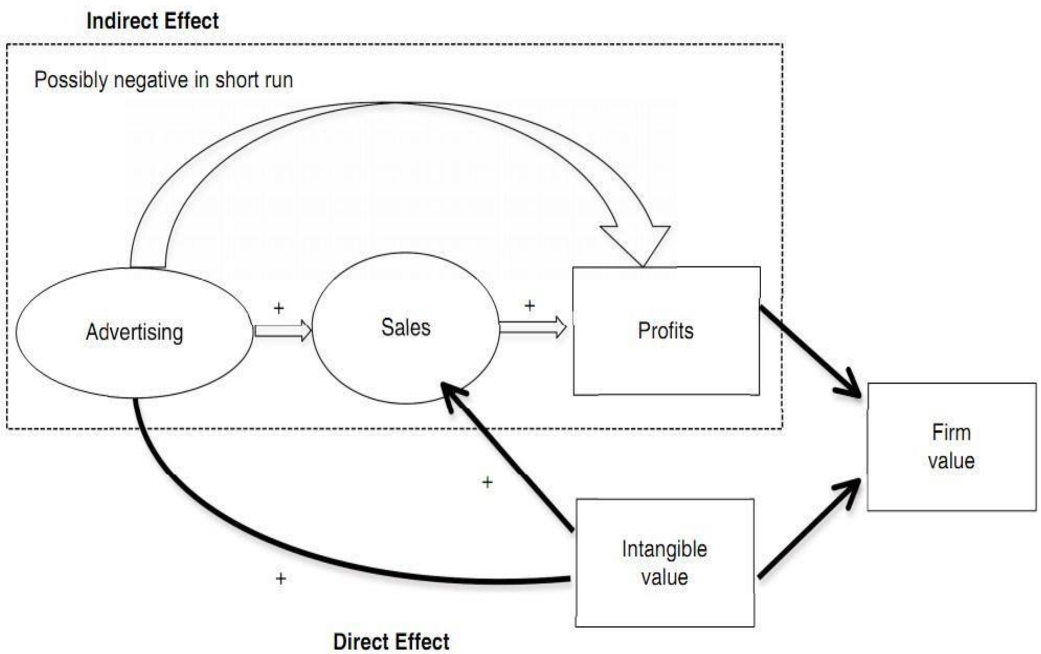
2.1 Conceptual review

According to Alexander (1965) advertisement is non-personal communication paid by a known sponsor which aims to push the audience towards a purchase decision. It involves transmission through the mass communication (media) in the form of television, radio, billboards, newspapers, magazines, and internet, etc.(Clow & Baack, (2004) state that it represents an significant means by which establishments communicate with their customers, current as well as potential. Advertisement expenditure is also viewed as a tool to prevent the competing businesses from entering the industry (Beath & Ulph, 1990). It helps the business to have edge over others by selling its services and products and overpowering the competitors' competitions. From the time when advertisements have empirically been found to have an influence on the purchase behaviour of consumers (Kundu, Kulkarni and Murthy, 2010). The corporate world is investing massive amount of financial resources on advertisement. Businesses spend a lot on publicity to create awareness that the masses know of its products, their benefit and features over the contenders. Advertisement is primary aim to upsurge the sales of the advertised firms. Fundamentally, it is geared to sell a product, service or an idea similar as well as diverse opinions are found about the concept of advertisement. Largely researchers agree that advertisement is a non-personal communication and that advertisement is the non-personal communication of information usually paid for to persuasive customers in nature about service, products and ideas by recognized sponsors through the various media. More recently, Jones et al. (2009) regard advertisement as a sort of mass production mode of marketing, which enhancements the personality of the individual salesman much as in manufacturing the machine supplements the craftsmen hands. Typically, advertisement was considered merely as a printmedia activity. Nevertheless, advertisement has evolved immensely over the recent years. Now advertisement is viewed more as the art of publicizing products or services information through mass communication media at the expense of the firm to increasing or maintaining demand (Thompson et al, 1993). Pires et al. (2003) advance that in a larger sense, advertisement entails the activities which is give in to a group, visual, non-personal, willingly funded message regarding idea, product and service. Business expects a return on all the investments being made, including advertisement expenditure. Hence, it is more important for the marketers to examine its impact on their performance.

There have been studies about the impact of advertisement on firm's performance. The studies have ranged from the indirect effect studies to the dynamic studies like the Profit Impact of Market Strategy (strategic Planners) study that finds the companies having increased advertisement during downturn outperforming the average of all businesses by almost 250% and the cost of spending had insignificant effect on Return on investment. The study of firm value is a study of tangible and intangible value of the firm (Simon & Sullivan, 1993). The distinction between the two types of effects is visible in Figure 1 below

Figure 2.1

Indirect and direct impact of advertisement expenditure on value of a Firm



[Source: Joshi & Hanssens (2010)]

While tangible assets include sales and profits (Pauwels et al 2002; Nijs et al, 2001), intangible assets may be classified as:

(i) Market specific factors such as regulations that lead to imperfect competition.

(ii) Firm definite factors such as Research & development expenditures and patents.

(iii) Brand equity

Sales and profits form part of the tangible firm value, from the marketing angle. Lodish et al (1995) study the impact of marketing instruments on the tangible value for the short-run while Simester et al (2009) study this impact for the long-run. Noticeably, Day & Fahey (1988) believe that value of the firm comprises of the current flows of cash in the value growth period in the long-term and the residual value of the business at the end of the value growth period. Market based assets of the firm can enhance market value of the stockholders value hence increase market performance through helping in quick markets penetration, increasing market premiums (price) and obtaining higher customer loyalty and retention (Han et al., 1998). They further added that superior market base performance is good performance which accelerate and improve cash flows, decrease instability and susceptibility of cash flows and increase the residual value of cash flows in generation higher than what shareholder expects.

On the other hand, intangible value of the firm is reflected in assets (intangible), example brand equity (Chan et al, 2001) and the assets (intangible) are not obligatory to be reported in the accounting books in most countries which adds complications to the firm valuation exercise. In Simon & Sullivan (1993) classifies intangible assets as

(a) market-specific factors, such as regulations leading to imperfect competition; (b)

firm-specific factors, such as Research & Development expenditure and patents (c)

brand-equity.

2.2 Advertisement Expenditure

The corporate world is investing massive amounts of financial resources on advertisements. Businesses spend a lot on publicity to create awareness for the masses to know of their products and services as a juxtaposition to that of other competitors.

Advertisement expenditure is viewed as a tool to prevent competing new entrant businesses from entering the industry (Beath and Ulph, 1990). Thus serving as a barrier to entry in some industries. It is propounded that advertisement expenditure helps businesses to have an edge over others by selling its services and products and overpowering the competition.

