Are Multiple Brand Endorsements Economically Effective? Evidence from India

Structured Abstract

Objective of the study

The objectives of the current study are to examine (a) the impact of multiple brand celebrity endorsement strategies on firms’ performance and (b) the impact of different attributes associated with celebrities on firms’ performance. In this regard, the present study specifically explores the role of celebrity reputation and experience, as well as social media as a promotion platform in influencing the economic effectiveness of a multiple brand endorsement strategy i.e. proportion of brands endorsed in a firms’ brand portfolio.

Design/Methodology

Study is based on instrumental variable regression analysis approach and is conducted in one of the emerging markets i.e. India

Findings

Findings of this study indicate that firms’ market valuation increases as the proportion of firms’ brands endorsed by celebrities’ increases. Furthermore, reputable celebrities also positively influence firms’ market valuation and their experience positively moderates this relationship. Endorsement over social media, however, does not enhance endorsement effectiveness.

Originality

If brand portfolio performance increase when firms endorse multiple brands through celebrities, is vital issue, however remains unexplored in extant literature.

Keywords: celebrity endorsement, Tobin’s Q, celebrity reputation, celebrity experience, high power distance
Introduction

Brands are important intangible assets that contribute significantly to firms’ performance (Ailawadi et al., 2001; Capron and Hulland, 1999; Sullivan, 1998). Most firms have a brand portfolio and use different strategies to manage this portfolio (Aaker, 2004; Dacin and Smith, 1994; Sevel et al., 2017). However, extant literature provides scant evidence on how brand portfolio management strategy affects firms’ performance (Morgan and Rego, 2009). In this regard, portfolio management strategies such as number of brands (Bordley, 2003) and complementarity between brands (Kumar, 2003) have been examined to some extent, but the impact of advertisement strategies largely remains unexplored. Celebrity endorsement is one of the most common forms of advertising. Although firms possess different brands in their portfolio, not all of their brands are endorsed by celebrities. Does brand portfolio performance increase when firms endorse multiple brands through celebrities? Since, endorsement is a resource intensive and expensive form of advertisement, investors may penalize firms for incurring too much cost on endorsements, if they believe that benefits may not outweigh the cost associated with multiple brand endorsements. On the other hand, if investors perceive that benefits of multiple endorsements have the potential to outweigh cost through enhanced sales potential they might reward the firm for multiple brand endorsements. Extant literature presents mixed results with regard to the positive impact of single brand endorsement on firm’s performance (Agarwal and Kamakura, 1995; Elberse and Verleun, 2012; Knittel and Stango, 2014), implying that the impact of multiple brand endorsements could be even more challenging. Since, implications of single brand endorsement cannot be extended to multiple brand endorsements, it becomes vital to explore the impact of multiple brand endorsements on firm’s valuation. Furthermore, attributes of celebrities associated with brand endorsements could also influence firm’s performance. For
instance, reputation and experience of the celebrities endorsing the brand portfolio of a specific firm could influence the performance of the firm. Here again, highly reputed celebrities are more likely to raise the endorsement cost, which may not equivalently enhance firms’ performance. Thus, again implications of celebrity attributes for single brand endorsement could not be extended to situations where firms endorse their multiple brands through different celebrities.

Lastly, in high power distance countries such as India, celebrities are considered to be role models. They are given titles like Sir, Ji, Sahib, and Hukam out of respect (Abhishek and Sahay, 2013), and places of worship have even been constructed in India for several celebrities. Thus, it becomes even more important to know how celebrity endorsement as an advertisement strategy for a brand portfolio influences firms’ performance in high power distance countries.

In order to fill the gaps in the brand portfolio management literature, the objectives of the current study are to examine (a) the impact of multiple brand celebrity endorsement strategies on firms’ performance and (b) the impact of different attributes associated with celebrities on firms’ performance. In this regard, the present study specifically explores the role of celebrity popularity and experience, as well as social media as a promotion platform in influencing the economic effectiveness of a multiple brand endorsement strategy.

