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Relationship marketing's role in managing the firm–investor dyad

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ABSTRACT

This paper develops an interdisciplinary conceptual framework demonstrating the role of marketing in managing investor relationships. The framework illustrates how companies can turn investor relationships into market-based assets by analyzing and managing them from a relationship marketing and stakeholder perspective. Marketing can contribute to investor relationship management and increase shareholder value by lowering the cost of equity capital, increasing analyst coverage and stock liquidity, and reducing shareholder activism. An investigation among investor relations professionals working at publicly traded companies in the Euronext 100 stock index demonstrates the framework's empirical validity and provides managerial implications.

1. Introduction

Intangibles under marketing control, like customer equity, constitute an increasing proportion of firm value (Lukas et al., 2005) and empirical studies show a positive link between managing such marketing assets and stock market performance (Srinivasan and Hanssens, 2009). The notion of market-based assets integrates existing but often overlooked linkages between marketing and the firm's financial well-being (Srivastava et al., 1998). By employing internal resources, firms create assets that materialize as value through interactions with entities in the external environment. Market-based assets are either intellectual or relational: This study focuses on the latter type. According to the resource-based view, organizations engage in partner relationships to effectively and efficiently pool scarce resources and create a relation-based competitive advantage (Morgan and Hunt, 1999). Investment capital is one such key resource. Nurturing the relationships with its providers – investors – should therefore receive considerable attention from the corporation in general, and its marketers in specific.

Although marketing's conceptual and methodological approaches are applicable to this exchange relationship (Lovett and MacDonald, 2005), the shareholder as a relational marketing group remains largely neglected. This is surprising, since shareholders ultimately bear the cost of marketing's decisions. As such, they (should) have a significant impact on marketing strategy (Srinivasan and Hanssens, 2009), and be represented amongst marketing's key external stakeholders (cf. Srivastava et al., 1998). Investor relations (IR) initiatives drive shareholder value by enhancing demand for a firm's shares, lowering cost of capital (Botosan, 2006), increasing stock liquidity (Healy et al., 1999), and enhancing analyst following (Francis et al., 1997). Studying their management represents a key research opportunity for the marketing discipline (Hanssens et al., 2009).

As a strategic management responsibility, IR integrates finance, communication, and marketing (NIRI, 2008). Existing literature, however, is scarce and regards IR as either the financial end of the communications function (Regester, 1990) or the communications end of the financial function (Dolphin, 2004). By focusing exclusively on financial communication (Marston and Straker, 2001), current literature ignores the complementary role of marketing, despite its insights and skills relevant for managing investor interactions (Lovett and MacDonald, 2005). Financial information communication is a necessary but not sufficient condition for managing investor relationships. Recent literature, for example, shows that besides expected returns, also non-financial dimensions, like investors' identification with a company, influence their behavior (Aspara and Tikkanen forthcoming).

This study proposes that to analyze and manage investor relationships successfully, marketing insights must complement existing management and IR literature. This study shows how the relationship between a company and its shareholders may be analyzed and managed from a relationship marketing and stakeholder perspective, recognizing the “investor community as a customer” (Hanssens et al., 2009, p. 115). Specifically, this study investigates the relationship between IR management quality, depicted by a company's relationship perspective toward its investors, and IR outcomes in the capital market.

2. Investor relations

Traditionally, the IR function and initiatives are a company practitioner-led field trying to give current and potential investors an accurate portrayal of the firm's performance and prospects (Brown,

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1995). Although many companies subordinate its tasks to finance or public relations departments (Laskin, 2009), the IR function increases in scope (Rao and Sivakumar, 1999) due to some key developments.

First, expanding equity markets, deregulation, foreign exchange listings, and a global orientation toward shareholder value creation (Marston and Straker, 2001) increase competitive pressures on capital acquirers. This pressure rises during financial crises, making capital a very scarce and valuable resource. In addition, shareholder activism (Gillan and Starks, 2007) prompt questions about managerial conduct, and challenges the IR function as firm–investor mediator. Finally, companies' asset compositions include more off-balance sheet intangibles (Whitwell et al., 2007) while investors increasingly focus on nonfinancial aspects (Aspara and Tikkanen, forthcoming). These developments imply a greater need to inform investors beyond traditional accounting statements and indicate the function's increasing importance.

Moreover, the IR function can drive shareholder value, especially through more accurate valuation of the company's securities. For example, highly-rated IR programs decrease information risk by reducing analysts' earnings forecasts dispersion (Farragher et al., 1994). Effective IR can also increase demand for the firm's shares and lower the cost of capital (Botosan, 2006; Gelb, 2000), and increase the securities' liquidity (Healy et al., 1999; Hong and Huang, 2005). Corporate presentations to analysts increase analyst following, the number of earnings forecasts, and stock recommendations (Francis et al., 1997). IR also positively influences corporate reputation and credibility (e.g., Ellis, 1985).