A number of studies concerning advertisement expenditure presume an impact of advertisement on sales. This presupposition doesn't seem much realistic though, since the relationship between the two variables is not just one-sided. Besides the impact of advertisement on sales in literature there is also a possibility of sales on advertisement expenditure (Tellis & Fornell, 1998; Hsu et al, 2002. Lee et al. 1996) opine that the when appropriate econometric tools are used, the causal association between the two variables are appears to run in both directions.

The initial evidence of advertisement on sales is provided by Hollander (1949). Afterwards, we have seen studies like Sethuraman and Tellis (1991), Dekimpe and Hanssens (1995), Natarajan et al (2010) report the positive effect of advertisement on sales. The number of other studies that show the presence of a lagged effect of advertisement. Perhaps Palda (1965) provided more detailed studies and comprehensive evidence on the subject of the residue effect of advertisement. While pointing towards a relative limited empirical studies supporting cumulative impact of advertisement expenditure on advertisement on sales. The study tested several models using multivariate regression. Palda (1965) indicates was able to show advertisement is an assets which is intangible that is subject to depreciation or payback. Similarly, Peles (1971) provides confirmation of an impact of advertisement on sales. Abdel-Khalik (1975) examines the effects of advertisement on sales revenues by employing OLS regression taken his sample firms from the automobile, cleaners and soap, tobacco, cosmetics and food, drugs industries in United States from (1955-1973). The study finds long existence impact of advertisement on sales in the food, drugs and cosmetic industries and short-lived impact on the other industries. The study further argues that, there should be different treatments of promotional cost of firms depending on the kind of industries operating. Baghestani (1991) takes annual advertisement and sales data from the Lydia Pinkham Company from 1907 to 1960 and found that both are cointegrated and share a long-term relationship. Zanias (1994) also analyzes the Lydia Pinkham data set and finds bivariate granger causality between advertisement and sales. The two series were also found to have a valid long-term relationship. Dekimpe and Hanssens (1995) find out that advertisement has a strong effect on sales for a chain of home improvement stores. Dekimpe and Hanssen (1995) further stated that ninety percent of the quantifiable effects of advertisement on sales are used within a few months after it is carried out. Elliott (2001) studies whether there is a long term equilibrium and stable association between sales and advertisement for drinks and food industries. He discovered co integration between advertisement and sales in the food industry but could not find same for the drinks industry. Likewise, Yiannaka et al. (2002) test the effectiveness of advertisement for an unbalanced panel data set of thirty four meat processing firms in Greece. Yiannaka et al. (2002) indicate total advertisement made by firms is significant determinant of sales. Ouyang et al. (2002) demonstrate the presence of a long term effect of advertisement on the sales of consumer product in China. In the same way Zhou et al. (2003) examine the impact of short term advertisement on long term consumer non-durables and durables in China using panel data analysis on television advertisement and sales data. The findings prove that advertisement had a long-run impact on sales of consumer durables but did not have long run effects on sales of consumer non-durables.

2.3 Organizational Performance

Marketing literature particularly studies the indirect effect of advertisement expenditure on firm value. These studies attempt to understand the effect of advertisement on firm value by understanding the impact of advertisement on sales, of sales on profits and of profits on firm value. The studies with a direct impact of advertisement expenditure on intangible value of the firm are rather lacking. The constant use of valuation models to investigate various kinds of relationships involving a number of relevant variables of interest are becoming increasing vital in recent studies. Green et al. (1996) for e.g., examine the relationship between firms' market value and Research & Development expenditure by stating that the use of valuation models to investigate the value relevance of advertisement expenditure is largely preferred due to the ability and possibility of the firm value to reflect all such factors that have effect on the yet to come profitability of the companies.

2.3.1 Advertisement and Intangible Assets Performance

Though Drucker (1973) cites marketing and innovation as the two core factors crucial to long run corporate health, yet no important research attempts to link the advertisement expenditure with firm value are visible till Hirschey (1982) makes an important contribution to the literature by studying advertisement expenditure as an intangible asset that impacts largely on the firm value brand-related intangible assets. Linkages have been found between brand and advertisement related intangible assets including quality perceived (e.g. Moorthy & Zhao, 2000). As a consequence, it is expected of advertisement to have an indirect impact on firm value via increase in profit and sales (e.g. Graham and Frankenberger, 2000). And a direct impact by virtue of building brand related intangible assets. As against the previous studies that seek to relate advertisement with either profitability or sales. Hirschey (1982) applies a market valuation model, and regresses deflated market values on contemporaneous deflated values of a number of relevant variables including profit, advertisement, Research & Development, risk, growth and concentration. The study uses sample of three hundred and ninety firms from twelve major product groups in 1977. Hirschey (1982) observes significant firm value effect of advertisement and

Research & Development expenditure. The study proposes that both advertisement and Research & Development be treated as not tangible capital assets when suggesting he stated that

'we find support for their treatment as intangible capital since each has a highly significant positive influence on market value'. The approached used minimizes the consequence of accounting bias (Hirschey, 1985). Good amount of research has followed-up Hirschey (1982) by studying the impact of advertisement on firm value. These include e.g. Shah and Akbar (2008); Kimbrough and McAlister (2008).

2.3.2 Advertisement and Return on investment

Some of the studies including Singh et al. (2005); Qureshi (2007) point out the effect of advertisement expenditure on value of firm. Connolly & Hisrchey (1984) observe the increase in advertisement to have a significant positive effect on increasing the spread between the market value of assets and book value of assets. A feedback relationship between return on investment (ROI) and advertisement is observed due to which high Return on Investment leads to higher expenditure on advertisement. Stock prices, in turn, react favorably to this expenditure. Adopting Tobin's q approach and regressing q on advertisement intensity, Research & Development intensity, risk, growth and industry concentration. Hirschey & Weygandt (1985) find that a one unit increase in advertisement and Research & Development intensity will lead to large, consistent positive effect on q. This indicates that a part of current period advertisement and Research & Development carries over to subsequent years and suggests the need for capitalization and amortization instead of current expense treatment as appropriate in most situations of companies. Hirschey and Spencer (1992) observe advertisement expenditures to have a robust effect on market value in case of big companies. Viewing advertisement as a form of investment in intangible assets, Chauvin & Hirschey (1993) observe that advertisement expenditure has large, positive and consistent influence on the firm's market value. Chauvin and Hirschey (1994) propounds that advertisement adds to goodwill. They also reveal that the goodwill influence advertisement positive for both non-manufacturing and manufacturing companies. Their paper opines that expenditure on advertisement and Research & Development is a form of investment in non-tangible assets with certainly positive impact on future cash flows. Similarly, Hirschey & Wichern (1984) argue that either accounting or market data gives an ideal measure of profitability and therefore believe that a comparing accounting data and market data can prove very significant. Using both market estimate and accounting estimates of profitability as profit indicators as performance attributes. Hirschey & Wichern (1984) showed significant role for Research & Development intensity, advertisement on television, industry growth and leverage as factors of profitability. Ben-Zion (1978) was perhaps the first to use data from the stock market to measure a longer run effect of advertisement and promotion (A&P) expenditure on the firm market value. The conclusion was that if Advertisement & Promotion expenditure is viewed as an investment its improves future years cash flows, Advertisement & Promotion expenditure may serve as an indication or sign to investors that the firm is scientifically investing in future gains.

