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MARKETING CORPORATE DEBT

Timo Teinilä

Turun kauppakorkeakoulu
Turku School of Economics

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Tunis, 24th October, 2012, تونس

Timo Teinilä

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1 INTRODUCTION

1.1 Why study the marketing of corporate debt?

Corporate debt marketing is still under-researched by marketing academia, even if the questionable sales of bonds, and the debt crises, should have triggered interest in the phenomenon. This study will not provide a critical evaluation of the scandals but explores the practices followed by firms in their debt marketing and provides a theoretical framework to understand corporate debt marketing.

As early as 1972, Kotler (1972) called for corporate treasurers' borrowing situations to be considered through a marketing logic although, to the author's knowledge, research from such a perspective is still lacking. Proença and de Castro (2005, 538) argue that the management of portfolios of banking relationships by corporate borrowers is barely addressed within the (relationship) marketing literature.

Among finance scholars, Ross (1989, 555–556) stated that "institutional markets and financial marketing are central to understanding financial innovation, and are almost entirely unexplored" and recommended that "there should be much to gain from an integration of marketing analysis in finance." Lehmann and Neuberger (2001) argue that empirical studies on relationship lending, particularly in the US and in the domain of finance, have examined the effects of transactional variables, while the effects of interaction variables have remained unclear. By this they mean that research has focused on variables that explain individual transactions but not on the relationships that are involved in those transactions. More recently, in accounting, Skinner (2011) has concluded that we still do not know very much about how the various features of debt contracting fit together. To the author's knowledge, these research gaps still exist.

Mirroring the current definition of marketing (Table 5) by the American Marketing Association (AMA, www.marketingpower.com/AboutAMA/Pages) debt marketing is defined in this study as "activities and processes aimed to create, communicate about, and deliver value in debt transactions to investors and for managing debt investor relationships in a manner consistent with the firm's overall strategy." This study seeks to shed light on what this debt marketing comprises, and how it may vary between firms.

Corporate debt as a product, and its markets, have many aspects that offer interesting grounds for studies in marketing. Corporate debt markets are heterogeneous, with multiple instruments on offer, and with investors varying from opportunistic and transaction focused investors to highly relational investors. An interesting feature of corporate debt, and also for this study, is that debt funding has been described in different ways indicating that the buyer-seller roles in it are blurred. Corporate borrowers raise a large part of their debt funding from investors (e.g. banks) with whom they have longstanding relationships. However, they can also sell their debt to end-investors which they sometimes do not know at all. Furthermore, there are many potential lenders which do not undertake any marketing or promotion of their lending, but which are approached by borrowers or their agents with an investment proposal for the investor to lend.

In times of high liquidity in financial markets, as in 2005–2006, banks very proactively offer their lending to a firm. At such times a borrower is tempted to play one bank off against another, while in a depression the power swings towards the banks (Seal 1998, 103). Dash, Bruning, and Guin (2006, 312) argue that it is the banks which usually hold the balance of power in the corporate customer-bank relationship, as they are generally less dependent on a single corporate customer than vice versa. From this perspective, a large corporate borrower should have significant reasons to develop proactively and maintain good access to different debt markets and debt investors.

As will be discussed in Chapter 2 in more detail, some forms of corporate debt are very homogenous and designed to be tradable, almost as a commodity. Tradability and the possibility of storing debt instruments make them suitable for a liquid market where relational aspects can become subordinated to transactional behaviour by investors. However, there are other forms of debt that undergo a very interactive birth process, in which both borrowers and lenders are deeply engaged and behave as co-producers designing a tailored product. More complex and tailored products are less likely to be liquid or to attract other investors' interest, and they may involve close monitoring by the lenders throughout the lives of the instruments. Such debt transactions typically occur in a relational context.

In addition to the coexistence of relational (transactions and, preferably, repeat transactions within a relationship) and transactional (marketing focused on a single transaction) approaches in marketing debt, the marketing of corporate debt is a context in which the roles of buyers and sellers can be blurred, and where a firm can be considered to be both a seller and a buyer when borrowing. Gummesson (1994, 6) implicitly expresses such a possibility by stating that relationship marketing recognizes that both the customer and the seller can be active. Logman (1997) suggests that the customisation of many elements of the marketing mix can be performed by buyers. This is interesting from the theoretical perspective because the possibility of borrowers at times behaving like sellers and at other times acting like buyers provides an additional analytical dimension.

Another feature of corporate debt is that selling or raising debt is never the primary activity of a corporate borrower but a supporting activity. Debt issues by a firm are arranged by its finance staff who can be likened to the part-time marketers typical in services marketing (Gummesson 1991).

Debt marketing as an activity is not new. Chancellor (1999, 97–98) describes an early sale of debt instruments involving discernible marketing elements. The British government issued bonds in the 1750s and later sold bonds to fund the Napoleonic Wars, and these instruments were also actively traded by financial speculators. In the early 19th century a number of foreign loans were arranged by London bankers for foreign governments, including those of France and Prussia. The description of these war debt offerings mentions a number of activities (Chancellor 1999, 98–100) that fit into marketing mix definitions:

- Appeal to emotions and prejudices (the British public's antipathies towards the Spanish or modern liberal enthusiasm for independence).
- The use of promotional sales prospectuses that were less objective than today's regulations would permit.
- Pricing was set at attractive levels compared to British government bonds (i.e., higher yield).
- Positioning and timing exploited the reducing supply of British government bonds as an available savings tool for the public.
- Public persons were enlisted to endorse the bonds.
- Opportunistic product design – English usury laws were circumvented by formally contracting the loans in Paris.

In the 19th century, before the Civil War, the US government usually relied on loan contractors who bought large amounts of new debt securities from the government at negotiated prices and resold them to investors. The Louisiana Purchase of land was funded with securities that were made payable in London and Amsterdam, thus allowing the US government to reach a wider investor base. After the Civil War, a well-known loan contractor, Jay Cooke, applied mass marketing techniques, relying on heavy advertising expenditure and patriotic appeals to sell US government bonds (Sylla 1991, 775).

1.2 Some characteristics of corporate debt as studied in economics and finance

Corporate debt instruments and their markets are widely studied in economics and finance; this subsection highlights some characteristics of corporate debt raised in economics and finance that are relevant from this study's perspective, without seeking to give a complete overview of such research.

Corporate finance is a discipline within finance, and studies the way firms are financed (Zingales 2000, 1624, Ryan et al., 2002). The subjects of corporate finance are considered to be corporate governance, capital structure, and valuation (Zingales 2000). Corporate governance studies deal with the way in which investors i.e. suppliers of finance to corporations assure themselves of getting a return on their investment (Shleifer and Vishny 1997, 737). These areas touch on aspects of debt design or product features that also affect their marketability.

However, finance studies so far have not produced a holistic description of the different processes and their interaction in a firm's debt funding. Brounen, de Jong, and Koedijk (2004, 72) state that in corporate finance, most studies are based on large samples of financial observations, whereas survey research, which also enables qualitative questions to be asked, is rare. Lehman and Neuberger (2001, 340) argue that, in the US, empirical studies on relationship lending have focused on transactional variables and, although there has been a growing number of studies on house bank status in Germany, the effects of interaction variables such as mutual trust are not yet clear. Peltoniemi (2004, 54) also suggests that considerable work remains to be done on finding specific sources of value in relationship banking.

Reflecting the view of scholars in economics and finance that debt is sold by borrowers, Haavisto (1982, 124) comments that firms "*can sell debt instruments.*" In economics, such a view can imply that a firm raising debt is selling its future cash flows. Large firms sell their bonds to investors, but to do this they also buy a placement service from intermediary banks.

An important problem in lending is information asymmetry, where the borrower has information that the lenders either ignore or to which they do not have access (Bebczuk 2003, 5). However, firms have an incentive to disclose information to investors, in line with the view held in the relationship marketing literature that disclosure enhances relationship development. Diamond and Verrecchia (1991, 1325) argue that disclosure improves the future liquidity of a firm's debt and equity securities, and reduces the cost of capital. Easley and O'Hara (2004) also argue that a firm faces a higher cost of equity capital if there is relatively less public information regarding its stock. There is a problem if firms disclose information only selectively to obtain the next loan.

There is a second type of asymmetric information problem in some borrowing arrangements. Investment banks arranging placements of debt to large pools of investors have better information about the prospective and real market prices of debt instruments than the borrower itself. Where a borrower delegates the price setting of its debt securities to an agent, the value of an agent's (e.g., arranger; investment banker) services are a function of his or her better information about the markets (Baron 1982).

Another interesting aspect of the information problem is that the more a borrower produces and discloses information about itself, thereby building relational trust, the more it may achieve investor interest and liquidity for its debt, which themselves are aspects that encourage transactional dealings in debt (Seal 1998).

The existence of informational asymmetries in both directions, and the need to deal with them highlight the need in lending to build mutual trust, which is an important concept in relationship marketing. The subject of marketing or marketability of corporate debt has surfaced in finance studies, although typically from a relatively narrow perspective. Studying actual practices of the finance executives of US firms, findings by Graham and Harvey (2001) also implied that the marketability of debt is a factor in borrowing decisions. Kisgen (2007) found both statistically and economically significant evidence that credit ratings, a marketing tool in capital markets, influenced capital structure decision making.

Bank relationships of small firms have been studied at least in the United States (Petersen and Rajan 1994), Germany (Elsas and Krahnen 1998; Lehman and Neuberger 2001), Belgium (Degryse and Onegna 2005), Portugal (Farinha and Santos 2002), Italy and the US in the same study (Detragiache et al., 2000), Argentina (Berger et al., 2001), and Finland (Peltoniemi 2004). These studies have frequently drawn on theories of information asymmetry, using large databases of credit file data, with the subject being analysed using sophisticated mathematical methods. This is in line with the tradition of finance research that has usually focused upon a capital market's perspective rather than an interfirm or managerial perspective (Ryan et al., 2002, 51).

Bank relationships have generally been found to lower the cost of borrowing or improve credit availability (Petersen and Rajan 1994, Elsas and Krahnen 1998, Peltoniemi 2004), and multiple banking has been found to reduce the risk of early liquidation (Detragiaghe et al., 2000), pointing to the value of building banking relationships. However, reliance on relationships has also been found to have a negative side, when a bank's monopoly over a client comes into play (Elsas 2005), and when high reliance on bank relationships makes investments more dependent upon cash flow (Houston and James 2001). Multiple banking is also used to broaden access to credit and reduce reliance on a single bank (Farinha and Santos 2002, Cosci and Meliciani 2006).

Berlin and Mester (1998) define transactional lending as lending based on scoring models; for example, using publicly or otherwise easily available standardised information about a borrower, in combination with securitisation-repackaging multiple loans into an instrument with diversified risk, whereas relational lending they characterise as close monitoring of borrowers by lenders, and by renegotiability and implicit long term agreements. Cosci and Meliciani (2006) argue that by engaging in transactional borrowing firms increase their debt capacity, or ability to borrow. Somewhat contrary to this, Petersen and Rajan (1994) showed that relational lending, or relationships, benefits borrowers through more stable access to credit.

Studies of a firm's underwriter relationships provide insights into marketing channels of corporate debt. Song (2004) studied the compositions of bond syndicates in over 2,000 US corporate bond issues between 1991 and 1996, showing that syndicates comprising both investment and commercial banks enhanced the underwriting capacity, particularly for issues that were challenging to sell. Theoretical models in finance predict that investment banks of good reputation select higher quality (bond) issues to underwrite, although the empirical evidence on this is mixed (Fang 2004). Indeed, in recent large corporate defaults, many of the highest reputed investment or universal banks acted as underwriters of the bonds of the now defaulted issuers. Partnoy (2003) documented this with regard to Enron and WorldCom. In Europe, Parmalat presented a list of highly reputable banks as its debt arrangers (FT 07.01.2004).

Esho, Lam, and Sharpe (2001) studied the choices made by corporates in ten different Asian countries between bank debt and public debt issuance. The study found that, among Japanese companies, in addition to institutional (external) factors, the borrower's reputation was a significant determinant of debt choice, with more reputable borrowers having a higher probability of issuing international bonds (Esho et al., 2001, 301).

In sum, economics and finance studies have provided important insights into many individual aspects of corporate borrowing. However, these studies have typically focused on a single or narrow set of aspects, characteristics, or drivers and do not provide a view of the process by which firms actually operate their debt raising processes, and how they combine different activities and processes to raise debt. All of this underpins the author's argument that there remains a gap to be filled by study that analyses the entirety of large firms' debt marketing activities.

1.3 The research gap – Corporate debt marketing processes and activities, and blurred buyer-seller roles

Raising debt and handling debt investor relations are typically tasks of the corporate finance department and the CFO (Mahoney, 1991, 381), who are not dedicated marketers. Maybe therefore, pre-services marketing scholars were not interested in them. Marsh (1982, 123) has stated that modern financial theory suggests that, in an efficient market, factors such as market conditions or recent prices of securities, including debt securities, should be largely irrelevant to issue timing and the choice of security, or instrument. Perhaps this perceived irrelevance has been another reason why debt marketing, which has also to do with market timing or exact instrument (product) features, has not received significant attention in corporate finance studies. As the previous subsection showed, individual activities that contribute to debt marketing have been studied, but with little attention given to how they interact with other relevant activities. The aim of this thesis is to provide a picture of how and in what different ways individual activities and tools are combined in the debt marketing of a firm, and what objectives they may reflect.

When firms issue bonds, they are sellers of their debt. However, firms borrowing from banks can be considered to be buying a lending service. Liang and Wang (2005, 72), in a bank marketing context, state that a bank's main financial products include mortgages, and medium and long term loans for businesses. Lam and Burton (2005, 204) discuss, also in the context of bank marketing, the willingness of banks to accommodate SMEs credit needs, implying that borrowing is a need to be satisfied by a lending product of a bank. Boatright (2008, 54) states that a bank is acting as a seller when making a commercial loan to a corporation. Furthermore, as demand and supply in financial markets fluctuate, there are periods when raising new debt can be very easy for a firm with lenders knocking on its doors, while at other times borrowers have to work very hard to attract investors for their debt (Seal 1998).

The substance of a loan can also be considered to be a service that enables a borrower and lender to separate, in time, their internal cash flow generation from expenditures. For example, a borrower needs cash for investments that will generate cash in the future, whereas, for example, an insurance company receives premiums upfront from which it has to make payments in the future and, in the meantime, seeks to invest these funds at an acceptable return.

The exchange and consumption of the above described services over time emphasises that corporate borrowing is a product with a strong service element. It is not just an exchange of a product for cash but includes an exchange of services, where the roles of sellers and buyers overlap or are blurred. This represents an interesting context which so far, to the author's knowledge, has not received much attention from marketing researchers and, therefore, provides a research opportunity to investigate how firms perceive this blurredness, and whether it is linked with role ambiguity.