Findings of this study indicate that firms’ market valuation increases as the proportion of firms’ brands endorsed by celebrities’ increases. Furthermore, reputable celebrities also positively influence firms’ market valuation and their experience positively moderates this relationship. Endorsement over social media, however, does not enhance endorsement effectiveness.

The present study makes three potential contributions to the field of branding and advertising. First, the impact of brand endorsement on firms’ performance has traditionally been explored considering firm endorsement announcements individually, rather than the cumulative effect of all
celebrity brand endorsements for a focal firm. Furthermore, as mentioned above, since celebrity endorsement is an expensive advertising method, this study attempted to clarify whether investors would reward a firm for endorsing multiple brands through celebrities. Indeed, this study indicates that multiple celebrity brand endorsements enhance firm value, situating this finding within the context of India, a high power distance country characterized by great admiration for celebrities. For one focal firm, it is possible that some endorsements may generate positive abnormal returns while others generate negative returns; therefore, it is vital to understand whether firms overall benefit financially from endorsements, considering all of a firm’s collective brands endorsed by celebrities over a period of time. Additionally, extant literature has explored the economic value of marketing decisions, such as product innovation or brand portfolio management (Morgan and Rego, 2009); however, few studies have focused on the economic impact of brand portfolio endorsement (Eng and Keh, 2007; Joshi and Hanssens, 2010; Luo and de Jong, 2012). The present study adds to branding and advertising literature by exploring the economic impact of a firm’s multiple brand endorsements over a period of time, which is just as significant a strategic decision as new product development or brand portfolio management.

Second, the current study explores determinants of the effectiveness of cumulative brand endorsements. Extant studies have explored the impact of celebrity traits on advertising effectiveness (Hsu and McDonald, 2002), however, this impact on firms’ economic value largely remains unexplored (Agnihotri and Bhattacharya, 2018). In this context, only one aspect of celebrity, the impact of scandals, has been frequently examined (Chung et al., 2013). The present study extends this research by considering celebrities’ overall reputation—both positive and negative news associated with celebrities. Furthermore, concerning the economic impact of brand endorsement, no contextual variables (i.e., moderators) have been explored in the extant literature.
The present study not only investigates the determinants of economic endorsement effectiveness, but also the moderating impact of celebrity experience and endorsement on social media with respect to both (a) celebrity reputation and (b) the relationship between the proportion of brands endorsed and firm market valuation. Thus, the present study extends prior literature on brand endorsement and proposes a completely new framework for investigating celebrity endorsement and related traits on firms’ economic performance by incorporating moderating variables. The results, with regard to experience, specifically highlight the uniqueness of a national culture in influencing endorsement effectiveness. In high power distance countries, an individual receives informal power as his or her experience increases. They are more respected and information that they provide is easily accepted, without questioning, so that when a reputable celebrity is also experienced, his or her endorsement effectiveness further increases.

Third, the present study advances the literature on celebrity endorsement and its economic effectiveness by seeking evidence from an emerging market with a high power distance culture, giving it a dual advantage over extant studies. Extant studies have explored celebrity endorsement effectiveness from western markets’ perspectives with mixed results (Agarwal and Kamakura, 1995; Elberse and Verleun, 2012; Knittel and Stango, 2014). By focusing on western markets, these studies have captured evidence from low power distance countries. Studies from high power distance countries have been largely lacking (Jaikumar and Sahay, 2015; Winterich and Zhang, 2014), and the current study bridges this gap by investigating India, a high power distance country. Furthermore, by exploring an emerging market like India, the present study provides evidence from not only a high power distance country, but also a country in which consumers’ purchasing power is increasing, and hence the impact of endorsement on firm valuation is highly relevant.
The paper proceeds as follows: first, there is a discussion of the relevant literature and theory, followed by the related hypotheses. Next, a description of data and methodology is provided. Finally, results are explained, followed by discussion and conclusion.