Advertisement can play a major role on brand superior equity by cooperating with possible clients (Srivastava et al., 1998). However, due to the failure of marketers to show the influence of marketing activities and costs on firm (shareholder) value, marketers could not justify its significance to the management. Marketers have rather relied on metrics such as sales volume and customer awareness (Doyle, 2000). Further, advertisement plays a bigger role than marketing effort in maintaining and building brand equity of the firm (Aaker, 1991).

Srivastava et al. (1998) throw some light on the way in which advertisement can help enhance the firm value. Their paper argues that firstly, advertisement helps improve customer relationships thereby influencing relational market based property. Customer relationships are created on the basis of value given to clients. A brand has a higher perceived value by the customer it provide unique and superior product feature, availability, functionality, features, quality, greater ease of use, and better image and reputation. The major role of advertisement is to communicate these elements of brand value to customers, which further contributes to equity brand (Keller, 1998; Srivastava & Shocker, 1991).

There are also studies that find little impact of advertisement on value of firm. The studies of Bublitz and Ettredge (1989); Erikson and Jacobson (1992); Han and Manry (2004); Kundu, Kulkarni and Murthy (2010) are prominent amongst those. Investigating the association between abnormal stock returns and the estimate errors for Research & Development and advertisement expenditure. Bublitz and Ettredge (1989) although supporting the earlier findings of Hirschey (1982) and Hirschey and Weygandt (1985) on Research & Development being valued as a long lived asset, differ in the treatment of advertisement and argue should be treated as an expense. Erikson and Jacobson (1992) conclude that once the effects of firm specific determinants and the effect of profitability on discretionary spending are taken into account, advertisement expenditures do not increase the market value of the firm more than other types of investments or expenditures. Han & Manry (2004) find that the economically the benefits drive from advertisement expenditure expire in the current year, as also is the case with other expenses. Kundu et al. (2010) observe that increased advertisement has not been able to contribute conclusively in enhancing the firm value.

Belch and Belch (1998) suggest that advertisement is the most effective way to build the longterm franchise of a brand and therefore, finding the link between market communications particularly advertisement to shareholder value is very important. Several evidence have been adduced in order to establish the relationship between advertisement expenditure and firm value through sales and profitability. Very few papers study the direct relationship between advertisement expenditure and value of a firm(Joshi & Hanssens, 2010). Andras and Srinivasn (2003) report positive relationship between Advertisement intensity and Research & Development intensity to the firm's performance. Hirschey and Chauvin (1993) find out that advertisement and Research & Development expenditure have had large consistent positive influence on the market value of the firm, why investment in non-tangible assets is considered predictably positive effects on future flows of cash. Margy& Melvin (2005) observe positive relationship between advertisement expenditure and promotional expenditure on firm's market value. Qureshi (2007) studies the relationship between advertisement expenditures and firm's market value by using OLS. The study finds out that advertisement expenditures is significantly related to increases in market value of a firm, suggesting that it is appropriate to capitalizing advertisement expenditures. Using OLS reports, Siong (2010) observes a statistically significantly positive relationship between advertisement and firm value. Hlouskova&Tsigaris (2012) observe the risk taking dynamics under prospect theory. Kundu et al., (2010) use the data of 172 firms from 2000-2007 and find and significant positive relationship between advertisement expenditure and Tobin's Q accounting for leverage and firm size. Bhattacharya (1994) provides the evidence of positive relationship between advertisement expenditure and consumers and firm performance, therefore it indicates the advertisement effectiveness have their impact on consumers and firm performance and offer perspectives for the firms in planning for more effective advertisement strategies to promote their products or services. Frankenberger (2004) studies 2662 firms to determine the economy-wide and industry effects than average advertisement spending has on earnings and market value recessionary periods and compared those effects of increased and decreased advertisement during recessionary period and indicated that advertisement creates a firm asset by contributing and claimed that increasing spending on advertisement in the period economic recession leads to gains that surpass the gains of increasing advertisement in the period of no recession. concluded that firms should support advertisement budget wherever possible, as advertisement in general translates to an asset that is valued by stock market participants. Shah & Stark (2004) examine the relevance advertisement expenditure value. The findings showed a direct impact of advertisement expenditure on the market value of firms. Shark & Stark (2004) by splitting the sample into sub-sample of non-manufacturing and manufacturing of Large and small size, find advertisement expenditure to be relevant for large and non-manufacturing firms. Shah & Shark (2005) investigate whether advertisement expenditure aid in projecting future earning and associated with market value by using valuation model found that major media advertisement expenditure valuation relevant was useful in forecasting future earnings. Using the OLS method, Conchar et al. (2005) examine the relationship between advertisement expenditure on firm market value, future cash flows and boost the shareholder wealth. Merino et al. (2006) investigate the association between advertisement and Research & Development spending on variability of cash flow and intangible cross-sectional to the panel data case to relate a firm's advertisement and Research & Development expenditure to the variability of cash flow and non-tangible firm value and concluded that advertisement impacts on the variability of cash flow and non-tangible value are different, which advertisement expenditure was establish its ability to stabilizes both cash flow and non-tangible value in stormy and competitive business world. Qureshi (2007) explores the association between advertisement expenditure and firms market value. Advertisement expenses are significantly related with the increase in market value suggested that investment in advertisement should be capitalized and then amortized rather than treated as expense item.

Gupta (2008) studies the effect of advertisement on the firm performance 10 year (199798 to 2006-2007) of Automobile, Textile and Food by applying Least Square. This paper notes that results of advertisement certainly affect the firms depending on their nature. It further claims that it is evident that advertisement has positive and significant effect on sales of firms while it has significant adverse effect on profitability. Automobile industry shows positive impact of advertisement on sales as well as profitability along with firm value. Hsu and Jang (2008) study the relationship between advertisement expenditure, non-tangible value, and risk in stock returns of restaurant businesses. They suggest that advertisement expenditure creates intangible benefit to restaurant firms. They also note that advertisement may affect introduction of product into market, positioning, and differentiation which lead to a restaurant firm's success. Wang, Zhang and Ouyang (2008) study the nature and degree of advertisement effect on firm intangible values by applying Time series approach. They report that advertisement effects on firm's intangible assets are sustainable and accumulative and support the asset or investment like characteristic of advertisement expenditure. Leong et al (1996) used Co-integration model to reveals that a strong direct relationship exists between sales and advertisement expenditure. Leach & Reekie (1996) apply Granger causality test and observe that advertisement expense and sales have not simultaneously causal effects. Metwally (1997) explains the changes in rate of growth in advertisement expenditure of consumer service and goods is strongly associated with sales growth and that movement in market shares exerts a significant impact on the advertisement expenditure growth.

