INVESTOR RELATIONS, FINANCIAL MARKETING AND TARGET GROUPS

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When IR is engaging several levels in the organization in order to meet different target groups we can speak of Integrated Investor Relations (IIR) activities. Our aim with the present article is to discuss problems, which can arise when IIR activities are implemented. The identity concept is explained in this article to guide and advance the Financial Marketing FM process and thereby relieve some of the tensions inherent in IR. The expectations of leading shareholders, for example, can be spotted in terms of IIR identity, reflecting the areas where improvement is necessary. Internal workshops can be used in order to build an IIR strategy, which is compatible with the overall scope of the business. This process may require the same trade-offs between short- and long-term results and the same kind of experimentation that is common when companies launch strategic business initiatives. The IIR identity concept therefore can be a proper tool not only for the company itself, but also for consultants supporting the company in the field of FM.

INTRODUCTION

Investor relations ("IR") activities are intended to help companies compete in the capital market (Marcus and Wallace 1997, p. 1). Firms bring financial instruments to the market in order to sell them; financial marketing ("FM") includes those activities designed to help companies meet the potential buyer's need for these instruments.

Heilbrunn (1995) discusses a triadic relationship between the company, the brand and the customer. He suggests that the brand functions as an intermediary between the company and the customer. The company, the employee and the customer (Grönroos 1995) form another triad. In these two triads, the function of a brand or an employee is to guarantee the promises made by the firm to its customers.

One characteristic of the financial market is the prevalence of intermediaries, such as analysts, brokers, fund managers and different kinds of advisors. To some extent at least, these intermediaries guarantee the promises made by the company to investors. This is especially the case when they recommend that people buy the company's shares. Therefore, it also seems relevant to talk about a triad formed by the company, intermediaries and investors. However, a large part of the literature about IR and FM concentrates on activities aimed directly at investors (cf. Coyne and Witter 2002). Therefore, in the following article we are going to discuss those aspects of IR and FM directed towards both investors and intermediaries.

The concept of IR is usually conceived of as the communication between the company and its equity investors. FM can be envisaged as a broader concept, which includes the firm's relations with all relevant participants in the finance industry, including credit institutions and government agencies.

Recently, Relationship Marketing ("RM") has become popular as a way of explaining above normal returns. The unit of analysis is the relationship itself, which can take many forms at different levels within the organization. Gummesson (1999) has a special focus on "relations, network and interaction". He brings together service school thinking and network

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theory to form a general RM theory focused on the value of interaction.

In this study we stick close to Gordon's (1998 p. 9) view of what RM aims to do. RM seeks to build a chain of relationships within the organization in order to create the value that customers want; relationship chains are also created between the organization and its main stakeholders - suppliers, distribution channels, intermediaries and shareholders.

It is frequently noted in marketing literature that a consumer's perception of quality and their satisfaction is the result of an interactive relationship between the organization's personnel and the consumer (Egan 2001). Christopher et al. (1991) interpret RM as a concept that brings together the concepts of customer service, quality and marketing. Consequently, Rivel (2004) argues that IROs must proactively reach out to the entire investment community, seek unbiased input, and decipher feedback for management and the board. This can mean that IROs are involved in the formulation of strategy and governance policies.

THE RESEARCH PROBLEM

In principle there are three solutions to the targeting problem of IR. One can either target investors, intermediaries or both. Also IR could engage one or several levels within the organization. When all levels are engaged in IR activities directed towards both investors and intermediaries we can speak of Integrated Investor Relations ("IIR") activities. The objective of the present article is to discuss the problems that can arise when IIR activities are implemented.

First we will identify a number of problem areas, with a holistic view of IIR as our point of departure. Although RM takes a holistic view, it does not ignore the importance of the constituent parts (Egan 2001 p. 123). We will discuss the macro level of the board of directors and the CEO, as well as the micro level of middle management. At both levels there are actors with different types of relationships to both prospective investors and intermediaries. The different problem areas as described in Figure 1 will now be commented on.