Initially, role ambiguity was studied in terms of ambiguity of an individual's role within an organisation. More recently, the concept has been extended to boundary spanners who face role ambiguity in their dealings with the representatives of other organisations (Rhoads, Singh, and Goodell 1994, Beard 1999). However, this study assumes a different kind of role ambiguity. The blurring of buyer-seller roles refers to an ambiguity in what role to apply rather than the contents of the role. Potential ambiguity will be considered in the interpretation of the data.

One aspect of possible role ambiguity could lay in the fact that a corporate borrower and a bank may have a compound relationship. Compound relationships exists where there are two or more simple relationships between a pair of firms, whereas such relationships could imply one party being simultaneously a customer, competitor, partner, or supplier (Ross and Robertson 2007, 108). For instance, a bank may supply to a firm a range of services, such as trade financing, cash management, or equity brokerage, and simultaneously be a buyer of the firm's debt securities. The interesting aspect regarding compound relationships is that companies recognise them to different degrees and may fail to recognise that an action can have an opposite effect on a simple relationship as opposed to the compound relationship (Ross and Robertson 2007). The more sophisticated the customer's role, the more complex and challenging the job of the seller's employee and the greater the possibility for role conflict and ambiguity (Graf 2007). This study will not intrinsically focus on compound relationships; however, this aspect should be visible in the empirical data.

This study seeks to contribute to the marketing theory by expanding marketing logic into a field that is not traditionally associated with marketing but which deserves more attention by marketing scholars. Such expansion can help to understand actual debt marketing by firms in new ways, and enable a more critical evaluation of it. Furthermore, the blurred buyer-seller roles that appear to exist in this field add an interesting feature to its research. Possible findings about the blurred buyer-seller roles can provide insights into situations and relationships which involve mutual exchanges of services, such as complementary business service combinations. Possible findings regarding large corporate borrowers' patterns of debt activities, as seen from the marketing perspective, should also be of managerial interest.

1.4 Purpose of the study - the research questions

The overarching research question in this study is “How do large corporates market their debt?”

This thesis studies the content and nature of debt marketing by large corporate borrowers. The empirical context of the study is large corporate borrowers’ debt marketing, and the unit of analysis is the set of a large corporate firm’s debt marketing activities and processes. In addition to the general lack of marketing studies in this empirical field, this study provides additional interesting questions and potential for discovery because of the blurred buyer-seller roles, the context of which has so far received very little research attention. In this study’s context, buyer and seller roles mean the sets of activities associated with buyers and sellers in a generic consumer or industrial products marketing context. Without making them an explicit consideration of this study, such blurredness could exist in vertical channel relationships or in combinations of complementary business relationships (e.g., co-branding activities; research partnerships).

To establish more detailed research objectives, the study question is divided into three sub-questions as follows:

- What patterns of debt marketing activities do large corporate borrowers exhibit?
- What aims and motivations describe the patterns of debt marketing activities?
- To what extent do large corporate borrowers’ debt marketing activities reflect generic buyer or seller roles?

This study assumes that individuals in charge of a firm’s borrowing activities believe that their actions can impact the success of their firm’s borrowing, and that they act accordingly. This assumption also reflects the study’s positioning in the field of managerial marketing research.

1.5 Positioning of the study and key terminology

This study is positioned in the field of managerial marketing research, as it particularly focuses on the activities of debt marketing. Its conceptual framework is based on the classification of different activities, which are later analysed to identify practices, and patterns of activities and processes. The outline of the conceptual framework for this research proposal is shown in Figure 1.

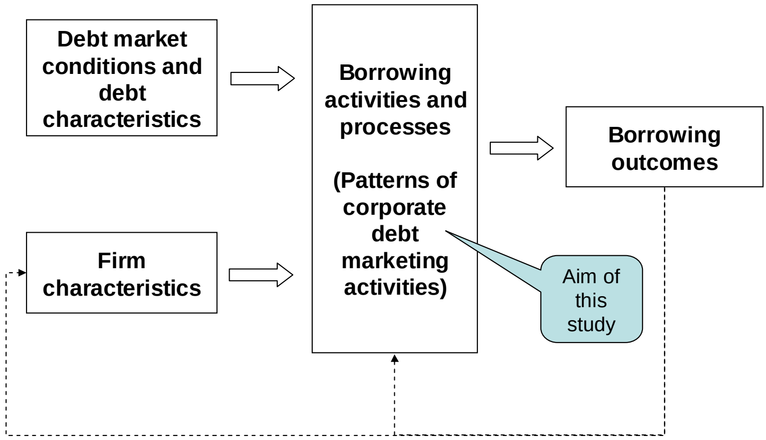

Figure 1 Outline of the debt marketing conceptual framework

Borrowing or corporate debt marketing activities are the central components of this framework. By analysing these activities in a firm's borrowing context, this study aims to find marketing interpretations or meanings for the patterns that may be discovered. Understanding a firm's borrowing context (characteristics, market conditions, outcomes) is not for testing hypotheses or for causal explanations, but to provide a theoretical understanding of debt marketing and its drivers within a firm. Borrowing outcomes are part of the context, as the philosophical standpoint of this study is that managers in charge of a firm's borrowing are free actors whose decisions are most probably also shaped by targeted outcomes.

As exploratory research, this study employs a qualitative research strategy. It will be executed as an extensive case study of companies with over Euro 500 million of gross financial debt. Large firms are chosen as the object of this study. Such borrowers typically have diversified debt portfolios and debt investor bases, implying a variety of activities and transactions. This should provide a rich set of data for analysis.

Data gathering will be executed by interviews, and interview data will be complemented with publicly available data regarding the firms. The analysis will mostly be of narrative data, complemented by limited quantitative cluster analysis to help organise the data to identify leads for closer narrative analysis.

Most of the terminology specific to the empirical field are defined in the following chapters, particularly in Chapter 2. However, some key terms, particularly as used in the analysis, are explained below.

A firm is typically described as a *borrower* when borrowing from banks, but when *borrowing* in capital markets, a borrower is called an *issuer* who *issues* debt instruments. Banks are more frequently referred to as *lenders* and institutional *investors*, such as insurance companies or pension funds that are called *debt investors* when they lend by buying debt instruments. *Corporate debt* is for practitioners, and in the academic literature is the generic term for debt issued by non-financial companies.

The Collins English Dictionary (1979) defines *activity* as any specific deed, action, or pursuit. An activity in industrial management can be described as a clearly defined task with a known duration, whereas a series of tasks together can complete a particular step of a defined work (Young 1993, 144). The Collins English Dictionary (1979) defines a *process* as a series of actions directed to achieving a result or as a method of doing or producing something. Kotler and Armstrong (2004, 53) define the marketing process as comprising the process of analysing marketing opportunities, selecting target markets, developing the marketing mix, and managing the marketing effort. A marketing activity is interpreted not only from the perspective of how a specific activity is executed at a given time, but what principles the firm follows in planning and executing the set of its different debt marketing activities. Chapter 2 will show that typical debt activities, as described in the finance literature, fit well into the definition of debt marketing (p.8).

Patterns are defined as a regular or unvarying way of acting or doing something, or as something representing a group or class (Webster's New World Dictionary 1984). *Debt marketing patterns* are defined here as a set of debt marketing activities or debt marketing practices, which are common to a group of borrowers. These patterns are the combinations of debt marketing activities and practices that divided the empirical sample into three groups of large corporate borrowers. The set of activities and practices attached to these patterns is sufficiently different so as to make the patterns clearly distinguishable from each other.

A *role* is the set of appropriate behaviours, or an expected or conventional behaviour that is culturally acceptable, or an order or instruction concerning how a person is expected to act in a specific social position (Vivelo 1988, 160). Role ambiguity in organisational behaviour means that the prescribed behaviours of an employee are not clear (Robbins 1993, 425). Handy (1993, 63) defines role ambiguity as a result of uncertainty in the mind of a person as to precisely what his or her role is at any given time.

Debt marketing categories are the general categories of activities, processes, and approaches in a firm's debt marketing. These were constructed as tools to analyse the data through concepts from marketing theory, corporate funding literature, and practice.

Debt marketing drivers are factors influencing a firm's choices of debt marketing activities, processes, and approaches. They include factors outside debt marketing, such as borrowing needs, as well as elements of debt marketing that influence other debt marketing elements, such as choice of debt instruments affecting choices regarding debt communication.

Debt marketing practices means the specific execution of debt marketing activities.

The structure of this study is as follows. Chapter 2 describes corporate debt instruments, activities, processes, and actors, and discusses them in terms of marketing terminology. In Chapter 3, a generic list of marketing activities is developed, and then debt activities are assigned marketing meanings. Furthermore, buyer and seller activities and roles are described in generic terms, and then debt activities are given meanings reflecting the two roles. With these, the theoretical framework for the empirical research process is completed. Chapter 4 presents the research strategy and process, and Chapter 5 presents the findings. The discussion of corporate debt marketing patterns and selected other features of it follows in Chapter 6. Chapter 7 presents the conclusions and an evaluation of the study.

2 CORPORATE DEBT: INSTRUMENTS, ACTORS, AND PROCESSES

At the start of all research is a pre-understanding of the field to be researched (Gummesson 2003, 486). The author's own extensive experience as a practitioner in the field is also very much reflected in this chapter, which reviews characteristics of corporate debt, the actors involved in it, and the processes related to it, as discussed in the academic literature, by practitioners, and the financial press.

Figure 2 shows the main actors involved in corporate debt marketing and some of the interactions between them. The figure is built on phenomena described in this chapter and, in it, solid lines represent flows of loans and cash, and dashed lines other interactions, which are mainly information or advice. Figure 2 illustrates that there are different types of lender and investor involved, as well as different arrangers, implying different motivations for and types of interaction. Further, this implies that different types of marketing effort can be made and relationships sought by corporate borrowers.

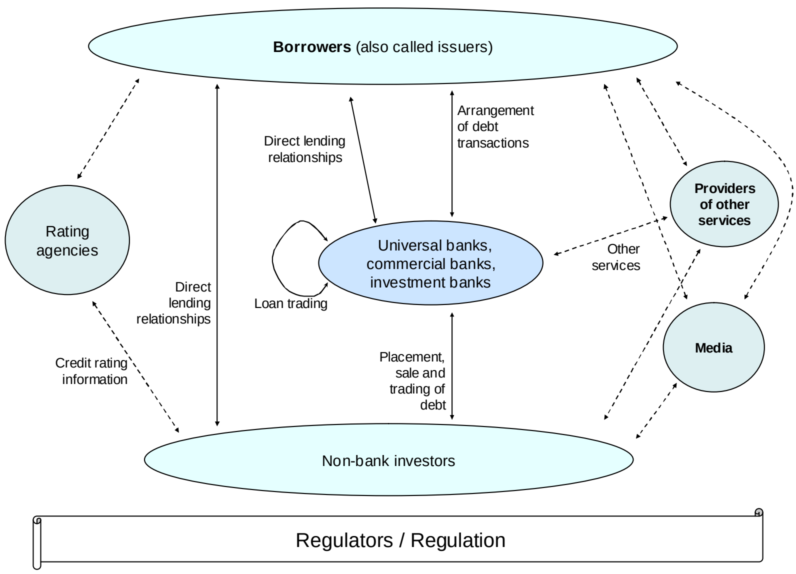

Figure 2 Important actors and links in corporate debt markets

2.1 Corporate debt instruments

2.1.1 Categorisations of corporate debt instruments

Practitioners categorise debt in many ways. This can be achieved through types of instrument, defined by their market and legal characteristics. This subsection reviews different ways of categorising corporate debt instruments, followed by descriptions of types of corporate debt instrument. Table 1 below lists some frequently used categorisation criteria which are also discussed in more detail in this chapter; it is compiled from the two referenced sources, and practitioner literature and comments.

Table 1 Examples of categorisation criteria for forms of debt

Categorisation criteria	Main categories	Ambiguity or overlap between categories
Instrument	Bilateral loans; syndicated loans; private placements; public bonds; commercial paper; medium term notes	Some overlaps, particularly among traded instruments
Degree of secondary market activity for the debt	Liquid and illiquid debt	Some, because liquidity is an ambiguous concept
Type of borrower	Government & agency; financial institutions; emerging markets borrowers; corporate; high yield	Some, as borrower type can refer to legal or business characteristics
Degree of monitoring	Monitored (informed) vs. non-monitored (arm's length) debt	Hardly any
Maturity	Short and long term debt	Not material
Seniority (within borrower's liabilities)	Secured; senior unsecured; subordinated; mezzanine	Hardly any
Existence or lack of public listing	Listed and non-listed debt	None
Credit quality/credit rating	Frequently used rating categories; government & agency; high grade; high yield; distressed	Some, because borrowers may be unrated; ratings of a borrower can change; ratings may be split
Drawn status	Drawn and undrawn debt	None
Currency	Main currencies	Hardly any
Form of arrangement /underwriting process	Bilateral; privately syndicated; publicly syndicated	Hardly any
Actual lender	Banks; private investors; institutional investors (e.g., pension funds; life insurance companies; other insurers; investment funds; asset managers; central banks)	Hardly any, but not meaningful where lender's identity is unknown (e.g., bearer bonds) to borrower
Marketing status	Marketed and non-marketed debt	Depends on meaning given to marketing in this context
Typical investor base	Bank debt; non-bank private debt; retail targeted public issues; institutionally targeted public issues	Precise targeting not easy, particularly for public issues

Sources: Clarke (1999); Finnerty and Emery (2001); practitioner commentary; author.

From a borrower's perspective, typically the most employed distinction is simply between debt provided by banks versus capital markets debt.

Illustrative of the blurred buyer-seller roles addressed in this study, in a practitioner textbook, Clarke (1999, 45) states the difference between the two as follows: “In one case money is lent to a borrower; in the other a financial instrument is bought and sold.” Monitored or informed debt is typically considered to be bank debt, and non-monitored or arm’s length debt comprises tradable, or capital markets, debt securities (Rajan 1992, Chakraborty and Ray 2002). Holders of monitored debt have, through covenants or collateral, the ability to obtain more frequent information and, as they are often a closer group than bondholders, it is easier to renegotiate terms of the debt if needed. This implies an important difference in the relational orientation of investors between these types of debt.

In this study, based on Brealey and Myers’ (1988, 575–589) widely used textbook list of the different debt instruments in corporate financing, debt generically is defined as financial debt but broadened to include committed credit facilities:

- Bilateral bank loans and (committed) loan facilities
- Syndicated bank loans and loan facilities
- Public bonds (senior, subordinated, etc.)
- Convertible bonds
- Subordinated debt and preferred shares
- Commercial paper (CP) and Medium Term Notes (MTN)
- Private loans or private placements; from non-banks (syndicated or non-syndicated)
- Operating and financial leases
- Factoring, receivables securitisations and other asset backed financing

With certain forms of debt the borrower does not sell its own credit quality[1]. For example, in factoring or in receivables securitisations, the underlying credit quality is that of the pool of customers whose liabilities are used as a financing basis.

