Financial marketing in the digital age: Strategies and tactics.

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Abstract

Previous studies linking corporate environmental initiatives with financial performance primarily have focused on main effects and generated inconsistent findings, offering an incomplete understanding of this relationship and potential contingency factors. This study examines whether marketing and operations capabilities enhance the financial effects of corporate environmental commitment. Analyses of a large panel data sample reveal that CEC can improve both near-term profitability and forward-looking value for firms with strong marketing capability. In contrast, operations capability only moderates the impact of CEC on firm value. In addition, this study reveals a bidirectional relationship between CEC and firm performance and finds that a firm's slack resource and marketing capability serve as antecedents of CEC. These findings suggest unique implications for marketing managers, chief executives, investors, and policy makers.

Keywords: Entrepreneurship model, Financial frictions, Markets

Introduction

Companies can no longer develop their strategies based on assumptions of inexhaustible natural resources. Ignorance of environmental imperatives can lead to severe consequences such as tarnished brand reputation, hefty fines, and litigation costs. Advocates of sustainable corporate practices are found among non-equity stakeholders and investors alike. However, not every corporate executive is entirely convinced that the benefits of corporate environmental commitment (hereafter, “CEC”) exceed its costs. This management mentality is a common obstacle for the integration between sustainability and company activities [1].

Despite the importance of CEC–firm performance relationship, the current literature reveals limited and inconsistent results. Some studies suggest that environmental initiatives enhance firms' financial performance; whereas other studies find that the impact of sustainability emphases on firms' performance is either neutral or negative. Such mixed findings suggest that this relationship could be contingent and motivate us to explore important moderators that have been ignored within the existing literature [2]. Using a large sample of panel secondary data on S&P 500 companies over five years, we find that firms' functional capabilities moderate the relationship between CEC and financial performance and that such moderating effects are asymmetric with regard to short- versus long-term outcomes. In addition, we examine the recursive relationship between CEC and firm performance, demonstrating how firms' financial gains and functional capabilities drive CEC in the next period [3].

What might a big sporting event such as the Soccer World Cup in Germany have to do with a descriptive decision theory like the prospect theory? At first glance, certainly very little; at second glance, in fact, a great deal. Banks in particular are increasingly using events of this kind for marketing campaigns, whereby the spectrum involved ranges from the basic usage of the title of the respective sporting event right up to the supplying of special financial instruments that are in one way or another connected to it. With regard to the latter, two product varieties in particular emerged during the course of the Soccer World Cup 2006 in Germany. We shall refer to them here simply as “participatory products” and “sports betting products”. Such financial instruments are by no means limited to the German capital market. For simplicity reasons, however, we restrict our further exposition to financial products of this kind that is issued on the German capital market, although our findings will be of general relevance. Moreover, besides the Soccer World Cup, there are other big sporting events which one can use as the starting point for the design of specialized financial products, e.g. the European Soccer Championship. However, as the general product design opportunities are always the same, we adhere to the example of the Soccer World Cup 2006 as our reference case [4].

With regard to participatory products, these involve participation in the economic success of those companies which profit most from the relevant sporting event; in this case, from the Soccer World Cup. To this end, banks offer baskets of shares from suitable companies in the form of funds or certificates. Examples of participatory products are the Frankfurt Trust Fund’s “FT Big Sports”, the West LB Bank’s “WM-Select-Zertifikat 7/06” and the Commerzbank’s “Top 11 Zertifikat”. The sphere of selected companies varies in accordance with who is offering the financial product, so that sponsors and manufacturers of sports goods, but also construction and travel companies, might be included in the basket of shares [5].

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Conclusion

The creation of a portfolio of this kind is only sensible if the capital market is not informationally efficient in the semi-strong sense. In other words, commonly available information about the company in question being in some way related to the sporting event under consideration must not find its way directly into the share prices. Generally speaking, it is highly unlikely that this condition will be fulfilled, since an event like the Soccer World Cup could never "suddenly" materialize. We should expect that capital market participants would adapt their supply and demand behavior comparatively well to sporting events and the yields therefrom for particular firms. The resulting price effects imply that a special portfolio selection strategy which focuses on shares of this kind has little prospect of realizing positive excess returns.

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