



The impact of sponsorship announcements on share prices in South Africa

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A research project submitted to the Gordon Institute of Business Science, University of Pretoria, in partial fulfilment of the requirements for the degree of Master of Business Administration.

9 November 2011

Abstract

Much has been written, by academics, about the impact sponsorship announcements have on the share price performance of sponsoring firms.

The objective of this study was to investigate if this phenomenon was true for JSE listed companies with particular focus on three announcement categories i.e. (i) new, (ii) renew and (iii) termination. The Efficient Market Hypothesis as an aspect of Investment Finance behaviour was explored to understand why sponsorship announcements would or would not have an impact on the share price performance. For this study, descriptive research was done with a causal design as the study tested the relationship between two or more variables. The study analysed 118 sponsorship announcements made by 19 JSE listed companies over a period of eleven years and five months. The study then assessed the share price performance for the period 120 days prior to and 120 days after the announcement date.

The share price holding periods were adjusted for that of the average Financial Services (J212) Index, the Industrial (J212) Index and the Resources (J258) Index respectively to ascertain whether the returns were abnormal or not.

The results have shown that there were no evidence that the announcement of a (i) new, (ii) renewed or (iii) terminated sponsorship do have a significant impact on the performance of share prices for JSE listed companies.

Keywords: Share price; Sponsorship; Behavioural Finance; Efficient Market Hypothesis (EMH)

Declaration

I declare that this research project is my own work. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration at the Gordon Institute of Business Science, University of Pretoria. It has not been submitted before for any degree or examination in any other University. I further declare that I have obtained the necessary authorisation and consent to carry out this research.

Thomas S. Kruger

9 November 2011

Acknowledgement

First of all, I would like to thank the Lord our God for giving me a healthy mind to enrich myself with knowledge and experience at such a magnificent institution.

I would like to make the following acknowledgements to those people that have been a key part of my life during this research journey:

- To my wife, Cine, thank you for all the support and patience. I know that it was very difficult for you at times, thank you for your understanding. You will never know how much I appreciate this.
- To my parents, Fanie and Elza, and my brother Wilhelm. Thank you for all your support and understanding during the past two years of my MBA.
- To my parents-in-law, Arrie and Elaine, your support to Cine and me over the past two years had no boundaries and I will always be thankful for that.
- To my supervisor, Michael Goldman, thank you for your guidance, belief and support you have given me throughout this research journey. It has been a privilege working with you.
- To my fellow MBA students, thank you for sharing your knowledge and giving me the opportunity to use that in becoming a better leader and human being.

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CHAPTER 1: INTRODUCTION TO THE RESEARCH PROBLEM

1.1 Introduction

Several previous international empirical studies have examined the impact of major sponsorship announcements on the share prices of corporate sponsors (Clark, Cornwell and Pruitt, 2002, 2009; Cornwell, Pruitt and Clark, 2005; Cornwell, Pruitt and Van Ness, 2001; Mishra, Bobinski and Bhabra, 1997; Miyazaki and Morgan, 2001; Pruitt, Cornwell and Clark, 2004).

Cornwell et al. (2005) found in a recent study on major league “official product” (p. 402) sponsorships that, positive returns follow when corporates have announced sponsorship agreements. For their study, the authors have used a sample of 53 official product sponsorships to the National Football League (NFL), the Major League Baseball (MLB), the National Hockey League (NHL), the National Basketball Association (NBA) and the Professional Golfers’ Association (PGA), and have found that the average sponsor’s share price rose by 1.1%, even though there were considerable differences in sponsorship success across the various leagues.

Mixed results were also evident in some cases. When Miyazaki et al. (2001) examined 27 sponsorship announcements to the 1996 Summer Olympics they reported a statistically significant increase in share prices. However, when Farrell and Fame (1997) examined 26 sponsorship announcements regarding the same event, they found statistically significant and negative share price reactions.

The contrary, however, is also true. In the study done by Clark et al. (2009) on corporate announcements of title sponsorships to tennis and golf tournaments, auto racing (NASCAR) and college bowls, it was found that there was no evidence that title sponsorships (n=114) conveyed either positive or negative information to investors. Only NASCAR racing was associated with increased share prices (Clark et al., 2009).

Being an official sponsor of an event, requires a huge amount of financial resource and it is expected that the sponsor will create more favourable outcomes including positives for example improved share returns, profit increase and positive advertising effect (Kim, 2010). While sport sponsorship activities range from funding entire stadiums and sporting events to providing athletes with uniforms (Miyazaki et al., 2001), the basic premise and objectives identified by Cornwell and Maignan (1998) of official sponsorships are similar to those given for sponsoring in general, for example improving goodwill; enhancing image; increasing brand and corporate awareness; improving sales and financial return, hospitality and employee and investor relations.

In addition, it is possible that some managers may seek to employ official sponsorships to directly influence individual expectations by conveying relevant new information (signals) concerning the marketing activities of their firms (Cornwell et al., 2005). The consumer and investor perceptions of the firm may be enhanced via the signals of an official sponsorship announcement to the extent that the consumer decides whether or not to purchase the firm's product and the investor decides to trade in its shares (Cornwell et al., 2005).

1.2 Research Problem and Purpose

The role of sponsorship in achieving corporate objectives has been well documented (Hoek, Gendall, Jeffcoat and Orsman, 1997). Furthermore, it is also clear that managers may use sponsorships to achieve specific goals (Hoek et al., 1997). When considering sponsorship management, Hoek et al. (1997) refers to amongst others Gardner and Shuman (1987), who confirmed that commercial sponsorship typically involves an investment by an organisation in an event, activity, group or individual in return for some benefit.

The purpose of the research is to establish a relationship between sponsorship announcements and the share price performance of the sponsoring firm with particular focus on companies listed on the main board at the Johannesburg Stock Exchange (JSE) for the period 1 January 1998 to 31 May 2011. Stated differently, the study examines the question as to whether sponsorship announcements have the potential to impact on the share price performance of the sponsoring firm.

Unfortunately, assessing the total value of event sponsorship for participating companies has been a daunting task up to now, for both the industry as well as academic researchers (Miyazaki et al., 2001). However, “event study analysis using share return data, provides practical marketplace measures of the value of otherwise difficult-to-access marketing variables” (Miyazaki et al., 2001, p.11). In a study by Johnston (2010) on the impact of sponsorship announcements on share prices in Australia, the author found evidence that investors in the Australian stock market consider sponsorships to represent a

fair value marketing investment through examining share price changes at the time of sponsorship announcements.

Some companies strive to keep return on investment assessment and measurement very basic and in line with the company's reporting and investment requirements. Mzamo Masito, director of Communication Channel Management at Unilever, confirmed this statement by making the following comment regarding the method of assessment and importance of return on sponsorship investments relating to Unilever's sponsorship of the South African Rugby Team, the Springboks: "Unilever now one of the biggest things that we talk about is ROMI, which is the return on marketing investment and that marketing can no longer be a discipline that is distant from finance. Marketing also has to be a discipline that is accountable to shareholder fate. So we do discuss internal marketing and investment on just about every project, including the sponsorship of the Springboks - we are looking at key attributes like, for example, a rate of growth of sales as a result of the sponsorship." (Moneyweb – 6.11.2011, para. 12)

Furthermore, the study by Clark et al. (2009) on provided evidence that when the marketplace viewed the announcement as favourable, share price gains (increased returns and value) were experienced, whereas share price losses (decreased returns and deteriorated value) were evident when the marketplace found an announcement to be unfavourable (Clark et al., 2009).

The change in share price can be seen as an independent measurement of the expected, current and future profits to be generated by the firm (Filbeck, Zhao, Tomkins and Chong, 2008). Share price changes offer a measure of

sponsorship success free of some of the biases inherent in more subjective metrics (Cornwell et al., 2001). Cornwell et al. (2001) further argues that “by their buying and selling decisions, investors make judgements concerning the impact of various market events upon the sales, net revenues, and riskiness of the affected companies” (p. 17). Johnston (2010) found evidence that “from a signally perspective, sponsorship announcements provide information to investors about a firm’s cost containment and risk-management strategies for prudently managing their sponsorship investments” (p. 173).

In a study conducted by Ramavhunga (2009) it was found that media announcements do have an impact on the share price performance of JSE listed companies and that the impact was significantly higher than those reported in developed capital markets.

According to the JSE (2010), the JSE with a share market capital value of US\$898 billion is the world’s 20th largest stock exchange. The JSE has over 400 listed companies and manages share trades worth over R2.7 trillion (US\$336 billion) (World Federation of Exchanges, 2009). The JSE offers companies the opportunity to raise capital in a highly regulated environment through its markets, i.e. the JSE Main Board, the Africa Board and the Alternative Exchange (AltX) (JSE, 2010).

The business of sport in South Africa is a great contributor to the South African economy as well as wealth creation (Goldman and Johns, 2009). As traditional media advertising has become more expensive and cluttered, sponsorship is viewed as a cost effective alternative (Lee, Sandler and Shani, 1997).

In South Africa, direct expenditure on sport sponsorship increased from R207 million in 1991, to over R1 billion by 2000 (Goldman et al., 2009). It is confirmed in a more recent study by BMI Sport-Info, that the continued increase the industry being valued at R2.6 billion, with an additional R2.2 billion spend on leveraging those sponsorships (Goldman et al., 2009). According to the latest report from IEG dated January 2011, the total global sponsorship spending has already increased to US\$46.3 billion by the end of year 2010 and is projected to reach global spending levels in excess of US\$48 billion by the end of 2011(IEG, January 2011).

Corporate sponsorship of events, especially sport, has become a common marketing communications tool, despite the uncertainty that exists around the economic value sponsorship-linked marketing programs holds to the firm (Cornwell et al., 2001).

The increase in sponsorship expenditure is, according to Lee et al. (1997), an increasingly worldwide phenomenon. In the United Kingdom (UK), sponsorship expenditure jumped from £4 million (equivalent to ZAR48 million) in 1970, to £400 million (equivalent to ZAR4.8 billion) in 1993 (Meenaghan, 1994). In the United States of America (USA), corporate event sponsorship increased from US\$500 million (equivalent to ZAR3.5 billion) in 1982, to an expected US\$5.4 billion (equivalent to ZAR38 billion) in 1996 (Lee et al., 1997).

Sponsorship-linked marketing, as defined by Cornwell (1995, p. 15) is “the orchestration and implementation of marketing activities for the purpose of building and communicating an association (link) to a sponsorship”, and have the potential to generate economic returns for the business.

Despite the acknowledged contribution of sponsorship-linked marketing communications to the economic wealth of investors in large economies, there is currently little understanding about the impact sponsorship has on firm value in smaller economies (Johnston, 2010) like South Africa. It is therefore important to understand how smaller economies react, since a research by Crimmins and Horn (1996) suggests that sponsorship of high profile events has the potential to be 'worth millions of dollars' to the sponsor.

Key questions to answer would thus be the following, considering only JSE listed companies:

- What is the impact of a sponsorship announcement, relating to a new sponsorship, on the sponsoring firm's share price performance;
- What is the impact of a sponsorship announcement, relating to the renewal of an existing sponsorship, on the sponsoring firm's share price performance;
- What is the impact of a sponsorship announcement, relating to the cancellation of an existing sponsorship, on the sponsoring firm's share price performance?

Recognising that sport sponsorship is growing in importance as an academic research domain, both academics and practitioners have raised a need for further investigation into marketing expenditure's impact on various measures of a firm's financial performance (Moorman and Lehman 2004; Taylor 2005; Johnston 2010). Johnston (2010) also refers to the Marketing Science Institute's

list of 2008-2010 Research Priorities, where it documented that the research around return on investment from marketing expenditures is a priority area.

Over and above the academic interests, the insights gained from such a study could be very beneficial in terms of investment decision making by individual and institutional investors and companies.

During an interview Charles Brewer, Managing Director of DHL Express (DHL) sub-Saharan Africa made an important comment regarding DHL's return on investment relating to the sponsorship of the Stormers Rugby team. He mentioned that a critical sponsorship objective involves, although sometimes hard to measure, providing a positive investment return to the company (Moneyweb – 6.11.2011)

This information could be of great importance, especially to investment companies that seek to gain maximum return on their equity investments. Understanding the impact of sponsorship announcements on the performance of the sponsoring firm's share price, could place the company, sponsoring and investing, in a position to make improved strategic investment decisions.

1.3 The structure of the research report

The document will continue by discussing the relevant theory, principles and understanding behind the impact of sponsorship announcements on share price performance of the prevailing companies in Chapter 2. The study also examines leading methods used to determine the impact of sponsorship announcements

on share price performance as well as analysing the results from studies done in the past where these methods have been used.

Chapter 3 articulates a set of hypothesis that the research aims to test. Each hypothesis is based on the literature discussed in Chapter 2. The hypotheses are developed and tested to prove or disprove the theory from the literature review.

Chapter 4 provides the methodology that was used to test the hypotheses discussed in Chapter 3. This chapter further defines and discuss the method of analysis and the unit of analysis; describes the data identification (i.e. population and sample size) and process of data collection; provides details regarding the techniques that are used to analyse the data and discuss possible limitations to this research.

In Chapter 5 the research results are presented and explained. The presentation includes explanatory and analytical results for the statistical analysis.

Chapter 6 follows with a discussion and interpretation of the findings presented in Chapter 5. Also, a comparison of differences and similarities to previous studies focusing on the impact of sponsorship announcements on share price performance are discussed.

The major results and insights of the research findings are presented in Chapter 7. This chapter draws the study to a close with various recommendations for future research.

CHAPTER 2: THEORY AND LITERATURE REVIEW

2.1 Introduction

As mentioned, a number of studies have been conducted in order to understand the relationship between sport sponsorship announcements and the impact it has on the sponsoring firms' share price (Clark et al., 2002, 2009; Cornwell et al., 2005; Cornwell et al., 2001; Mishra et al., 1997; Miyazaki et al., 2001; Pruitt et al., 2004). In this chapter, a review on the latest literature on this field is documented. Major themes on the relevant topic are grouped together in an attempt to create a general understanding from the theory presented.

2.2 Sponsorship

2.2.1 *Defining sponsorship*

Several attempts have been made at defining sponsorship (Lee et al., 1997). In their study Roy and Cornwell (2003) referred to Gardner et al. (1987) and Meenaghan (1983) who found that several definitions of sponsorship have been given in the literature. In a study done by Lee et al. (1997) regarding various attitudes towards sponsorships, further mention is made regarding the work done by Meenaghan on defining sponsorship. Meenaghan (1983) and Head (1981) came to the conclusion that sponsorship is continuously misunderstood and confused with concepts such as charitable donation, endorsement and patronage. They also agreed that the various definitions of sponsorship are not consistent (Lee et al., 1997).

Gardner et al. (1987) offered the following definition on sponsorship: “Sponsorship is investing in causes and/or events to support overall corporate objectives or marketing objectives.” Lee et al. (1997) critiqued this definition by arguing that “while this definition crystallized the commercial nature of sponsorship as an investment to achieve certain objectives, it is too general and does not help to distinguish between various types of investment” (p. 161).

Furthermore, the definition does not recognise the need for the company to leverage its sponsorship status. Lee et al. (1997) used the following example as support for this argument: “The United States Tennis Association (USTA) invests in staging the US Open to achieve their organisational objectives. Clearly the USTA cannot be considered as a sponsor. In fact, they own the event, and other organisations sponsor it” (p.161).

Based on the arguments above, the definition by The International Events Group (IEG), which is one of the leading sources of information for the sponsorship industry, was used for the purpose of this study. The IEG defined sponsorship as: “a cash and/or in-kind fee paid to a property (typically a sport, entertainment, non-profit event or organization) in return for access to the exploitable commercial potential associated with that property” (IEG, 2000, p. 1). The IEG definition of sponsorship is widely accepted because of its currency and its applicability to both academic and practitioner discussions of sponsorship (Roy et al., 2003).

2.2.2 Sponsorship objectives

“The transformation of marketing communications through the use of major sponsorship programs has mandated significant changes in many aspects of traditional advertising, including content, media choice and placement, and the overall pattern of spending in many firms” (Cornwell et al., 2005, p. 401). More recently, companies like to use sports events as a way to promote their products. Phil Schaaf (1995, p. 111) explains the purpose of sponsorship and define it as follows: Sponsorship is the promotional mechanism by which sports entertainment penetrates consumer markets to create identifiable publicity and profits for corporate buyers/participants”.

In his study on brand image creation and image transfer in event sponsorship, Gwinner (1997) identified several key goals associated with corporate sponsorships and amongst others are (1) the enhanced brand image via associations with positively perceived events and (2) increased goodwill via perceptions of corporate generosity.