All these benefits materialize and endure in the long-term. Therefore, IR can constitute a strategic tool to build a sustainable competitive advantage. To be successful, IR requires companies to expand their activities to more “frequent, extensive, proactive and diversified two-way interaction and communication” (Tuominen, 1997, p. 53), taking into account variation in behavior and preferences of different investor types (MacGregor et al., 2000; Aspara and Tikkanen, 2010). Current IR practice, however, focuses on reactive management of financial stakeholders' requests (Laskin, 2009) instead of establishing proactive and strategic interaction flows. Acknowledging the latter, the next section presents a relationship marketing approach to IR.

3. Marketing and investor relations

Marketing is changing considerably during the last two decades. Leaving the realm of single transactions towards new dynamic types of relationships shapes the way marketing is seen and expected to perform (Webster, 1992). A key definition of marketing's reconceptualization describes its purpose as to “identify and establish, maintain and enhance, and when necessary terminate relationships with customers and other parties so that the objectives regarding economic and other variables of all parties are met” (Grönroos, 2007, p. 5).

Together with this new relationship perspective, marketing is expected to visibly contribute to shareholder value creation (Day and Fahey, 1988), implying a radical change from traditional consumer welfare maximization to firm value maximization. As a result of this reconceptualization, literature on the marketing–finance interface (Zinkhan and Verbrugge, 2000) and the impact of marketing actions on firm value develops (Srinivasan and Hanssens, 2009; Stewart, 2009). Srivastava et al. (1998) describe the role of marketing as developing and managing market-based assets, which arise when the firm interacts with external entities. They increase shareholder value by accelerating and enhancing cash flows, lowering their volatility and vulnerability, and increasing their residual value. Market-based assets are either intellectual or relational. The former entail unique knowledge a firm accumulates about its environment that enables it to achieve a competitive advantage. The latter comprise valuable outcomes of the relationship between the firm and key external stakeholder groups, and are this study's focus.

Although investor relationships can constitute an equipollent market-based asset (Coyne and Witter, 2002), marketing–finance literature does not explicitly deal with the firm–investor dyad in this way. Neglecting shareholders as an important stakeholder group is unfortunate as the marketing literature and profession offer valuable insights for managing interactions with investors. According to communications scholars, IR is inherently a marketing responsibility, constituting a neglected “core element of a coordinated marketing communications strategy” (Dolphin, 2004, p. 27). This encompasses interpreting investors as customers of the firm's “most important product, namely the company itself” (Ferris, 1988, p. 173). Economic actors link experiences obtained in consumption and financial markets (Aspara and Tikkanen, 2008, 2010). Since consumption market attitudes are primarily controlled by marketing, it seems meaningful to use this discipline's insights to simultaneously shape investment market impressions. Lovett and MacDonald (2005) support this conjecture, stressing that the firm can and should directly market to both consumption and financial markets.

In brief, marketing as successful management of relational exchanges (Morgan and Hunt, 1994) is naturally designated to support stakeholder relationships, including those with investors (Dolphin, 2004; Lovett and MacDonald, 2005). Tuominen (1997, p. 47) coins the term “investor relationship marketing” to refer to “the continuous, planned, purposeful, and sustained management activity which identifies, establishes, maintains, and enhances mutually beneficial long-term relationships between the company and their current and potential investors, and the investment experts serving them.” Bhagat et al. (2004) and Ayres and Cramton (1994) discuss how “relational investors”, defined as committed outside investors who hold large stakes of a company's shares for longer time periods, may improve firm performance. Extending these notions, this study presents a conceptual framework that moves IR beyond the financial communication domain.

4. Conceptual framework

Fig. 1 depicts the conceptual framework and the role of relationship marketing in managing the firm–investor dyad. It extends Srivastava et al. (1998) and explicitly includes investor relationships as market-based assets. Because of their intangible, firm-specific nature, market-based assets are rare, difficult to imitate, without perfect substitutes, and of great value by their ability to generate a competitive advantage. Effective stakeholder management offers intangible resources that enhance the firm's ability to outperform its competitors in long-term value creation (Hillman and Keim, 2001).

The conceptual framework shows several ways that managing investor relationships according to relationship marketing principles contributes to shareholder value. The five relational dimensions reflect IR management: Scoring highly on these attributes indicates greater IR management quality. Given the presumption that investor relationships are market-based assets, IR management quality should materialize in improved financial market performance (IR outcomes), and, ultimately, shareholder value.

4.1. IR management quality

The five relational dimensions that together compose IR management quality stem from extant, general relationship marketing research, and are particularly relevant for the firm–investor dyad. These dimensions influence how firm–investor relationships evolve, and point to companies' strategic options to manage them. The following sections elaborate on the relational dimensions and their respective impact on IR management quality.