FIGURE 1
IIR Problem Areas.

	Board Level	**CEO Level**	**Middle Level**
Marketing towards prospective investors	FM 1	FM 2	FM 3
Marketing towards intermediaries	FM 4	FM 5	FM 6

FINANCIAL MARKETING TOWARDS INVESTORS

FM 1. Investors/Board Members

The customer's image of a firm may be affected by the image of its major owner, but most often consumers do not know who owns a company or a brand name (Gummesson 2002, p. 216). Similarly, we can assume that many prospective investors do not know the names of the members of the board.

FM 2. Investors/CEO

In the eyes of many prospective investors, the CEO is the main guarantee of the company's promises to the public. The media want facts that make news; preferably sensationalistic news that offers a few scandals. This is an asymmetric relationship according to Gummesson (2002, p. 173). The IIR problem here is for the CEO to create activities that determine the corporate image.

FM 3. Investors/Middle Management

The problem here is due to the distinction between full time marketers and part time marketers (Gummesson 2002, p. 61). With respect to IIR activities, part time marketers can be found everywhere in middle management.

FINANCIAL MARKETING TOWARDS INTERMEDIARIES

FM 4. Intermediaries/Board Members

Since it can be assumed that intermediaries have a good knowledge as to who are the members of the board, there are comparatively low transaction costs in the sense of Coase (1937).

FM 5. Intermediaries/CEO

Intermediaries (like investors) tend to look upon the CEO as the main guarantor of the firm's promises to the public. There is a risk of external "free riders" finding ways to influence the intermediaries through damaging the firm's brand in favour of another brand, or through capitalizing on the reputation of the company without incurring the cost of maintaining it (Hollensen 2001, p. 55).

FM 6. Intermediaries/ Middle Management

What are essential here are the transaction costs involved when part-time marketers in middle management interact with the intermediaries (cf. Williamson 1975).

A general problem with IIR is the differentiation and integration involved (cf. Lawrence and Lorsch 1969). Different target groups are interested in different aspects of the firm, while different levels of the firm are able to provide different pieces of information. There is a risk that the different messages do not form a coherent picture.

EMPIRICAL EVIDENCE

By using the IIR problem areas in Figure 1, it is possible to spot the opportunities for collecting empirical observations. Special opportunities are offered through the observations of IR consultants. The following are three examples that we have found to be interesting.

Consultant firm A has about 100 employees and concentrates on two lines of business, namely financial crisis management and IR web sites. The leading personalities of the firm have a journalistic background. Therefore the type of crisis management advice that they give their clients is mostly related to the probable impact of different messages on newspapers, analysts, banks, fund managers and other intermediaries. The firm's contacts within the client companies are mostly middle management and IR officers. Firm A does not hire its own analysts or financial professionals.

Firm A's other line of business developed out of a project called "The annual web contest." This is a survey of existing IR web sites of firms, whose shares are quoted on the stock exchange. Firm A offers its advice mainly to the companies whose IR web sites get low rankings in the contest. Clients get a helping hand in developing the web sites in such a way that they meet a number of specified requirements.

Consultant firm B has about 30 employees and operates as a specialist in the fields of investor intelligence, strategic and tactical IR, and financial reporting. As specialists, they are used to working both independently on a specific assignment or together with other specialists. They collaborate with other specialists within PR, crisis management and management consulting.

The purpose of the firm's investor intelligence services is to help companies increase their knowledge of how financial stakeholders and peers are behaving. Strategic and tactical investor relations services are intended to help the client set up and meet the goals of its IR function. This includes activities such as financial positioning and formulating communication strategies, as well as arranging capital market days, one-on-ones and road shows. Consultant firm B also offers "IR-for-hire". Regarding financial reporting services, the firm has experience in developing and producing financial reports for large, middle-sized and small companies in the Nordic region. Examples of client industries are forestry, finance, IT, property and pharmaceuticals.