The success of using sponsorship investment as a marketing and communications tool depends on the objectives set out initially by having a clear sense of purpose (Tripodi, 2001). According to Tripodi (2001), the setting of objectives enables the sponsoring company to undertake a post-evaluation of the sponsorship in accordance with these objectives, thus creating effective management of sponsorship via tangible evidence of the investment.

Tripodi (2001) has further summarized the broad sponsorship objectives identified by Irwin and Asimakopoulos (1992), and highlighted the ‘Measurable

quantity (e.g. 12% increase in share price)' as an critical component to be part of a well-articulated sponsorship objective.

In order to be successful in achieving these objectives and maximize return on investment, certain resources need to be allocated and/or committed towards the sponsorship at hand. When talking about commitment in the sponsorship context, Farrelly and Quester (2003) argue that the commitment takes the form of additional investments, primarily described as 'leveraging activities'. Farrelly et al. (2003) argue that "these leveraging activities, typically involve the allocation of additional resources (over and above the initial rights fees) in order to promote the brand association and comprise advertising campaigns or in-store promotions based on the sponsorship" (p. 535). Companies must 'leverage' a sponsorship to achieve any real degree of success (Cornwell et al., 2001). Cornwell et al. (2001) and Quester and Thompson (2001) empirically demonstrated the positive effects leveraging has on sponsorship performance.

Farrelly et al. (2003) ends the argument with the view that given the length of most sponsorship contracts (generally three to five years renewable), 'leveraging activities' are undertaken with a long term association in mind, which is regarded to be a form of strategic alignment rather than just an opportunistic event.

2.2.3 Sponsorship and sport sponsorship growth

In a study by Boshoff and Gerber (2008) on sponsorship recall and recognition, they base their argument on a previous finding by Crimmins et al. (1996, p. 12) which state that "sponsorship is a means of persuasion that is fundamentally

different from traditional communication and marketing instruments as it attempts to persuade consumers indirectly”. They argue that the use of sport, art, social and environmental sponsorship has gained in importance in the last decade (Walliser, 2003) with total sponsorship expenditures increasing significantly (Cornwell et al., 1998). In a study by Gwinner (1997) he found that the reason for the growth in sponsorship and in particular sport sponsorship is the benefit that it gives multiple opportunities for building a brand.

Sponsorship of sports and other events is one of the fastest growing forms of marketing communication used to reach its target audience (Roy et al., 2003). Roy et al. (2003) also stated that “the rate of growth in sponsorship expenditures is greater than for traditional media advertising and sales promotion” (p. 377). Estimates of events sponsorship expenditure surpass estimates for those other types of promotional spending such as cause-related marketing (Miyazaki et al., 2001).

In their study Goldman et al. (2009) examined the business of sport including sport event sponsorship and referred to Olkkonen and Tuominen (2006, p.66) who recognised that “most sponsorship knowledge has been derived from sports” and that sports sponsorship has become” the benchmark for sponsorship research and management.”

Back in 1997, Gwinner (1997) reported that no clear estimates were available for all types of corporate sponsoring efforts, which involved sporting events, music events, festival and fairs, fine arts events, and professional or trade show events, but confirmed that sport sponsorships represented 65 percent of total corporate sponsorship spending (Miyazaki et al., 2001). Furthermore, in their

study on sponsorship-linked marketing, Cornwell et al., (2001) refers to the statement by Smith (1999) who argues that “during the frenzied growth of sponsorship-linked marketing over the past two decades, sports have consistently garnered two-thirds of all sponsorship dollars” (p. 401). Cornwell et al. (2001) supports this statement by Smith (1999), by way of an example from the IEG Sponsorship Report from 1998, comparing the value of sport sponsorship to all other areas of sponsorship marketing activities. In sports, US\$4.55 billion (equivalent to ZAR34.2 billion) of investments have been made compared to US\$675 million (equivalent to ZAR4.7 billion) invested in the marketing of entertainment tours, US\$578 million (equivalent to ZAR4.1 billion) invested in festivals and fairs and US\$544 million (equivalent to ZAR3.8 billion) invested in and public causes respectively (Cornwell et al., 2001).

2.3 Investment finance

2.3.1 Share price and the investment market

Trading in shares has been a useful method to generate great profits for various investors (Gilligan, 2009). Occasionally, investors have found investing in shares to be risky and unreliable (Gilligan, 2009). Such can be the case in the event when the stock market is highly sensitive to public announcements and more particular sponsorship announcements by listed companies.

2.3.2 Efficient Market Hypothesis

For the elaboration on investment theory, this study focuses on the Efficient Market Hypothesis (EMH). Lo (2005) stated that most of modern investment

theory was based on the EMH, thus understanding this theory is applicable in understanding how shares are priced. EMH asserts that a share price reflects all public information about a firm (Fama, Fisher, Jensen and Roll, 1969) and pertaining to the firm's current and future profits, also defined as the present value of the stream of future cashflows (Filbeck et al., 2008). Filbeck et al. (2008) elaborates on this and explain that the share price reflects the true value of the firm, because the price consists of the discounted value of future earnings as well as all relevant information known to the market. The firm's share price will change as a result of any new information impacting on the firm's current and future profitability.

Fama (1970) explains that the primary role of capital markets is to allocate ownership of the economy's shares. In general terms, the ideal market is one that provides accurate signals for resource allocation. Fama (1970) defines a market in which prices always fully reflect available information as 'efficient'.

Malkiel (2003) concluded that neither technical analysis nor fundamental analysis would enable an investor to achieve greater returns than those that could be obtained by holding a randomly selected portfolio of individual shares. Malkiel (2003) defined technical analysis as the study of past share prices in an attempt to predict future prices and fundamental analysis as the analysis of financial information such as company earnings and asset values.

2.3.3 Inefficient Market Hypothesis

However, the EMH is not without its critics, and there are some academics that have tried to prove the inefficiencies of the market. Fama (1991) acknowledged

that there was a substantial amount of research done on the predictability of share returns from past returns and other variables and that the controversy about EMH largely centred on this work.

In recent years many economists have come to question the EMH, as there seem to be several instances where market prices failed to reflect all available information (Malkiel, 2005). One such instance was the technology-internet bubble of the late 1990's and the early 2000's that convinced many analysts that the EMH should be rejected (Malkiel, 2005).

A number of economists believe that stock prices are at least partially predictable. This view is from a 'new breed' of economists that have emphasised psychological and behavioural elements of stock price determination, and have come to believe that future stock prices are somewhat predictable on the basis of past stock price patterns as well as certain fundamental valuation metrics, such as dividend yields and price-earnings ratios (P/E ratios) (Malkiel, 2003).

2.3.4 Behavioural finance

Marketers have paid attention to the effectiveness of sport-related sponsorships by examining the effect of sport sponsorship either in terms of consumer psychology (e.g. by enhancing corporate image and to increase awareness of brands) or financial perspectives (Kim, 2010). The primary focus that has been placed on these two perspectives in recent years suggests that there has been a clear shift from emphasizing media objectives to emphasizing corporate objectives when considering sponsorship marketing as a communication

medium (Lee et al., 1997). A survey of Australian advertising managers found that media coverage is not one of the major important factors motivating corporate sponsorship (Scott and Suchard, 1992).

Kim (2010) explains consumer psychology on the hand of an approach “that focuses on a process in which sports sponsorship is transferred into behaviour intention based on a cognitive and affective psychological mechanism” (p. 2). In terms of consumer psychology, sponsorship opportunities are increasing for companies to connect their brands with the world’s most recognised sporting events (Syracuse, 2004). For example, according to Kim (2010), “(i) the awareness of sports sponsorship, (ii) the brand name, (iii) the recognition of sports events after termination and (iv) the image fit between events and sponsor are good examples of research streams in perspective of consumer psychology and behaviour” (p. 4).

Title sponsorships, particularly of sport properties with global appeal, are very expensive (Clark et al., 2008). As an example, some have argued that ‘PGA right’s fees have got extremely high expensive, so much so that the executives at the sponsoring companies are asking themselves, “What’s our return on this?”’ (Clark et al., 2008, p. 170). Recent studies have noted the importance of sponsorship as a means of achieving company marketing objectives, which typically include specific financial goals (Hoek et al., 1997). As for the financial perspective, attention falls on stock market returns to analyse the financial performance and investment returns of sponsorships (Kim, 2010).

The society of today is flooded with mass advertising, resulting in fierce competition amongst companies. Undifferentiated advertising has little, to no

effect on consumers and share price value (Kim, 2010). Hence, the reason for companies to apply a unique form of advertising such as sport sponsorship. This is done in an attempt to persuade existing shareholders and investors, and attract new investors to buy the shares of the sponsoring firm (Kim, 2010). One such example of the relationship between sports sponsorship and firm value is the study done by Mishra et al. (1997) examining 76 announcements of corporate event sponsorships such as the Olympics, to evaluate the effect on the sponsoring firm's share price.

In terms of financial returns, and although findings from past sponsorship event studies have produced mixed results, the weight of previous research suggests that the market sees sponsorships to be a good investment (Cornwell et al., 2005). Furthermore, the growth in sponsorship-linked marketing during the past decade or two indicates that firms found financial and communication advantages (Cornwell et al., 2005).

To the extent that successful sponsorships eventually translate to increased sales, it must also lead to quantifiable improvements in the overall economic fundamentals of the sponsoring companies (Cornwell et al., 2001). The importance and accuracy of a company's share price performance as a measurement of success cannot be underestimated. This is supported by Cornwell et al. (2001) when referring to the Proctor and Gamble example that saw the removal of the then CEO, Durk I. Iager in June 2008, who contributed almost entirely to the erosion of the share price value over a period of just 17 months: "Like it or not (and it is doubtful that many CEO's do), investors' and pension fund managers' increasingly intense demand for "better performance"

ultimately translate to one basic metric – the share price of a firm.” (Cornwell et al., 2001, p. 402)

2.3.5 Share price returns

The purpose of applying this methodology is to determine the announcement of some historical events that produced significant share price reaction around the time the announcement were made (Filbeck et al., 2008). Share price return modelling assumes that investors have access to many sources of information about the firm’s future prospects, such as sales data, return on equity and cash flow, as well as information regarding the firm’s marketing strategy (Johnston, 2007).

It is important to understand the concept of how the return, either positive or negative, of a share is defined and calculated. Kim (2010) explains that the share abnormal return provides an unbiased estimate of the economic worth of the sponsorship investment or event. The abnormal return of a share is the difference between expected returns based on general market movements and the actual returns Kim (2010). Putting it slightly differently, Srinivasan and Bharadwaj (2004) explains that the abnormal return is the post return of the share during the course of the announcement period less the normal expected return, assuming the announcement had not taken place. According to Miyazaki et al. (2001, p. 11), “it can be judged by comparing the amount of change (known as the return) in the share price around the event date with the predicted (expected) return on the share, based on an examination of the past relationship between the share and the market”.

Clark et al. (2008) explains that in any event study, positive abnormal share price returns indicate that the marketplace viewed the announced investment favourably. As an example, Clark et al. (2008) refers to a study on major league 'official product' sponsorships done by Cornwell et al. (2005) who found positive returns for corporations announcing sponsorship agreements.

Numerous studies have found that abnormal share returns have been a good indicator to identify share price changes in stock market because of sport sponsorships (Miyazaki et al., 2001; Kim and Morris, 2003; Pruitt et al., 2004; Sneath, Finney and Close, 2005).

2.4 The impact of sponsorship announcements on share prices

2.4.1 Findings from previous studies

A number of studies were conducted over the years, in an attempt to test the phenomenon of the impact sponsorship announcements would have on share prices of sponsoring firms (Clark et al., 2002, 2009; Cornwell et al., 2001; Cornwell et al., 2005; Mishra et al., 1997; Miyazaki et al., 2001; Pruitt et al., 2004). Positive share price gains indicate that the market viewed the announcement regarding the investment, favourably (Clark et al., 2009). However, one can argue that the opposite outcome is also true in the case when share price losses have been recorded as a result of some investment announcement (Kim and Morris, 2003).

In 2001, Pruitt et al. conducted a study and assessed stadium sponsorship agreement announcements to serve as an effective signal regarding managerial

confidence in the expected future cash and profitability positions of the sponsoring firms. The study found that sponsors with direct ties with the automotive industry experienced increases of eight percent in share prices, compared to the sponsors of unrelated products (3%). Both outcomes had positive reactions (Pruitt et al., 2001).

Farrell et al. (1997) conducted a study and examined 26 sponsorship announcements of the 1996 Summer Olympic Games. The study found that a negative share price effect of 0.43% around the announcement date.

In a research study conducted by Ramavhunga (2009), he referred to a test conducted by Spais et al. (2008), to determine the major beneficiary in a sponsorship agreement deal. Their study focused on the stock market's reaction to official football club sponsorship announcements, with particular reference to the Juventus Football Club and Fiat. Both organisations were Italian Stock Exchange listed companies with the contract agreement between them worth €33 million. One hundred and twenty three daily share prices were used in the event study methodology test. They found that the impact on the Juventus share price was negative and the impact on the Fiat share price, positive (Spais et al., 2008).

Table 2.1-1 on the next page represents an initial review of studies that was done over a period of 11 years between 1997 and 2008, by various authors and across different industries.

TABLE 2.4-1 – LITERATURE REVIEW ON SPONSORSHIP EFFECTS: FINANCIAL PERFORMANCE APPROACH

Author(s), Year	Geography	Sector Focus	Method	Findings	Share Price Movement
Pruitt, Cornwell & Clarke (2004)	USA / Australia	Motorsports	24 sponsoring organisations were analysed. After deducting all costs associated with sponsorships, the sponsors experienced a \$300m increase in shareholder investments. A multiple regression analysis of the firm-specific share price was used.	The NASCAR sponsorship announcements lead to the largest increases in share price ever recorded in the marketing literature.	↑
Spais & Filis (2008)	Italy	Soccer	The research was conducted to test the major beneficiary in a sponsorship agreement deal, by specifically looking at the stock market reaction to official football club (Juventus Football Club) sponsorship announcements. Event study methodology was used to test 123 daily share prices.	The announcement had a greater impact on Juventus' share price than on Fiat's (investor). The impact on Juventus' share price was negative, whereas the impact on Fiat's share price was positive.	↑↓
Cornwell, Clarke & Pruitt (2005)	USA	Major league sports (Football, Baseball, Hockey, Basketball & Golf)	The study was based on sponsorships in the NFL, the MBL, the NHL, the NBA and the PGA. Multiple regression analysis and event study methodology was used with a sample size of 53 official product sponsorships.	They have found that the average sponsor's share price rose by 1.1%, even though there were considerable differences in sponsorship success across the various leagues.	↑
Cornwell, Pruitt & Van Ness (2001)	USA	Motorsports (Indianapolis 500)	Assessing stadium sponsorship agreement announcements to serve as an effective signal about managerial confidence in the expected future cash and profitability positions of the sponsoring firms. Multiple regression analysis and event study methodology was used with a sample size of 49 official product sponsorships.	Sponsors with direct ties with the automotive industry experienced increases (8%) in share prices, compared to the sponsors of unrelated products (3%). Both outcomes had positive reactions.	↑
Miyazaki & Morgan (2001)	USA	Olympic Games	Assessment of market value of corporate sponsorship of the Olympic Games. Event study analysis was used to examine 27 sponsorship announcements of the 1996 Summer Olympic Games.	Statistically significant increases share prices.	↑
Farrell & Frame (1997)	USA	Olympic Games	Assessment of market value of corporate sponsorship of the Olympic Games. Event study analysis was used to examine 26 sponsorship announcements of the 1996 Summer Olympic Games.	A negative stock price effect was found around the announcement date (-0.43%).	↓
Mishra, Bobinski, & Bhabra (1997)	USA	Olympic games and tennis	Examined 76 announcements of corporate event sponsorships such as the Olympics, concert tours, tennis tournaments, and even the naming of stadiums. The authors used a one-step version of event analysis to show that naming rights do not have a lasting impact on the profitability of the firms that buy them.	On average, corporate sponsorship increased average firm value by U.S.\$94.4 million (0.56%).	↑
Clark, Cornwell & Pruitt (2002)	USA	Corporate sports stadium naming rights agreements	Employ share price changes to determine the impact of respectively, celebrity endorsement and stadium sponsorships on signing firms. Regression analysis of the factors affecting shareholder acceptance of corporate stadium sponsorship decisions was performed.	Investors viewed the acquisition of sports stadium sponsorships favorably (1.65%). Sponsorship preference for high technology firms; longer-term deals; involving winning teams; locally based sponsors.	↑
Kinney & Bell (2003)	USA	Olympic Games & Baseball	Assessed sports sponsorships announced in the Wall Street Journal.	Significant increases were observed for Olympic Games and baseball events when rights fees were reported.	↑
Pruitt, Cornwell & Clark (2004)	USA	Motorsports (NASCAR)	The study presents an analysis of the impact of 114 title sponsorship announcements of professional tennis & golf tournaments, auto racing & college bowl games on the share prices of sponsoring firms.	Considerable investor enthusiasm (1.13 %) was found for NASCAR sponsorships, adding over US\$334 million to the value of sponsoring firms.	↑

2.4.2 Analysis of findings from previous studies

Very often, information coming to the market is not sufficient enough to cause share price changes; however, sometimes, information does cause investors to rethink investment strategies, buying if the information is positive and selling when the information is negative (L.K. Mathur and Mathur, 1995). These results are evident from the findings of the various studies as illustrated in Table 1.