**Literature Review and Hypothesis**

*Celebrity Brand Endorsement and Firm Valuation*

A celebrity endorser is defined as “any individual who enjoys public recognition and who uses this recognition on behalf of a consumer good by appearing with it in an advertisement” (McCracken, 1989, p. 310). Extant literature on celebrity endorsement primarily employs the source credibility model to explain the success of endorsements (Amos et al., 2008). According to this model, communicators’ positive characteristics (e.g., expertise, persuasiveness, likability, respect, and trustworthiness), which could be summed up as communicators’ credibility, affect the receivers’ acceptance of the message by virtue of associative linkages in the minds of the receivers. Thus, when celebrities endorse a brand, consumers accept the message positively as they form associative linkages with the celebrity and the brand being endorsed. The greater the credibility of the celebrity, the better the associative linkages between the brand and the celebrity in the mind of a consumer, and hence the higher the purchase intention (Biswas et al., 2006; Spry et al., 2011; Wang et al., 2013), resulting in enhanced sales (Elberse and Verulen, 2012).

Given that in markets such as India, celebrities are considered symbolic icons due to their credibility (Choi et al., 2005), this brand-celebrity associative linkage could be even stronger, thereby further enhancing sales potential. Since future profit expectations are drivers of firms’ market valuation, as firms endorse multiple brands through celebrities, investors should reward the firm through raised market value. Furthermore, investment behavior is not dependent just on sales, but is also influenced by intangible assets such as brand equity (Joshi and Hannsens, 2012;
Stoner et al., 2017). As Frieder and Subramaniam (2005) have explained, “individual investors may believe, correctly or not, that they can expect greater appreciation potential in the stock of companies whose products are recognized brand names.” This enhancement in brand value is likely to be high when brand differentiation is created through celebrity endorsement, especially in high power distance countries where celebrities are not only greatly admired, but also respected and worshipped, resulting in enhanced market valuation of a firm. Consequently, in high power distance countries, as multiple brands are endorsed through celebrities, investors are likely to reward a firm through an increase in market valuation due to heightened expectations for sales and brand equity. Therefore, we propose the following hypothesis:

**H1.** As the proportion of a firm’s brands endorsed by celebrities increases, the firm’s market-based performance also increases.

*Impact of Celebrity Reputation*

Extant literature has explored various factors that could determine the impact of celebrities on advertising effectiveness (Bergkvist et al., 2016; Erdogan, 1999) and hence potentially market performance of the firm. For instance, according to the *source attractiveness model*, it is the physical attractiveness of celebrity which impacts advertising effectiveness (Baker and Churchill, 1977), whereas the *product-match up hypothesis* suggests fit between celebrity and product attributes to positively impact advertising outcome (Kamins, 1989, 1990; Wright, 2016; Escalas and Bettman, 2017). The *TEARS’* model, which is a holistic model considers trustworthiness, expertise, physical attractiveness, respect and similarity of celebrity with the audience to determine advertising effectiveness (Shimp, 2003). We explore still another relatively scantly explored factor, i.e. *celebrity reputation* in the context of multiple brand endorsement.
Celebrities have social and cultural influences on individuals belonging to a society, which is likely to vary with their reputation. Extant literature indicates that as celebrities make more appearances on-screen, their popularity among viewers increases, even if their movies do not perform well at the box office (Mathys et al., 2016). However, from an endorsement perspective, celebrity reputation (Agnihotri and Bhattacharya, 2018; Han and Ki, 2010) is of greater relevance than popularity. Celebrities can become popular even when they are caught in a scandal, as individuals search for more information about them. However, such scandals result in celebrities gaining bad reputations, which is also detrimental for celebrity-brand associations. Similarly, when a celebrity performs well in his or her profession and receives positive press, this raises his or her public reputation (Biswas et al., 2006). The mass media plays a significant role in shaping the reputation of celebrities since it publicly broadcasts not only celebrity performance-related information, but also celebrity scandals, such as drunk driving cases. Because the mass media makes available to consumers and investors information about all aspects of celebrities’ lives, celebrities’ ability to influence consumer attitudes towards a brand is dependent on their overall reputation. A celebrity’s reputation influences his or her overall credibility, thereby affecting consumers’ associations with the brands endorsed by the celebrity (Yang and Shi, 2011). Thus, the better the reputation of a celebrity, the greater his or her credibility, resulting in a strong brand association and a higher firm market valuation.