2.1.2 Bilateral and syndicated bank loans

Bank loans are provided by banks on a bilateral or syndicated basis. They are not listed and, therefore, not subject to extensive regulations. This gives greater flexibility to design the instruments to the needs of the contracting parties. Frequently, terms and conditions include significant non-price terms

[1] If not referring to credit quality more specifically, this study uses the term “borrower’s credit quality” to mean the reported or perceived quality of the borrower’s senior unsecured debt obligations, quality usually codified in the credit rating systems of lenders or credit rating agencies.

that can be critical for the success of the transaction, and thereby have an indirect impact on loan pricing.

Bilateral loans are negotiated with and provided by a single lender. This form of debt is probably the most relationship driven form of borrowing. A syndicated loan is provided by two or more lenders on common terms and conditions. They use common documentation and an agent, who is normally one of the lenders, administers the loan. Typically one or several banks are appointed as arrangers of the loan, syndicating (selling) it to other banks; albeit the syndication process often only being nominal, when the borrower invites and solicits its banks to join the transaction. Borrowers use syndicated loans to raise large amounts because of the flexibility and speed compared with the arrangement of a bond issue or when arranging a number of individual bilateral loans simultaneously (Finnerty and Emery 2001, 30).

Bank loans can provide for monitoring in a manner that bond investors cannot or do not want to do. Ultimately, such structuring can result in different risk levels of bank loans, as found by Moody’s (Moody’s Sep-2003) which showed there are differences in the risks involved in the bank loans and bonds of the same borrower.

Although, with the world’s largest banks active in it on a global basis, the syndicated loan market can in some way be considered a global phenomenon, Carey and Nini (2007) have shown that it is not a globally integrated market and that there are significant unexplained pricing discrepancies between European markets and the US market. Bank loans have a secondary market, albeit not for all borrowers since loans need to be documented as transferable instruments, and there must be investors, other banks, or institutional investors interested in the debt of the borrower. The secondary bank loan market came into being around 1983 as banks used the secondary trading of their loans to Latin American countries in order to optimise their credit portfolio management (Fleuriet, 2003, 198); since when it has also developed into other types of debt, including corporate loans.

Borrowers which are relationally oriented may watch the secondary market tradability of loan instruments between relationship lenders with mixed feelings. Secondary market trading can reduce a borrower’s ability to control how much unused credit limits it still has available with a specific bank. If the firm is not informed that a relationship bank has sold its loan so someone else, the borrower may not be aware that its credit limits with the buying bank have been used, or that the selling bank’s appetite for the credit risk of the borrower may have changed. Secondary loan trading is frequently motivated within banks by internal reasons. It facilitates asset and liability management and enables separating balance sheet management from relationship management, ultimately creating a shift from relationship banking to transaction oriented banking (Parlour and Plantin 2008).

2.1.3 Corporate bonds

A bond is an instrument, or security, represented by a long term contract under which a borrower agrees to make payments of interest and principal to the holder of the bond (Brigham 1985, 61). A corporate bond issue is typically placed through a syndicate of banks, and it is generally promoted, offered to the wider public or only to qualified investors, and sold to many different investors. Public bonds are listed on an exchange and subject to regulations concerning selling, and the provision of information to investors.

A bond issue requires a prospectus which is required to be an objective representation of the borrower's business and financial condition, but given its informational content, it is also a selling document that can be considered as a marketing communication.

The international bond market in a given currency is commonly divided into three segments – domestic bonds, foreign bonds, and Eurobonds – separated mainly by home country regulations. Domestic bonds are issued mainly by domestic entities, under domestic regulations, and sold predominantly to domestic residents. Foreign bonds are issued by foreign borrowers in the home country of the currency and under domestic regulation, which can differ for domestic bonds. Eurobonds are bonds issued outside the country of the currency and are issued by borrowers of various nationalities with the assistance of international syndicates of bond underwriters (Lopez and Spiegel 2006).

Before the introduction of the Euro (€), debt markets in Europe were more segmented because of the multiple currencies involved. Often rules restricting geographical diversification of investment by institutional investors limited the potential size of individual markets (Cabral et al., 2002, 20). With the introduction of the Euro, investors have access to broader markets that offer more liquidity in a greater variety of corporate debt instruments. The original Eurobond market was very much driven by retail investors (Temple 2002, 116) who typically do not undertake significant efforts to monitor borrowers and who typically buy highly rated bonds or unrated bonds that are perceived to represent low risk, typically issued by governments, agencies, financial institutions, or extremely well-known firms.

Most US corporate bonds have at least one credit rating (Boot and Milbourn 2002), and also most bonds are publicly rated in the Euromarket. From the marketing perspective, an important distinction is made between investment grade (also called high grade) and high yield (also called speculative grade or junk) bonds. The most important difference between the markets for these two kinds of bonds is that investment grade bonds are principally sold on their ratings to investors who are mainly interested in the safety of the principal and not capital gain (due to movement in secondary market prices), whereas, somewhat similar to equity offerings, high yield bonds are sold based on stories relating to the future prospects of the firms (Datta et al., 1997, 380–381). Axelsson, Strömberg, and Weisbach (2009, 1550) go even further in arguing that general partners of private equity firms, which are significant users of high yield bonds for financing buyouts, have an incentive to overstate the quality of potential investments when they raise financing from uninformed investors. A large number of investors will or can purchase only bonds rated by a recognised credit rating agency and with a rating above a certain level. This is argued to have placed significant power with the credit rating agencies, even if the informational content or lack of credit ratings has been subject to extensive debate (Hill 2004, Boot and Milbourn 2002).

The market for high yield bonds started to develop in the US in the 1970s, but the market in Europe developed only later, picking up after 1999. Both the single European currency and the development of the credit derivatives market have contributed strongly to the growth of the high yield bond market in Europe in the 10-15 years (Biais and Declerck 2006).

Benchmark bonds are defined as bonds that provide a standard against which the performance of other bonds can be measured (www.investopedia.com). They are of large size; frequently Euro 500 million is used as a reference point, and seen as liquid instruments attractive to investors for whom a bond’s liquidity is particularly important. Large bond issues are typically included in bond indices. Investors which seek to track index returns are compelled to buy such bonds, which further enhances their liquidity, increasing incentives for transactional behaviour by debt investors.

Convertible bonds enable an investor to convert the bond into the issuer’s shares, and exchangeable bonds can be converted into shares of a firm other than that of the issuer (Finnerty and Emery 2001, 91). Other equity features that may be attached to bonds are warrants to subscribe shares of the issuer against a separate payment. These equity features are attached to attract different investors than the firm has accessed in the past, or to lower the coupon, or interest rate, on the debt. Higher risk companies may use such features in order to offer an attractive yield to investors without committing to high fixed coupon payments.

Subordinated debt instruments are another category of debt, sometimes called debentures, which in the liquidation of a firm rank behind the more senior debt in claims on the borrower (Finnerty and Emery 2001, 4). Also, privately issued debt can be subordinated or carry such equity features as discussed above. Because subordinated bonds carry a slightly higher risk to investors, they carry higher coupons. Since 2003, Europe has seen the emergence of an evolved form of corporate subordinated debt called hybrid debt, with its risk being closer to that of equity because of deep subordination and coupon deferral features.

The multitude of forms and features of corporate bonds shows that a considerable range of decisions is involved in designing debt, and how it is marketed. Bonds can be offered both to transactional and relational buyers which are not mutually exclusive.

2.1.4 Commercial paper

Commercial paper is unsecured short term (maximum 18 months) debt issued by the very largest corporations that can go to investors for short term funding in the same manner as the US Treasury (Lehmann 1984, 37). It is commonly bought by money market funds as the issuing amounts are often too high for individual investors, but sometimes corporate liquidity, or companies' cash holdings, can represent a considerable proportion of the investors in the market. Commercial paper is for professionals only (Temple 2002, 130) making it essentially a business-to-business market. There are two methods of issuing paper; the issuer can market the securities directly to a buy and hold investor, such as money market funds, or sell it through a dealer.

Commercial paper is typically issued under a registered programme which is updated annually. The programme has an upper limit to which the issuer can have paper outstanding. The programme enables a firm to issue in a very flexible manner (e.g., maturity; size) paper that in other aspects, such as legal terms, is highly standardised. All of these features make the market relatively opportunistic or transactional, as evidenced by the rapid drying up of some commercial paper markets during financial market upheavals.

2.1.5 Medium term notes

Medium term notes (MTNs) are the long term equivalent of commercial paper. A MTN is a debt note that is usually paid back within five to 10 years, but the term may vary between one year and perpetual notes. There are two methods of issuing in MTN markets; either the issuer can market the securities directly to an investor or sell them through a dealer. In Euromarkets, these notes are called Euro Medium Term Notes (EMTNs).

MTNs are usually issued under a Medium Term Note Programme, which is a registered programme used by issuers to raise debt funding on a continuous basis. The advantage to issuers is that they are not required to produce a full suite of legal documents each time they want to issue notes. This makes access to debt funding easier, cheaper, and enables relatively opportunistic or transactional behaviour by both sides. Programmes are registered with a supervisory authority, such as the London Stock Exchange or the Luxembourg Stock Exchange.

An issuer will generally engage two or more dealers to offer MTNs on a best efforts basis. Through those dealers, the issuer advertises a rate schedule indicating nominal yields available for various terms. If an investor is interested in purchasing notes at the offered rates, it contacts one of the dealers. Should an investor want to buy notes for a term or nominal yield not offered, it may place a request through one of the dealers. If the issuer finds the request appealing, it may accept the proposed terms. This process is called a reverse inquiry and accounts for a considerable part of MTN issuance. Reverse inquiry is not to be confused with reverse auction processes, where sellers bid for contracts (Jap 2007, 146).

2.1.6 Private placements

There are no hard and fast definitions of a private placement (Brealey and Myers 1988, 341). Generally, they are unregulated or lightly regulated, unlisted but transferable debt securities bought by institutional investors. Private placements can be both investor and arranger originated. Important differences between publicly traded bonds and private placements are in the design of their covenants, credit monitoring, and the relative ease of renegotiation (Kwan and Carleton, 2003). The most typical use of the term private placement refers to US private placements, but in other contexts the term is also used to refer to notes issued under MTN programmes.

Because of their lightly regulated nature, private placements can be designed very flexibly to include a variety of different features that are non-standard in bond markets.

Prowse (1997, 12) provides a description of US private placements as “an information intensive market that shares much with the…bank loan market: borrowers and lenders typically negotiate lending terms, lenders evaluate and monitor borrowers’ credit risk, and borrowers generally lack access to public markets because they are too information problematic for public investors to evaluate. As in the bank loan market, a key activity of lenders in the private placement market is the gathering and production of information about borrowers' credit quality. However, there are also significant differences from the bank loan market: private placements are securities rather than loans, their maturities are much longer, interest rates are fixed, and the principal financial intermediaries investing in private placements are life insurance companies, not banks."

Because a private placement is typically illiquid (Brealey and Myers 1988, 341), and because the lender seeks to engage itself in a long term exposure, regular contact and information flow are required to ensure that a lender can adequately monitor the credit, making private placements more suitable for relational processes.

2.1.7 Leasing and factoring and other asset based funding

A lease is the right to use an asset of a lessor by another person, usually called the lessee or tenant, whereby the lessee obtains exclusive possession of the asset in return for a payment. Factoring is the purchase of accounts receivable at a discount. Accounts receivable purchasing/factoring is often the fastest way for a business to collect on generated invoices. Asset backed securities are bonds that are based on underlying pools of assets.

To some degree all forms of asset based funding can be seen as substitutes for other forms of corporate debt. Their relevance for debt marketing is that access to this type of funding may provide a borrower with a window to behave opportunistically if it so desires. Thus, the use of such forms of debt could reduce a firm's capacity to issue other forms of debt. Good relationships with leasing or factoring companies can be particularly important for firms with constrained access to unsecured debt. As a leasing company can claim its asset back more easily than a lender can repossess collateral, and a factoring company only takes a small risk towards a firm selling its receivables, they may still be willing to extend financing when banks are less willing to provide unsecured lending.

Ang and Peterson (1984, 1063) found that there is also a complementarity between corporate debt and leasing, as greater debt on a firm's balance sheet is associated with greater use of leasing. This suggests that large borrowers are also sophisticated in their use of a diverse range of instruments that includes asset backed debt.

2.2 Actors in corporate debt

In the context of relationships between insurance brokers and their business clients, Beloucif, Donaldson, and Kazanci (2004, 328) refer to relationships as sometimes only being relationships within transactions or relationships as prolonged transactions, meaning that, while the parties know each other well, each transaction has to be bid for competitively with no promises on either side of future business. Similarly, it is possible to argue that not all lending involves deep relationships despite the presence of relational elements. This subsection discusses different types of actor in corporate debt, and some of the reasons that may motivate them to behave in a more transactional or relational way.

2.2.1 Corporate borrowers

Martikainen (in Kinnunen et al., 2000) states that the establishment of a financial strategy and long term funding plan are the tasks of top management. Debt funding execution within a company is typically the responsibility of the corporate treasury. In issuing debt, a firm’s financial managers often need to interact with various other parties which are listed in Table 2. This table is a summary from several sources, and was later also contrasted with the terminology used by interviewees in the empirical part of this study.

Table 2 Participants in debt funding processes

Participant	Typical / possible roles
Borrowers	Issuance of debt; Service of debt; Regular information to and communication with lenders
Commercial banks	Lender; Arranger of syndicated loans; Issuing and paying or other agency roles
Investment banks / universal banks	Lender; Arranger of public debt issues; Arranger of syndicated loans; Advisor on debt issues; Credit research for investors; Issuing and paying or other agency roles; General "sponsoring" of the borrower in debt markets; Secondary market trader in issuer's debt
Other debt investors (non-banks)	Lenders
Rating agencies, other credit analysts	Issuance and maintenance of credit opinions; Broader information provided to investors
Advisors	Legal advice Debt investor relations support
Agents	Trustee and payment & issuing agency services
Financial press, information vendors	Reporting on borrowers; Data on borrowers; Pricing data; Transaction data

As Table 2 suggests, particularly investment and commercial banks may have multiple roles.

2.2.2 Debt investors and their motivations

This subsection discusses types of debt investor, and their motivations. These descriptions help to identify possible implications for relational or transactional approaches by borrowers or to what extent they might perceive themselves as sellers of debt or buyers of services.

At the extremes, there are two types of lender, very strongly relationship oriented versus those with little or no relationship interest. The typical relationship oriented lender provides loans to cement relationships within which the lender sells other services to the borrowers. Such loans may be provided at prices that fail to earn adequate returns on a standalone basis. This kind of lender, typically a commercial bank, can behave as the marketer of loans to borrowers, often even initiating the transaction, and is frequently also considered the seller of a service[2].