The event studies in sponsorship examined in Table 1 included activities of major events such as the Olympic Games (Farrell et al., 1997; Mishra et al., 1997; Miyazaki et al., 2001); and different sporting context such as motor sports (Cornwell et al., 2001; Pruitt et al., 2004) and major league sports events (Cornwell et al., 2005; Kinney and Bell, 2003). The high number of positive share price reactions from these studies suggests that sponsorship advertising can be seen as a reliable investment to consumers, investors and shareholders (Kim, 2010). However, it is worth mentioning that two (NFL and MLB) of the five major-league sport disciplines used in the study by Cornwell et al. (2005), showed results that are indistinguishable from zero, whereas those of PGA, NBA and NHL are statistically positive in *some* windows. Sports sponsorships, as unique advertising, are therefore expected to persuade existing investors and shareholders to invest additionally or to attract new investors to buy shares of the sponsoring firm (Kim, 2010).

The majority of the studies in Table 1 originated in the USA, while only two event studies in marketing have been conducted in a different market context from outside the USA, namely Australia and Italy. The opportunity therefore

exist to validate findings across countries which can play a significant role in advancing the understanding of the impact sports sponsorship announcements have on share prices as well as understanding the global value of the strategic marketing initiatives (Johnston, 2007).

The study by Spais et al. (2008) produced different results. They found that a sponsorship investment announcement can have both a negative impact (Juventus share price, the sponsored organisation) and a positive impact (Fiat share price, the sponsor) on the organisations involved in the sponsorship agreements. This study therefore indicates that mixed results from previous studies conducted on the topic discussed are evident.

Another interesting observation is the two studies that were done on the 1996 Summer Olympic Games that was held in Atlanta, USA. Although the two studies examined 26 and 27 sponsorship announcements respectively, the findings were very much the opposite. Miyazaki et al. (2001) found statistically significant increases in share prices, where as Farrell et al. (1997) found statistically significant and negative share price reactions. Cornwell et al. (2005) contributed the difference in finding to the fact that slightly different samples were used and that perhaps differing announcement dates attributed to the differences. Cornwell et al. (2005) noted that in their various studies, Farrell and Frame supplied announcement dates while Miyazaki and Morgan did not.

2.5 The significance of this study

The purpose of the study is to quantitatively analyse the impact on the sponsoring firm's share price around the time of the initial sponsorship announcement.

McDonald (1991) argues that current methods of sponsorship evaluation measure the publicity surrounding the sponsorship and not the sponsorship itself. According to Abratt, Clayton and Pitt (1987), modern sponsorship has moved from a philanthropic activity to mutually advantageous business arrangements between the sponsor and the sponsored organisation. The objective sought by sponsoring organisations are focusing more on exploitable commercial potential and measurable results (Farely, 1997; Wilson, 1997; Cornwell, 1995) and less on a sense of social responsibility without expectation of financial return.

While there has been a growing interest in assessing the impact of sport and entertainment sponsorships, many sponsoring companies do not have formal sponsorship evaluation systems or procedures (Miyazaki et al., 2001). Methods commonly used by companies to evaluate advertising effectiveness do not differentiate between the value of the sponsorship and the value of general advertising (Miyazaki et al., 2001).

Miyazaki et al. (2001) further states that there are elements of confusion and ambiguity present when post event cost-benefit analysis (by comparing revenue changes and associated costs) are performed and refers to the following example taken from the General Accounting Office (1993): "An attempt by the

United States General Accounting Office to evaluate the value of the U.S. Postal Service's 1992 Olympic Games sponsorship resulted in the conclusion that overall profit or loss with respect of the sponsorship activity is 'unknown'" (p. 10). Miyazaki et al. (2001, p. 10) also refers to the statement by Thomas (1996) as this exercise being a "common dilemma, particularly considering the difficulty of isolating the impact of future sales".

However, it is possible to examine this activity, not through methods typically used by management, but rather as seen by the marketplace as a whole (Miyazaki et al., 2001). That is if the market sees the value in the activities (advertising and more particular sponsorships) as being worthwhile, and that in adopting such strategies, the perceived value will be added to the firm that should be reflected in the share price of the sponsoring firm (Miyazaki et al. (2001).

The sponsorship marketing literature has seen empirical studies using the event study method which examine the impact of sponsorship announcements on the share price of corporate sponsors. The findings of these studies appear to circumvent difficulties in calculating the actual financial return and the performance of a firm's intangible assets (Calderon-Martinez, Mas-Ruiz & Nicolau-Gonzalbez, 2005; Clark et al., 2002, 2009; Cornwell et al., 2001; Cornwell et al., 2005; Mishra et al., 1997; Miyazaki et al., 2001; Pruitt et al., 2004; Spais and Filis, 2006, 2008). However, while the majority of these event studies demonstrate that sponsorship strategies contribute positively and significantly to the financial performance of firms operating in North American markets (Johnston, 2010), no published study appear to have examined the

relationship of sponsorship communications to financial returns in markets in South Africa. This presents the opportunity for a study to be conducted in a non-USA market, namely South Africa.

Previous studies have found the share price to react positively when sponsorship announcements are made, such as Pruitt et al.'s findings in 2004 that NASCAR sponsorship announcements were accompanied by the largest share price increases ever recorded in the marketing literature. However, other studies, such as the Farrell et al.'s study in 1997 on the 1996 Summer Olympic Games, recorded the opposite findings when share price changes reacted negatively to sponsorship announcements.

The study by Pruitt et al. (2004) regarding the NASCAR, PGA and NCAA Bowls sponsorships went one step further and distinguished between the share price effects of new versus renewing sponsorships. In the case of NASCAR sponsorships there were no differences between new sponsorships and sponsorship renewals (Pruitt et al., 2004). However, the study found significant differences between new and renewing PGA and NCAA Bowls sponsorships. Interestingly, new NCAA Bowls sponsorships were viewed as negative, whereas NCAA Bowls sponsorship renewals traded at market clearing prices (Pruitt et al., 2004).

The PGA sponsorship announcements had totally the opposite reaction in the market. New PGA sponsorship created a positive reaction amongst investors, whereas renewals reduced the firm's average share price by almost 3% over the same interval (Pruitt et al., 2004).

A common feature from the results of previous studies was the fact that basically all of them based their analysis on the total number of sponsorship announcements. Specific announcements regarding first time sponsorships, sponsorship renewals and sponsorship terminations were ignored. Johnston (2010) recommended “continued analysis relating to abnormal market returns” (p. 173) and made specific reference to the need for future research relating to “the differences in market perceptions about new, repeat and withdrawn sponsorship contracts” and that such research “would provide valuable insights that might enhance the business prospects of firms investing in sponsorship in the future” (p. 173). Hence the reason this study paying particular attention to these three sponsorship announcement categories.

Another reason for undertaking this study, as mentioned previously, is the growth in sponsorship marketing that has been experienced over the past two to three decades. The corporate sponsorship of sport, teams and facilities, as well as events of all dimensions, have expanded to such an extent that the absence of sponsorship from contemporary sport is now inconceivable (Amis and Slack, 1999). In a study by Hoek et al. (1997), on sponsorship and advertising, reference is made to a statement from Witcher, Craigen, Culligan and Harvey (1991), to argue for the fact that the increase in sponsorship growth has been accompanied by an increase in professionalism and that managers from a wide range of industries now appear to view sponsorship as an important part of an organisation’s marketing mix.

This study represents the modernised factors expected from an event study on sponsorship communications, considering the impact it will have on financial

returns in the form of changes to the sponsoring firm's share price. The results of this study should be of interest to many constituencies, including corporate executives, investors, marketing practitioners, sporting offices, team owners and academic researchers.

CHAPTER 3: RESEARCH HYPOTHESES

3.1 Introduction

An efficient market hypothesis asserts that a share price reflects all public information about the firm, thus only unexpected information can change the price of the share (Fama et al., 1969). The share's abnormal return, the difference between the expected returns based on general market movement and the actual returns, provides an unbiased estimate of the economic worth of the sponsored event (Kim, 2010).

The objective of the study was to determine if there is a relationship between sponsorship announcements and a change in the share price of the sponsoring firm, where the sponsoring firm is a company, listed on the main board at the JSE.

3.2 Hypotheses

This chapter develops and articulates the hypotheses given the objective of the study and is based on the literature review as discussed in Chapter 2.

There are three hypotheses to be tested. For each of the hypotheses, a null hypothesis (H_0) and an alternative hypothesis (H_A) will be measured.

Hypothesis 1: Announcements regarding first time sponsorships will result in a positive share price return of the sponsoring firm.

H₀ : Announcements regarding first time sponsorships will result in a positive share price return of the sponsoring firm i.e. $\mu_{+1} > \mu_{-1}$, where μ_{+1} is the mean of the share price return after the announcement (post-event window) and μ_{-1} is the mean of the share price return before the announcement (pre-event window).

H_A : Announcements regarding first time sponsorships will not result in a positive share price return of the sponsoring firm i.e. $\mu_{+1} \leq \mu_{-1}$, where μ_{+1} is the mean of the share price return after the announcement (post-event window) and μ_{-1} is the mean of the share price return before the announcement (pre-event window).

Hypothesis 2: The announcement of a sponsorship renewal will result in a positive share price return of the sponsoring firm.

H₀ : The announcement of a sponsorship renewal will result in a positive share price return of the sponsoring firm i.e. $\mu_{+1} > \mu_{-1}$, where μ_{+1} is the mean of the share price return after the announcement (post-event window) and μ_{-1} is the mean of the share price return before the announcement (pre-event window).

H_A : The announcement of a sponsorship renewal will not result in a positive share price return of the sponsoring firm i.e. $\mu_{+1} \leq \mu_{-1}$, where μ_{+1} is the mean of the share price return after the announcement (post-

event window) and μ_{-1} is the mean of the share price return before the announcement (pre-event window).

Hypothesis 3: The announcement of a sponsorship termination will result in a negative share price return of the sponsoring firm.

H₀ : The announcement of a sponsorship termination will result in a negative share price return of the sponsoring firm i.e. $\mu_{+1} < \mu_{-1}$, where μ_{+1} is the mean of the share price return after the announcement (post-event window) and μ_{-1} is the mean of the share price return before the announcement (pre-event window).

H_A : The announcement of a sponsorship termination will not result in a negative share price return of the sponsoring firm i.e. $\mu_{+1} \geq \mu_{-1}$, where μ_{+1} is the mean of the share price return after the announcement (post-event window) and μ_{-1} is the mean of the share price return before the announcement (pre-event window).

CHAPTER 4: RESEARCH METHODOLOGY

4.1 Introduction

This chapter provides a detailed methodology that was used to test the set of hypotheses defined in Chapter 3. This chapter defines the event study methodology and the unit of analysis. It describes the data identification (sample and population) and the selection process (sampling methods) and provides details of the statistical techniques that were used to analyse the data.

4.2 Proposed research design

For this study, descriptive research was done. The design was causal as the study tested the relationship between two or more variables. Statistical studies for causal effect seeking a consistent answer are well suited for drawing such inferences (Rubin, 2006).

The research hypothesis for this study was quantitative in nature. Since the focus of the research was based on identifying the cause and effect of the relationship between sponsorship announcements and share prices, large batches of volume of data was available in the field of sponsorship media announcements and share prices. Secondary data, defined by Zukmund (2003) as “data that have been previously collected for the same purpose other than the one at hand”, was used. Due to the nature of the data (i.e. the data is very intense) focus was primarily on analysing the randomly selected data.

4.3 Event Study Methodology

“The basic event study methodology essentially involves measuring how a certain event influences movement in particular share prices” (Miyazaki et al., 2001, p. 11). In 2008, Filbeck et al. completed a study which reported evidence that event study methodology is “a statistical procedure used to examine the effect that the release of information has on the stock market returns of the firm” (Filbeck et al., 2008, p. 254).

Studies have shown that researchers believe the event study method offers a useful approach to investigate change in share price that occurs as a result of an unanticipated firm announcement (MacKinlay, 1997; McWilliams and Siegel, 1997; Srinivasan et al., 2004; Johnston, 2010). Investors fully and accurately incorporate any new or unexpected information that has value relevance into the share price, specifically for the market efficiency hypothesis in finance (Fama, 1965, 1970, 1991; Johnston, 2010).

This methodology focused on events of interest such as financial, economic and strategic. This statement is supported by Miyazaki et al. (2001) who confirmed that event study methodology is widely being accepted as a research tool in finance and economic disciplines and has recently been introduced to marketing research as well. Miyazaki et al. (2001) use the examples of (1) Chaney, Devinney and Winer (1991) who investigated whether share prices are associated with new product announcements and (2) the study by Lane and Jacobson (1995) that used an event study analysis to determine how brand extensions impact on the future value of the firm.

The event study methodology is further a feasible method often used to measure the direct effects of a strategy (Filbeck et al., 2008). Any public announcement being made constitutes information regarding the present and future marketing strategy of the firm and holds potential value for the investment marketplace (Miyazaki et al., 2001).

Any company's decision to invest or divest in marketing communications by means of sponsorship, will flow directly from the strategy the company is following. In other words, this methodology captured the market's valuation of a management decision by measuring the abnormal returns associated with the announcement of that strategy (Filbeck et al., 2008).

When Miyazaki et al. (2001) analysed the impact of change in information via an announcement. The author emphasised the importance of "comparing the share price movement of the individual share to the movement of the market as a whole in order to determine whether movement of a large magnitude coincides with that of the market or whether it was due to firm-specific information" (p. 11). Where the actual returns differed significantly from the expected returns, it could be that investors have viewed the announcement as beneficial or detrimental to the future value of the firm.

Finally, Kim et al. (2003) identified four basic steps that an event study should follow in order to achieve a valuable and satisfactory outcome:

- i. Identify an event to be studied (MacKinlay, 1997; McWilliams and Siegel, 1997; Srinivasan et al., 2004; Johnston, 2010);
- ii. Model the expected shareholder returns (Cornwell et al., 2005);

- iii. Estimate the unexpected shareholder returns (Calderon-Martinez et al., 2005; Clark et al., 2002, 2009; Cornwell et al., 2005); and
- iv. Analyse the unexpected returns (Johnston, 2010).

4.4 Population of data

For the purpose of this study, the population consisted of historic sport sponsorship announcements and historical share price data from companies in South Africa.

The IEG defined sponsorship as: "a cash and/or in-kind fee paid to a property (typically a sport, entertainment, non-profit event or organization) in return for access to the exploitable commercial potential associated with that property" (IEG, 2000, p. 1).

When Miyazaki et al. (2001) explained the methodology behind events studies and the impact market information will have on share prices, the authors delivered the following theory: "Stock markets as a whole are generally viewed to be efficient in the sense that share prices correctly and quickly incorporate all publicly available information. Changes in information deemed to be important by the markets and should result in significant changes in the share price. Information felt to signal a significant increase in future earnings should result in a significant share price increase, while information perceived to bring forth a significant decrease in future earnings should result in a significant decrease in the share price. Information that signals fair value transactions (e.g., that are not

over- or under-valued) would not be expected to result in any significant change in the share price” (p. 11).

4.5 Sampling method and sample size

Random sampling was used for the purpose of this study. The sample frame spanned over a period of 12 years between 1 January 1998 and 31 May 2011 and only included JSE listed companies. Firms for which share price data was not available or precise dates of announcement of the sponsorship could not be determined were excluded from the study. The sample frame represented 142 sponsorship announcements.

As mentioned previously, the JSE is the world’s 20th largest stock exchange (JSE, 2010) and has over 400 listed companies, 358 of which is domestic companies and 47 foreign based companies (World Federation of Exchanges, 2009).

To be included in the sample, firms had to meet two screening criteria. First, their shares had to trade on the JSE main board, the JSE African board or the AltX, and second their daily share market prices had to be available from the McGregor BFA database.

Following the precautions recommended for conducting event studies (McWilliams and Siegel, 1997; Johnston, 2010), sponsorship announcements that competed with other corporate announcements appearing in the same week by the same firm, such as mergers and acquisition announcements that

could influence the share price abnormal return during the event window, were eliminated as confounding.