The reputation of a celebrity could, in fact, explain the mixed and inconsistent results regarding the effects of celebrity performance on the market valuation of firms. Some studies have reported a positive impact of celebrity performance on the market valuation of firms (Elberse and Verleun, 2012), while other studies have reported that a sports celebrity’s losses did not decrease firm valuation (Nicolau and Santa-María, 2013). Since reputation depends not only on performance,
but also on overall positive and negative news associated with celebrities, consumers develop more favorable attitudes towards the brands endorsed by a highly reputable celebrity. Consequently, consumer purchase intentions and firm revenue earning capabilities also increase, resulting in enhanced market valuation of firms (Goldsmith et al., 2000; Luo and Donthu, 2006). As more brands in a firm’s portfolio are endorsed by reputable celebrities, overall market valuation of the firm increases due to the expected enhanced sales from the multiple endorsed brands. Thus, we propose the following hypothesis:

**H2.** As the reputation of celebrities endorsing multiple brands of a firm becomes more favorable, the firm’s market-based performance also increases.

*Impact of Celebrity Experience*

A celebrity develops credibility not only by virtue of immediate reputation, but also by virtue of experience achieved in an industry over a period of time (Erdogan et al., 2001). In high power distance countries like India, an experienced celebrity might be more credible than a less experienced celebrity (Sweetman, 2012; Zandpour and Harich, 1996). Experience is vital in climbing the social hierarchy, which makes individuals more credible in high power distance cultural contexts (De Mooij, 2013). If reputable celebrities are also experienced, their credibility is likely to be even higher, thus positively impacting both purchase intention and the market-based performance of a firm. Experience not only enhances the credibility of celebrities in general, but also diminishes the negative impact that rare scandals can have on their favorability among consumers.

For example, when a controversy arose over the very reputable Indian actor Hritik Roshan, who performed in the film industry for over 12 years, the actor lost endorsements worth several million
dollars and was also forced to reduce his endorsement fees (DNA Web Team, 2016). However, Sachin Tendulkar, a cricketing icon from India, underwent four or five controversies (“Everything Controversial”, 2014) in his professional career of about 27 years; nevertheless, Tendulkar’s endorsement value was much more than that of many cricket players, which continued post retirement. In other words, as the experience of reputable celebrities in their respective professions increases, their credibility becomes enhanced, thus encouraging more positive sentiments among consumers and investors. Thus, we propose the following hypothesis:

H3. Industry experience of a celebrity positively moderates the relationship between a celebrity’s reputation and the firm’s market valuation.

Impact of Endorsement Channel - Social Media

Firms’ valuation is impacted not only by celebrities who endorse their brands, but also by channels through which endorsements are made. With revolution in the digital age, social media along with traditional media has become a significant mode of celebrity endorsement for brands. Social media presents a platform through which information about firms’ products and services can be quickly and more effectively disseminated, compared to television or print media (Mangold and Faulds, 2009). As consumer engagement is likely to be much more effective on social media (Pongpaew et al., 2017; Tafesse, 2016), they are likely to respond more positively to endorsements which are made via social media. Furthermore, they are more likely to follow the brands on social media endorsed by celebrities. Thus, endorsement effectiveness of celebrities could increase if along with traditional media they also endorse brands over social media (Kowalczyk and Pounders, 2016). For example, endorsement effectiveness of celebrities such as Priyanka Chopra or Shahrukh Khan in India with 7 million and 8 million fan followers respectively could be expected to be higher than
celebrities who are not socially active. A celebrity posing for a selfie with an endorsed product creates enchantment for account followers (Iqani and Schroeder, 2015). Celebrities may endorse the brand through tweets or YouTube videos, which are small messages, but also highly effective in directly connecting with fans. For instance, Kapil Sharma promoting Honda Mobilio through his tweets or Shah Rukh Khan endorsing Navratna hair oil on YouTube. Since social media provides an interactive platform, the chances of consumers’ associative linkages with celebrities and hence brands become even higher (Jin and Phua, 2014; Laurence et al., 2015). Firms which promote their brands on social media, were found to have better market valuation (Luo et al., 2013). Furthermore, traditional media and social media posed complementary effects in driving marketing performance of firms rather than substituting each other (Stephen and Galak, 2010). On similar lines, endorsement over social media can enhance the economic effectiveness of endorsements over traditional media. Thus, we propose the following hypothesis:

**H4.** Celebrity endorsement of brands on social media positively moderates celebrity brand endorsement over traditional media and firms’ market based performance relationship.