Barth et al. (1998) using market valuation and returns specification to examine the value relevance of estimates in brand value as delivered by the Financial World. The study contains a sample of

183 firms for the period of 1991–1996. In performing a number of analyses, Barth et al. (1998) use various alternative representations for brand values to study incremental value relevance of the brand value estimates. Barth et al. did not miss words by saying that vale estimates of brand gives value-relevant information, which was not seen in other alternative proxies.

2.4 Impact of advertisement on sales revenue

Esteve and Requena (2006), Shah and Akbar (2008),Hanssens (2010), Agyapong et al (2011), Banerjee et al (2012) provide the evidence of the impact of advertisement expenditure on sales revenue. Leong et al (1996) reveal a positive strong association exist between expenditure advertisement and sales by using co-integration technique. Application of Granger causality test by Leach and Reekie (1996), show that advertisement expenses cause sales but sales don't simultaneously cause advertisement. The variations in the advertisement expenditure growth rate of consumer goods and services in Australia in the period of (1975-1995) by testing several hypotheses was carried out by (Metwally, 1997). His application of regression studies show that advertisement expenditure growth is strongly correlated to sales growth and that market shares movements exerts a significant effect on advertisement expenditure growth. Elliot (2001) finds that advertisement has a positive significant effect on food industry sales and he concludes stable relationship. Kamber (2002) finds a measurable relationship between sales and advertisement expenditures, even after controlling for past sale growth and company size. Examining the effectiveness of advertisement for an unbalanced panel data set of 34 meat-processing firms in Greece, Yiannaka et al. (2002) advance that total advertisement made by firms of the certain sector are very vital determinant of sales of such goods and service. Ouyang et al. (2002) observe a long run impact of advertisement on sales of consumer durables in China. Also, Zhou et al. (2003) opine that advertisement had a long-run impact on consumer durable sales, but did not have long-run effects on non-durable consumer sales. Pauwels et al. (2004) study stock market performance in United States using the data period of 1996 to 2001. The study claims that advertisement expenditure affects sales revenue in the short-run and the long-run. Esteve and Requena (2006) establish a long run relationship between advertisement and sales across different markets over the period 1971 – 2001 in the UK car industry and found out two structural breaks during the recession periods. Agyapong et al (2011) find strong associations between marketing communication and performance (sales) of Vodafone products in Ghana.

Some of the recent studies have found only a minor or no relationship between advertisement and sales. Kwoka (1993) studies the advertisement and sales for the United States automobile industry. In his study which uses a data set of 22 years from I960 to 1982 by using Hausman's test and OLS model to determine the impact of advertisement, Kwoka (1993) claims a positive relationship between the 13 sales and advertisement for the United States of America automobile industry. He also shows that advertisement increase a car model sales on automobile industry. Sharma & Sharma (2009) reveal that advertisement effect on sales for manufacturing firms is more and less for non-manufacturing firms. This finding was consistent with the findings of Andras & Srinivasan (2003). On the contrary, non-manufacturing firms would have to spend more on advertisement to sore level of revenue from sales. This justifies why non-manufacturing firms devote more fund on advertisement as against manufacturing firms.

Empirical researches also find evidence to suggest that the advertisement/sales associations could be impacted by other activities of the market of the firm and rivals. Also, exogenous variables like income and population could affect advertisement and sales. Studying various cigarette brands, Telser (1962) finds that there are different levels of advertisement returns. The study suggests that administrators need to take into accounts variables like level of competitions and economic condition in the market when estimating advertisement effect on sales (Telser, 1962). Quandt (1964) also argues and suggested that economic variables like disposable income and geographic-demographic variables like education should be seen as exogenous variables that influence advertisement and sales relationship. Rao and Miller (1975) look at other sales promotion measures as a marketing mix variables and marketing performance variable like market share price. In the later periods, more researchers involve in studying the market response analysis approach (McDonald 1992; Parker & Gatignon 1996). Response to market analysis approach usually relates advertisement as a direct measures to market performance measures of sales, brand choice and market share (Vakratsas and Ambler, 1999). On one hand, studies deal with market- level data such as brand advertisement expenditures and brand sales or market share

Market response to advertisement differs across different periods of research. For instance, Winer (1979) suggests that the carryover effects of advertisement expenditure on sales declines over time, while the current advertisement effects increase during the same period. Leone (1995) suggests that advertisement's effects on sales would disperse after six to nine months instead of earlier estimates (Assmus, Farley, and Lehmann 1984) of three to fifteen months. Dekimpe and Hanssens (1995) argue that the effects of advertisement do not dissipate within a year.

2.5 Impact of Advertisement on Return on Equity

There is increasing awareness over the need to measure the impact of advertisement activities on firm performance especially return on equity. Practitioners are increasingly under pressure to report their contribution to the overall equity retruns. The inherent complexity in quantifying advertisement activities has often become a barrier in developing metrics for advertisement measurement. O'Sullivan and Abela (2007) report that the ability to measure the advertisement causes a significant impact on firm return on equity, stock return and marketing's stature within the firm.

Belch and Belch (1998) propounds that, advertisement is the most efficient method of building the long term franchise of a brand and hence it is crucial to examine the link between advertisements and shareholder wealth.

According to Joshi and Hanssens, (2010), very limited literature exists detailing the direct relationship between advertisement expenditure and firm value.

In recent years a number of studies suggest that a firm's advertising directly affects return on equity(Joshi and Hanssens 2007) . This is in addition to the indirect effect of advertising through increase in sales revenues and profits. Srinivasan and Hansens (2007) carry out an extensive literature survey on the impact of advertisement on firm value thus return on equity, they discovered that natural most studies from developing world have negative relationship between advertisement and return on equity however, the case was difference for the developed world, where evidences shown a positive relationship. Most of these studies focus on many technical issues involved in efficiently capturing the unbiased effects of advertising, given the limitations of field data (Hanssens et al., 1990). Deeper analysis of these studies finds that the effects of advertising are significantly greater than zero but do vary with return on equity (Sethuraman and Tellis 1991).

The persuasive view of advertisement maintains that advertisement produces works to deter entry in the market and brand loyalty. Comanor & Wilson (1974) made this conclusion by examining the relationship between profitability & advertisement intensity. They observe a positive strong association exists between profitability and advertisement intensity in United States of America manufacturing firms that produce consumer goods. Similarly, Geroski (1982) uses United Kingdom data and show evidence of a positive association between profitability advertisements. More recently, Siong (2010) finds a positive relation between advertisement and firm profitability. Hamid, Nadar and Meena (2012) provide evidence to show the existence of long term relationship between advertisement expenses and profitability. Notta and Oustapassidis (2001) find television advertisement effects on profitability to be positive and significant only in the consumer industries where television advertisement intensity is high.