Finally, a number of company and sport marketing websites were used to extract sponsorship announcement details. A theoretical sampling method was applied to extract the final sample. In total, 118 announcements by 19 firms that met the screening criteria were identified. A complete list of firms, announcement dates and information regarding the sponsorship expenditure and contract duration is provided in Table 5.2-1.

4.6 Unit of analysis

The unit of analysis in this research is the JSE listed company and the unit of observation is the share price (Ramavhunga, 2009; Zikmund, 2003). The dependant variable is the share price movement and the independent variable is the sponsorship announcement by a particular JSE listed company on a particular day.

4.7 Data collection process

Sponsorship announcements were sourced from a key word search of several databases, newspapers, electronic media and the JSE archived news database. As with the study by Cornwell et al. (2005) and recommendation from Brown and Warner (1985), care was taken to determine the date of the first communications via searches of company websites, news media websites and as well as sport marketing websites.

Information regarding the share price was sourced directly from the online McGregor BFA database (McGregor BFA is an online provider of stock market, basic research data and news to South Africa's financial sector and the corporate market. Market share price data is available via a web based user interface), and recorded on a Microsoft excel spreadsheet:

- Date on which the sponsorship announcement was made;
- Name of the sponsoring firm;
- The industry the sponsoring firm operates in;
- The market capitalisation of the sponsoring firm;
- The sport discipline receiving the sponsorship;
- Daily share price of the sponsoring firm for the period 120, 90, 60, 30 and 5 days prior to (pre-event window) the announcement date (event window) and 120, 90, 60, 30 and 5 days after (post-event window) the announcement date.

4.8 Data analysis

4.8.1 Describing and understanding the data

The methodology of previous similar studies was based on the event study technique, which is applied to the estimation of share price return, either negative or positive, that arise in response to sponsorship announcements made (Johnston, 2010) by various Stock Exchange listed companies. For the purpose of this study, the impact of various sponsorship announcements on share price changes will be examined.

Data on companies, dates, share prices, industry, market capitalisation, and sport discipline were recorded and cleaned in a Microsoft Excel spreadsheet. Plotting and statistical analysis of the data was done using SPSS 19.0.1 (Statistical Procedures Companion. New Jersey: Prentice Hall).

Abnormal returns of the share prices prior to and after the sponsorship announcement date were investigated by recording the share prices of all the companies in the sample across the whole period:

- 1) Between the pre-event window and event window,
- 2) Between the pre- and post-event window, and
- 3) Between the event window and the post-event window.

Following the recommendation of Johnston (2010) to use event windows, the author argues that “event windows are designed to capture the effect of an announcement and they generally include one or more days surrounding the actual event date” (p. 165). Windows should allow for both the effects of information leakages prior to the announcement’s official release as well as any delays in price effects in relation to the announcement to be detected (Srinivasan et al., 2004).

An event window of 240 days beginning 120 days pre-announcement date and ending 120 days post-announcement date was analysed for share price changes due to sponsorship announcements. The length of the window period (240 days) is in line with typical event windows for sponsorship event studies

which could range between 250–600 days in total, with a separate event window of 45-90 days Johnston (2007).

Descriptive statistics for the abnormal return (refer to Formula 4.8-1) in share price was computed and used to describe the share price reaction for each individual sponsoring firm, looking at each firm independently. The average abnormal return per share was computed for each company across the whole period.

The analysis of the pre- and post event data such as the volatility and share abnormal returns provided information to make significant conclusions and to provide comments regarding the impact of sponsorship announcements on investors.

The sponsoring firms were categorised and benchmarked according the various industries i.e. Financial Services; Resources and Industrial. From there the abnormal share price returns of the sponsoring firm for the pre- and post event window were compared against the abnormal share price returns of the benchmark indices, FINDI; RESI and INDI in order to identify share price volatility across the whole period of 240 days. The event study technique involves estimating a time-series of expected or normal share price returns that are then subtracted from the actual share price returns over the same period of time to arrive at an estimate of unexpected or 'abnormal' returns that are associated with a particular event (Srinivasan et al., 2004).

Market Adjusted Abnormal Returns were calculated by applying Formula 4.8-1, marked by Hirschey & Nofsinger (2009) as one of the most common models used to calculate market-adjusted returns:

$$AR_{jt} = R_{jt} - R_{mt} \quad (\text{Formula 4.8-1})$$

- AR_{jt} , defined as the Abnormal Return for j -th firm on day t ,
- R_{jt} , defined as the rate of return on the common share of the j -th firm on day t ,
- R_{mt} , defined as the return on the market index for day t .

4.8.2 Methods applied for hypotheses testing

The overall analysis is simply determining whether general sponsorship announcement had a significant impact on share price abnormal return when taking into account industry movements into account (FINDI; RESI; INDI).

For this study, a One-sample T-test was conducted. This method of analysis tested whether the mean of a single variable (share price pre- and post event window) was significantly different from a specific constant (the share price of the sponsoring firm on the announcement date (event window)).

For the study within the three categories:

- 1) Industry of the sponsoring firm;
- 2) Sporting discipline receiving the sponsorship; and
- 3) Decision made with regards to the sponsorship contract,

the study made use of p-values to determine whether or not the null hypothesis should be rejected. The null hypothesis was rejected when the p-value was less than 0.05 (95% confidence level).

The One-Way ANOVA was used for investigating and comparing. The One-Way ANOVA technique is used as an extension of the T-test and produces a one-way analysis for the quantitative variable by a single factor (independent) variable. Analysis of the variance is used to test the hypothesis that several means are equal.

4.9 Research limitations

There are amongst others, four possible limitations to the sample design:

- This study only focuses on companies listed on the JSE in South African. Currently there are 405 listed companies on the JSE (World Federation of Exchanges, 2009). This will result in South African companies that are currently listed on other stock exchanges being excluded from this study.
- The inaccessibility of information on private South African companies also contributes to the limitations of this study.
- The number of sponsorship announcements substantiated in the press for examination could be a relatively smaller number than initially anticipated. This could be as a result of sponsorship announcements not being made public or sponsorship investments declining during the period 1 January 1998 to 31 May 2011, as a result of:

- Economic recession and budget constraints;
- A change in strategy by some JSE listed companies and hence, moving away from sponsorship investments; or
- Standard of performance of sponsored events deteriorate and result in declining returns.

CHAPTER 5: RESULTS

5.1 Introduction

In this chapter, the research results are presented and explained. The presentation includes explanatory and analytical results for the statistical analysis. The statistical analysis was conducted to test the three hypotheses defined in Chapter 3.

5.2 Discussion of the secondary data

All JSE listed companies that met the screening criteria were included in the study. The list of sponsoring firms were categorised, each in terms of the industry it operates and competes in. The performance of these companies was also benchmarked against the three major industry indices, namely the FINDI (Financial Services (J212) Index), the INDI (Industrial (J212) Index) and the RESI (Resources (J258) Index) on the JSE. These indices were selected as they include the biggest companies by market cap on the JSE. Other reasons that contributed to this decision were access to limited resources and time constraints.

The final sample of 118 observations is one of the largest analyzed in an event study of sponsorship. The majority of prior studies in this area feature samples with less than 50 events (Clark et al., 2008).

Table 5.2-1 below represents a complete list of firms, announcement dates and information regarding the sponsorship expenditure and contract duration forming the sample of 118 sport sponsorship announcements.

TABLE 5.2-1 – SPONSORSHIP ANNOUNCEMENTS BY JSE LISTED COMPANIES: 1 January 1998 – 31 May 2011

Event nr.	Listed Company	Industry	Announcement date	Sporting discipline	Total expenditure (ZARmil)	Duration (years)	New; Renew or Stop sponsorship contract	Market cap (ZAR)
1	ABSA Group Limited	Banking	11/03/2003	Football	N/A	5	New	20,328,258,568
2	ABSA Group Limited	Banking	26/04/2005	Athletics	N/A	8	Stop	51,772,706,786
3	ABSA Group Limited	Banking	30/11/2006	Rugby	N/A	N/A	New	75,526,476,839
4	ABSA Group Limited	Banking	23/05/2007	Rugby	N/A	N/A	New	96,089,575,582
5	ABSA Group Limited	Banking	26/09/2007	Football	500	5	New	82,604,281,813
6	ABSA Group Limited	Banking	10/06/2008	Rugby	N/A	5	Renew	56,738,649,026
7	ABSA Group Limited	Banking	30/11/2008	Cycling	N/A	3	Renew	70,402,252,603
8	ABSA Group Limited	Banking	14/02/2009	Football	N/A	N/A	New	65,034,605,575
9	ABSA Group Limited	Banking	30/07/2009	Football	N/A	1	New	84,748,785,074
10	ABSA Group Limited	Banking	26/10/2010	Rugby	N/A	11	Stop	97,475,467,035
11	ABSA Group Limited	Banking	11/11/1999	Rugby	N/A	5	New	18,197,716,596
12	ABSA Group Limited	Banking	05/07/2002	Athletics	N/A	3	Renew	21,175,269,342
13	ABSA Group Limited	Banking	30/03/2006	Cycling	N/A	N/A	New	78,355,471,195
14	ABSA Group Limited	Banking	24/10/2006	Cycling	N/A	3	Renew	72,242,716,977
15	ABSA Group Limited	Banking	28/08/2007	Football	500	5	New	86,826,220,719
16	ABSA Group Limited	Banking	17/08/2010	Golf	N/A	N/A	Renew	91,212,675,461
17	ABSA Group Limited	Banking	03/02/2011	Rugby	N/A	5	New	95,988,772,246
18	ABSA Group Limited	Banking	16/02/2011	Xtreme Sports	N/A	N/A	New	93,798,231,615
19	Barloworld Ltd	Retail	29/10/2008	Cycling	N/A	1	Renew	11,431,758,844
20	Exxaro Resources Limited	Mining Group	03/04/2011	Cycling	N/A	1	New	99,112,985,934
21	Firstrand Limited	Banking	09/06/2001	Football	N/A	13	Stop	44,651,485,329
22	Firstrand Limited	Banking	07/07/2004	Football	35	6	New	55,311,385,813
23	Firstrand Limited	Banking	06/07/2006	Football	210	4	New	95,780,048,551
24	Firstrand Limited	Banking	19/07/2007	Football	N/A	N/A	New	133,002,889,953
25	Firstrand Limited	Banking	12/03/2009	Netball	0.6	N/A	New	69,346,682,774



Event nr.	Listed Company	Industry	Announcement date	Sporting discipline	Total expenditure (ZARmil)	Duration (years)	New; Renew or Stop sponsorship contract	Market cap (ZAR)
26	Firststrand Limited	Banking	29/04/2009	netball, hockey, tennis, squash	N/A	N/A	New	75,322,900,965
27	Firststrand Limited	Banking	29/09/2009	Football	6.3	1	Renew	91,729,311,280
28	Firststrand Limited	Banking	09/12/2010	Football	40	N/A	New	105,711,406,668
29	Gold Fields Ltd	Mining	17/01/2008	Football	25.9	3	Renew	77,637,089,404
30	Harmony Gold Mining Company Limited	Mining	06/02/2003	Athletics	0.5	N/A	New	23,723,396,700
31	Harmony Gold Mining Company Limited	Mining	18/09/2007	Athletics	18	5	Stop	32,191,623,436
32	Investec Ltd	Banking	15/10/2001	Rugby	N/A	4	New	15,144,539,413
33	Investec Ltd	Banking	12/10/2004	Rugby	N/A	4	Renew	5,631,939,456
34	Investec Ltd	Banking	18/08/2010	Football	N/A	2	New	15,019,658,573
35	Investec Ltd	Banking	12/10/2004	Rugby	N/A	4	Renew	5,631,939,456
36	Investec PLC	Banking	18/08/2010	Football	N/A	2	New	28,815,948,990
37	Liberty Holdings Limited	Life Insurance	24/08/2006	Athletics	N/A	15	Stop	8,836,329,960
38	MR Price Group Limited	Retail	17/05/2001	Rugby	50	6	New	664,293,620
39	MR Price Group Limited	Retail	28/01/2011	Rugby	N/A	N/A	New	14,631,136,253
40	MTN Group Limited	Telecommunications Network	16/11/1999	Cricket	54	7	New	16,946,223,979
41	MTN Group Limited	Telecommunications Network	28/09/2000	Football	N/A	3	Renew	48,050,175,482
42	MTN Group Limited	Telecommunications Network	06/11/2001	Cricket	0.1	N/A	New	32,420,455,720
43	MTN Group Limited	Telecommunications Network	18/03/2002	Tennis	N/A	6	Stop	21,817,816,635
44	MTN Group Limited	Telecommunications Network	20/03/2002	Football	6	3	New	21,407,707,300
45	MTN Group Limited	Telecommunications Network	23/06/2005	Football	36	3	New	76,758,284,769
46	MTN Group Limited	Telecommunications Network	24/05/2006	Cricket	N/A	2	New	91,682,114,095
47	MTN Group Limited	Telecommunications Network	12/07/2006	Football	468	5	New	100,860,177,618
48	MTN Group Limited	Telecommunications Network	28/03/2008	Football	N/A	3	Stop	240,382,363,911
49	MTN Group Limited	Telecommunications Network	06/04/2008	Football	N/A	6	Stop	249,057,287,759
50	MTN Group Limited	Telecommunications Network	11/04/2008	Football	70	5	New	255,528,487,972
51	MTN Group Limited	Telecommunications Network	27/06/2008	Football	N/A	N/A	New	242,308,894,854
52	MTN Group Limited	Telecommunications Network	05/08/2008	Football	400	5	New	231,303,926,008
53	MTN Group Limited	Telecommunications Network	23/02/2009	Football	N/A	N/A	Stop	165,791,156,055
54	MTN Group Limited	Telecommunications Network	22/05/2009	Football	N/A	N/A	Renew	222,466,762,686
55	MTN Group Limited	Telecommunications Network	11/07/2009	Football	50	1	New	220,605,629,369
56	MTN Group Limited	Telecommunications Network	18/03/2010	Football	55.7	3.5	New	229,147,956,706
57	MTN Group Limited	Telecommunications Network	20/09/2010	Football	130	4	New	229,156,113,181
58	MTN Group Limited	Telecommunications Network	29/09/2010	Football	N/A	3	New	228,588,994,606
59	MTN Group Limited	Telecommunications Network	16/12/2010	Football	119	4	New	239,334,179,319
60	MTN Group Limited	Telecommunications Network	20/01/2011	Rugby	N/A	3	New	234,680,435,846

Event nr.	Listed Company	Industry	Announcement date	Sporting discipline	Total expenditure (ZARmil)	Duration (years)	New; Renew or Stop sponsorship contract	Market cap (ZAR)
61	Nedbank Group Limited	Banking	06/11/2002	Athletics	N/A	N/A	Renew	32,243,647,633
62	Nedbank Group Limited	Banking	07/10/2005	Athletics	N/A	5	New	39,144,056,485
63	Nedbank Group Limited	Banking	28/02/2006	Golf	N/A	N/A	New	52,959,925,513
64	Nedbank Group Limited	Banking	08/12/2006	Boxing	0.1	N/A	New	55,801,903,152
65	Nedbank Group Limited	Banking	30/07/2007	Athletics	N/A	N/A	Renew	60,468,808,892
66	Nedbank Group Limited	Banking	15/11/2007	Football	400	5	New	66,122,474,688
67	Nedbank Group Limited	Banking	27/09/2009	Athletics	N/A	5	Stop	59,708,205,360
68	Nedbank Group Limited	Banking	01/10/2009	Athletics	N/A	N/A	Stop	58,974,176,793
69	Nedbank Group Limited	Banking	06/11/2009	Athletics	N/A	N/A	Renew	56,294,466,334
70	Pick n Pay Holdings Limited	Foods Retail	06/11/2002	Athletics	N/A	N/A	Renew	6,574,836,795
71	SABMILLER PLC	Breweries	17/08/2000	Rugby	15	5	New	36,667,574,082
72	SABMILLER PLC	Breweries	14/11/2002	Football	N/A	2	New	68,962,495,489
73	SABMILLER PLC	Breweries	12/07/2004	Rugby	N/A	N/A	Stop	78,633,916,457
74	SABMILLER PLC	Breweries	15/06/2005	Rugby	6	N/A	New	115,497,667,923
75	SABMILLER PLC	Breweries	15/06/2005	Rugby	N/A	N/A	New	115,497,667,923
76	SABMILLER PLC	Breweries	30/07/2007	Football	200	11	Stop	270,731,876,684
77	SABMILLER PLC	Breweries	28/08/2007	Football	N/A	5	New	281,192,924,232
78	SABMILLER PLC	Breweries	18/02/2009	Rugby	25	1	New	235,416,447,457
79	SABMILLER PLC	Breweries	08/04/2009	Football	N/A	1	New	224,159,153,216
80	SABMILLER PLC	Breweries	05/10/2009	Football	N/A	1	New	298,878,944,860
81	SABMILLER PLC	Breweries	06/10/2009	Football	5	1	Renew	298,516,107,603
82	SABMILLER PLC	Breweries	11/05/2011	Rugby	N/A	5	New	421,397,179,556
83	SASOL Limited	Petroleum and Chemicals	22/11/2000	Football	0.25	N/A	New	31,536,771,607
84	SASOL Limited	Petroleum and Chemicals	22/03/2001	Football	34	4	Renew	43,935,521,512
85	SASOL Limited	Petroleum and Chemicals	02/02/2004	Football	40	4	Renew	71,044,552,250
86	SASOL Limited	Petroleum and Chemicals	28/10/2004	Rugby	120	6	New	81,434,818,025
87	SASOL Limited	Petroleum and Chemicals	04/07/2006	Athletics	3.5	N/A	New	188,158,379,637
88	SASOL Limited	Petroleum and Chemicals	15/05/2007	Wheelchair basketball	N/A	4	New	162,976,568,709
89	SASOL Limited	Petroleum and Chemicals	04/03/2009	Football	N/A	10	Stop	164,927,759,444
90	SASOL Limited	Petroleum and Chemicals	12/01/2010	Triathlon	N/A	N/A	Renew	199,035,794,888
91	SASOL Limited	Petroleum and Chemicals	20/07/2010	Rugby	120	6	Stop	179,305,177,326
92	SASOL Limited	Petroleum and Chemicals	16/03/2011	Motorsport	N/A	N/A	New	234,763,669,172
93	Standard Bank Group Ltd	Banking	17/03/2003	Cricket	2	N/A	New	36,149,377,024
94	Standard Bank Group Ltd	Banking	23/03/2006	Football	15	N/A	New	119,058,013,976
95	Standard Bank Group Ltd	Banking	13/11/2007	Football	N/A	N/A	New	155,732,999,625
96	Standard Bank Group Ltd	Banking	13/08/2009	Cricket	N/A	N/A	Renew	148,585,264,780
97	Standard Bank Group Ltd	Banking	22/09/2009	Football	N/A	8	Renew	157,882,112,528
98	Standard Bank Group Ltd	Banking	26/01/2010	Football	N/A	6	New	163,618,349,055

