THE IMPACT OF CMO TENURE ON BRAND EQUITY AND COST OF CAPITAL: INSIGHTS FROM BUSINESS TO CONSUMER INDUSTRIES

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ABSTRACT

This paper investigates the relationship between CMO tenure and firm risk as measured by cost of capital. The author develops a conceptual model linking the direct impact of CMO tenure on the firm’s cost of capital and indirect impact through brand equity. The hypotheses are tested using data on 125 public US-based firms between 2004 and 2013. The findings suggest that longer CMO tenure results in higher brand equity. Further, longer CMO tenure reduces cost of capital through its impact on brand equity. The author also finds that the impact of CMO tenure on brand equity is strengthened when the CEO has prior marketing experience as well as when the CEO and CMO have same-firm prior experience. However, the impact is weaker when the CEO has greater general ability (i.e., generalist). Post-hoc analyses reveals that CMO tenure has economically meaningful impact on cost of capital by releasing extra working capital for investment outside. The findings imply that a revolving CMO door is costly for the firm.