Some studies have shown dissenting evidence. For instance Salinger (1984) finds that advertisement interrelated with concentration fails to show a positive significant influence on profitability measures. Eckard (1991) reports on cigarette industry in 1970 shows that profit margins increased after the ban on TV advertisement. Greuner et al. (2000) conclude that firms profit cannot increase above normal levels by mere increase in advertisement expenditures. Advertisement does not creates barrier to entry but serves primarily to transmit information.

Advertisement-profit relationship also leads one to attempt exploring if advertisement and profitability and jointly determined. Schmalensee (1989) emphasizes that there is positive relationship between advertisement intensity and profitability, because they are positive related endogenous omitted variables that induce huge mark up. Particular firms of superior efficiency stand the chance to advertise more and gain more advantage. Therefore, it may be likely to separate the causal likelihoods to some extent by looking at how the relationship between advertisement and profitability varies in a particular industry between small and large companies. Kwoka and Ravenscraft (1986) provides inter industry evidence that the profitability and advertisement association indeed was significantly and greater for large firms.

The conclusions from profitability and advertisement studies are somewhat mixed. While some evidence report an advertisement and profitability relationship (for e.g. Sougiannis 1994). Others find no significant relationship between profitability and advertisement (for e.g. Reekie & Bhoyrub, 1981). The commonest point of difference is whether a lower or higher advertisement depreciation rate is anticipated in estimating advertisement as capital expenditure (for e.g. Ayanian 1983). Studies using industry data is interesting to note that they found a positive significant relation between profitability and advertisement expenditure (e.g. Comanor and Wilson 1974); while evidence that came from firm-level data (e.g. Bloch 1974) show no relationship between profitability and advertisement. There are problems in arriving at proper profit rates. Firms adopt several form of depreciation in accounting according to their own arbitrary judgement and it estimated useful lives of the tangible assets.

Notta and Oustapassidis (2001) attempted to explain by indicating that consistent estimates can be obtained when instrumental variables are used. Also, use the use of a good theory and logic in formulating the research hypothesis and/or questions, quality data as well panel data estimation technique argument by alleviating the problems associated with endogeneity.

2.6 Theoretical Framework

The research attempts have been made in the past to study the impact of advertisement expense on sales, profits and firm value. However, the focused studies covering a specific industry in a country are not found so commonly. Moreover, the research efforts in the past have largely concentrated on observing the impact of advertisement expense on firm value indirectly, i.e., by studying the impact of advertisement on sales, followed by the impact of sales on profits and finally by studying the impact of profits on firm value (Leong et al, 1996; Joshi and Hanssens, 2010). In fact, advertisement expense, sales and profitability also has a direct impact on firm value. This issue has broadly been ignored by the previous researches. The current study attempts to bridge this gap by direct impactof advertisement expense on firm value.

Usually, manufacturing companies' advertisement spending are higher than the service companies (Singh and Asress, 2012). Besides, the sales in currency as well as sales in units are both visible in case of manufacturing companies, as against the service companies where only the sales in currency are visible and sales in units are not thus, making researcher to ignore the service sector. Therefore, choosing a service industry for the purpose of such study makes sense.

2.7 Economist View on Advertisement

As economists have argued back and forth with this question and all views have emerged distinct positive and normative implications.

2.7.1 The persuasive view

This is the most highly accepted view among the economists. By various appeals advertisement induces the consumers to change their subjective valuation of the commodity. It changes the consumers' tastes and behavior in favor of the advertised products thus, creating a spurious kind of product differentiation leading to a less elastic demand of the advertised goods. Thus it helps the producers to charge a higher price for their advertised commodities because the price tend to be equal to the "true" cost of production of the commodity plus what the producer thinks it worth to add in the way of the advertisement costs. In addition, advertisement by the incumbent or established firms might lead to barriers to entry by making it more difficult for the new entrants to create the reputation that the established firms have already made and thus it becomes hard for the new entrants to find a market for their products. These kinds of barriers can easily be found in the markets which are highly concentrated or where there are economy of scale in production or advertising. If this view is right then the sums spent on advertising are not on par with other costs, and can't be considered as part of the ordinary cost of production of the commodity. Thus, in short, according to persuasive view, advertising leads to the non-competitive effects, as it has no actual value but creates product differentiation artificially to stimulate the sales and thus, results in concentration.

2.7.2 The informative view

This view emerged in 1960s, under the leadership of the Chicago School. There are many markets that are characterized by consumer information which is imperfect because there is considerable amount of expenditure in form of huge search costs. Thus, consumers don't have much information about the quality, price, or even existence of several products. This imperfect information leads to the market inefficiencies for which advertising acts as a solution by providing information to the consumers. So, advertising is not a cause of the problem in fact it's the endogenous solution to the imperfect market. It is due to advertising that consumers come to know about the products at a low cost. In return it makes the demand of the existing products more elastic and thus gives new entrants an incentive to enter the market. Therefore, it is considered to have pro-competitive effects and hence, it is most claim that advertisement advances the standard of living and educates the public by increasing their wants. It also points out to them the use and prestige of the advertised commodities carries.

2.7.3 The complementary view

Sometimes, advertising doesn't change the preferences of the consumers according to the persuasive view nor does it provides any new or useful information to the consumers as said in the informative view. In fact consumers who are induced to increase their purchase of advertised goods do so because the marginal utility that they derive from that commodity has been raised. That is, by advertising, advertisers try to increase the social value of the consumers and the consumption of the products may generate higher satisfaction to the customers in the form of the prestige that they get when they use that advertised products.

As said, these three views are the most widely accepted views as far as the consumer's response to the advertising is concerned, though economists were never able to get to a uniform result on which view is dominant or more preferable. Braithwaite (1928) made a significant contribution toward a conceptualization of the foundation for the persuasive view. Kaldor (1950) furthers advances the persuasive view of advertising. Ozga (1960) provided the formal foundation for the information view. The theoretical and empirical fundamentals for the informative view are significantly advanced in literature (Telser, 1964) and this was complemented by the view is Chicago School.

CHAPTER THREE

METHODOLOGY

3.0 Introduction

This chapter shapes the methodology for the study. The procedures and the processes used in undertaking the study as per the objectives are shown in this chapter. The chapter therefore places key interest on the research design, data required and sources, key study variables, unit of analysis and as well as models.