At the other extreme, there is the lender with no other commercial interest other than buying an attractively priced debt instrument. For such an investor, the debt instrument happens to fulfil its investment criteria among a range of potential choices. Typically, this investor is strongly focused on the return provided by the instrument and not on a return from the relationship. The investor may even invest in a specific bond solely because it is included in an index that the investor tracks. However, even investors which as buyers primarily follow a transactional approach may value relationships with the borrowers because a good contact may facilitate information flow that helps to track the quality of the investment.

The following paragraphs provide a brief discussion of some generic types of debt investor and criteria for their categorising. This classification into three generic types provides categories that later guide the analysis. They are logical because they cover the whole spectrum of lenders and, as shown later, are also justified by empirical observations in the research data.

First, *lenders that not only lend to the company, but also do other business with it.* These lenders try to incorporate into their lending decisions the overall profitability of the customer relationship. Donaldson (1995, 101) states that "a bank's credit culture is its attitude to credit, both in absolute terms and in relation to other aspects of the bank's business", acknowledging that credit decisions by banks also consider other business opportunities the borrower offers. For this kind of lender, pricing may incorporate an implicit discount that is supposed to attract other business from the borrower. Typical lenders in this category are commercial and investment banks.

Second, *debt investors which exclusively lend in a direct relationship with the company (borrower) without doing other business with the borrower*. These debt investors lend in the primary market and communicate directly with the borrower, which typically knows them well, but do not base their pricing decisions on other business. These lenders may provide funding via bilateral, direct loans or private placements, or by participating in syndicated loans. A transaction may be initiated by either party in a direct relationship, but it can also be initiated via an intermediary (e.g., an arranger of a syndicated loan or private placement). The pricing of such debt may be negotiated directly between the lender and borrower. When dealing with this type of investor, the borrower may perceive itself as a seller, and is likely to

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2 Saari (1992), in his account of SKOP and the Finnish banking crisis of the early 1990s refers to a banker's observation that "the term 'marketing' was used to call what was the sale of money, or what in old times was called lending."

undertake marketing efforts towards investors. Typical investors in this category are life insurance companies and pension funds.

Third, *debt investors which lend via the secondary market or via intermediaries in the primary market.* These investors frequently have a shorter time frame with regard to their investment decision. Typical investors in this category are insurance companies, investment funds, or asset managers. The lender's investment is made by purchasing a debt instrument in the primary or secondary market. The borrower may not even know the individual investors, particularly if they are retail investors. In the extreme, the borrower may consider the investor-buyer as a buyer of a commodity which is only interested in the price of the product. Nevertheless, because the secondary market price of a debt instrument of a borrower can have important implications for the borrower's future cost of debt, the borrower has an incentive to know some of these investors in order to understand their motivations and behaviour. Marketing to these investors relies on intermediaries or agents, such as debt arrangers.

A summary of the different types of lender and their characteristics is provided in Table 3, which has been extracted from the various sources cited in this chapter and shows further differences that can influence borrowers in how they approach these lenders, both actual and prospective.

Table 3 Categorization of different types of debt investor (lender)

Characteristics	**Lenders with strong other commercial interests**		**Lenders without significant other commercial interests**		
	Banks		Private investors	Institutional investors	
	Commercial banks	Investment banks		Primary market oriented investors	Secondary market (liquidity) oriented investors
Orientation	Relational (very strongly)	Relational	Transactional	Transactional or relational	Transactional
Contact with borrower	Frequent	Frequent	Rare	Regular	Possibly some
Potential cost to investor of loss of relationship	Can be high, depends on range of products and services and their profitability in the relationship	Can be high, depends on range of products and services and their profitability in the relationship	Not relevant, albeit cost of selling out existing position can, in relative terms, be higher than for big investors	Possibly some (sunk search costs, and cost of analysis and monitoring of credit)	None
Typically used return benchmark for lending	Contribution to overall relationship profitability	Overall relationship or return from specific ancillary business	Defensive	Target yield or spread after credit losses	Benchmark index (total return; relative value)

2.2.3 Banks

Commercial banks are the most traditional type of depository institution, accepting deposits, obtaining funds through the sale of certificates of deposits, and lending the funds to various borrowers (Sachs and Larrain 1993, 624). In other terms, the role of commercial banks is to fill the diverse desires of both borrowers and savers (Hempel et al., 1983, 6). An important feature of banks is their provision of further services beyond lending or deposit taking. A US survey (Fleet Boston 2004) suggests that US corporate borrowers prefer to deal with commercial banks that can lend as well as provide a range of other services.

Drucker and Puri (2003) found that in the US between 1996 and 2001, the practice of tying[3] lending and underwriting of seasoned equity offerings grew significantly, and that this tying enabled firms to achieve lower lending spreads from their commercial banks and lower equity underwriting costs

3 In some jurisdictions, particularly the US, there are anti-tying provisions restricting such linking of lending with other services.

from their investment banks. Drucker and Puri (2003) argue that the reported pricing benefits are based on informational economies of scale that the banks could generate and pass on to firms. This suggests that the development of close relationships involving information sharing is something in which firms have an interest. Kashyap et al. (2002) argued that commercial banks are strongly predisposed to provide credit in the form of committed credit facilities because their involvement in deposit taking enjoys synergies with the provision of lending commitments.

Investment banks perform three functions, which may be of value to an issuer of new debt securities; namely, underwriting, advising, and distribution (Baron 1982, 955). The legal concept of an investment bank has its roots in the US, where the 1932 Glass-Steagall Act, repealed in 1999, separated securities firms, or investment banks, from commercial banks. Today the terms investment bank or commercial bank refer less to a legal status but more to business models within which there is considerable variation.

Multiple distribution channels are prevalent in financial services although decisions on channels may be rather unscientific (Coelho and Easingwood 2003). Relationships with investment banks are very important for firms which use them as a distribution channel for debt. An investment bank's investor reach, its track record and reputation as an arranger and distributor of debt issues are very important to firms. In the pre-selling of a new securities issue, an investment bank can produce valuable information for the pricing of the issue (Holmström and Baron 1980). Fang (2005) found that reputable banks achieved lower yields, or borrowing costs, for their borrower clients.

Universal banks are banks that perform both commercial and investment banking services. European countries have typically not restricted the activities of banks to one field and the largest players have evolved into universal banks that can lend to firms whose debt they distribute or seek to distribute. With regard to the markets, the fact that a bond underwriter also lends to the firm can, if in the public knowledge and depending upon the context, be a positive signal showing confidence in the company or a negative signal by which the bank may seek to minimise its own exposure toward the bond issuer.

Banks of all type are often predisposed to a relational approach towards borrowers but, depending upon their exact business strategy, product lines, and specific strengths, their specific approaches to cross-selling can vary. Kay (2009, 11) in fact argues that because of conflicts of interest, among other reasons, the cross-selling of financial services by banks operates to the long term disadvantage of customers.

2.2.4 Finance companies

Finance companies can be understood as specialised lenders operating in a narrow field, such as equipment leasing or factoring. They are non-deposit taking institutions, not constrained by bank regulations, but also lack access to deposit insurance or discounting facilities at the central bank. Historically, finance companies have been reputed to make high interest loans to borrowers turned away by banks, and to rely on aggressive measures to ensure repayment. It is argued by practitioners that finance companies use different techniques for controlling risks than banks, and that these techniques are better suited to higher risk classes of borrowers or different loan purposes (Carey, Post, and Sharpe 1998).

For firms using specialised forms of debt financing, relationships with finance companies can be very important, because these may have specialised knowledge of the assets they are financing. For example, aircraft leasing companies are among the most important providers of funding to airline companies. Many companies that manufacture capital goods, such as trucks or construction equipment, have their own finance companies that facilitate sales of the manufacturer’s equipment by providing funding to its customers.

2.2.5 Investment funds

Investment funds or trusts are vehicles for collective investment for the purposes of risk diversification, run for private investors by professional managers (Clarke 1999, 49; Temple 2002, 165). Principal forms of investment funds in legal terms are mutual funds, or open-ended and closed-end funds and unit investment trusts. One type of fund is a hedge fund, which is a generic term referring to a broad range of unregulated investment funds (Partnoy 2003, 135). The US Securities and Exchange Commission (SEC) categorises a hedge fund as an entity that hold pools of securities and other assets and which is not registered as an investment company (SEC 2003, 3). Bond funds are investment funds that invest specifically in bonds or other types of debt securities; within which there are different categories, including corporate bond funds. The primary risks such funds take are: credit risk, with a risk of a borrower not being able to pay interest or the principal on time; prepayment risk, or risk of early repayment forcing the reinvestment of received funds at lower rates; interest rate risk, triggering changes in secondary market values. Because of their size in primary and secondary market activities, the largest funds and their managers can materially influence the success of a debt issue and also provide important signals for its pricing. This can make them important targets of borrowers' marketing efforts.

Typically, investment funds have to report their performance on a frequent basis. Funds that do not produce satisfactory returns can see investors withdrawing their money. Thus, funds investing in debt are often focused on short term returns as liquidity is important for them to be able to both meet possible cash withdrawals to allow gains to be realised, or to switch positions. Given such postures, investment funds typically have a more neutral attitude towards long term commitments with companies.

2.2.6 Pension funds and insurance companies

Pension funds arise out of the efforts to provide pensions to employed people after they have retired (Clarke 1999, 46). Insurance companies collect premiums for the risk they insure their customers against, and they make money in two ways: (1) through underwriting, the process by which insurers select the risks to insure and decide how much in premiums to charge for accepting those risks; (2) by investing the premiums they collect from those insured. Insurance companies are classified as life insurance companies, which sell life insurance, annuities and pensions products, and non-life or general insurance companies, which sell a broad range of other types of insurance.

Pension funds and insurance companies buy assets to match their expected liabilities that are typically long term in nature. Their approach to investment is based on a number of more specific factors, including the age of the pension fund, the blend of ages of the employees, and their view of the economic and financial trends for decades ahead as their investment horizon can be up to 60 years in the future (Clarke 1999, 46–48). Thus as investors, pension funds and insurance companies can have more of a relational approach, as they are naturally inclined to engage in investments that involve a long term exposure towards a borrower.

Winton (1996, 35-36) argues that investing institutions with higher liquidity needs can less afford to invest in monitored debt which typically is less liquid. This provides a possible explanation for the relative strengths and preference of specialised investors. For example, life insurance companies with a natural interest to invest in monitored debt and, particularly, private placements of information intensive borrowers (Prowse 1997, 12).

2.2.7 Regulators

Regulators influence corporate debt issuance in many ways. In the European Union, national regulators as well as the EU commission both issue and monitor regulations that are relevant to corporate debt. Banking regulations governing capital adequacy impact the cost at which banks can lend to firms. Stock exchange regulations are designed to protect investors through setting reporting standards and disclosure rules. Securities, including corporate debt securities, cannot be promoted or sold using impressions and images. Any documentation designed to support the sale of corporate bonds has to be limited to verifiable fact, and where management discusses the future of the business, it has to clearly highlight what statements are speculative, and thus uncertain, in nature.

The EU Prospectus Directive (European Commission 2003/71/EC) harmonised requirements for disclosure relating to publicly offered securities within the European Union by setting a standard minimum level of disclosure to which investors are entitled across the EU. The directive also sets requirements as to how prospectuses must be published and made available.

Regulations vary between countries or jurisdictions, and according to the target investor. The regulatory environment in which debt is to be issued is a relevant consideration that can also be seen as a marketing decision. For example, if US$ bond issues are targeted only at qualified professional investors, such issues are exempted in the US from certain disclosure requirements that would apply to retail investor targeted bonds.

2.2.8 Rating agencies

A significant, if not the largest, volume of credit research is conducted internally in the investing organisations, particularly banks. However, even banks that are in the business of evaluating and taking credit risk, may use credit research provided by other organisations.

Rating agencies are perhaps the most influential and widely recognised external providers of corporate credit research. Typically, a reference to rating agencies means one of the US nationally recognised statistical rating organisations (NRSROs) whose status is bestowed by SEC. Of these, Moody’s Investors Service and Standard & Poor’s (S&P), a division of McGraw Hill, are the dominant two sharing more or less evenly an estimated 70–80% global market based on estimates of revenues. Fitch, the third largest rating agency, a division of the French group Fimalac, is estimated to have a 10–20% global market share. [4]

Rating agencies are best known for their credit ratings that represent an ordinal measure of relative credit risk. The scales of the leading agencies comprise of slightly over twenty ratings with AAA (or Aaa for Moody's) representing the highest rating and lowest risk. Because of their simple form and wide usage, these ratings provide an easy tool with which to compare the credit risk of various debt instruments. Through their wide use, ratings are seen as an important certification that helps a borrower to gain access to certain debt markets (Beaver et al., 2004).

Rating agencies sell their services to issuers, which request their debt to be rated, and to investors which buy the agencies' research. The largest customer base of the rating agencies are the issuers of securities, with Moody's financial statements indicating that approximately 87.5% of their revenue 2006 came from issuers.

The status as an NRSRO was originally only used with respect to US broker-dealers capital requirements (Donaldson 2005) but, over time, the use of ratings issued by the NRSROs have become more widely used in various formal and informal regulations, conferring significant importance to the ratings (Partnoy 2003, 64–65), to the extent that rating agencies are criticised as enjoying an officially approved monopolistic position.

Credit ratings are rating agencies' opinions about issuers' ability to meet their payment obligations under the rated debt on a timely basis. The term opinion is very important in this context as rating agencies argue that they themselves are part of the financial media and, since they only express opinions, they should not be sued for any perceived incorrectness of their opinions (Joynt 2005, Johnson 2003).

There has been considerable debate concerning the information content of public credit ratings issued by NRSROs. The empirical evidence surrounding credit ratings is far from conclusive (Boot and Milbourn 2002). One argument expressed with regard to the value of the rating agencies is that since they maintain a close dialogue with firms, sometimes receiving insider information, public ratings perform a valuable information dissemination function to the markets.

Beaver et al. (2004) argue that the rating agencies have two roles: Certification, referring to their role in assigning ratings and thus facilitating issuance of debt; Valuation, referring to their ongoing monitoring of a

[4] No official statistics were found in relation to this, but these numbers are typically cited by the large rating agencies when discussing their industry.

borrower and its rating, by which the rating agencies provide a tool for the markets to continuously maintain a valuation for the rated securities.

Johnson (2003) studied the ratings of S&P and a non-NRSRO's ratings between December 1995 and October 2002, and found that the non-NRSRO's ratings outperformed those of S&P's despite the fact that S&P was supposed to be better informed. Partnoy (2003, 411) considers the rating agencies to have done a poor job at predicting defaults. Other observers consider the rating agencies' track records as good, referring to the proven statistical correlations between defaults and credit ratings (Malvey 2002), and to market reactions to rating announcements (Kliger and Sarig 2000). Whatever the criticism levelled at the rating agencies, borrowers still consider public credit ratings as an important part of the borrowing toolkit.

