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ABSTRACT

Our paper offers two key managerial takeaways for restaurant industry executives. First, restaurant firms should carefully evaluate their level of advertising expenditure to sales ratio (advertising intensity). Since advertising intensity magnifies firm's idiosyncratic risk, organizations should reduce their advertising spending if an increase in sales is not likely. Second, executives should carefully monitor their firm's total assets to sales ratio (capital intensity). We report that capital intensity increases idiosyncratic risk and thus, our findings suggest that firms should sell some of their assets if it is not possible to increase sales. Our study can help firm executives in their decision making pertaining to corporate risk management in capital markets.