**Methodology**

To test the proposed hypotheses, in the present study India was selected as the country for investigation. Choosing India as a context of study was for several reasons. First as, India is one of the fastest growing emerging markets (Gillespie, 2015), multinational firms intending to launch brands in India can profit immensely by knowing the effectiveness of celebrity endorsement in the country. Second, celebrities appear in over 50 percent of the advertisements in India, (Winterich et al., 2012), making endorsements a business with a value of $321 million (Mithel and Hector, 2013). Third, endorsement is a culturally sensitive phenomenon (Lunardo et al., 2015), thus raising its significance in countries with high power distance such as India where celebrities are even
worshipped (Choi et al., 2005; Winterich et al., 2012). Also, consumers in India tend to remember 86 percent of the celebrity-endorsed advertisements, which reflects their affinity towards celebrities (Bansal, 2008).

Data for this study was collected from several Indian archival sources, namely, CMIE: Prowess (a financial database of Indian companies), and various online newspapers and business magazines to source information on various brands endorsed by celebrities. In this regard, firstly the total number of brands offered by a firm was checked (through a firm’s website), and whether the brands were endorsed by celebrities or not.

The focus of the present study was on seven industries which invested heavily in celebrity endorsements in India, namely: automobiles (two-wheelers and four-wheelers), textiles (suiting and shirting), electronics, luxury goods, fast moving consumer products, banks, and telecommunication. This resulted in a sample of 2336 firms. Firms which were not listed or had incomplete financial data were eliminated from the study. Out of 2336 firms only 671 firms were listed and of these 671 firms only 113 firms had complete financial information required for the analysis. Thus, a total of 113 firms across the seven industries were selected and annual data for a period of six years i.e. from 2009 to 2015 was collected for each of the firms. This resulted in a panel dataset of (113 firms*6) = 678 data points. Data for only six years was collected as extracting endorsement information from archival sources beyond this time period was difficult.

**Dependent variable**

Consistent with past literature (Becker et al., 2012), Tobin’s Q was used in this study to measure the annual market-based financial performance of firms (Joshi and Hanssens, 2010). Choice of this measurement was for three reasons. First, accounting measures are more retrospective in nature,
and considered unsuitable in marketing research (Rust et al., 2004). For example, they do not capture the value of intangibles like brands (Ambler et al., 2004). Second, accounting measures also suffer from distortions due to the incorporation of tax laws and other regulatory matters (Hanlon and Shevlin, 2005). Third, Tobin’s Q takes into account expectations of investors. Its value is sum of market value of equity and book value of debt divided by book value of assets (Douma et al., 2006). This information was obtained from Prowess.

However, Tobin’s Q also suffer from certain limitations. It’s a market-based measure which has been criticized for (a) being more a representative of the capital markets rather than the firm itself (Rubera and Droge, 2013; Shepherd, 1986) (b) providing a subjective definition of the market (Peters and Taylor, 2017) (c) presence of information asymmetry i.e. market inefficiency (Hejazi et al., 2016). Thus, to overcome limitations associated with Tobin’s Q we also used sales growth as an alternative financial variable. Similar to Tobin’s Q, information on sales was obtained from Prowess.

**Independent variables**

*Proportion of brands endorsed over traditional media (PBETM).* From the company’s website, first name of all the brands offered by the firm were extracted. Next, those brands were searched for which were endorsed by celebrities. For this, business newspapers, magazines, and Google searches were undertaken. Finally, the ratio of brands endorsed by celebrities to total number of brands offered by firm in a given time period was calculated to derive PBETM. In the present study, the ratio and not just total count was considered, as taking simply total count of brands endorsed by celebrities might have given misnomer figure. For example, a firm endorsing five brands through celebrities, where it offers eight brands in total is different than a firm offering 10 brands in total. Celebrities were considered from the Indian entertainment industry namely movie
industry like actors, actresses, music directors, film directors, singers etc. and sports industry. Furthermore, the launch year of all brands were also identified. Thus, if any new brand was launched in 2014, it was not considered in total count of brand in for 2013. Similarly, news related to when a celebrity stopped endorsing a particular brand was also considered and searched. When endorsement deal ended, information was incorporated by taking out that brand from numerator of the ratio.