Event nr.	Listed Company	Industry	Announcement date	Sporting discipline	Total expenditure (ZARmil)	Duration (years)	New; Renew or Stop sponsorship contract	Market cap (ZAR)
99	Standard Bank Group Ltd	Banking	02/03/2010	Football	N/A	N/A	Renew	172,979,146,701
100	Standard Bank Group Ltd	Banking	12/01/2011	Cricket	N/A	2	Renew	171,865,596,716
101	Standard Bank Group Ltd	Banking	07/04/2004	Cricket	N/A	N/A	New	57,705,314,881
102	Standard Bank Group Ltd	Banking	22/09/2005	Cricket	125	3	Renew	94,232,344,521
103	Standard Bank Group Ltd	Banking	25/07/2006	Football	70	5	Renew	98,632,267,392
104	Standard Bank Group Ltd	Banking	06/09/2007	Cricket	35	N/A	New	140,537,908,465
105	Standard Bank Group Ltd	Banking	17/10/2007	Football	N/A	N/A	Renew	148,031,410,252
106	Standard Bank Group Ltd	Banking	23/02/2010	Cricket	0.1	N/A	New	164,399,298,650
107	Standard Bank Group Ltd	Banking	28/03/2010		N/A	N/A	New	177,741,762,790
108	Standard Bank Group Ltd	Banking	29/09/2010	Cricket	N/A	N/A	Renew	163,618,890,031
109	Standard Bank Group Ltd	Banking	19/11/2010	Cricket	N/A	13	Stop	167,220,760,794
110	Standard Bank Group Ltd	Banking	19/11/2010	Football	130	10	Stop	167,220,760,794
111	Sun International Limited	Hotels and Gaming	06/11/2002	Athletics	N/A	N/A	Renew	2,342,208,459
112	Telkom SA Limited	Telecommunications Network	09/10/2006	Football	14.2	N/A	New	74,718,482,640
113	Telkom SA Limited	Telecommunications Network	23/11/2006	Golf	N/A	3	New	70,820,127,024
114	Telkom SA Limited	Telecommunications Network	07/08/2007	Football	N/A	N/A	New	88,738,724,827
115	Telkom SA Limited	Telecommunications Network	02/07/2009	Football	N/A	3	Renew	58,718,416,746
116	Telkom SA Limited	Telecommunications Network	31/01/2011	Cycling	N/A	3	New	18,321,177,531
117	Telkom SA Limited	Telecommunications Network	07/04/2011	Football	N/A	N/A	Stop	19,597,098,081
118	Vodacom Group Limited	Telecommunications Network	26/08/2010	Football	N/A	6	Stop	89,128,444,600

5.3 Descriptive statistics for the data

The descriptive statistics were computed using SPSS 19.0.1 version and the following output was obtained.

The analysis focus on each one of the event windows independently in order to establish the impact of a sponsorship announcement may have had on the share price taking into account the industry movement over the same period.

5.3.1 The One-sample T-Test

The average percentage abnormal returns in share prices were computed for each company over the 120 days before the announcement date (pre-event window = rp) to 120 days after the announcement date (post-event window = ra). The table below represents the output for the descriptive statistics (means and standard deviations) of the share prices before and after the announcement date. The analysis was categorised into 120, 90, 60, 30 and 5 days pre- and post event windows. Table 5.3-1 below summarises these results:

TABLE 5.3-1 – Descriptive statistics for the data:

		Statistics						
		Event window	Nr of observations	Mean	Median	Std. Deviation	Skewness	Kurtosis
Sponsoring Firms	p120		118	2.5%	3.8%	16.1%	-0.512	1.158
	p90		118	2.6%	3.1%	14.1%	-0.543	3.741
	p60		118	1.9%	2.7%	12.8%	-0.926	4.832
	p30		118	1.5%	1.8%	8.1%	0.357	2.151
	p5		118	0.0%	0.0%	3.1%	0.203	1.059
	a5		118	0.2%	0.2%	3.4%	0.394	3.08
	a30		118	1.5%	0.9%	9.7%	1.535	6.29
	a60		118	3.8%	3.3%	16.6%	4.716	38.136
	a90		118	5.2%	4.1%	20.3%	3.997	30.009
	a120		118	5.7%	2.9%	26.4%	5.592	48.029
Industry benchmark	ip120		118	4.3%	3.6%	11.0%	0.147	-0.712
	ip90		118	3.1%	2.1%	8.7%	-0.057	-0.584
	ip60		118	2.3%	2.1%	7.8%	-0.316	-0.023
	ip30		118	1.4%	0.6%	5.4%	0.131	0.419
	ip5		118	0.1%	-0.2%	2.5%	0.785	2.833
	ia5		118	0.1%	0.2%	2.4%	-0.231	1.75
	ia30		118	2.1%	2.3%	5.3%	-0.177	0.23
	ia60		118	3.8%	4.0%	7.9%	0.115	0.566
	ia90		118	4.3%	4.9%	10.9%	-0.067	0.235
	ia120		118	3.9%	4.6%	12.5%	-0.031	-0.371
Market Adjusted Abnormal Returns	rp120		118	-1.8%	-0.6%	13.3%	-2.505	12.806
	rp90		118	-0.5%	-0.7%	10.6%	-2.516	17.904
	rp60		118	-0.4%	0.5%	10.0%	-3.181	22.225
	rp30		118	0.1%	-0.3%	5.9%	0.337	3.276
	rp5		118	-0.1%	-0.2%	2.7%	-0.157	3.413
	ra5		118	0.1%	-0.1%	2.4%	0.068	2.387
	ra30		118	-0.5%	-0.4%	8.7%	1.262	10.247
	ra60		118	0.0%	-0.9%	13.7%	5.117	40.653
	ra90		118	0.9%	-1.1%	17.0%	5.028	39.485
	ra120		118	1.8%	-0.6%	23.1%	6.719	60.898

Note: Legend P=Prior, A=After; i.e. rp120 is % abnormal return 120 days prior announcement date and ra30 is % abnormal return 30 days after announcement date.

5.3.1.1 Mean and standard deviation for the data

This section focuses on the results relating to the mean and standard deviation observed from Table 5.3-1 above. The data have a 3-way split to accommodate the abnormal returns (for 120, 90, 60, 30 and 5 days pre-and post event window) of the sponsoring firms and the industry benchmarks (Financial; Industrial; Resources) respectively as well as presenting the Market Adjusted Abnormal Returns, calculated by application of the Formula 4.8-1 as discussed in Chapter 4.

The mean is calculated by summing the values of a variable for all observations and then divided by the number of observations (Norusis, 2005). This describes the central tendency of the data.

The standard deviation is calculated as the square root of the variance (Norusis, 2005). This describes the dispersion of the data. Since standard deviation is a direct form of variance, it will be used in place of the latter when reporting.

5.3.1.1.1 Sponsoring firms

The mean has a minimum of 0% (p5) and a maximum of 5.7% (a120), whilst the standard deviation minimum is 3.1% (p5) and the maximum is 26.4% (a120).

This seems to indicate that the abnormal return of share prices 5 days prior to the announcement date was very low and then increased significantly to a high of 26.4% 120 days after the announcement was made.

5.3.1.1.2 Industry benchmark

For the industry benchmark, the mean has a minimum of 0.1% (at ip5 and ia5) and a maximum of 4.3% (at ip120 and ia90). The standard deviation minimum is 2.4% (ia5) and the maximum is 12.5% (a120).

The fluctuation of the abnormal returns for the industry benchmark is less extreme when compared with the sponsoring firms' abnormal returns. The abnormal return of share prices 120 days prior to and 90 days after the announcement date was at its lowest and then increased to a high of 12.5% 120 days after the announcement was made.

5.3.1.1.3 Market Adjusted Abnormal Return

The Market Adjusted Abnormal Return mean minimum is 0.0% (ra60) and the maximum is 1.8% (at ip120 and ra120). The standard deviation has a minimum of 2.4% (ra5) and the maximum is 23.1% (ra120).

The Market Adjusted Abnormal Return of share prices 120 days prior to and 120 days after the announcement date was at its lowest before it reached a high of 23.1% 120 days after the announcement was made.

5.3.1.2 Data skewness and kurtosis

This section also relates to the results regarding skewness and the kurtosis presented in Table 5.3-1 above. The data has a 3-way split to accommodate the abnormal returns (for 120, 90, 60, 30 and 5 days pre-and post event window) for the sponsoring firms and the industry benchmarks (Financial; Industrial;

Resources) respectively as well as presenting the Market Adjusted Abnormal Returns, calculated by application of the Formula 4.8-1 as discussed in Chapter 4.

Skewness is a measure of symmetry of a distribution; in most instances the comparison is made to a normal distribution (Hair, Black, Babin, Anderson and Tatham, 2006). Schepers (undated) emphasises that those variables with a skewness higher than 2 should be avoided.

Kurtosis is the measure of the peakedness or flatness of a distribution when compared with the normal distribution (Hair et al., 2006). Leptokurtosis is normally associated with low reliabilities and should be avoided at all costs. Indices as high as 7 are rather extreme and signify very low reliabilities (Schepers, undated).

5.3.1.2.1 Sponsoring firms

Since the means are lower than the corresponding standard deviations, it implies that the abnormal return distribution is skewed to the right. In other words, the majority of the abnormal return percentages are smaller.

The skewness is confirmed by the p-values for skewness and kurtosis that are well above 0.05 indicating a low significance.

5.3.1.2.2 Industry benchmark

For the industry benchmark the means are lower than the corresponding standard deviations, which imply that the abnormal return distribution is skewed to the right. In other words, the majority of the abnormal return percentages is smaller.

The skewness is confirmed by the p-values for skewness and kurtosis that are well above 0.05 indicating a low significance. The p-values for ip60, ia90 and ia120 are below 0.05 and can be attributed to 'noise' in the market that is unrelated to the event window. These exceptions are not substantial enough to flag given that no trend had emerged and is considered unrelated to the event window.

5.3.1.2.3 Market Adjusted Abnormal Return

For the category Market Adjusted Abnormal Return the means are also lower than the corresponding standard deviations, which imply that the abnormal return distribution is skewed to the right. In other words, the majority of the abnormal return percentages are smaller.

The skewness is confirmed by the majority of the p-values for skewness and kurtosis that are above 0.05 indicating a low significance.

5.3.2 The One-Sample T-test

By determining if the abnormal returns are significant from zero, we inspect the significant One-Sample T-test and analyse the relation to the p-value. Any p-

value less than 0.05 results in the hypothesis being rejected, i.e. there is a significant variance from the selected constant (zero in this case).

The average percentage abnormal returns in share prices were computed for each company over the 120 days before the announcement date (pre-event window = rp) and 120 days after the announcement date (post-event window = ra). The table below represents the output for the p-value for the share prices before and after the announcement date. The analysis was categorised into 120, 90, 60, 30 and 5 days pre- and post event windows.

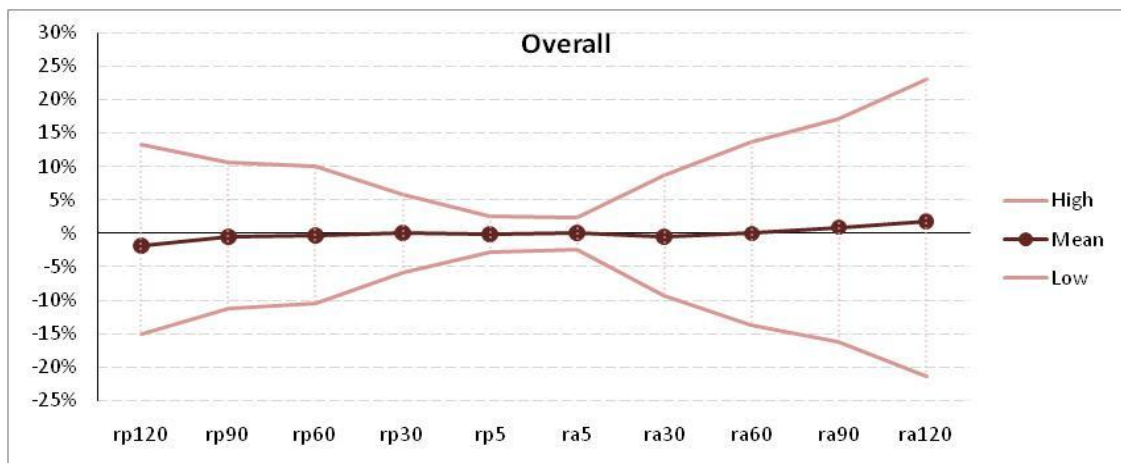
TABLE 5.3-2 – Statistics for the data: One-Sample T-test

2-Tailed T-Test						
Event window	t	Nr of observations	P-value	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
rp120	-1.502	118	0.136	-1.8%	-4.2%	0.6%
rp90	-0.563	118	0.575	-0.5%	-2.5%	1.4%
rp60	-0.393	118	0.695	-0.4%	-2.2%	1.5%
rp30	0.238	118	0.812	0.1%	-0.9%	1.2%
rp5	-0.436	118	0.664	-0.1%	-0.6%	0.4%
ra5	0.451	118	0.653	0.1%	-0.3%	0.5%
ra30	-0.651	118	0.517	-0.5%	-2.1%	1.1%
ra60	-0.005	118	0.996	0.0%	-2.5%	2.5%
ra90	0.594	118	0.554	0.9%	-2.2%	4.0%
ra120	0.822	118	0.413	1.8%	-2.5%	6.0%

From the results in the table above it is evident that there are no values below the 0.05 p-value.

The graph below illustrates the low and high distribution of the Market Adjusted Abnormal Returns. From the graph one can see the two tails are more or less identical, which indicates that the sponsorship announcement had little to no effect on the share price abnormal returns after the announcement date.

FIGURE 5.3-2 – Market Adjusted Abnormal Returns:



Based on the methodology one can then conclude that sponsorship announcements do not have a significant impact on share prices post the announcement date, when compared to the industry movement over the same period.

5.4 Hypothesis 1

5.4.1 Definition

The first hypothesis states that announcements regarding first time sponsorships will result in a positive share price return of the sponsoring firm. A test was conducted to establish if $\mu_{+1} > \mu_{-1}$, where μ_{+1} is the mean of the share price return after the announcement (post-event window) and μ_{-1} is the mean of the share price return before the announcement (pre-event window). The alternative hypothesis states that a first time sponsorship announcement has no impact on the share price return of the sponsoring firm and was designed as $\mu_{+1} \leq \mu_{-1}$.