Consultant firm C has about 10 employees and applies an approach called "The three steps." The first step is to ascertain whether the client firm abides by stock market regulations. The second step includes the identification of information that the stakeholders demand from the client firm. The third step encourages the client firm to actively find a position on the financial market. Firm C prefers to work with the CEO as a client, but in many cases the finance or PR managers of the client firm deal with IR matters.

In conclusion, some consultants are connected to middle management and concentrate on FM towards prospective investors as well as intermediaries. These firms are mostly advisors regarding tactical investor intelligence and financial reporting. Their main contribution seems to be to use RM in order to improve the efficiency of capital market interactions. On the other hand, there are also consultants who specialize on FM directed towards either prospective investors or intermediaries.

Some IR consultants complain about their lack of contact with the CEO and the board of directors. This seems to be the result of a lack of symmetry in the task allotted to the IR consultant. His counterpart is middle management, but the problem he is asked to solve is very much connected to the higher levels of management. A matter of trust seems to be involved here. The IR consultant is not trusted by management to give advice on strategic matters, while the consultant is also not trusted by investors or intermediaries as a high-level representative of the firm seeking capital from the market.

ANALYSIS

Trust is not a behavior, nor a choice, but an underlying condition that can result from such activities (Rousseau et al. 1998, p. 395). It is also a basis for stability in social institutions and markets (Lewicki 1998, p. 438). However, trust affects the relationships on the capital market, and it has an important role in IR as well, where the executives in the company need some control over FM when consultants are on the scene. As Reichheld (1996, p. 4) puts it, "You cannot control a human inventory, which of course has a mind of its own, so you must earn its loyalty."

The solution to this problem can be envisaged as an IIR consultant, who operates to a large extent inside the company and supports the integration of the IR message delivered from different levels of the company. Another task of an IIR consultant is to integrate messages given to both intermediaries and prospective investors. Of course in large companies it can be worthwhile to hire people who work as in-house IIR consultants on a permanent basis.

As the IIR problem contains six fields of dilemmas, achieving a desired outcome can be portrayed as the task of an alchemist who is able to mix a variety of elements. The problem actually seems to be a matter of identity or identity control. In the existing analysis of identity, there is the assumption of a clear distinction between internal and external audiences (Christiansen and Askegaard 2001). Hall (1996) suggests that identity is better understood as "identification". Identity is also dependent on being constructed in relation to others or something external (du Gay 1996). Finally, identity is articulated through relations with particular people, places and material goods (Miller et al. 1998). In order to create a successful identity it is necessary for a company to have an understanding of internal relationships as well as external relationships with consumers and other stakeholders (de Chernatony 2001).

In this article the firm's identity is examined in connection with the problem areas in Figure 1. Conceptually, identity brings the components in IIR together.

FM towards prospective investors in FM 1, FM 2 and FM 3 (in Figure 1) is related to RM and PR problems. FM towards intermediaries on the capital market in FM 4, FM 5 and FM 6 is primarily a problem of transaction, differentiation and integration. Together these two approaches define the entire IIR problem, since the task is to manage marketing towards prospective investors and intermediaries simultaneously.

CONCLUSION

A general problem with IIR is the differentiation and integration involved. More specifically, different target groups are interested in different aspects of the firm, while different levels of the firm are able to provide different pieces of information. In order to ascertain that the different messages form a coherent picture, the identity concept according to Figure 1 can guide and advance the FM process and thereby relieve some of the tensions inherent in IIR.

The expectations of leading shareholders, for example, can be spotted in terms of IIR identity, highlighting the areas where improvement is necessary. Internal workshops can be used in order to build an IIR strategy that is compatible with the overall scope of the business. This process may require the same trade-offs between short- and long-term results and the same kind of experimentation that is common when companies launch strategic business initiatives. Therefore, the IIR identity concept can be a proper tool not only for the company itself, but also for consultants supporting the company within the field of FM.

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