3.1 Research Design

The principal aim of this research is to observe the impact of advertisement on the performance of firms. To ascertain the aims of the research, explanatory type of research design with a mixed approach, more of quantitative was employed. Marczyk et al. (2005) stated that type of research which uses explanatory research design helps to evaluate and identify the causal associations between the different variables under consideration. So in this study the explanatory research design was employed and was used to examine the association of the study variables. A research with a mixed method offers better inferences and yields a good result. Hence, by using a mixed approach it is able to exploit the strength of qualitative and quantitative approach and take away biases that exist in any single research method (Creswell, 2003). A panel data study design which combines the attributes of cross-sectional (inter-firm) and time series data (interperiod) will be used.

3.2 Population

The population of this study was conducted on the entire banks registered on the Ghana Stock Exchange (GSE). The employed census method is as a result of the small nature of the population under consideration.

3.3 Sampling and Sampling Size

According to the information obtained from GSE there are only 9 commercial banks which are listed on the Ghana Stock exchange for the study years. Thus, the nine commercial banks was selected as a sample. However, because of data availability only five Banks were considered for this study.

3.4 Source of Data and Collection Methods

The essential or needed data for this study were taken from secondary sources. The secondary source of data was the audited financial statements of the commercial banks sampled for seven years that is from 2007 to 2013. These data were obtained from GSE. All the needed information was found in the annual reports that the banks forwarded to the GSE.

3.5 Description of Variables and Measurements

In this study, the variables will be selected based on alternative theories and previous empirical studies related to advertisement and performance. In accordance with the theory and empirical studies, the dependent, explanatory, and control variables of the study were recognized in order to examine the impact of corporate advertisement on firms' performance.

3.5.1 Dependent Variable

To carry out this examination the dependent variables are variables that are used to measure the performance of selected commercial banks. To measure performance of banks, the most frequently used profitability measures were used i.e. accounting measures of profitability (see Aldamen et al., 2011).

3.5.2 Independent Variables

In this research, the explanatory variables are variables that are used as a determinant of advertisement of the sample Ghanaian commercial banks listed on the GSE. The independent variable of the study is **advertisement**. The definition and measurements of the variable is shown in table one below.

3.5.3 Control Variables

This research includes three bank specific control variables to account for their possible effect on banks' performance in order to recognize the selected explanatory variables effect on banks' performance. The control variables selected were the **bank size** and **banks' age**. The control variables were not selected arbitrarily but were selected based on previous empirical evidence produced in literature. In several of the prior studies, firm age, firm size and firm growth rate were used as control variables (Habbash, 2010; Al-Hawary, 2011).

3.6 Model Specification

As a result of the study seeking to establish the relationship between corporate advertisement and performance of listed banking companies in Ghana over seven year's period, the study uses panel data regression analysis of cross-sectional and time series data. The general model for the research is:

$Y_{it} = \beta_0 + \sum \beta_i X_{it} + \varepsilon_{it}$ ………………………………………………….. (Equation 1)

Y_{it}: performance ratio of bank i at fiscal year t profitability (ROA and ROS),

β_0: intercept of equation, β_i: Coefficients of X_{it} variables,

X_{it}: The different independent variables for performance for bank i at fiscal year t,

i: 1,- 5 banks, t: Time= 1,2,3,4,5,6,7, years, ε: The error term

Really, if the researcher translates the above general least squares models into identified variables it becomes:

$ROA_{it}=\beta_0+\beta_1 ADV_{it}+\beta_2 BSZ_{it}+\beta_3 BAG_{it}+\varepsilon_{it}$…………………………………………… (Equation 2)

$ROS_{it}=\beta_0+\beta_1 ADV_{it}+\beta_2 BSZ_{it}+\beta_3 BAG_{it}+\varepsilon_{it}$……………………………………………… (Equation 2)

Table 3.1: Measurement and Definition of Variables as Proxies

Variables	Definition
ROE	Performance - **(Dependent variable)** = The return on total equity of the banks **i** at the end of fiscal year **t** ie profit after tax/total asset
ROS	Performance - **(Dependent variable)** = The return on sales of the banks **i** at the end of fiscal year **t** ie sales/total asset

ADV	Advertisement - the natural logarithm of total advertisement of bank **i** at the end of fiscal year **t.**
BSZ	Bank size - the natural logarithm of total assets of bank **i** at the end of fiscal year **t**.
BAG	Bank Age - the natural logarithm of age of bank **i** at the end of fiscal year **t**.

3.7 Methods of Data Analysis

Analyzing the collected data, descriptive, correlation and multiple panel regression data analysis methods are employed. The descriptive statistics is used to describe the significant features of the variables using mean, maximum, minimum and standard deviations. The correlation analysis is used to identify the relationship between the dependent and the set of independent variables using Pearson correlation analysis. The regression is used to examine the level of impact of advertisement expenditure on firm performance.

CHAPTER FOUR

DISCUSSION OF RESULTS

4.0 Introduction

This chapter discusses tests for normality, descriptive statistics, regression analysis and trend analysis of advertisement expenditure and return on equity.

4.1 Normality Test

Table 4.1: Shapiro-Wilk (S-W) normality test

Variable	Z	PROB>z
ROE	4.420	0.00000
ADV	5.551	0.00000
BSZ		
BAG		

To ensure estimation has a normal distribution of data, Shapiro-Wilk test, which is a parametric test, was employed. The conclusion basis was to accept the null hypothesis that the data chart normal distribution. If the significant level of the Shapiro-Wilk test is more than 0.05 them it has assumed to achieve normality (Gujarati, 2003). The proximity of the testing data from the normal distribution for all continuous variables was related to the study (ROE and ADV). The natural logarithm Bank size (BSZ) and Bank age (BAG) were generated for accounting data to reduce the skewness.

From Table 4.1, which is related to the normal distribution to the study variables, the study has found from the S-W test that the statistical value is relatively low, and significant value (probability) is less than 5% for all continuous variables, which means that it's not close to its normal distribution. Therefore, the variables have failed to fulfill the assumption of normality test or normal distribution. As a result of data distribution of these variables not being normally distributed, the estimation method of Ordinary Least Square (OLS) to analyze the sample data would produce biased and inefficient results. Hence, the Generalized Least Square (GLS) method of estimation is more appropriate and it is expected to yield a much good output (Gujarati 2003).

4.2 Descriptive Statistics

Table 4.2 Descriptive statistics

Variable	Mean	Std deviation	Minimum	Maximum
ROE	0.5592	0.4936	0.114	2.217
ADV	0.0683	0.1058	0.006	0.091
BSZ	8.8735	0.3423	8.107	9.672
BAG	1.3271	0.1356	1.079	1.58
ROS	0.3541	0.1177	0.334	0.458

Following table 4.2 above, on the average, return on equity (ROE) for the listed commercial banks is 55.92% with a minimum of 11.4% and a maximum of 221.7% , evidence suggest that listed banks are making good return on their shareholders investment. The Standard deviation shows that ROE of the listed banks varies by 49.36% from the average value.