5.4.2 Analysis of findings

The table below represent the output for the descriptive statistics (means and standard deviation) for share price abnormal returns of first time sponsorship announcements for the period prior to and after the announcement date. The analysis was categorised into 120, 90, 60, 30 and 5 days splits, prior to (rp) and after (ra) the announcement date.

TABLE 5.4.2-1 – First time sponsorship: Mean and Standard Deviation of share price abnormal returns

One-Sample Statistics				
Group		N	Mean	Std. Deviation
New	rp120	69	-1.2%	9.8%
	rp90	69	0.3%	7.8%
	rp60	69	-0.2%	7.7%
	rp30	69	-0.6%	6.2%
	rp5	69	-0.2%	2.7%
	ra5	69	-0.1%	2.4%
	ra30	69	-0.4%	8.9%
	ra60	69	0.1%	16.5%
	ra90	69	1.1%	20.2%
	ra120	69	2.5%	28.6%

The biggest difference in the abnormal share price returns is at the 120 day category (3.7% increase in abnormal returns), with the 5 day category (0.1% increase in abnormal returns) having the smallest difference in terms of abnormal share price returns. A statistical test needs to be done to confirm if the variances above are statistically significant.

For the first time sponsorship announcements, the means are significantly lower when compared with the corresponding standard deviations, which imply that the abnormal return distribution is skewed.

Since the One-Sample T-Test determines if the abnormal returns are significant from zero (and requires the data to be normally distributed), we inspect the significant One-Sample T-test and analyse the relation to the p-value. The analysis was categorised into 120, 90, 60, 30 and 5 days splits, prior to (rp) and after (ra) the announcement date.

TABLE 5.4.2-2 – First time sponsorship: P-values of share price abnormal returns

One-Sample Test							
Group		t	df	P-Value	Mean Difference	95% Confidence Interval of the Difference	
						Lower	Upper
New	rp120	-1.042	68	0.301	-1.2%	-3.6%	1.1%
	rp90	0.302	68	0.764	0.3%	-1.6%	2.1%
	rp60	-0.26	68	0.796	-0.2%	-2.1%	1.6%
	rp30	-0.833	68	0.408	-0.6%	-2.1%	0.9%
	rp5	-0.527	68	0.6	-0.2%	-0.8%	0.5%
	ra5	-0.395	68	0.694	-0.1%	-0.7%	0.5%
	ra30	-0.368	68	0.714	-0.4%	-2.5%	1.7%
	ra60	0.028	68	0.978	0.1%	-3.9%	4.0%
	ra90	0.443	68	0.659	1.1%	-3.8%	5.9%
	ra120	0.721	68	0.473	2.5%	-4.4%	9.3%

It is evident from the table above that none of the p-values are below 0.05 which implies that there are no significant variances between the window event periods and that the hypothesis is therefore rejected. Therefore, the alternative hypothesis (that a first time sponsorship announcement has no impact on the share price return of the sponsoring firm) is accepted.

5.5 Hypothesis 2

5.5.1 Definition

For the second hypothesis the study tests whether an announcement of a sponsorship renewal will result in a positive share price return of the sponsoring firm. A test was conducted to establish if $\mu_{+1} > \mu_{-1}$, where μ_{+1} is the mean of the share price return after the announcement (post-event window) and μ_{-1} is the mean of the share price return before the announcement (pre-event window). The alternative hypothesis states that a sponsorship announcement relating to the renewal of a sponsorship has no impact on the share price return of the sponsoring firm and was designed as $\mu_{+1} \leq \mu_{-1}$.

5.5.2 Analysis of findings

The table below represents the output for the descriptive statistics (means and standard deviation) for share price abnormal returns of sponsorship renewal announcements for the period prior to and after the announcement date. The analysis was categorised into 120, 90, 60, 30 and 5 days splits, prior to (rp) and after (ra) the announcement date.

TABLE 5.5.2-1 – Sponsorship renewals: Mean and Standard Deviation of share price abnormal returns

One-Sample Statistics				
Group		N	Mean	Std. Deviation
Renew	rp120	30	-4.2%	18.3%
	rp90	30	-1.5%	16.1%
	rp60	30	-1.0%	15.1%
	rp30	30	1.2%	6.4%
	rp5	30	0.2%	2.8%
	ra5	30	0.4%	2.8%
	ra30	30	-0.8%	8.1%
	ra60	30	0.3%	9.2%
	ra90	30	2.1%	13.1%
	ra120	30	1.0%	14.1%

The biggest difference in the abnormal share price returns are at the 120 day category (5.2% increase in abnormal returns), with the 5 day category (0.2% increase in abnormal returns) having the smallest difference in terms of abnormal share price returns. A statistical test needs to be done to confirm if the variances above are statistically significant.

For the sponsorship renewal announcements, the means are significantly lower when compared with the corresponding standard deviations, which imply that the abnormal return distribution is skewed.

We therefore inspect the results of the One-Sample T-Test, to determine if the abnormal returns are significant from zero (and require the data to be normally distributed), and analyse the results in relation to the p-value. The analysis was categorised into 120, 90, 60, 30 and 5 days splits, prior to (rp) and after (ra) the announcement date.

TABLE 5.5.2-2 – Sponsorship renewals: P-values of share price abnormal returns

One-Sample Test							
Group		t	df	P-Value	Mean Difference	95% Confidence Interval of the Difference	
						Lower	Upper
Renew	rp120	-1.243	29	0.224	-4.2%	-11.0%	2.7%
	rp90	-0.499	29	0.621	-1.5%	-7.5%	4.6%
	rp60	-0.379	29	0.708	-1.0%	-6.7%	4.6%
	rp30	0.994	29	0.329	1.2%	-1.2%	3.5%
	rp5	0.332	29	0.742	0.2%	-0.9%	1.2%
	ra5	0.806	29	0.427	0.4%	-0.6%	1.5%
	ra30	-0.543	29	0.591	-0.8%	-3.8%	2.2%
	ra60	0.169	29	0.867	0.3%	-3.2%	3.7%
	ra90	0.87	29	0.392	2.1%	-2.8%	6.9%
	ra120	0.378	29	0.708	1.0%	-4.3%	6.3%

From the table above it is evident that all the p-values are well above 0.05, which implies that there are no significant variances between the window event periods and that the hypothesis is therefore rejected. The alternative hypothesis (that a sponsorship announcement relating to the renewal of a sponsorship has no impact on the share price return of the sponsoring firm) is accepted.

5.6 Hypothesis 3

5.6.1 Definition

Hypothesis 3 supposes that the announcement of a sponsorship termination will result in a negative share price return of the sponsoring firm. A test was conducted to establish if $\mu_{+1} < \mu_{-1}$, where μ_{+1} is the mean of the share price return after the announcement (post-event window) and μ_{-1} is the mean of the share price return before the announcement (pre-event window). The

alternative hypothesis states that a sponsorship announcement relating to the renewal of a sponsorship has no impact on the share price return of the sponsoring firm and was designed as $\mu+1 \geq \mu-1$.

5.6.2 Analysis of findings

The table below represents the output for the descriptive statistics (means and standard deviation) for share price abnormal returns of sponsorship termination announcements for the period prior to and after the announcement date. The analysis was categorised into 120, 90, 60, 30 and 5 days splits, prior to (rp) and after (ra) the announcement date.

TABLE 5.6.2-1 – Sponsorship terminations: Mean and Standard Deviation of share price abnormal returns

One-Sample Statistics				
Group		N	Mean	Std. Deviation
Stop	rp120	19	-0.4%	15.0%
	rp90	19	-2.1%	8.7%
	rp60	19	0.3%	7.9%
	rp30	19	1.2%	3.3%
	rp5	19	-0.3%	2.2%
	ra5	19	0.4%	1.9%
	ra30	19	-0.5%	9.5%
	ra60	19	-0.7%	7.8%
	ra90	19	-1.4%	8.2%
	ra120	19	0.3%	8.0%

The biggest difference in the abnormal share price returns is at the 30 day category (1.7% decrease in abnormal returns), with the 90 day category (0.7% decrease in abnormal returns) having the smallest difference in terms of

abnormal share price returns. A statistical test needs to be done to confirm if the variances above are statistically significant.

For the sponsorship termination announcements, the means are significantly lower when compared with the corresponding standard deviations, which imply that the abnormal return distribution is skewed.

Since the One-Sample T-Test determines if the abnormal returns are significant from zero (and requires the data to be normally distributed), we inspect the significant One-Sample T-test and analyse the relation to the p-value. The analysis was categorised into 120, 90, 60, 30 and 5 days splits, prior to (rp) and after (ra) the announcement date.

TABLE 5.6.2-2 – Sponsorship terminations: P-values of share price abnormal returns

One-Sample Test							
Group		t	df	P-Value	Mean Difference	95% Confidence Interval of the Difference	
						Lower	Upper
Stop	rp120	-0.104	18	0.918	-0.4%	-7.6%	6.9%
	rp90	-1.053	18	0.306	-2.1%	-6.3%	2.1%
	rp60	0.148	18	0.884	0.3%	-3.5%	4.1%
	rp30	1.644	18	0.118	1.2%	-0.3%	2.8%
	rp5	-0.588	18	0.564	-0.3%	-1.4%	0.8%
	ra5	0.915	18	0.372	0.4%	-0.5%	1.3%
	ra30	-0.251	18	0.805	-0.5%	-5.1%	4.0%
	ra60	-0.387	18	0.703	-0.7%	-4.4%	3.1%
	ra90	-0.746	18	0.466	-1.4%	-5.3%	2.5%
	ra120	0.177	18	0.861	0.3%	-3.5%	4.2%

Considering the results from the table above, it is evident that all the p-values are well above 0.05, which implies that there are no significant variances between the window event periods and that the hypothesis is therefore rejected.

It is then concluded that based on the results Hypothesis 3 is rejected and that the alternative hypothesis (that a sponsorship announcement relating to the renewal of a sponsorship has no impact on the share price return of the sponsoring firm) is accepted.

5.7 Descriptive statistics for the categories

The sample was split into three main categories as previously mentioned:

- 1) Industry of the sponsoring firm;
- 2) Sporting discipline receiving the sponsorship;
- 3) Decision made (New; Renew; Terminate) with regards to the sponsorship contract.

The table on the next page describes the data breakdown into categories:

TABLE 5.7-a – Descriptive statistics for categories:

Industry Split		
Categories	Nr of observations in dataset	% of total
Banking	58	49.2%
Other	32	27.1%
Telecommunications	28	23.7%
Total	118	100%

Sport Split		
Categories	Nr of observations in dataset	% of total
Other	17	14.4%
Football	55	46.6%
Rugby	20	16.9%
Athletics	14	11.9%
Cricket	12	10.2%
Total	118	100%

Decision Split		
Decision wrt contract	Nr of observations in dataset	% of total
New	69	58.5%
Renew	30	25.4%
Terminate	19	16.1%
Total	118	100%

As mentioned in Chapter 4, we used ANOVA to test for significant variance when the p-value is smaller than 0.05 between the groups and we apply this principle to all 3 categories.

5.7.1 Industry

The table below illustrate the descriptive statistics for the Industry category by using the ANOVA technique:

TABLE 5.7-1 – Descriptive statistics for Industry: ANOVA

ANOVA - Industries						
Event Window		Sum of Squares	df	Mean Square	F	P-Value
rp120	Between Industries	1055.131	2	527.565	3.113	0.048
	Within Industries	19490.731	115	169.485		
	Total	20545.862	117			
rp90	Between Industries	326.458	2	163.229	1.467	0.235
	Within Industries	12794.575	115	111.257		
	Total	13121.033	117			
rp60	Between Industries	439.939	2	219.97	2.24	0.111
	Within Industries	11290.811	115	98.181		
	Total	11730.75	117			
rp30	Between Industries	24.46	2	12.23	0.347	0.707
	Within Industries	4051.365	115	35.229		
	Total	4075.825	117			
rp5	Between Industries	9.415	2	4.708	0.666	0.516
	Within Industries	812.543	115	7.066		
	Total	821.958	117			
ra5	Between Industries	2.094	2	1.047	0.172	0.842
	Within Industries	699.453	115	6.082		
	Total	701.547	117			
ra30	Between Industries	199.856	2	99.928	1.314	0.273
	Within Industries	8746.02	115	76.052		
	Total	8945.875	117			
ra60	Between Industries	200.401	2	100.2	0.526	0.592
	Within Industries	21904.323	115	190.472		
	Total	22104.723	117			
ra90	Between Industries	229.277	2	114.639	0.39	0.678
	Within Industries	33776.277	115	293.707		
	Total	34005.554	117			
ra120	Between Industries	198.823	2	99.411	0.183	0.833
	Within Industries	62365.367	115	542.308		
	Total	62564.19	117			

From the table above it is evident that apart from the p-value at rp120, there are no p-values below 0.05, which implies that there are no significant variances between the industries. Given that the p-value at rp120 is the only p-value below 0.05, this is not substantial enough to flag given that no trend had emerged. Thus, we can contribute this to 'noise' in the market, which is unrelated to the specific event that had taken place.

The graphs below show the movement in abnormal return percentages for some of the various industries. It's evident that the sponsorship announcements had no significant impact on the share price returns post announcement date.

FIGURE 5.7-1a – Industry: Telecommunications Networks

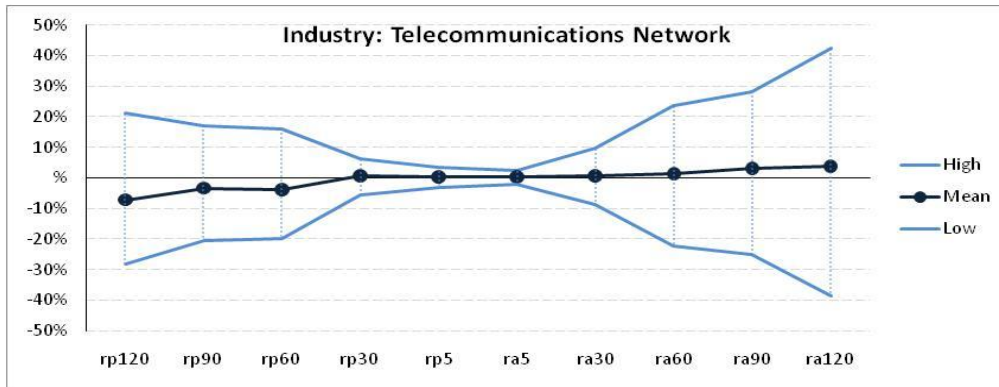


FIGURE 5.7-1b – Industry: Banking

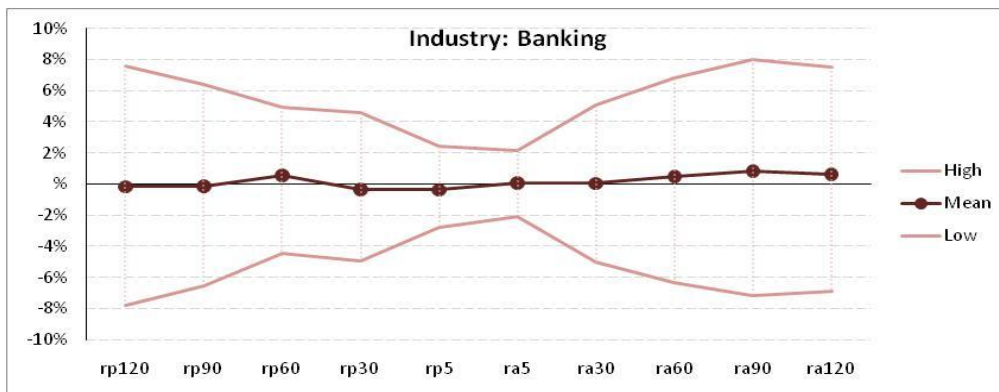
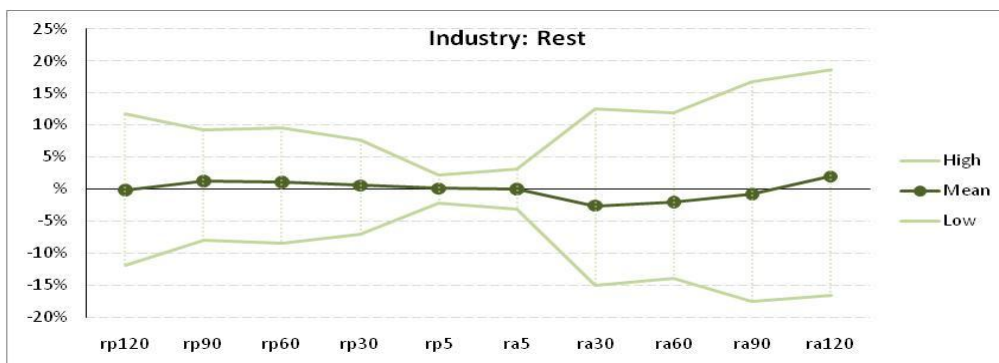


FIGURE 5.7-1c – Industry: All the rest



5.7.2 Sport discipline

The table below illustrate the descriptive statistics for the sporting discipline category by using the ANOVA technique:

TABLE 5.7-2 – Descriptive statistics for sporting discipline: ANOVA

ANOVA - Sporting Disciplines						
Event Window		Sum of Squares	df	Mean Square	F	P-Value
rp120	Between Sports	64.527	2	32.263	0.181	0.835
	Within Sports	20481.335	115	178.099		
	Total	20545.862	117			
rp90	Between Sports	33.419	2	16.71	0.147	0.864
	Within Sports	13087.614	115	113.805		
	Total	13121.033	117			
rp60	Between Sports	95.032	2	47.516	0.47	0.626
	Within Sports	11635.718	115	101.18		
	Total	11730.75	117			
rp30	Between Sports	19.739	2	9.869	0.28	0.756
	Within Sports	4056.086	115	35.27		
	Total	4075.825	117			
rp5	Between Sports	12.406	2	6.203	0.881	0.417
	Within Sports	809.552	115	7.04		
	Total	821.958	117			
ra5	Between Sports	3.79	2	1.895	0.312	0.732
	Within Sports	697.757	115	6.067		
	Total	701.547	117			
ra30	Between Sports	80.393	2	40.197	0.521	0.595
	Within Sports	8865.482	115	77.091		
	Total	8945.875	117			
ra60	Between Sports	696.653	2	348.327	1.871	0.159
	Within Sports	21408.07	115	186.157		
	Total	22104.723	117			
ra90	Between Sports	1309.916	2	654.958	2.304	0.104
	Within Sports	32695.638	115	284.31		
	Total	34005.554	117			
ra120	Between Sports	2051.058	2	1025.529	1.949	0.147
	Within Sports	60513.132	115	526.201		
	Total	62564.19	117			

The table above again represent evidence that the p-values are well above 0.05 which implies that there are no significant variances between the various sporting disciplines.