Reputation of the celebrity (RC). Extant research indicates that newspapers and magazines best covers information about celebrities (Deephouse, 2000). Thus, to extract news about celebrities, in this study leading national daily Indian newspapers were explored and information published about celebrities within them extracted. A total of 1823 articles were collected. Using Deephouse (2000) method of determining mass media reputation, reputation of each celebrity endorsing a particular brand of a firm was calculated. The score was called as coefficient of media reputation, using the following formula:

\[
f^2 - fu/total^2 , \text{ if } f > u \\
0, \quad \text{ if } f = u \\
fu - u^2/total^2 , \text{ if } u > f
\]

where \( f \) stands for number of favorable news, and \( u \) stands for number of unfavorable news and \( total \) is total number of news about celebrity.

Next, the average of all these coefficients of celebrity’s reputation was calculated, endorsing different brands of a focal firm.
Experience of the celebrity (EC). Experience was operationalized as total number of years a celebrity has spent in the industry. Information was obtained through search engines like Google, Yahoo, and Bing search. Again, the average experience of celebrities involved with the different brands of a firm was calculated. To further reduce the non-normality, natural log of average experience was taken. Next, average of all the celebrity experiences, endorsing different brands of a focal firm was calculated.

Proportion of brand endorsement on social media (PBESM). In the present study four popular social media services were considered to investigate whether celebrities endorsed the brands on social media: Facebook, Twitter, Pinterest and Instagram. Only these four were considered, as they are the most popular social media sites in India. This was calculated as the ratio of total number of brands endorsed on social media to total number of firms’ brands endorsed by celebrities over traditional media.

Interaction effect of celebrity reputation and experience. To avoid problem of multicollinearity, celebrity reputation and experience were first mean centered (Hofmann and Gavin, 1998). Thus, average of each variable was calculated and was subtracted from individual values of reputation and experience respectively. The new variables so obtained were multiplied with each other.

Interaction effect of PBETM and PBESM. Interaction effect of PBETM and PBESM was calculated using mean centering technique. Thus, average of PBETM and PBESM was calculated and subtracted from individual values of PBETM and PBESM. Values so obtained were multiplied with each other.
**Control Variables**

Based on extant literature several factors that could influence Tobin’s Q were controlled. Factors such as R&D intensity, firm size, firm age, advertising intensity, industry type and leverage were controlled for (Connolly and Hirschey, 2005; Dowell *et al.*, 2009). R&D intensity was measured as ratio of expenditure in R&D and total sales. Firm size was measured as log of number of employees and firm age was captured as years since establishment. Leverage was calculated as debt to equity ratio. Advertising intensity was calculated as the advertising expenditure to sales ratio. Product fit was operationalized as the ratio of endorsed brands, for which the reason for hiring a celebrity was given at the time of endorsement announcement. Industry type was controlled as a dummy variable with the manufacturing sector coded as 1 and service sector coded as 0. Information on these variables was obtained from Prowess. Further year as dummy variable was also controlled.

Since, this is a longitudinal study and endorsement could take time to show its impact on firms’ market valuation, lag effect of all independent variables was taken, similar to control variables.