2.2.9 Other credit analysts

Independent credit research firms typically derive their revenues from selling their analysis to investors, and only use public information for their analysis. Similar to rating agencies, they are institutions to which some investors implicitly outsource part of their credit analysis. Also included in this group are rating agencies that operate under an investor-pays model (Deb and Murphy 2009). These are freer to design their service offering, to provide more specific input into investment recommendations, and to provide more than the fundamental analysis to their clients. Compared with the history of some 100 years of public credit rating agencies, independent credit research firms are still relatively young, and have achieved their recent growth thanks to the growth of the hedge fund community, and the technological and regulatory changes that have made information more easily available and increased demand for independent credit research (Credit Jul-Aug 2005).

As these research firms typically operate only with publicly available information, they do not seek particularly close relationships with borrowers.

2.2.10 Press and financial media

The press and financial media play a role in disseminating information about a firm's credit. The press provides general coverage about a firm and its industry. Beyond the general and specialist press, financial media includes aggregators and vendors of financial information, such as databases of financial reports and prospectuses, or aggregators of price and trading data (Finnerty and Emery 2001, 369).

Corporate borrowers seek to maintain good relations with the press to obtain favourable coverage of themselves as good borrowers, just as they want to cultivate a positive image among other constituencies. The availability of specific data on a firm held on databases that are regularly used by debt investors or debt intermediaries is also in the interest of a borrower.

2.2.11 Other parties in corporate debt

Other parties in corporate debt can include lawyers for the documentation and structuring of debt. Auditors certify the financial information, and may be called to provide special support for debt issues.

Issuing and paying agency roles can involve tasks such as calculation of interest, distribution of the interest and principal payments to investors, or the delivery of certain notices relating to the transaction to borrowers and investors. Such roles may be adopted by the same banks that lend in the transaction or which arrange it. However, in some cases, these agency roles are adopted by parties that have no other role in the transaction.

Trustees are parties whose roles are tied to protecting the interests of investors; for example, calling bondholder meetings if the borrower is not in compliance with the debt's terms and conditions.

Other advisors could include experts who might perform an evaluation of a resource that the borrower exploits, or provide a valuation of a specific asset that is being used as collateral. Such experts may help to enhance the credibility of information that debt investors receive and, by that, facilitate the marketing of a debt issue.

2.3 Debt funding processes

This subsection describes different generic debt processes. It provides a first step towards defining the activities on which data are to be sought in the empirical part of the study.

2.3.1 Mandating

Mandating happens when a borrower formally engages a bank and gives it the responsibility to originate and syndicate a borrowing transaction (LMA Glossary). Mandating can happen at the end of a long process of marketing by the arranger, which has had to impress the borrower of its capabilities and with specific ideas for creating a successful transaction. In such a situation the borrower buys a placement service, in some ways comparable with the situation where a producer contracts the services of a distributor. However, the definite sale of the debt is still to be finalised and the distribution of responsibilities between the borrower and the arranger in this phase can vary, but the borrower has the greatest interest in its success.

2.3.2 Underwriting, bookrunning, and syndication

The financial firm that is the principal player in a bond underwriting is known as the bookrunner. An underwriter is the bank which, alone or with co-underwriters, buys the debt issue from the firm and resells it to the market, or in other cases, only acts as the marketer of the issue (Finnerty and Emery 2001, 45). The bookrunner initiates the transaction with the borrower and is responsible for organising the underwriting syndicate, pricing the bond or loan, and placing the issue with investors or syndicating the loan with other banks. A bookrunner needs a variety of capabilities including an investor clientele that is willing to purchase the debt issue, the ability to construct an underwriting syndicate that can place the issue, and the capability to support the bond issue in the primary market (Lopez and Spiegel 2006).

In the issuance process, investors express indications of interest to the arranger or syndicate. After this book building stage, the underwriter sets the price and determines the allocation; for instance, how many bonds each investor receives. In good deals, and particularly oversubscribed deals, bookrunners tend to favour their best investor customers in the allocation. This creates a risk of poor allocation to some bidders, and could prevent an efficient matching of supply and demand, highlighting an arranger’s critical role and how much his or her actions can affect the borrower’s transaction (Biais and Declerck 2007).

2.3.3 Structuring and documentation

Structuring and documentation refer to the process of defining the exact features of the debt. Finnerty and Emery (2001, 87) call this new issue design. In some cases this can be a very simple process when the borrower and lender know each other very well and have regularly used standard documentation. However, there are also debt instruments, such as project financing loans, hybrid debt instruments, or secured loans, that can involve several agreements and a large number of detailed terms and conditions, many of which affect the debt issue's marketability.

With more complex borrowing transactions, the structuring process can involve deep interaction between the borrower and the arranging parties. Where a borrower is unfamiliar with an instrument, or the financing necessitates the issuance of a particularly complex instrument, the borrower is more likely to seek to work with an arranger which is known to understand the firm well.

John (1987) found theoretical justification for the observation that higher quality bonds of borrowers in mature industries carried less restrictive covenants (i.e., such that provide less tools and incentives for lenders to actively monitor), and that growth firms' bonds should carry very restrictive covenants with higher growth prospects calling for increased restrictiveness. Tighter covenants and other terms in lending agreements provide incentives to both borrowers and lenders for closer interaction.

2.3.4 Pricing

The pricing achieved by a borrower for its debt is typically one or the main criteria by which borrowers measure how successfully they have placed their debt. The cost of debt normally refers to the spread or premium over a reference rate, typically the interbank rate, which is compared with the spreads achieved by peers. The ultimate assessment of the cost to a borrower also has subjective elements. Whether a borrower can be considered to borrow cheaply or expensively depends very importantly on the instruments, the rates, and the duration over which the cost is compared.

Pricing of different debt instruments can show considerable differences, reflecting a number of factors. Fridson et al. (1998, 200) divided the factors that explain pricing into company specific and environmental factors. Below is a list showing different pricing factors that have been considered to be important in the academic literature or by practitioners:

- General interest rate level
- Other commercial interests between the borrower and lender
- Credit quality of the borrower and the particular instrument, as expressed by credit ratings
- Market spread volatility
- Transaction costs

- Rating thresholds[5]
- Changes and volatility in general interest rate levels (Fridson et al., 1998, 212)
- Asymmetry of information (Datta et al., 1997)
- Expected incremental borrowing of the firm (Collin-Dufresne and Goldstein 2001A, Dangl and Zechner 2004)
- Volatility and trend of the credit ratings (Fridson et al., 1998, 212)
- Liquidity of the instrument (Chen, Lesmond and Wei 2007, Ericsson and Renault 2006)
- Market liquidity risk (Arvanitis and Gregory 2001, 309)
- Maturity of the instrument (Fridson et al., 1998, 212)
- Relative pricing of comparable instruments, including credit derivatives on the existing debt of the borrower (FT 07.03.2008)
- Seniority (Fridson et al., 1998, 212)
- Underwriter type (Fridson et al., 1998, 212)
- First time issuer (Fridson et al., 1998, 212)
- Quality of management's personal presentations to investors (Fridson et al., 1998, 214)

This long list suggests that pricing can hardly be an exact science or process, and also carries subjective elements. The first five points are general in nature, and typically show up regularly. The remainder are either from the practitioner or academic literature and, to some extent, represent overlapping terms. For example, the term *credit quality* also at least partially captures *volatility and trend of the credit ratings*.

There are several ways by which a borrower can try to influence the pricing of its debt, but not all of these ways can be controlled to the same degree. Table 4, extracted from various literature sources cited in this chapter, and visible also in the interview data as discussed in later chapters, presents some possible means of influencing the price, or cost, of debt.

[5] Fridson, Garman, and Wu (1998) p.212; claim that the threshold between the B and BB categories is a significant one, where pricing changes by more than could be explained by the expected default and loss likelihoods implied by the credit ratings.

Table 4 A borrower's ways of influencing debt pricing

Area of influence	Ways of influence
Market confidence	Transparent communication; Consistent behaviour and performance; Supportive credit research opinions by rating agencies and intermediaries
Leverage towards lenders	Existing business that can be lost; Future business that can be allocated
Liquidity of the debt	Issuance size; Index inclusion; Issuance programmes; Investor targeting
Secondary market performance of the debt	Issuance size; Discipline by intermediaries (arrangers/underwriters)

It has proven hard to find exhaustive explanations for credit spreads, a critical element of debt pricing. Collin-Dufresne et al. (2001B) conducted an extensive study of US corporate bonds and found that only some 25% of the spread changes could be explained by the perceived default probability. For the remaining changes there was no satisfactory explanation, but it was suggested that it lays in factors common to the whole market such as market liquidity or shocks to it. Similarly, Guttentag and Herring (1984, 1367–1369) argue that risk premiums are set in competitive markets in response to subjective probabilities of credit shocks. Amato and Remolona (2005) argue that in corporate debt a significant non-diversifiable risk element explains why debt is frequently priced higher than levels implied by expected default and loss. These findings could suggest that an individual corporate borrower's own behaviour cannot significantly influence the pricing it may enjoy for its debt. Nevertheless, as firms place importance on minimising funding costs, responsible persons are expected to do their best to achieve their borrowing cost targets.

2.3.5 Listing

Most international bond trading takes place over the counter, generally rendering exchange listings a formality (Claes, De Ceuster, and Polfliet 2002, 374). However, listings are requested by investors for reasons of internal or external regulations. The listing process itself is a relatively simple.

A listing of an instrument facilitates its categorising as a marketable instrument, which theoretically enjoys liquidity that is adequate for many investors' internal regulations.

2.3.6 Advertising, promotion, and information dissemination

A critical element for any credit decision is an understanding of the borrower's default probability or credit risk. There are three basic types of information available that are relevant to the default probability of a firm: its financial statements; market prices of its debt and equity; subjective appraisals of its prospects (Banks, Glanz, and Siegel 2007, 190). Promotion methods for many kinds of bonds are tightly regulated and have to take into account the strong desire of investors for neutral and objective information with which to form their own opinion. As corporate debt is typically bought by professional investors, advertising and promotion in corporate debt have their own distinct meanings.

Formal advertising and promotion materials can include debt prospectuses or information memoranda. Corporate annual reports with financial statements and their notes are an important source of information for debt investors. Borrowers may also make specific presentations to debt investors, and they may have web pages on their websites dedicated to debt investors with information regarding their outstanding debt instruments and their prices, their public credit ratings, or official documents such as bond prospectuses. Underwriters gather information about the firm through personal interviews, inquiries through independent sources, and other means (Covitz and Harrison 2003).

Typically, at least some of the biggest debt investors of a firm seek to understand it in more detail than revealed in such documents, and for this they seek direct contact with company management. Face-to-face contact with important representatives of the firm can add credibility and depth to statements made in documents. Firms know their most important lenders very closely, and there is regular personal interaction between representatives of a firm and its main lenders. Gerla (2002, 113) argues that sophisticated or professional investors, which contribute capital to closely held corporations via purchases in non-public offerings of debt or equity securities, generally insist upon enough disclosure from the issuer to make it highly unlikely that significant material facts remain undisclosed. However, personal contact between a firm and investors are also subject to various regulations that seek to protect investors.

The Committee of European Securities Regulators (CESR) found after consultation with its members, representing 17 countries' securities regulators, in 2003 that the regulations and practices regarding advertising securities varied considerably between European countries (CESR 03–494). Since 1st July, 2005 the EU Prospectus Directive has harmonised the requirements for the content, approval, and publication of prospectuses. Prospectuses are an important form of communication designed to inform prospective investors. It is expected that this harmonisation will benefit non-EU wholesale issuers. Even after the implementation of the directive, exchanges are allowed to maintain their own rules for admissions of listing (Breslin and Rabinowitz 2004).

Figure 3 illustrates one view of the cascade of corporate reporting from a company to investors, and highlights the regulated nature of it, through the role of required audits, as well as the role of analysts in processing it into a form that is more easily digested by investors.

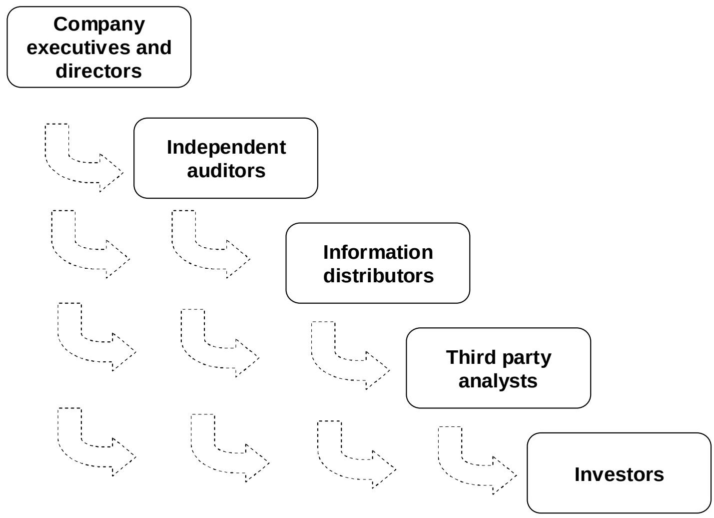

Figure 3 The corporate reporting value chain (adapted from DiPiazza and Eccles 2002, 11)

Figure 3 shows how information can reach investors via several steps and parties. In trying to ensure that the information has the desired impact among debt investors, the borrower has an incentive to control the information chain to this effect where possible.

2.3.7 Credit rating and credit research

The principal role of credit analysis is to produce opinions on a firm’s credit risk. One view of their role is the reduction of information asymmetry (Chang, Dasgupta and Hilary 2006, 3011). Analysts are supposed to have a high degree of knowledge of a borrower and its industry, which they use to provide commentary that readers with lesser relevant knowledge are supposed to understand. The interaction with rating agencies and other credit analysts is important for a firm, as it is likely to impact how its credit risk is perceived by critical actors in the debt business.

Credit analysts follow companies on an ongoing basis to understand the firm's prospects, risks, and threats. The analysts issue credit opinions or buy/sell opinions, in the case of sell side analysts, and they revise opinions and recommendations whenever they see a reason for such action. The intensity of companies' interaction with credit analysts other than rating agencies can vary considerably.

2.3.8 Sales and trading of debt by banks

When banks trade corporate bonds and sell them to investors, such transactions are typically made by the banks' sales teams. Such sales involve a bond salesperson and counterparty in the investing organisation. The salesperson typically solicits the investor's interest by presenting new debt issues or secondary market trading ideas. The bond salesperson is supported by the bank's sell side analysts who may also be engaged in the discussion with the investor and who, due to their presumably better knowledge of the borrower and its sector, can explain the transaction and its risks to investors. The salesperson should be knowledgeable of the investor's preferences and needs, and regularly feed such information to the syndicate teams of the bank. The syndicate team aggregates information from sales persons and other sources, and uses it to make recommendations to borrowers about issuance conditions for new transactions.