The graphs below show the movement in abnormal return percentages for some of the various sporting disciplines. It's evident that the sponsorship announcements had no significant impact on the share price returns post announcement date. However, one could argue a slight impact in the share price abnormal returns for rugby and (illustrated in Figure 5.7.2b) and a more definite impact for cricket (illustrated in Figure 5.7.2d) as the post announcement date period look somewhat different to the pre-announcement event.

FIGURE 5.7.2a – Sporting discipline: Football

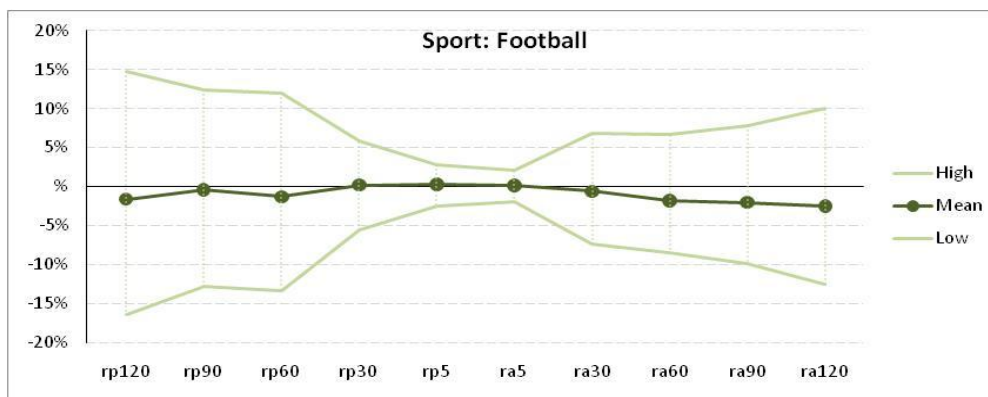


FIGURE 5.7.2b – Sporting discipline: Rugby

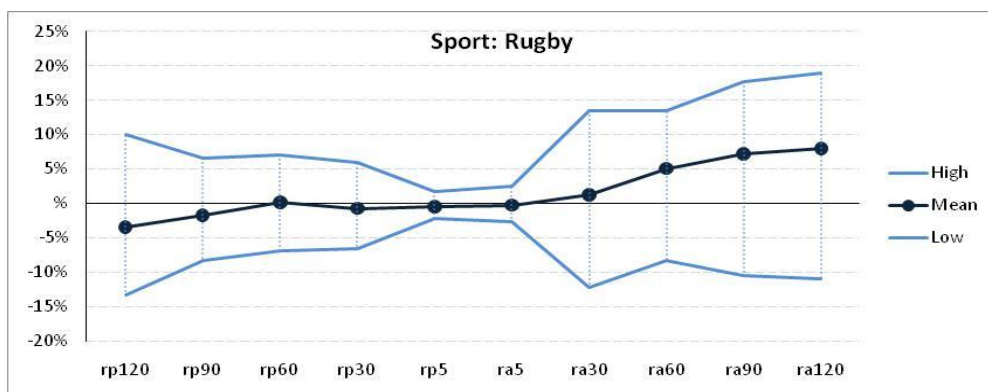


FIGURE 5.7.2c – Sporting discipline: Athletics

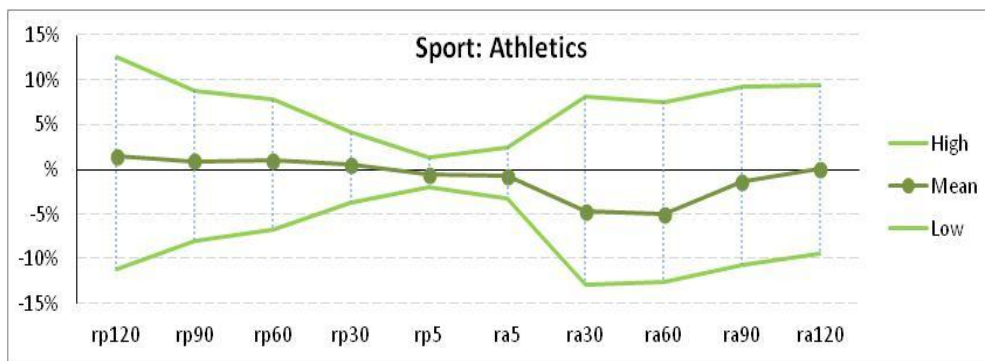


FIGURE 5.7.2d – Sporting discipline: Cricket

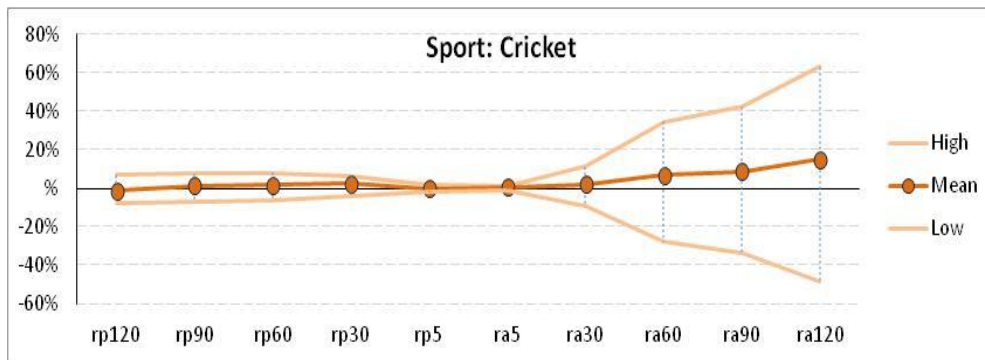
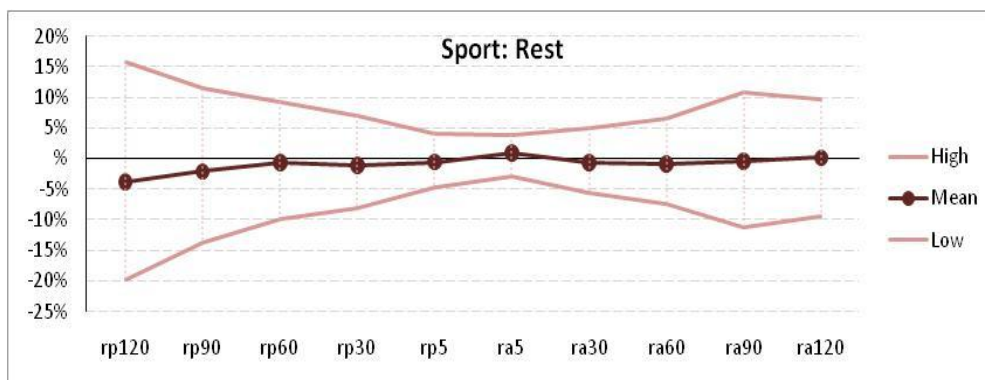


FIGURE 5.7.2e – Sporting discipline: All the rest



5.7.3 Decisions with regards to sponsorship contracts

The table below illustrates the descriptive statistics for the sponsorship contract decisions (New, Renew or Terminate the contract) category by using the ANOVA technique:

TABLE 5.7-3 – Descriptive statistics for sponsorship contract decisions: ANOVA

ANOVA - Decisions						
Event Window		Sum of Squares	df	Mean Square	F	P-Value
rp120	Between Decisions	228.119	2	114.06	0.646	0.526
	Within Decisions	20317.743	115	176.676		
	Total	20545.862	117			
rp90	Between Decisions	119.381	2	59.69	0.528	0.591
	Within Decisions	13001.652	115	113.058		
	Total	13121.033	117			
rp60	Between Decisions	22.378	2	11.189	0.11	0.896
	Within Decisions	11708.372	115	101.812		
	Total	11730.75	117			
rp30	Between Decisions	93.909	2	46.955	1.356	0.262
	Within Decisions	3981.916	115	34.625		
	Total	4075.825	117			
rp5	Between Decisions	3.303	2	1.652	0.232	0.793
	Within Decisions	818.655	115	7.119		
	Total	821.958	117			
ra5	Between Decisions	7.821	2	3.91	0.648	0.525
	Within Decisions	693.726	115	6.032		
	Total	701.547	117			
ra30	Between Decisions	3.49	2	1.745	0.022	0.978
	Within Decisions	8942.385	115	77.76		
	Total	8945.875	117			
ra60	Between Decisions	11.656	2	5.828	0.03	0.97
	Within Decisions	22093.068	115	192.114		
	Total	22104.723	117			
ra90	Between Decisions	143.416	2	71.708	0.244	0.784
	Within Decisions	33862.139	115	294.453		
	Total	34005.554	117			
ra120	Between Decisions	93.454	2	46.727	0.086	0.918
	Within Decisions	62470.736	115	543.224		
	Total	62564.19	117			

Once again, by consulting the table above, it is evident that the p-values are well above 0.05 which implies that there are no significant variances between the various sporting disciplines.

CHAPTER 6: DISCUSSION OF RESULTS

6.1 Introduction

This chapter interprets and discusses the results of the statistical analysis defined and presented in Chapter 5. The literature review discussed in Chapter 2 will be setting the context for this discussion. Key concerns with regards to the results are also highlighted.

6.2 Analysis of overall finding: Sponsorship announcements

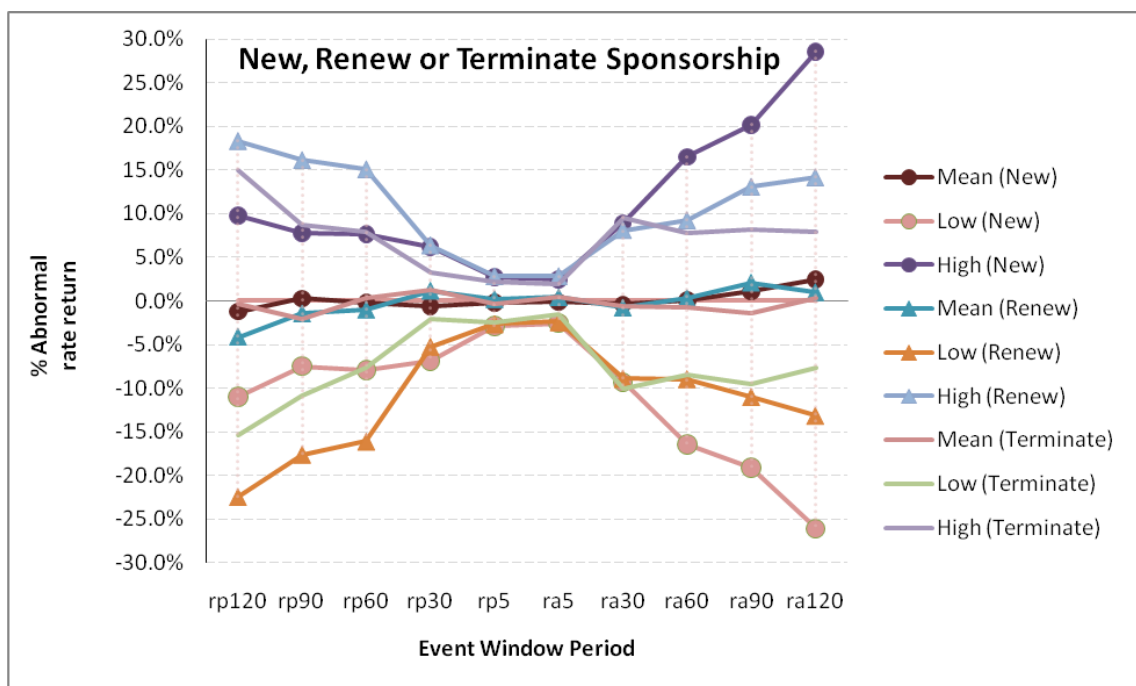
In section 5.3.2 we made use of the significant One-Sample T-test to analyse the relation to the p-value for the final sample for the data illustrated in Table 5.3-2. The analysis was used to establish whether any p-value was less than 0.05, which would have implied that there is a significant variance from the selected constant.

The average percentage abnormal returns in share prices were computed for each company over the 120 days before the announcement date (pre-event window = r_p) and 120 days after the announcement date (post-event window = r_a).

The results from this analysis confirmed that no values were below the 0.05 p-value, which implied that there was no significant variance. Therefore, the conclusion was made that sponsorship announcements from JSE listed companies had no significant impact on share price returns.

The graph below illustrates the mean, low and high comparable distribution of the abnormal returns for events of first time sponsorship announcements, sponsorship renewals announced and the termination of sponsorships announced by JSE listed companies. From the graph one can see the two tails (either side of rp5 and ra5) for each of the announcements made and the corresponding event windows. The tails, either side, more or less identical indicate that the sponsorship announcement had little to no effect on the share price abnormal returns after the announcement date.

FIGURE 6.2-1 – Sponsorship announcements: New; Renew & Terminate



6.3 Comparison to findings from previous studies

Given the conclusion as discussed in section 6.2 that sponsorship announcements from JSE listed companies have no impact on share price

returns, one is urged to compare this result to the findings from previous studies.

The studies discussed in the literature concluded that sponsorship announcements had a direct impact on the share price returns and resulted in a change, either negative or positive, in the share price return. However, all of studies referred to was based on foreign markets, with the majority focusing on the USA market.

6.3.1 South African market versus other markets

The size of the South African capital market compared with other capital markets over a period of time would have had a major role to play in the outcome of this study. Spais et al. (2006) mentioned that investors need to seriously assess the volatility of the environment as the strongest force which influences investors' behaviour.

According to the JSE (2010), the JSE with a share market capital value of US\$898 billion, is the 20th largest stock exchange in the world, and has over 400 listed companies.

In comparison, the New York Stock Exchange (NYSE), is the world's largest stock exchange and represents one-third of the world's equity trading (NYSE, 2010). The NYSE has a share capital market value of US\$13.39 trillion and has over 8,000 listed companies (NYSE, 2010). The Australian Stock Exchange (ASX) is the world's sixth largest stock exchange with a share market capitalization of US\$1.3 trillion and has 2,192 listed companies.

Therefore, given this market factor, share capital market value it is evident that the USA capital market could present a greater impact on share price movements in comparison with the South African Market.