**Accounting for Endogeneity**

A possible concern arises in testing the above hypotheses. Firms could self-select themselves to adopt celebrity endorsement-based advertisement (Ketchen *et al.*, 2008). For example, firms with higher profitability could invest more in celebrity endorsements, thus endorsing higher proportion of brands, in expectation of better performance. An *Instrumental variable* two-stage least-squares approach addresses this self-selection problem (Greene, 2008). Furthermore, the instrumental variable approach uses robust standard errors and controls for autocorrelation and heteroscedasticity (Baum *et al.*, 2010). The present study relied on two instrumental measures, (a)
average industry profitability and (b) competition in the industry, influencing self-selection of proportion of brands endorsed by firms. These two variables were based on extant literature determining drivers of advertising intensity (Lee, 2002). Since celebrity endorsement is an expenditure intensive activity, firms operating in profitable industry are more likely to invest in endorsements in pursuit of better profits. Similarly, if firms operate in competitive industry, then to entice consumers towards its products, firms are likely to rely on endorsements especially in high power distance countries. Average industry profitability was calculated by taking average of return on assets for all firms operating in the industry (Lee, 2002). Level of competition in the industry was measured by Herfindahl Index, which was calculated as sum of square of market share of firms in the industry. Data on return on assets and market share (sales) were obtained again from the CMIE Prowess database. Furthermore, we also conducted a fixed effects model regression.

Results
Table 1 presents the descriptive statistics, Table 2 and Table 3 reflects results of regression using instrumental variable technique. To ensure that multicollinearity is not a problem, variance inflation factor was also calculated. For explanatory variables, VIF ranged between 1.19 to 2.65, which was much below the value of 10, considered as indicator of multicollinearity (Neter et al., 1983). As can be observed in Table 1 that on an average each firm endorsed 41 percent of its brands through celebrities. Furthermore, the average experience of these celebrities was 11 years. Similarly, average celebrity reputation was 0.83 (with the maximum possible value of 1), implying that on average firms hire reputed celebrities for brand endorsement. Model 1 of Table 2 contains only control variables. Model 2 contains the independent variables and Model 3 contains the interaction effect along with other independent variables.
As can be observed from Model 1 of Table 2, amongst control variables, leverage (β = -0.03, p<0.01), advertising intensity (β = 0.12, p<0.05), and industry type (β = 0.07, p<0.05) were significant. In Model 1 of Table 3, amongst control variables, advertising industry (β = 0.15, p<0.01), industry type (β = 0.17, p<0.05), and product fit (β = 0.06, p<0.05) were significant. The first hypothesis stated that proportion of celebrity brand endorsement follows a positive linear relationship with firms’ market valuation. Since in Model 2 (in both Table 2 and 3), the beta coefficient of PBETM (as instrumented variable) is positive and significant for both Tobin’s Q (β = 0.91, p<0.05) and sales growth (β = 0.36, p<0.01), the first hypothesis is supported. This finding thus supports those extant studies in developed markets where endorsement deals were found to enhance firms’ accounting performance (Chung et al., 2013). According to the second hypothesis, celebrity reputation follows a positive relationship with firms’ valuation. Again, in Model 2, since the beta coefficient of celebrity reputation is positive and significant for both Tobin’s Q (β = 0.41, p<0.05) and sales growth (β = 0.25, p<0.01), evidence in support of the second hypothesis is received. Thus, reputation of a celebrity does affect his credibility. The findings indicate that overall reputation of a celebrity endorsing focal firms’ brands influences its market valuation. The third hypothesis stated that celebrity experience moderates celebrity reputation and firm valuation
relationship. Evidence in support of the third hypothesis is also received, as beta coefficient of interaction effect of celebrity reputation and experience is positive and statistically significant for both Tobin’s Q ($\beta =1.21, p<0.05$) and sales growth ($\beta = 0.18, p<0.05$) (refer to Figure 1 and 2). The fourth hypothesis of the present study stated that social media endorsement moderates brand endorsement and firms’ market valuation relationship. Evidence in support of forth hypothesis was however not obtained for both Tobin’s Q ($\beta = 0.49, p>0.10$) and sales growth ($\beta = 0.38, p>0.10$) i.e., endorsement over social media does not enhance impact of celebrity endorsement on firms’ market valuation. This finding is nevertheless inconsistent with brand literature, where social media based marketing of brands has been found to enhance customers’ equity (Kim and Ko, 2012). Given this fact, investors should have rewarded firms for banking on social media. This may again be institution specific phenomenon given that penetration of social media in India is yet 33 percent, compared to traditional media which is 83 percent.