In sum, this chapter has shown that corporate debt as a product, the processes and activities related to it, as well as the actors involved in it have meanings from the perspective of marketing logic. Both relational and transactional behaviours exist in the field, and product features, distribution channels, communication methods, and promotion tools vary. To diagnose the relevant activities and processes with a marketing logic, the next chapter develops the conceptual framework for the study. This primarily uses the concept of marketing mix and the concepts of buyer and seller roles, and then contrasts these with the practitioner concepts of the empirical field.

3 THE THEORETICAL FRAMEWORK FOR THE STUDY

3.1 Positioning of the study – marketing as a set of activities

At least two possible approaches could be pursued in this study. First, a set of borrower-lender relationships and how marketing is enacted within them could be studied. Secondly, and as chosen in this study, the empirical data could be collected on the activities conducted by a corporate borrower in its debt marketing. The first approach is impractical because access to an adequate population would be extremely difficult, and because of resource constraints. Consequently, this study approaches the subject empirically by studying activities that form the set of marketing activities of a borrower.

This and the next two subsections discuss how the study questions are pursued through studying activities and how this positions the study in the field of marketing, followed by a justification of the framework for the collection of data on debt activities irrespective of their relational or transactional application.

Marketing as an academic discipline offers different schools of thought on how to study certain phenomena. In marketing practice too, there is a broad range of approaches to dealing with a marketing problem. Marketing in academia has passed its first centennial, and the research of its history is defined by the content of marketing, which includes activities, practices, and processes (Jones and Monieson 1990). Citing Bartels' work on the history of marketing thought, Shaw and Jones (2005) note that the early functional approach to marketing, which preceded managerial marketing, or marketing management, was concerned with activities of the marketing process, and the institutional approach focuses on organizations that performed marketing activities. The same authors (Shaw and Jones 2005) note that the seeds of marketing management study were planted in the works of Elder and Alderson on planning and controlling marketing activities within a firm.

This study seeks to understand how large corporate borrowers market their debt; the unit of analysis is the set of activities enacted by borrowers. Such focus on the execution of marketing activities inherently carries a managerial emphasis (Ellis 2005). From the perspective of its research aim, this study bears similarities with research undertaken by the Contemporary Marketing Practices (CMP) research programme, which has profiled marketing practices in a contemporary environment, and examines the relevance of relational marketing in different contexts (see Brodie, Coviello, and Winklhofer 2008). The study of activities also fits the different views of the nature and scope of marketing, as discussed by Hunt (1976) whose definitions invariably include the terms activity and process.

Possible relevant schools or thought of marketing with which to position this study are the managerial school (Sheth 1985, Sheth et al. 1988) or marketing management school of marketing, the marketing institutions school of marketing, and the exchange school of marketing (Shaw and Jones 2005). The marketing institutions school seeks answers to questions about who performs marketing functions while the exchange school of marketing seeks to answer questions about the forms, parties, and motivations of exchange (Shaw and Jones 2005). However, these two schools do not fit well with this study's perspective, which is to understand what and how borrowers do in their debt marketing. The marketing management school evolved among marketing researchers from the 1950s, marrying the concept of marketing with the perspective of achieving marketing goals through the management of competitive marketing parameters (Pels, Möller, and Saren 2009, 326). Shaw and Jones (2005) describe the marketing management school of thought as addressing questions regarding how managers should market goods to customers, and containing key concepts including the marketing mix, customer orientation, segmentation targeting, or positioning. Wright (2002) adds marketing myopia, for instance, a firm's efforts to avoid it, (introduced in Levitt 1960) to the list of key concepts of the marketing management school of thought, and argues that the managerial school of thought is the richest of any of the marketing schools. However, Pels, Möller, and Saren (2009) argue that the marketing management school's silence with regard to relationships is a major limitation.

A question in this empirical context is whether this study follows a relationship marketing research approach, or a transactional marketing approach. Relationship marketing is considered the major new marketing research paradigm of recent decades (Grönroos 1994, Sheth and Parvatiyar 1995). The term relationship marketing was used by Bund Jackson in her project on industrial marketing from the late 1970s, and Perry in 1983 used the term for services marketing (Gummesson 1997, 268). However, as an activity or practice, relationship marketing is not new, although research interest in it has emerged as technological and other advancements have resulted in increased interfacing between producers and users, thus leading to a greater relational orientation among marketers (Sheth and Parvatiyar 1995). Importantly, it is argued (Grönroos 2001), that relationship marketing is not a function or an activity, but much more a strategy. Pels, Möller, and Saren (2009) argue that across different marketing researcher traditions, the contents and meaning of relationship marketing vary considerably. This study takes the view that both relational and transactional marketing should be considered in the analysis. This is in line with the approach of the CMP programme which recognises that multiple marketing practices, from transactional to relational, can be followed by a single marketer (Coviello, Brodie, Danaher, and Johnston 2002; Lado, Duque, and Alvarez 2010). Since the literature and practical observations suggest that either approach can be applied, studying the activities from the perspective that they reflect a relational or a transactional approach is considered more meaningful than studying the phenomenon from a singular perspective. Furthermore, as suggested by Figure 4, activities are always a dimension of marketing, and studying them is a valid approach for any level of engagement.

Relationship marketing became a new marketing studies paradigm in the 1980s. A lot of the relationship marketing research initially emerged through the service marketing research, reflecting Grönroos' (2001, 33) view that competition in services requires an understanding of relationship marketing. However, relationship marketing as a marketing paradigm doesn't necessarily challenge the managerial school of marketing; in fact, the theoretical background of services marketing is formed within the managerial school of marketing (Olkkonen 1996). In a study of the roots of relationship marketing thought, Möller and Halinen (2000) also noted that relationship marketing is strongly embedded in the managerial views of marketing. Rather, relationship marketing is seen as challenging the foundations of the exchange theory (Sheth and Parvatiyar 1995; Fitchett and McDonagh 2002) that lies at the core of the social exchange school of marketing thought.

Kapoor (2009) shows that trust, a central concept of relationship marketing, has been present in different marketing concepts explicitly since the 1950s and, even before it was explicitly discussed in marketing writings, it was important and existed in many marketing concepts. Saren (2006), advocating that marketing needs to be rethought in the context of consumer-producer relationships, discusses marketing in terms of activities that can incorporate but should not be constrained by a managerial view of marketing. Morgan (1996) also argued that relationship marketing has strongly contributed to the development of marketing theory, and points out the managerial perspective as one research perspective of marketing. These views express managerial marketing's ability to incorporate concepts of relationship marketing as they are used to define activities or processes chosen and applied by managers in marketing. This logic does not contradict commonly used definitions of relationship marketing (summarised in Harker 1999) whose primary constructs can be interpreted as expressions or forms of interaction, which can also be seen as activities in the set of marketing activities. Furthermore, Vargo and Lusch (2004, 12) argue that even when suppliers or customers may not desire repeat transactions, they are not freed from relational participation.

In the author's view, the study of debt marketing can be approached through three dimensions, as pictured in Figure 4. This dissertation studies marketing from the *Tools, activities and practices dimension*, focusing on the activities conducted in debt marketing. This dimension reflects the early marketing studies' focus on activities to move commodities to customers (Seth et al., 1988, 35–36) as well as the development of managerial marketing, particularly in the context of consumer goods (Borden 1964, McCarthy 1981). The depiction of the Tools, activities and practices dimension in this context reflects the views of scholars that marketing can also be applied to a broader set of products than just goods, also including ideas (Kotler 1972). The understanding of promotion is broadened by replacing the term with communication as recommended by van Waterschoot and Van den Bulte (1992). Due particularly to learning from service marketing, the term price is complemented with the term value.

Kotler's (1972) views on marketing extend it beyond traditional products, and also include ideas as something marketable. At the same time, it has to be recognised that different products, with different sets of unvarying core properties, require different sets of activities for their marketing. This concept is captured in the next dimension that in Figure 4 is titled *Product character dimension*.

A third dimension to this picture of marketing is added by considering the level of engagement of marketing. In Figure 4, this is shown by the *Engagement level dimension*, where marketing varies from purely transactional to relational (Grönroos 1994, Vargo and Lush 2004), to networks (Håkansson 1982), or to the societal level (Kotler and Zaltman1971).

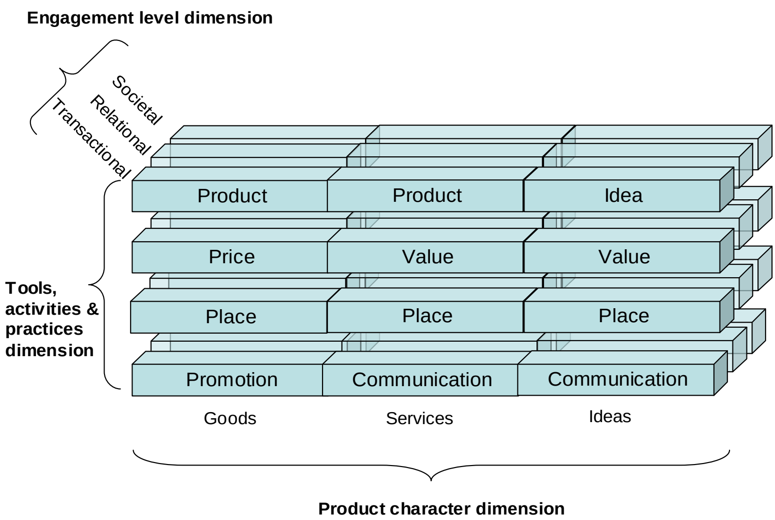

Figure 4 Possible dimensions of marketing studies

Each kind of marketing engagement or process involves its own activities aimed at achieving marketing objectives. With reference to the categorization in Figure 4, for this study the Tools, and activities and practices dimension is the most important, since it is through this that the empirical field is approached. However, the two other dimensions are also important, because an understanding of the data has to consider how the chosen tools, activities and practices reflect product character, and how they are deployed to achieve different levels of engagement.

This study will approach the empirical field through the Tools, activities and practices dimension but, in interpreting the findings, the characteristics of the product as well as the marketers' aims at different engagement levels need also to be considered.

The study has to avoid using a too narrow definition of marketing activities. Grönroos (1997) criticised the marketing mix concept because it excludes many activities that should be considered marketing activities or part of a firm's marketing. Grönroos (1997) views marketing activities as all activities that have a marketing role or function. For example, production is marketing relevant because it affects customer satisfaction through product quality. In the earlier marketing texts, marketing activities were considered as those activities that were conducted or directed by the marketing department. This is important when considering Webster's (1992) view that marketing is in some cases disappearing as a distinct management function. As will be shown later in this study, in corporate debt, marketing is typically conducted by corporate

CFOs, treasurers, and funding staff, who should be understood as part-time marketers whose role is highlighted by Gummesson (1994).

The author will show that the marketing mix concept, appropriately understood and applied, can be a good basis to categorise debt marketing activities in the context of this study, particularly as it relates to planning the data gathering. To avoid the problem pointed out by Grönroos, this study will not only rely on predefined categories for debt marketing activities, but look at all debt activities and consider what marketing meaning or content they have.

To reflect the blurred nature of the buyer-seller roles, the theoretical framework will consider the content of buyer and seller activities generically, and then contrast debt activities in such a way that activities can be viewed to represent buyer or seller approaches. In the context of industrial marketing, activities of a selling party are directed to achieve a successful bargain, and the situation of a purchasing firm is the same, namely directed to achieve successful deliveries (Saarikorpi 1982, 248). This aligns with the definition of marketing used by Kotler and Armstrong (2004, 5) as a social and managerial process by which individuals and groups obtain what they need and want through creating and exchanging products and value with others. Furthermore, it implies that marketing activities can be seen both from the customer's and the selling partner's perspective. To achieve a categorisation that encompasses all relevant activities, including relational and transactional activities, by buyers (customers) and sellers, all activities that are relevant from the marketing perspective will be considered, as illustrated in Figure 5.

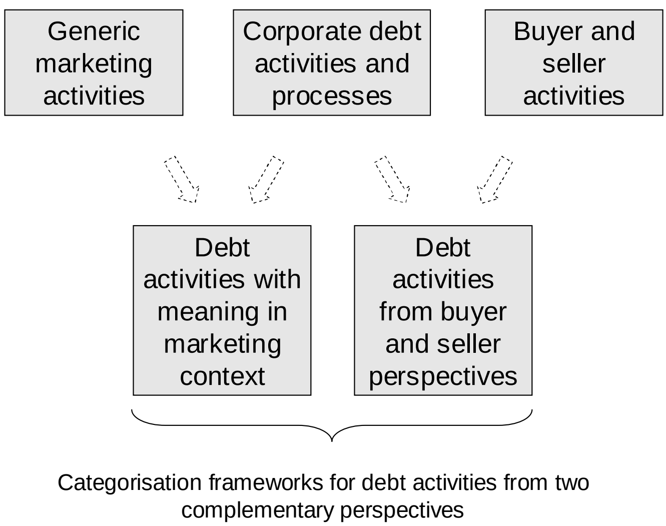

Figure 5 Theoretical categorisation of debt activities

Lastly, the positioning within the managerial school of marketing thought is also consistent with the successive definitions of marketing (Table 5). In each of them, activities or processes are explicit elements.

Table 5 American Marketing Association's definition of marketing over time

Year	Definition of Marketing
1935	Marketing is the performance of business activities that direct the flow of goods and services from producers to consumers.
1985	Marketing is the process of planning and executing the conception, pricing, promotion, and distribution of ideas, goods, and services to create exchanges that satisfy individual and organizational objectives.
2004	Marketing is an organizational function and a set of processes for creating, communicating, and delivering value to customers and for managing customer relationships in ways that benefit the organization and its stakeholders.
2007	Marketing is the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large.

Sources: www.ama.org, Keefe (2004)

These definitions show that marketing is an activity, or set of activities, and they also include terms that in one way or another include the product, communication, delivery, and value or price. These all fit within the marketing mix concept that is applied to define the activities included in marketing, and which is discussed in the next subsection.

The terms action, activity, and process often appear to be used in the marketing literature with similar meanings. As all of them can be considered to mean some activity, or actions, they are used interchangeably in this study.

3.2 The marketing mix and this study

3.2.1 The marketing mix concept

The author chose the marketing mix as the concept by which to categorise corporate debt marketing activities. As a concept of the managerial school of marketing thought, the marketing mix can be applied to describe the perspective of managers who are proactive actors. It is a flexible concept and tool with which to categorise marketing activities or tools that managers apply. It has already been considered by Borden (1964) to be applicable to goods and services. It should, therefore, also be useful in the context of corporate debt, which has elements of both services and tangible goods. The marketing mix also enables the classification of activities that can be applied both in a relational or transactional context.