Following table 3 above, on the average, return on sales (ROS) for the listed commercial banks is 35.41% with a given minimum of 33.40% and a maximum of 45.80% as well as deviation from the mean was given as 11.77%. From the result it seems that banks spends about 54.2% of the interest income on the operational expenditure. It stand to reason that banks listed are operating under 55% of each Ghana cedis gain from the business.

A measure of the advertisement (ADV) of the banks using the Advertising expenditure to interest income. As indicated on the table 3, averagely banks spend 6.83% on promotion of the businesses of the banks with maximum advertisement expenditure for the period under consideration of 9.1% and a minimum of 0.6% of interest income on advertisement. On account of the above, there is every evidence that banks are spending significant amount of money to promote their businesses and operations.

Bank size which is a said to be natural logarithm of total assets indicates a mean value of 8.87 with a minimum of 8.11 and a maximum of 9.67as well as a standard deviation of 0.34. Given the standard deviation it suggest that there is a less deviation from the average of the banks size. Consistent with the finding of Kuutol (2015). He believes that when natural log is taken on accounting value it reduces the skewness and hence makes less deviation from the mean.

In addition, table 3 shows that bank age (BAG) is average around 1.33 when natural log is taken on the age while the minimum is 1.08 and maximum is 1.58 with standard deviation of 0.14.

4.3 Regression Analysis

Table 4.3: Regression on the relationship between performance and advertisement expenditure

Variable	Return on equity		Return on sales	
	Coefficient	p>/t/	Coefficient	p>/t/
Adv	-0.5995	0.076***	0.3744	0.053***

Bsz	-0.6005	0.046**	0.2166	0.747
Bag	0.3901	0.577	0.9394	0.562
Cons	5.5792	0.030	-0.1976	0.972
R2	0.1882		0.1488	
Sig.	0.231		0.187	

** (***) denotes significant at 5% and 10% level of significance respectively

From table 4.3 above, the result shows that bank size has negative significant relationship with return on equity at 5% level of significant with coefficient of (-0.6005) and p-value of (0.076) using ROE as a measure of performance. This finding presents that the nature of the size bank has significant impact on performance. From the study as the inverse relationship between bank size and return on equity is an indication that as older the banks become, return on ownership investment reduces. Inverse it is not the case when return on sales is taken as a measure of profitability. The result shows that bank size has insignificant inverse association with return on sales. So, bank size can't determine return on sales as the finding shows. This findings is not inconsistent with the central intention that valuation in the market in marginal advertisement is probably to be greatest for firms with good history improving value of shareholder.

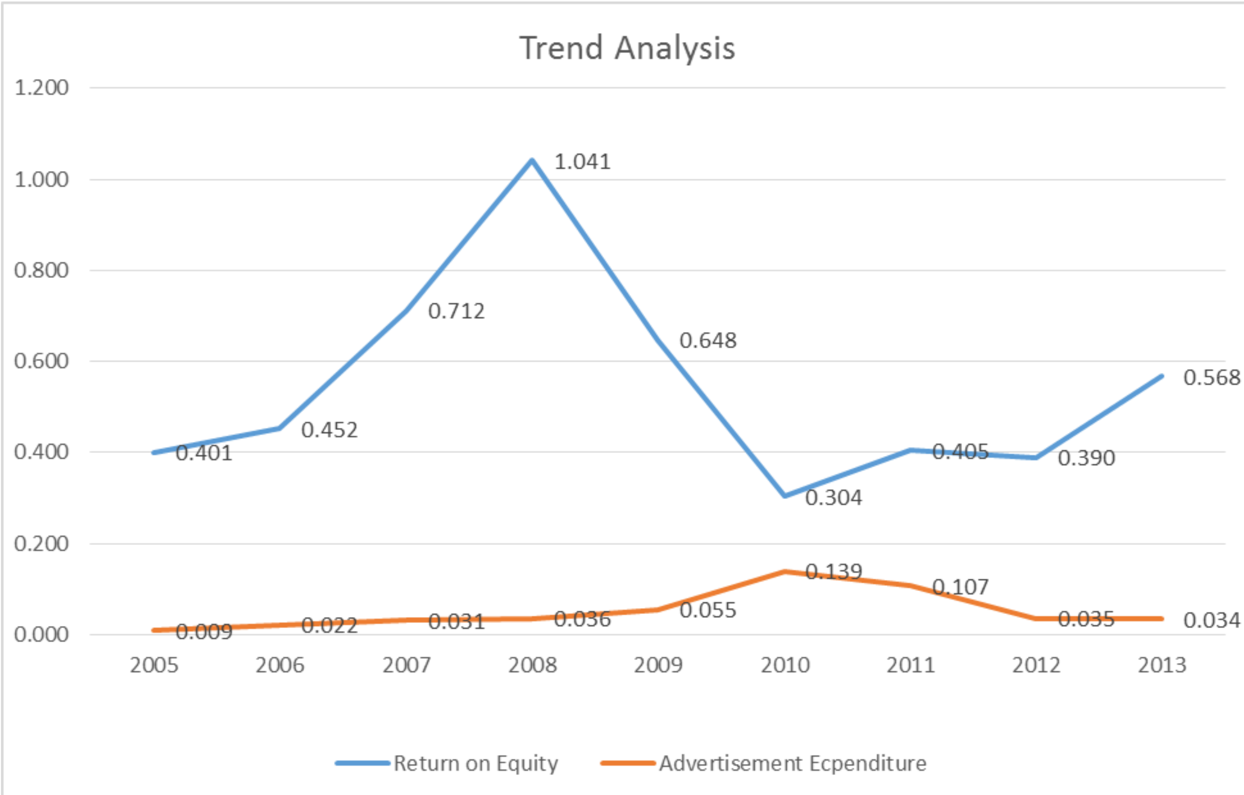
Table 4 presents the estimated regressions of profitability and sales respectively on accounts of pooled data. The coefficients estimate in Table 4 Shows that current expenditure on advertisement expenditure have positive and statistically significant effect on sales at 10% level of significant with p-value of 0.053 and coefficient of (-0.3744). This suggests that an increase in advertisement by one current point could case sales to increase by 37/44%. On account of this result, we have evidence of significant positive impact of advertisement intensity on sales. Nonetheless, we have to be careful in deducing the result because it might not necessarily imply to all industries because of the nature of the banking sector operations. Significantly because they are highly regulated they have unique characteristics particularly banks listed on the GSE. Notwithstanding the above, image inversely different when profitability is taken as return on equity. The result shows that the effect of advertisement intensity on return on equity is amazingly negative relationship and statistically significant at 10% level of significance with coefficient of (-0.5995). From the table … evidence shows that though current advertisement expenditure gives positive effect and significant on sales, it affects return on equity negatively. Even though the finding not convincing, a likely reason for this might be that the advertisement is addition to the total operational cost, where return can only be gained with the same sales figure, the price charged for one unit of output is higher, besides, it is possible that advertisement does not necessarily leads to changes in sales or more revenues. Hence, profit after tax could fall if advertisement is done excessively and investment from advertisement returns are not according to the amount of advertisement.