Conclusions and Implications

This study is an attempt to explore how celebrity endorsement as brand portfolio management strategy affects firms’ performance (Morgan and Rego, 2009). Moreover, this study presents evidence from a high power distance country, India, as celebrity endorsement is much more frequent in these countries compared to low power distance countries. Findings from the study indicate that as the proportion of a firm’s brands endorsed by celebrities increases, firm market valuation also increases. These results are consistent with several extant studies in which
endorsement announcements raised firm stock prices (Agarwal and Kamakura, 1995; Elberse and Verleun, 2012). Positive gains were expected, as credible celebrities echo the fundamental values of a culture, and their endorsements elicit a sense of public approval of the endorsed products (Choi et al., 2005). Since endorsement is a highly resource intensive advertising strategy, endorsing too many brands could have resulted in the deterioration of firm valuation due to cost implications. However, the current study results indicate that this did not happen, but rather multiple brand endorsements raised the market valuation of Indian firms. Though multiple brand endorsements enhanced firm value for Indian firms, same may not happen in low power distance western countries such as the USA and the UK. As cultural differences influence the effectiveness of endorsements (Money et al., 2006), investors may also vary in their response to multiple brand endorsements by celebrities.

Furthermore, this study investigated certain factors associated with celebrity endorsers that influence market valuation of firms. One finding indicated that as celebrity reputation improves, market value of the firm also increases. Related literature linking celebrity reputation to firm valuation has focused only on scandals, finding that around the time of a scandal, firms with brands endorsed by the celebrity in question experienced a drop-in stock market performance (Bartz et al., 2013; Carrillat et al., 2014; Knittel and Stango, 2013). As the current study has found, over a period of time—at least in high power distance countries—all news associated with a celebrity, both positive and negative, determines a celebrity’s overall reputation and his or her impact on both brand and firm value. Furthermore, results indicate that celebrity industry experience moderates impact of reputation on firm valuation. Evidence in support of the fourth hypothesis was, however, not confirmed: celebrity endorsement on social media does not moderate the relationship between celebrity reputation and firm market valuation. As social media is very
popular among young consumers in India rather than a heterogeneous segment of consumers, firms’ presence on social media may not have enhanced equity valuation (Luo et al., 2013).

The study’s findings are novel and pose several managerial implications. First, in high power distance countries such as India, where celebrities are considered symbolic icons and sometimes even worshipped (Winterich et al., 2012), managers should rely on endorsements to promote their multiple brands, as investors reward a firm by valuing its stocks higher. Thus, in the Indian context, endorsing several brands through celebrities is likely to generate positive market valuation for a firm. Second, managers should sign reputed celebrities only. For this, managers should weigh both positive and negative news about the celebrities before signing them. Investors are more likely to value brands endorsed by more reputed rather than less reputed celebrities. Thus, entire gamut of activities associated with different spheres of a celebrity’s life as covered by the media should be considered. Furthermore, firms should not avoid hiring highly experienced celebrities as they can enhance the impact of reputation on firm valuation. For instance, Amitabh Bachhan, a Bollywood actor in India, has 48 years of industry experience and even continues to appear in advertisements. Managers should continue with such trends, as celebrities like Amitabh Bachchan are reputed and their immense experience further enhances the impact of reputation on the market valuation of firms. However, firms in India should avoid social media as an endorsement channel as it does not result in any further enhancement in firm valuation, possibly because the internet is still gaining acceptance in India and traditional media continues to be popular among aging consumer segments in India.

Limitations and Directions for Future Research

The current study, however, is not without limitations. First, this study uses the proportion of brands endorsed by celebrities as a measure of investment in celebrity endorsement. Since
information was not available on the financial investments made in terms of celebrity endorsement, a count of brands as a proxy for investment was used. Second, the study captures evidence of only one high power distance country, and results could vary from country to country. Thus, going forward, research could be carried out in other high power distance countries as well. An interesting area to explore would be how international celebrities affect the advertising effectiveness and long-term market valuation of emerging market firms. Also, making cross-country comparisons, especially between collectivist and individualistic societies, could shed light on the countries where endorsement effectiveness is higher. Lastly, future studies could also explore if the effectiveness of celebrities differ based on the industry to which they belong for instance if musicians are more or less effective endorsers than athletes in general.

References