6.3.2 *Direct product linkage to sponsored sport (Congruence)*

One important concept in studies of consumer responses to sponsorship is the degree of 'congruence' found in the relationship between the sponsor and the event (Cornwell et al. 2005). For the purposes of this study, 'congruent' sponsorships are broadly defined by applying the 3 principles used by Cornwell et al. (2005) as:

- 1) those in which the sponsoring product either has a direct relationship with the sponsored sport (i.e. branded shoes for athletics); or
- 2) is likely to be seen while watching or attending a televised event; and/or
- 3) is clearly consistent with an active sporting lifestyle (Virgin Active Fitness Centres)

Sponsors or products that are viewed as being closely related to the event being sponsored are argued to have a number of advantages over unrelated sponsors (Cornwell et al., 2005; Clark et al., 2009). Cornwell et al. (2005) referred to the writings of McDaniel (1999) and Crimmins et al. (1996) who suggested that the nature of the congruence between the sponsor and event is an important determinant to the sponsorship success. The study delivered by Cornwell et al. (2005) on Major-League Sports confirmed that investors believe that sponsorships with direct ties to their sponsored sports increase share

prices more than sponsorships undertaken by companies in unrelated industries. The study by Cornwell et al. (2001) specifically showed that the Indianapolis 500 with specific ties to product linked sponsorships experienced significant increases in share price returns (almost 3%).

The focus of this study was not to determine the possibility of congruence in the South African market between sponsor and the event. However, based on the definition from Cornwell et al. (2005), there is a strong possibility that congruence between the sponsor and the event could exist in South Africa.

6.3.3 Benefits of market share: small versus big

In their study, Cornwell et al. (2005) refers to company market share in the sponsorship context which stems from Webber's Law (Miller, 1962). Webber's Law states that a stimulus change (in this case, the value of the new sponsorship commitment to the brand) needed to produce a noticeable difference as a constant proportion of the starting level of the stimulus (Cornwell et al., 2005). As Webber Law implies, companies with truly dominant market position may find that their sponsorships are less likely to be perceived as an effective raising awareness or substantially changing image than those firms starting from a much lower base (Cornwell et al., 2005). The authors of Cornwell et al. (2005) found that "a product or service with a 10 percent share of the market in a given product or service category experienced about a 7 percent larger cumulative abnormal return than did a company with a 50 percent market share" (p. 409). This result suggest that companies with a smaller product market share have more to gain from official sport sponsorships than those

companies holding a more dominant market share position (Cornwell et al. 2005).

The majority of South African companies present in this research sample either have a majority share holding position in their respective industries, or share the dominant market position with one or two other companies in the respective industry. The market cap values in TABLE 5.2-1 provide some indication that market dominance is present when compared to other sponsoring companies within the same industry within the sample. Clark et al. (2009) found strong evidence that there is a positive relationship between firm's market value and its abnormal returns. Therefore, one can assume that one of the reasons for the insignificant impact sponsorship announcements had on share price returns can be attributed to the dominant positions held by the majority of the companies in their respective industries.

6.3.4 Company market value effects

The market value reflects the effects of differences in corporate scale on sponsorship returns (Cornwell et al., 2005). The market values in TABLE 5.2-1 further indicates a significant increase in market value for each of the sponsoring firms over the 12 year period (i.e. the market value for The Standard Bank Group increased by R131 billion from 17 March 2003 to 19 November 2010, while MTN Group Ltd's market value increased by R218 billion from 16 November 1999 to 20 January 2011).

Clark et al. (2009) argued that “since title sponsorships are expensive and highly visible programs, the lack of response (either way) cannot likely be attributed to inattention on the part of investors” (p. 175).

Generally, ceteris paribus, for any given fixed level of sponsorship net present value (NPV) its abnormal return value must decline as corporate size in terms of market cap increases. Accordingly, the direction of the correlation between shareholder wealth effects of the sponsorship and market value is negative (Cornwell et al., 2005). Given the rapid increases experienced in market value, one can therefore conclude that greater potential abnormal returns were eroded which resulted in the lower abnormal returns in share prices experienced in this study.

6.3.5 *The effect of selective data*

Selective data from the sample can result in limitation to the outcome of the study (Johnston, 2010; Clark et al., 2009). Clark et al. (2009) also believes that in addition to straight forward deliverable communication outcomes, sponsorship experience may play a role in shareholder perceptions (Clark et al. 2009).

As discussed in sections 5.4, 5.5 and 5.6, the study have found that no significant impact on the abnormal share price returns when an announcement was made relating to first time sponsorship, the renewal of a sponsorship or the termination of a sponsorship. To illustrate the effect of selective data, reference is made to the study by Clark et al. (2009) who found very different results when analyzing the share price returns of new versus renewing sponsorships for the

three different sports (i.e. NASCAR; NCAA: PGA). The termination of sponsorships was eliminated from the sample. In the case of NASCAR there were no differences between new sponsorships and renewals, whereas with NCAA bowl games and PGA, striking differences were found between new and renewing sponsorships (Clark et al., 2009). New sponsorships for NCAA bowl games were negative whereas renewals trade at market clearing prices (Clark et al., 2009). Interestingly, the results of abnormal share price returns for new and renewing sponsorships of PGA tournaments were the opposite of NCAA bowl games (Clark et al., 2009). Overall, NASCAR sponsorship announcements were positively received (Clark et al., 2009).

Although the overall outcome of this study replicates the outcomes of each of the different sponsorship announcement categories (new; renew; terminate), by considering the work of Clark et al. (2009) it can be concluded that selective data could have a definite impact on the outcome of the overall analysis.

6.3.6 Data platform and announcement medium

A number of similarities and differences were identified when the various data platforms accessed and media channels used to communicate announcements were compared to prior research.

Cornwell et al. (2001) retrieved data from various sports media websites, archived data from the sponsoring firm as well as accessing websites from the various sporting bodies. Clark et al. (2010) had to access online data bases maintained by the various sporting associations as well as online databases such as Nexis/Lexis and Factiva (“a business information and research tool

owned by Dow Jones & Company”, (www.wikipedia.com, accessed 12.10.2011)) in order to retrieve information on sponsorship announcement. (Kim, 2010) gathered data from official sporting bodies websites, whereas Cornwell et al. (2005) made use of web pages of each individual league. Johnston (2010) made use of a key word search of several data databases which include corporate databases of archived press releases, the ASX, and the Lexis-Nexis database for Australian newspapers and newswires.

Kim (2010) used the arguments by Smythe (2007) and Farrelly and Greyser (2007), who found that new media such as internet broadcasting and other traditional platforms, such as press and radio, play an important role for sports followers, to emphasise the need for future research in the field of media communication.

6.4 Conclusion

The fundamental question that this research aimed to answer was whether sponsorship announcements had a significant impact on the sponsoring firm’s share price with particular focus on three announcement categories i.e. (i) new, (ii) renew and (iii) termination.

Analysis of the findings indicated that sponsorship announcements relating to new, renewed and terminations had no significant impact on the sponsoring firm’s share price which resulted in all the hypotheses being rejected. The findings for the South African market in some parts vary from the literature which focuses predominantly on the international market. However, evidence do

exist that findings from international studies show sponsorship announcements had no impact on share price returns (Clark et al., 2009; Cornwell et al., 2005)

Therefore, based on the evidence and discussion in this document, one can conclude that sponsorship announcements from JSE listed companies do not have an impact on share price returns.

CHAPTER 7: CONCLUSION

7.1 Introduction

In this final chapter, the major findings and conclusions of the research are presented. This chapter also discusses the insights and implications based on the results. This chapter draws the study to a close with various recommendations for possible future research.

7.2 Summary of key findings

Sponsorship announcements by JSE listed companies have proved not to have a significant impact on the share price return of the sponsoring firm. Even when considering the impact sponsorship announcements had on three industry and sporting categories, no impact was found. This phenomenon is somewhat different from other capital markets across the world as summarised and presented in Table 2.1-1.

The contrary, however, was also proven when reference was made to the study done by Clark et al. (2009) on corporate announcements of title sponsorships of tennis and golf tournaments, auto racing (NASCAR) and college bowls, when it was found that there was no evidence that title sponsorships conveyed either positive or negative information to investors. Only NASCAR racing was associated with increased share prices (Clark et al., 2009). Similarly when reference was made to the study by Cornwell et al. (2005) based on major league sports, two (NFL and MLB) of the five major-league sport disciplines

used in the study showed results that are indistinguishable from zero, whereas those of PGA, NBA and NHL are statistically positive for only *some* windows.

This study has shown similar results for the sponsorship announcement categories (new; renew; terminate). The effect selective data could have had on the outcome of the study was discussed and following the analysis of Clark et al. (2009)'s study, it was concluded that a definite effect on the overall result achieved was identified.

7.3 Recommendations to key stakeholders

7.3.1 Sponsoring companies

7.3.1.1 Consider investor understanding (and lack thereof)

In future, sponsoring firms should manage their communication to the markets more carefully. It is possible that investors do not fully understand the sponsoring firm's marketing strategy or event find it too complex to accurately interpret the firms signal to the market (Johnston, 2010).

Also, in the South African market it could be debated that investors believe that sponsorship investments are not value enhancing. It could very well be possible that investors do not believe or understand the signal send from the sponsoring firm to the market. This 'non-believe' by investors could very well transforms into investors doubting the sponsoring firm in terms of having the capabilities and in particular the necessary resources to generate future cash flows from their sponsorship arrangements that are equal to or slightly better than the cost of the original sponsorship investment. Or it could be that investors believe that

the sponsoring firm is tying up its cash flows to an investment which is believe not to be the most optimal investment for maximum returns at the time.

Reflecting on the work done by Johnston (2010) regarding signalling, a number of factors were identified that could play an important role in the way the sponsoring firm communicate to the market as well as the interpretation of the signal by the market:

- Johnston (2010) refers to the work done by Ross (1977) and Spence (1974, 2002) and defines signalling as a “theory that is fundamentally a theory of communication which posits that markets will be more efficient if sellers provide *more information* to buyers to reduce the level of information asymmetry that may exist between them” (p. 160).
- Johnston (2010) then extents her argument by applying the definition of signalling theory to the sponsorship context, and argues that the “signalling theory suggests that firms announcing their intention to invest in sponsorship marketing activities are more informed about their firm’s prospects for future *growth and profitability* than other market participants” (p. 160).
- Johnston (2010) believes that the signal needs to be “sufficiently *observable and unambiguous* to ensure informed participants (i.e. investors) are able to comprehend and exploit the signal successfully” (p.160).
- Finally, the signal should convey information that is value-relevant to the firm’s *current and long-term* economic performance, such as details

about changes in marketing strategy, advertising campaigns and brand equity metrics (Johnston, 2010)

Based on indications that investors hold a negative view about some types of new sponsorship arrangements, Clark et al. (2002) argue that new sponsorships may signal to the market place a lack of experience in sponsorship management on the part of both the sponsoring firm as well as the property or sport discipline and consequently may suggest uncertain sponsorship outcomes.

In order to fully exploit sponsorship investments, extensive ongoing promotional activities are required to reinforce the sponsorship-event link in the minds of customers (Johnston, 2010). It is evident that communication of sponsorship investment plays an important role as the investment that is made in the product. As a result, the study would recommend that sponsoring firms consult professional communication assistance before an announcement is made to the market.

7.3.1.2 The impact of announcement delay

The time of the sponsorship announcement is as important as the way the announcement is communicated. Extended periods of searching for appropriate sponsors, either new or a replacement sponsor, may signal a lack of experience (on the part of the property and the sponsor) to the market place and thus leads to uncertain outcomes (Clark et al., 2009).

Therefore, sponsoring firms are urged to limit the delay of announcing the sponsorship to the market as far as possible.

7.3.1.3 Length of the sponsorship contract

The length of the sponsorship contract could very much be another important factor to be considered by sponsoring firms. Considering the results provided in Table 5.2-1, one can argue that there is sufficient evidence that sponsorship investors in South Africa in general prefer short sponsorship contracts of 2 to 5 years. This differs from the findings of Clark et al. (2002) who found that 20-year stadium sponsorship contracts in the North American market were perceived more positively than shorter-term 5-year arrangements.

7.3.1.4 The medium used for making a sponsorship announcement

A final recommendation to sponsoring firms is to carefully select the medium when making a sponsorship announcement. Experience in data collection for this study have shown that the majority of the information from sponsorship announcements were retrieved from websites including general sport marketing, 24 hour news, sporting bodies and official individual sport. Very little information on the announcements was found on the actual sponsoring firm's website or on the SENS, the JSE communication platform for listed companies. Section 6.3.6 discusses the findings from this study to previous studies in more detail.

Based on these findings, this study would recommend that sponsoring firms also consider their own public websites as well as SENS when communicating a sponsorship announcement to the market.

7.3.2 Investors

Investors (individual investors, institutional investors, fund managers) should consider all available information before making an investment decision. Reflecting on the work done by Spais et al. (2006) regarding investor perception and decision making following a sponsoring firm's communication to the market, a number of factors was identified that could play an important role in the way investors interpret the signal:

- “Influences relates to beliefs, preferences, heuristic behaviour and over confidence” (Spais et al., 2006, p. 58). This means that investors tend to be *overconfident*, which in return causes an overweight of their private information and an *underweight* of the public information (Spais et al., 2006).
- Investors' *imperfect memory* is prone to follow new information signals in volatile environments (Spais et al., 2006).
- Investors tend to *believe* more in recent information rather than the old information (Spais et al., 2006).
- Spais et al. (2006) suggests that purchase decisions for financial assets should be made on the basis of investor beliefs regarding the future risk and return of those assets.

Therefore, the appeal to investors is to consider all available information relating to the sponsorship, the sponsoring firm and the product when making an investment decision. Also, ensure that relevant information regarding the

sponsoring firm's marketing strategy, future investments and brand development is fully understood.

7.3.3 Advertising agencies and Rights holders

Previous studies have shown a positive correlation between the impact a sponsorship announcement had on the sponsoring firm and the impact the same set of announcements had on the advertising agency and the rights holder (L.K. Mathur and Mathur, 1996; Hozier and Schatzberg, 2000; Kulkarni, Vora and Brown, 2003). Johnston, 2007 further quoted Mathur et al. (1996) who interpreted "the findings as a sign that investors view such announcements as an admission by the sponsoring firm that their current marketing strategies are ineffective" (p. 13).

The following are recommendations to be considered by advertising agencies and rights holders before signing any contractual agreement with the sponsoring firm:

- i. Ensure that marketing strategies proposed to sponsoring firms are accurate, detailed and that appropriate performance measurements have been agreed.
- ii. Also, ensure that the sponsoring firm is confident that the company strategy and the marketing strategy are aligned.
- iii. Be realistic and reduce the number of categories they sell (Crow and Hoek, 2003). As revenue from sponsorship grow, so does the temptation

to increase the number of sponsorships and classes (Crow et al., 2003). By having a consolidated portfolio, advertising agencies and right holders will have greater control over their customers (Crow et al., 2003). Also, as sponsorship's popularity has increased, so too has competition to secure and protect sponsorship rights (Crow et al., 2003). A consolidated portfolio could prevent contract being lost to rivals.

7.4 Future research

There are a number of ideas for future research in the field of the impact sponsorship announcements have on share price returns for JSE listed companies. The ideas are as follows:

7.4.1 Improved dataset

Similar analysis could be done by using a greater sample size. One way to achieve this is to expand the period of analysis to cover sponsorship announcements prior 1 January 1998, or even after 31 May 2011. The current research analyse announcements between 1 January 1998 and 31 May 2011.

7.4.2 Using different benchmarking criteria

The same analysis can be done by using a different benchmark against the data set. For this study, performance of JSE companies was benchmarked against the three major industry indices, namely the FINDI (Financial Services (J212) Index), the INDI (Industrial (J212) Index) and the RESI (Resources (J258) Index). A different set of indices such as the All Share Index could be

used or even different set of financial principles (i.e. P/E ratio; Dividend Yield etc.) can be selected to determine the benchmarking criteria.

7.4.3 Using a different capitalisation model

This study applied the Efficient Market Hypothesis capitalisation model to understand how shares are priced. By using a different capitalisation model, such as Capital Asset Pricing Model (CAPM), Dividend Yield, Earning Yield or Book Value one could apply similar principles in determining outcomes of sponsorship announcements for JSE listed companies.

7.4.4 Qualitative research approach

For this study a quantitative research approach was followed. Reliance was placed on the cause and effect of the relationship between sponsorship announcements made available in the field of sponsorship media announcements and share prices.

An alternative way to analyse the perceived value of sponsorship announcements is by way of conducting a qualitative approach using for instance a survey design to gather the views, practices and event the considerations of investors. More often than not, information coming to the market is not sufficient enough to cause share price changes, however, sometimes information does cause investors to rethink investment strategies, buying if the information is positive and selling if the information is negative (Mathur et al., 1995). The findings by following this approach could present

some interesting results on the value of marketing strategies as perceived by investors.

7.5 Conclusion

The value of this research was to test the impact sponsorship announcements could have on the sponsoring firm's share price return, considering companies that are listed on the Johannesburg Stock Exchange. The research went a little further in assessing the impact first time sponsorships, sponsorship renewals and the termination of sponsorships have on share price returns.

It was shown that sponsorship announcements had no significant impact on share price returns for JSE listed companies. This result was in line with the findings for the individual categories, i.e. first time sponsorships, renewals and terminations.

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