From the regression result in table 4 age has a negative effect on sales but statistically insignificant with coefficient of (0.9394). And in the case return on equity the result produced a positive relationship but also statistically insignificant with coefficient of (0.3901). The result brings to bear that age of a firm do not have significant impact on sales or return on equity. This could be reason that because of the level competition in the Ghanaian banking existence for long, does not matter but ability to deliver the best of service to clients in at s important. However, again it should be noted that table 4 is result for the pooled data of banks listed in GSE which doesn't imply that all industries have the similar effects as shown in the above tables.

From table 4 the result shows that bank size has negative significant relationship with return on equity at 5% level of significant with coefficient of (-0.6005). This finding presents that the nature of the size bank has significant impact on performance. From the study as the inverse relationship between bank size and return on equity is an indication that as older the banks become, return on ownership investment reduces. Inverse is not the case when return on sales is taken as a measure of profitability. The result shows that bank size has insignificant inverse association with return on sales. So, bank size can't determine return on sales as the finding shows.

4.4 Trend Analysis

Figure 4.1: Trend Analysis of Return on Equity and Advertisement expenditure



From fig 1 above, in 2005 advertisement expenditure increase steadily from 0.9% to 13.9% in 2010 in the period where the economic turmoil was intense. Afterward, advertisement expenditure begun to fall at fast rate from 10.7% in 2011 to 3.4% in 2013. This is because a major expenditure on advertisement has been incurred in the previous years which is anticipated to have a long run effect on the performance of the firm which according to the impact analysis is not the case on investors' returns. On the other hand, return on Equity increase from 40.1% in 2005 and by 2008 it has increase by 60%. However, the global economic crisis in 2008 cause a downward trend to 30.4% in 2011 and eventually increase to 56.8% 2013. This suggest that advertisement expenditure does not cause return on equity to increase as a measure of performance. From the evidence no value is added to the shareholder wealth as managers spend to advertise the banks.

CHAPTER FIVE

FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.0 Introduction

This chapter discusses the finding of the study, possible conclusions drawn on the result and recommendations.

5.1 Summary of Findings

The role of advertisement on the performance of a service or product is very significant because most often clients' decisions as regards what to buy is encouraged by what has been seen, heard of or practically used. Advertisement helps to carry the messages far and wide to a disseminated target client that could not have been reached by advertiser. And the message gets wider and clearer to the clients' patronage of services goes to improve performance of the firm that does such adverts.

5.1.1 Examining the relationship between advertisement and profit

The evidence adduced from the study shows that there is an inverse relation when performance is measured by return on assets but positive when performance is measured by return on sales. Advertising, location of a product or service, is strong on clients' thoughts in order to encourage recurrent purchase of the product. This will put competitors in a position not have an edge over them by so doing creating brand loyalty and product differentiation.

It was found that banking companies have a greater margin to escalation in sales returns than equity returns, after controlling for the effects of firm size and age. Whereas return on sales produces positive relationship return on equity shows negative relationship both significant. In a similar vein, the two control variables thus bank size and bank age were not significant.

Again evidence shows that though banks spend huge sums on the advertisement of the banks, shareholders get no return from the investment made by the managers of the firms. Perhaps value addition to shareholder wealth is gained through other operations of the banks rather than advertisement.

5.1.2 Examining the trend in advertisement expenditure in the banking firms

Again, it was discovered that advertisement expenditure does not cause return on equity to increase as a measure of performance. From the evidence no value is added to the shareholder wealth as managers spend to advertise the banks. It was discovered that there was a consistent growth in advertisement expenditure till the peak of the global financial crisis period when it began to fall at a decreasing rate in expenditure.

5.1.3 Examining trends in performance in the banking firms

The result shows that there was no consistent growth as it was observed in the advertisement expenditure. It was shown that as the advertisement expenditure continues to rise performance was falling perhaps due to the global financial and the turbulent period in the global economy.

5.2 Conclusion

This thesis' aim was to find out the impact of advertisement on the firms' performance in the banking industry with specific reference to banks listed on GSE. Evidence from the study suggests that advertisement certainly affects the firms. It is evident that while advertisement has positive and significant effect on sales of firms, it has significant negative effect on performance.

Following the findings, shareholders will not respond positively to increases in advertising expenditure by companies. If yearly realized return varies from its previous anticipation, then revision of investors' beliefs concerning required rates or cash flows as result suggest inverse relationship. If the investigation of firm risk measures is not well defined, our expectation that changes in advertising would lead to any increase in investors' required rates of return would be a mirage.

The most direct potential explanation to the result of a possible changes in the ability of advertising to create positive return on sales. Advertisement for companies with a established history of creation of value can lead to an increase in motivation of sales for the firm. For such companies advertising campaigns may be more effective because of management superiority or/and investors' sensitivity that the firm has such products and will continue to deliver at the current price or cheaper. Giles (1997) stated that advertising as non-personal message focused at target audience through several mass media in order to promote and present services, products and ideas which aid to increase sales and profitability and thus support sales and advertisement relationship. However, adverse relationship between profitability and advertisement is inconsistent with his findings. Besides, the study concludes that advertisement expenditure is not the determining factor of improving the wealth of shareholder equity.

5.3 Recommendations

While this study presented results from banking industry, however, data summation may lead to over and understated configurations. There may be some strategic and systematic differences in how some firms use marketing as a tool to enhance shareholder value and wealth through performance. Hence, firms with low margins might need dissimilar planned marketing mixes than high-margin companies. These issues have been long among strategic marketing thought, examining shareholder value or wealth effects is just the beginning in contemporary literature. Further insights may be grown by considering refinements to the methods of study. This study uses only banking firms only. By considering different industries will add and throw more light to the debate in literature.

Also, since actual marketing events take place on an individual product or brand level a temporal behavior of buyers or clients can be studied at the brand level as an alternative of aggregate study which may determine both short and long-term advertising strategies.

In addition to the need for the disaggregation issues described in marketing, managers follow a universal philosophy of profit maximization by better efficiently providing customer needs than rivals firms. Today, marketing researchers tend to analyze more of these consumer needs and design marketing plans to seek such differential and competitive advantage. Inversely, financial researchers emphasis on wealth of shareholder and financial performance and how it can be maximized by the strategic operation of the firm. Thus, customer needs of satisfaction is a key indicator in marketing research that fails to apply financial measurement. Hence there is therefore possibility of using both marketing research methodologies and financial performance variables as a new form of integrating financial methods into marketing research methodology, which could provide new evidence.

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