The concept of the marketing mix has been credited to Culliton's work in 1948 (Borden 1964), and elaborated further since the 1950s, particularly by McCarthy (Schultz 2005). McCarthy (1981, 40) defines the marketing mix as the controllable variables which the company puts together to satisfy its target market. Kotler and Armstrong (2004, 275) state that the marketing mix comprises the tactical tools that marketers use to implement their strategy. In writing about the marketing mix, Berry (1990) states that its elements can be referenced in marketing planning and positioning activities. Van Waterschoot and Van den Bulte (1992) write about the marketing mix as instruments and functions, the latter referring to actions and activities. Kotler (1999, 129) described the setting of the tools of the marketing mix, which support and deliver the product's positioning, as being a part of the tactical marketing stage, and he considers the 4Ps of the marketing mix to be simultaneously in a competing and complementary relationship. Borden (1964) defined the marketing mix through its elements, which he described as covering policies and procedures that constitute the principal areas of marketing *activities*. Although these definitions do not always use the term activities, the concept of activity, acts, or actions are embedded in these definitions of the marketing mix. McCarthy's (1981, 42) view of the controllable variables also ultimately entails satisfying the target of the marketing activities and, by explicitly putting the customers into the focus of marketing efforts, it concerns activities that closely relate to the marketing mix. Lehtinen (1983, 94), in the early stages of the emerging concepts of the interaction approach, services marketing, or relationship marketing, includes *product design*, *pricing*, *distribution*, and the different forms of *communication* in marketing activities, for instance, more or less the 4Ps of the marketing mix, which also emphasises the activity oriented nature of the marketing mix.

Borden's (1964) categorisation of manufacturers' marketing mix elements is heavily oriented towards consumer goods marketing from a transactional perspective. In particular, it makes little explicit reference to activities or processes that would develop or maintain relationships between marketers and customers. From this perspective, Borden's categorisation (1964) could appear narrow for the purposes of dealing with corporate debt that frequently involves relational interaction between the contracting parties. However, the applicability of the marketing mix concept in a managerial context to abstract ideas is seen in the definition of social marketing proposed by Kotler and Zaltman (1971) or similar suggestions by Donegan (2008).

The terminology used to describe marketing mix elements and sub-elements varies significantly (Birnik and Bowman 2007, 307). The most frequently used formulation of the marketing mix has been its reduction to four basic variables, or categories of variables, called the 4P, namely, Product, Place, Promotion, and Price (McCarthy 1981, 43). The marketing mix, as articulated by McCarthy (1981) is set out in slightly broader terms than by Borden (1964), even if it relegates service into a subcategory of Product, rather than as a category of its own. However, the author agrees with Gummesson (1994) that forcing the marketing mix elements to be described by words starting with P has stifled the concept, and made it more vulnerable to criticism. In particular, the use of the term Promotion instead of Communication makes the marketing mix appear more limited (van Waterschoot and Van den Bulte 1992). However, the same authors also show that this deficiency can be resolved by accepting that any specific marketing activity can serve several functions simultaneously.

The breakdown of the 4Ps of the marketing mix into more detailed variables by McCarthy and Shapiro (1983) is shown in Table 6.

Table 6 Variables of the 4Ps of the marketing mix according to McCarthy and Shapiro (1983)

Marketing mix variable	**Variables of the 4 Ps**
Product	Features; Accessories; Installations; Instructions; Service; Warranty; Product lines; Package; Brand name
Place	Channels; Market exposure; Kinds of middlemen; Storage and transport handlers; Service levels
Promotion	Promotion blend; Kind of salespeople – selection & motivation; Kind of advertising – media type & copy thrust; Publicity; Sales promotion
Price	Flexibility; Level; Introductory pricing; Discounts; Allowances; Geographic terms

In line with many other commentaries on the marketing mix, this version too is simply a more detailed breakdown or categorisation of the elements, but does not fundamentally alter the basic character of the marketing mix.

The roots of the marketing mix are in consumer goods and transactional marketing but, considering the definition of debt activities, it is possible to state that it covers the subject from both a transactional and a relational perspective. McKay (1994, 50) never uses the term "marketing mix" in his textbook representing the managerial school of thought but presents a list of marketing activities as including the following: marketing research; product planning; advertising & sales promotion; sales & distribution; product service; marketing administration; marketing personnel. This list overlaps significantly with, for example, Borden's (1964) or McCarthy's (1981) categorisations, and does not contradict the importance of relationships (McKay 1994, 11), suggesting that this list of activities is sufficiently generic and can be applied to a range of marketing contexts. In the context of services, Batterley (2004, 143) proposed a list of marketing mix components specific to services. The list essentially amounts to an adaptation of the 4P concept to a specific concept, which suggests that 4P remains a flexible concept with which to categorise marketing activities.

To further emphasise the above point, trust, for example, is a central concept in relationship marketing, and is built, among other factors, through different forms of communication that are embedded in marketing mix variables such as service, promotion, publicity, handling of warranties, sales processes, or pricing behaviours. Morgan and Hunt (1994, 20) point to the paradoxical nature of relationship marketing in that to be an effective competitor one has to be a trusted cooperator. The author argues that activities to build trust are, in the context of corporate debt, definitely marketing activities. These activities can also be categorised according to the marketing mix when treated in the appropriate context.

Communication is a broad concept, and understanding its facets has been critical in marketing. At its simplest, it includes one way communication such as promotion and advertising or the provision of information by the marketer or seller to consumers. In other contexts it may involve extensive interaction between buyers and sellers, and this communication also often interfaces with more tangible processes (van Watershoot and Van den Bulte 1992) such as problem solving in industrial goods marketing (Håkansson 1982, 383), customer training (Kotler and Armstrong 2004, 261), or service recovery (Zeithaml and Bitner 2000, 166). In this study, it is considered that communication needs to be explored from multiple perspectives to capture its meaning and forms in debt marketing.

3.2.2 Critique of the marketing mix

For at least 30 years, the concept of the marketing mix has been subjected to criticism. Initial criticism complemented the 4Ps with more sub-variables or sought to add more Ps. More recently, proponents of service marketing or the relationship marketing paradigm have criticised it (Grönroos 1994, Gummesson 1994). Grönroos' criticism that the marketing mix lacks theoretical foundations is important, forcing more critical thought about its applicability and limitations. However, Möller's (2006) comment on Constantinides (2006) makes the case that the marketing mix approach is strongly grounded in theory.

Gummesson's (1994, 9) view is that the 4Ps of the marketing mix have been wrongly seen as founding parameters of marketing, rather than being contributing parameters to relationships. Very importantly, he does not dismiss the marketing mix from relationship marketing, but only places it in the context where the marketing mix has to be configured to develop and maintain relationships instead of focusing on generating single transactions.

A large amount of the criticism has been targeted at the marketing mix and the 4Ps about its incompleteness. Berry (1990, 10) suggested that the marketing mix does not reflect the increased service elements in the offerings of companies, and proposed to complement the 4Ps with an S, indicating services, and two Cs, referring to customer sensitivity and convenience, to reflect this evolution. Hyman (2002) argues that the 4Ps are insufficient from a marketing pedagogical perspective. However, despite the criticism, the 4Ps concept is still considered as relevant as it was in the 1960s (Motley, 2002, 48). Marketing practitioners still appear to consider the 4Ps to be part of the marketing basics that ought to be taught to entry level salespeople (Donath, 2004).

Kotler (1999, 96) and Bennett (1997) express the view that the 4Ps concept takes a seller's view of the market, and not the buyer's. Kotler (1999) also recommends that marketers should consider what he describes as the 4Cs, representing Customer value, Cost to customer, Convenience and Communication, as a platform on which to build the 4Ps.

Transactional marketing based on the marketing mix is criticised as manipulative, while relationship marketing proponents emphasise the values of cooperation and mutual trust embedded in relationship marketing, thereby implying relationship marketing is more ethical (Gummesson 1991, Constantinides 2006). However, it could also be argued that relationship marketing is not immune from such criticism either, as relationships can at times be considered as being too close, which may raise the suspicion of non-transparent dealings.

Most of the above criticism of the marketing mix has also been summarised in Constantinides' (2006) review of the criticism of the marketing mix. However, if the marketing mix was regarded just as a categorisation of marketing instruments and activities, rather than a theory or as a marketing strategy, at least some of the criticism would not be raised.

Substantive in the author's opinion is van Waterschoot and Van den Bulte's (1992) criticism that the P, representing Promotion in the marketing mix, is misguided. Their criticism is directed at asking if the 4Ps provide for a comprehensive and consistent categorisation of marketing activities and instruments. Similarly, Vargo and Lusch (2004, 13) argue that in a service centred view of exchange, promotion will need to become a communication process. Van Waterschoot and Van den Bulte (1992) argue that promotion is present in every aspect of the other Ps but that, at the same time, Promotion is too narrow a category to capture all communication. Therefore, they suggest that Promotion is replaced in the 4Ps by Communication, and that promotion is a subcategory to the four basic marketing mix categories. In the context of this study, where the underlying product is a relatively abstract one, this modification is pertinent. Pizam (2011) has suggested the addition of a 5th P for People, but in the author's opinion this P represents interaction which can be captured by Communication if it is appropriately placed within the context.

Coviello, Brodie, Danaher, and Johnston (2002) question the relevance of the marketing mix as the sole conceptual and analytical framework in marketing studies, without suggesting that the marketing mix should be abandoned altogether. Möller (2006) points out that the marketing mix theory falls short on theory based advice for organising marketing activities. Without criticising the marketing mix directly, Pels, Möller, and Saren (2009) criticise the marketing management school that relies on the concept of marketing parameters or the 4Ps, and is silent on relationships.

The criticism of how the marketing mix has been applied in the past has good justification. However, to argue that it is not compatible with relationship marketing should be considered misleading. Rather, the marketing mix should be adapted to the specific context of product and engagement type (e.g., transactions) as, for example, Bitner (1990) suggesting an expansion of the marketing mix for service encounters or, for example, in a more specific context, Ivy (2008) suggesting a specific marketing mix for higher education marketing. It is hard to imagine relationship marketing which would not consider a product's features, its delivery, promotional methods, communication by the seller, or pricing as relevant. Morgan and Hunt (1994) in their seminal article define relationship marketing as all marketing activities directed towards establishing, developing, and maintaining successful relational exchanges.

The survival of the Marketing mix for such a long time indicates that there remains a need for a mechanism with which to classify marketing activities and tools. If the marketing mix is regarded as a classification of the tools and instruments a marketing manager applies towards markets it may be imperfect as an analytical tool of a marketer, but even this is at least partially mentioned in Borden's original classification (1964). Using the marketing mix as a classification scheme provides a researcher with flexibility when studying debt marketing without having to have an a priori view of it being either relational or transactional.

3.3 Debt activities as marketing activities

Chapter 2 discussed the following debt processes:

- Mandating
- Pricing
- Credit analysis
- Syndication and underwriting
- Listing
- Structuring and documentation
- Advertising and promotion
- Monitoring
- Drawdown and settlement
- Investor targeting

All of these activities[6] or processes are generic debt processes, but clearly have significance in achieving marketing goals in both transactional and relational lending, or borrowing, as will be discussed next. This subsection summarises how the different debt activities can be seen as contributing to marketing. Providing this perspective on these activities will guide the analysis of individual debt activities to arrive at a broad understanding of debt marketing.

Mandating means the activity where a borrower awards the lender the mandate to arrange the debt. In practitioner terms, arrangement typically means any syndicated forms of debt; i.e., excluding bilateral debt. However, in this study the term means any decision where the borrower requests the counterparty to arrange debt. Mandating is best captured by the generic concept of purchase action.

[6] Drawdown and settlement have not been discussed in the text so far, as they refer to simple processes which can be interpreted as the consummation of a transaction, or ultimate exchange, as at that stage a legal liability representing the debt product is created or extinguished, respectively.

Pricing in the debt context is relatively straightforward to equate with the same term in the generic marketing context. Pricing in general, not only related to debt pricing, can also be seen as a capability (Dutta, Zbaracki, and Bergen 2003). As it can be very interactive, it is hard to distinguish between buyer and seller approaches to it and, for this study, the aforementioned implies that price should also be considered from the perspective if and how borrowers try to influence it, instead of just accepting that there is a market price that cannot be beaten. Schindehutte and Morris (2001, 43) identify different pricing orientations amongst which they argue that market based pricing is more customer oriented.

Credit analysis is conducted by lenders, or their agents or research vendors, first to identify possible targets of debt investment, and then to support their investment decisions. Credit analysis is also regularly updated by lenders which monitor the "after purchase" performance of their investments. From this perspective, credit analysis can be argued to be similar to a buyer's search efforts.

When a borrower contracts a credit rating agency to issue credit reports on it, this can also be seen as promotion, as rating agency reports are frequently used to support the marketing of a debt issue. For a borrower to have a credit rating from a recognised rating agency gives a passport to certain markets (Beaver et al., 2004), making public credit ratings also marketing tools. When banks issue credit analyses on borrowers, to facilitate the sale of bonds to their own investor clients, such analyses can be seen to also have a promotional character.

Syndication and underwriting refer to the method of placement and distribution of the debt, and thus reflect the distribution activity in generic marketing terms. A high quality syndicate is also expected to be more credible as a provider for future secondary market making and liquidity in the debt, thus increasing the debt issue's attraction to investors which require secondary market liquidity. This view implies that a borrower's choice of the syndicate is also concerned with the after sales performance of the debt.

Listing means obtaining or contracting a listing for a bond on a securities exchange. This can broaden the market for a debt issue to investors which have internal or external restrictions on investing in unlisted instruments. Further, a listing can correspond with an after sales market as well as facilitate the search efforts of a prospective investor.

Structuring and documentation are activities where the detailed features of the debt are established. As they typically involve a negotiation process, this highlights the co-producing role of both parties, which is typical in services as shown by Grönroos (2001).

Advertising and promotion are limited activities in the corporate debt context. For listed bonds, promotion is highly regulated because of concerns regarding investor protection. Furthermore, as corporate bonds are not widely distributed to the public at large, their promotion is highly targeted through banks selling to their own investor clients. Promotional materials can include annual reports and issuance prospectuses, with their content for regulated instruments being tightly defined. Other promotion includes so-called roadshows, where borrowers' representatives meet investors to provide information on the firm and give investors the opportunity to ask questions. Sometimes, with particularly important investors, borrowers also meet face-to-face on a one-on-one basis.

Monitoring is enacted by the investor in order to determine if the debt instrument's quality, its risk and value, has changed or could change. As an activity, monitoring is undertaken by investors, and a borrower accommodates this activity by being proactive in updating investors, or just by passively responding to requests. It is an important activity in protecting the product's quality or leading to service recovery.

