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Editorial Open Access

Marketing-Accounting-Finance Interface: The Role of Chief Marketing Officer

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Editorial

This article examines the interface between marketing, accounting, and finance and the role of chief marketing officer (CMO) on the interface. Historically, accounting and finance have been recognized to be the two most closely related business areas for both professionals and academics. How financial reporting of accounting items is relevant to market value has been a longstanding topic for accounting researchers. However, it has been a concern that the value relevance of accounting information in the capital market has been decreasing over the recent years. Brown et al. [1], for example, find that the value relevance of book value of equity and accounting earnings has decreased over the period 1958-1996. Prior research suggests that the reduction in managers' myopic financial reporting and increase of voluntary disclosures of other information in addition to accounting information, such as marketing related information, can be a remedy to improve the value relevance of accounting information in the capital market.

Recently, there has been an increasing interest in the relation between marketing and finance, so called "marketing-finance interface". Marketing researchers have examined outcomes in the capital market from marketing activities, such as new product innovations, price promotions, and advertising, in the product market. Under the assumption that the capital market is efficient, such returns have been assessed via event studies. Using a Vector Autoregressive (VAR) framework, prior studies have also considered the feedback effect of stock returns on marketing actions (see Srinivasan and Hanssens [2] for the review of the capital market research conducted in the context of marketing literature). Recently, Park et al. [3] extend the feedback effect horizon by examining the informative effects from capital market event returns at the new product introduction on subsequent marketing decisions. However, the gap between marketing metrics and financial measures is still not so trivial and marketing academics have also expressed concern over marketing's decreasing influence on corporate strategy.

As mentioned above, there is a strong demand for the improvement of the share value relevance of marketing metrics and accounting information and the disciplines of marketing and of accounting are facing challenges that threaten their respective roles in the firm. As a remedy for these challenges, Sidhu and Roberts [4] claim that that accounting and marketing functions should work more closely. I argue that the role of CMO is critical to improve the efficacy of marketing and accounting in value creation as well as their influence on corporate decision making. A firm's corporate strategy is largely driven by the Top Management Team (TMT) and the TMT generally includes Chief Executive Officer (CEO) and Chief Financial Officer (CFO) who decide corporate-level accounting and financial policies. Though the CMO is the marketing executive responsible for various marketing activities, only 40% of all US firms choose to have the CMO in their TMTs [5]. Since the CMO cooperates with top financial and accounting executives in corporate-level decision making, the presence of the CMO in TMT is an indicator of the corporate status of marketing as well as corporate adoption of the marketing concept in TMT. Further, the average tenure for CMOs at the top 100 branded companies in US is less than two years. Since the CMO's short tenure hinders him from implementing marketing policies consistent with accounting practices and financial policies, his longer tenure period also represents his ability to exert value-relevant marketing polices.

It was well established that earnings management has negative implications for firm value in the long run. Two of the most common ways to manipulate accounting earnings are accruals management and real activities management [6]. Cohen et al. [7] find that real activities management has become an increasingly popular tool for manipulating short-term earnings after the Sarbanes-Oxley Act of 2002. The most popular tool for real activities management is manipulating advertising, research and development, and sales, general and administrative expenses. Temporarily inflating sales or reducing such marketing expenditures will boost the current period earnings. This myopic behavior significantly impairs the value relevance of marketing and accounting functions. If the CMO is a member of TMT and his tenure is reasonably long, he can help deter this near-term focused behavior if he pursues firm-value maximization in the long term sense, rather than just looks for a short-term increase in sales or earnings, which increases the value relevance of marketing and accounting functions.

In addition to mandatory disclosure requirements of four financial statements, firms' financial and accounting managers voluntarily disclose various types of financial information (e.g., management forecasts) to investors. Kross and Suk [8] find that analysts' reliance on voluntary disclosures significantly increased after Regulation Fair Disclosure (FD), implemented in October 2000 in US. Marketing managers also provide customers with numerous signals for their firms' product qualities via advertising. A firm's advertising in the product market and voluntary financial disclosures in the capital market are jointly decided. In equilibrium, the firm chooses optimal levels of combination of product market advertising and voluntary financial disclosure. If the CMO is a member of top management and his tenure is not too short, the CMO is likely to have a corporate-level perspective. Under such circumstance, the quality of provided information about marketing and accounting contents will be higher and thus better reflect the firm value, enhancing the value relevance of marketing metrics and accounting information.

The implications of my article are twofold. First, on the academic side,

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when looking at marketing-accounting-finance interface, researchers should consider the key role of CMO. The CMO in the TMT improves the value relevance of marketing and accounting, thereby heightening the efficiency of both product and capital markets by facilitating their learning from each other. Second, from a managerial perspective, to enhance the value relevance of a firm's marketing and accounting functions, if the CMO is not present in TMT or/and his tenure is too short, his status should be elevated to the c-suite level by placing him as a member of TMT, along with his tenure being lengthened.

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