Drawdown and settlement are activities where the product changes hands; for instance, the loan proceeds are exchanged into the liability of the borrower, and at final payment, the borrower's liability is extinguished against the payment. This activity represents in generic terms the exchange of a product, where the product changes hands against monetary payment.

Investor targeting includes a borrower's actions to inform itself about potential lenders, and using this information in its other debt marketing activities, such as deciding which investors to approach and with which instruments. This definition mirrors that definition of market orientation by Kohli and Jaworski (1990, 6). As an activity it could be considered to mirror market selection of a marketer, but in this study, it is in line with the broader category of communication and promotion.

Table 7 shows how the various debt marketing activities have been matched with the list of generic marketing activities.

Table 7 Matching of debt marketing activities against generic marketing activities

Generic activity	Debt marketing activity
Search	Credit analysis
Communication, promotion	Credit analysis; Advertising and promotion; Investor targeting
Product design	Structuring and documentation
Production	Structuring and documentation
Logistics, distribution	Syndication and underwriting
Pricing	Pricing
Purchase decision	Mandating
Delivery of product	Drawdown and settlement
Monetary payment	Drawdown and settlement
Service recovery or quality responsibility	Monitoring
Risk of unsold inventory (carrying)	Syndication and underwriting
Demonstration of trust	Syndication and underwriting; Structuring and documentation
After sale service	Credit analysis; Syndication and underwriting; Listing; Monitoring

Table 7 illustrates how a number of debt activities can have multiple marketing meanings. For example, credit analysis can be seen in generic marketing mix terms as enabling the search activities of prospective buyers when borrowers anticipate investors' questions and prepare to respond comprehensively to these questions. But credit analysis can also just be seen as a standardised promotional activity undertaken by sell side researchers in banks or by rating agencies. This overlapping via multiple meanings is consistent with the observation of van Waterschoot and Van den Bulte (1992) that marketing mix categories can overlap.

3.4 The concept of blurred buyer-seller roles in general and in debt marketing

Marketing saw its inception as a discipline in the early 1900s (Sheth, Gardner, and Garrett 1988, 1). The early marketing theorists' commodity school of marketing (termed so by Sheth et al., 1988, 35–36) was concerned with the objects of marketing, or products, which then were mainly thought of as physical goods. In such a context, the roles or activities of buyers and sellers were simple to describe. The seller, or the producer, was the marketer and was responsible for the product quality, carried most of the unsold inventory that he or she wanted to minimise, controlled the logistics or distribution, collected monetary payment for the sale, and communicated to the potential consumers about the product. The seller produced the product or procured it upstream in the supply chain, and if the customer needed any support after the sale, it was provided by the seller. The buyer incurred search costs in informing him or herself of available supply, and made a monetary payment in exchange of for the product, and by that placed his or her trust in the product and the seller. Initial prices were typically posted by the sellers, albeit bargaining made pricing a two-way process, but the final purchase decision was with the consumer, who was the target of the seller's advertising that tried to solicit the buyer's interest and influence his or her purchase decision.

In line with the managerial emphasis on consumer oriented relationship research, the seller is generally viewed as the active party and the consumer as an object (Möller and Halinen 2001, 41). Bennett (1997, 152) provides a discussion of the marketing mix from a buyer's perspective, and defines the *buyer disposition* as a process whereby a potential customer thinks through, evaluates, seeks counsel about, reflects upon, and finally decides on a suitable source of supply. Within this concept, the buyer is seen as an active party, but not explicitly recognised recognized as someone who would proactively seek to influence a potential seller. However, reverse marketing (Leenders and Blenkhorn 1988) is an example where the buyer acts as a marketer and is a very proactive party in a relationship. In reverse marketing, the buyer engages in the reverse marketing process by proactively identifying potential suppliers, seeking to understand their expectations and capabilities, and engaging proactively with them to motivate them to supply according to the buyer's needs.

Table 8 categorises these abovementioned activities according to the party typically carrying out the activity.

Table 8 Activities of buyers and sellers in early marketing contexts

Activity	Buyer	Seller
Search	x	
Communication, promotion, advertising		x
Product design		x
Production		x
Logistics, distribution		x
Pricing	x	x
Purchase decision	x	
Delivery of product		x
Monetary payment	x	
Service recovery or quality responsibility		x
Risk of unsold inventory		x
Demonstration of trust	x	
After sale service		x

Over time, marketing as a discipline has extended to cover an ever broader range of contexts where buyer-seller activities or roles no more fully correspond to such a simple view of sellers' and buyers' roles. Since the 1980s, marketing has undergone radical transformation by recognising and explaining the importance of relationships in marketing. This has also been accompanied by the devolution of important marketing activities outside the traditional marketing functions of firms (Webster 1992). In the era of relationship marketing, the roles of producers, sellers, buyers, and consumers are blurring (Sheth and Parvatiyar 1995, 413). In relationship marketing, both the seller and the buyer can be active (Pels, Möller, and Saren 2009). However, it is important to note that the same authors observe that business-to-business marketing research has too long been wedded to the idea that relationship marketing and business marketing live in matrimony. They also observe that the mainstream approaches of marketing management and relationship marketing schools do not have any articulated theories of the context or environment of business marketing activities (Pels, Möller, and Saren (2009, 332). This study gives special attention to the concept of blurred buyer and seller roles in debt marketing, and how this is reflected in the activities of corporate borrowers marketing their debt.

In relationship marketing, communication has become a two-way street as marketers have descended from their pedestals, from which they aired their messages to consumers, to the same level with consumers with whom they engage in interactive communication. This is an area in which the concept of the marketing mix is particularly criticised as falling short (Constantinides 2006). An increased understanding of services has also shown how consumers are often engaged in the production process so that the seller or marketer no longer fully controls the production process (Grönroos 2001). In the emerging experience economy this is even more the case as consumers seek individual experiences, and individual consumption is the process by which these experiences are created (Prahalad and Ramaswamy 2004). In the interaction view of marketing, firms seek their customers to become their partners with whom to cooperate in order to balance their supply with the buyer's needs (Lehtinen 1983, 95). Recent research has also pointed out how consumers not only co-produce services, but also brands (Pitt, Watson, Berthon, Wynn, and Zinkhan 2006), and how they can be engaged in new product design (Urban and Hauser 2004).

In social marketing, or cause related marketing, the delivery of a service or product has disappeared in contexts such as campaigns to dissuade people from driving under the influence of drugs. In supplier marketing, buyers of industrial goods act as marketers, proactively develop their supplier relations in order to achieve reliable supply (Berglind and Nakata 2005).

Investor relations are described as marketing (Mahoney 1991, 4). Its objective is to promote a firm's shares to investors; whereby investors frequently do not buy shares from the company, but from other investors which bought the shares earlier.

All of the above examples show how the simplistic model of a seller being the producer of products and undertaking activities to induce buyers to buy them for cash is no longer valid in many contexts. This study takes place in a context where the roles of buyers and seller are blurred. It seeks to understand how one particular party, a corporate borrower, in such a context acts from the marketing perspective, and also that, as a buyer, a firm may be engaged in marketing. A buyer in this study means an organisation that is seen as a customer in a transaction or a relationship, and a seller means a supplier in a transaction or a relationship (definition by Gummesson 1995, 43).

Table 9 shows different possible interpretations given to debt marketing activities from the perspectives of a borrower as a buyer, and a borrower as a seller. It has been built on the basis of Table 8, by showing how each activity could reflect an approach of a buyer versus a seller.

Table 9 has been developed in two steps. First, for the different generic marketing activities (left column) the debt marketing equivalent or several where relevant were defined (second column from the left). Second, for each debt marketing activity it was considered how a borrower would approach it as a buyer of debt services (third column) or as a seller of debt. For example, when a borrower sees itself more as a buyer of debt services, in the *Production* category, it may expect lenders to come forward with proposals regarding debt features to either reject or accept them. As a seller, the borrower may be more proactive in exploring banks' and other investors' preferences, and in considering how it can fit its own needs with investors' expectations and, with this information, propose its borrowing structures to banks.

Table 9 Debt marketing activities considering the borrower as a buyer or as a seller

Generic activity	Debt marketing activity	Borrower approaches as a buyer	Borrower approaches as a seller
Search	Credit analysis	Focuses on understanding propsective lenders pricing and documentation criteria, if doing search at all	Pro-actively identifies and tries to address prospective lenders' possible credit concerns
Communication, promotion	Credit analysis	Reacts to lenders' questions required for credit analysis	Seeks to understand credit analysts' main concerns and to address them pro-actively in their documentation
		Engages rating agencies beacuse of formal reasons (e.g. regulation)	Considers rating agencies as a marketing support beyond issuing a rating
	Advertising and promotion	Issuance of prospectuses and other reports seen as a compliance issue	Has a dedicated debt investor relations function
	Investor targeting	Expects investors to contact	Actively contacts potential investors
		Reviews key relationships like other supplier relations (on the basis of cost)	Considers and targets potential debt investors on the basis of value they may perceive in the borrower's debt
Product design	Structuring and documentation	Expects banks to make proposals on structures	Develops own ideas on structures and tests their possible responses among prospective lenders
Production	Structuring and documentation	Insists on own documentation standards, irrespective of market conditions and preferences	Seeks to understand investors' preferences before settilngmof final documentation
Logistics, distribution	Syndication and underwriting	Selects syndicate members based on their other services	Selects syndicate for its value added in distribution
Pricing	Pricing	Focus on own pricing targets based on budgets or past transactions	Investor-oriented pricing, seeking for a fair market clearing price
Purchase decision	Mandating	Sees final deal agreement as own decision buy	Sees final deal agreement as investor's decision to buy
Delivery of product	Drawdown and settlement	Drawdown provides a resouce for the borrower	Drawdown creates an obligation to keep lenders happy
Monetary payment	Drawdown and settlement	Considers interest rate and risk premium of the debt as the payment	Considers investors' purchase price as the payment for the product
Service recovery or quality responsibility	Monitoring	Monitoring seen as a compliance issue	Monitoring seen as an opportunity to reinforce lenders' positive attitude
Risk of unsold inventory (carrying)	Syndication and underwriting	Not concerned of credit availability	Concerned of unsold inveontory and its signal effect
Demonstration of trust	Syndication and underwriting	Focuses on trust that is placed in syndicate memebrs to create successful transaction	Sees trust of investors as benefiting from strong syndicate
	Structuring and documentation	Avoids terms that make vulnerable to lenders' behaviour	Sees documentation issues as a matter of protecting lenders' trust
After-sale service	Credit analysis	Reacts to credit analysts questions	Maintains pro-active contact with credit analysts also between transctions
	Syndication and underwriting	Sees secondary market performance as a matter between syndicate and end-investors	Secondary market track-record imporant creiteria in choosing syndicate members
	Listing	Sees listing as a cost	Sees listing as a markeitng plus
	Monitoring	Considers monitoring as a compliance issue and effort to be minimised	Tries to anticipate monitoring relevant issues and inform lenders about them early on

The purpose of this categorisation is to help to operationalise questions on how borrowers conduct debt marketing activities. To recap, the study question is divided into three sub-questions as follows:

- What patterns of debt marketing activities do large corporate borrowers exhibit?
- What aims and motivations describe the possibly discovered patterns of debt marketing activities?
- To what extent do large corporate borrowers' debt marketing activities reflect generic buyer or seller roles?

Table 9 guided the approach to generating the data gathering questions (Appendix III) from the different contexts outlined in this chapter. Breaking down the activities that are grounded in debt practices and organised according to categories of marketing activities will enable an approach to the field in a manner understandable to practitioners, and to discuss the findings in marketing language. Regarding activities from the buyer and seller perspectives enables consideration of the concept of blurred buyer–seller roles. This classification is meant to be neutral in the sense that there is no necessity to classify borrowers strictly as buyers or sellers. The 21 pairs of meanings given in Table 9 are used to directly generate study questions for part of the data gathering to approach the blurred buyer-seller role concept (Appendix III, Question list, Part III). Furthermore, the debt marketing activities are also expressed in open questions that allow for the probing of these activities in more detail (Appendix III, Question list, Part II). Ultimately, the data gathering generated mainly narrative data and, through this framework, the data are organised neutrally with respect to relational or transactional marketing.

4 RESEARCH METHODOLOGY AND PROCESS

The first contact with practitioners in the field was for exploratory interviews in spring 2006. The interviews providing the core data for the analysis took place during the last quarter of 2008 and first three quarters of 2009. Initially, the process focused on developing a coherent research framework for research that has not to date been conducted in this way in this specific field. The challenge was to avoid rushing to conclusions that could have been biased by the author's broad practitioner experience.

The structured analysis took time to arrive at its conclusions, as several emerging leads from the coded data were followed to establish that they did not define discernible patterns. The final dataset contained 23 companies which were more than initially intended. With this sample size, it was helpful to apply some simple quantitative methods to maintain good rigour in the data categorization and analysis.

4.1 Initial practitioner sounding about the research idea

In order to soft test the research idea the author conducted two informal, exploratory interviews with debt practitioners. These interviews supported the relevance of the general research idea, clarified some of the key terminology, and generated ideas for the design of the data acquisition.

The first interview was with the Head of European Credit Research of one of the world's largest investment fund managers (Investor). He was personally involved in the funds' credit decisions of the firm and in its contact with corporate borrowers. The interview took place in April 2006. The interviewee had over 20 years of credit experience at the time, of which 13 years were in credit investment research. Appendix I contains the questions discussed in the interview.

The second interview was with the Head of Corporate Finance of a large Central European corporate borrower (Issuer). At the end of 2005 the firm had over Euro 2 billion of gross debt outstanding, diversified between domestic and international bonds, as well as bank debt from a mix of domestic and international banks. The interviewee had worked in the same department for over ten years, and her area of responsibility included bank relationships and the preparation and execution of the firm's debt transactions. The interview took place in May 2006. The questions asked during this interview are in Appendix II.

Both interviewees supported the view that buyer and seller roles are blurred in corporate debt, and highlighted the importance of borrowers actively developing and maintaining lenders' trust. As to buyer and seller roles, the Issuer stated that, as a borrower from banks and capital markets, it considers itself as a seller of its debt as it is the party that has to persuade lenders about its investment proposition. This interviewee worked in the Issuer's funding team since the early 1990s, and experienced times when the Issuer had limited access to funding and needed to undertake considerable efforts to reach and convince debt investors to lend to it. In its domestic capital markets the Issuer can dictate its terms to a significant degree, due to good investor liquidity and scarcity of high quality issuers. This suggests that while still seeing itself as a seller of its debt, the issuer today does not need to make significant efforts to market its debt within its home market.

The Issuer's assignment of great importance to banks' ability and willingness to support its debt transactions suggests that it is buying a placement or distribution service from banks. Here the burden is on banks to persuade borrowers to buy their service. This view did not extend to institutional investors that the Issuer sees purely as buyers of its debt.

Similar views were also reflected in the Investor's comments. The Investor actively considers investment opportunities in its target asset classes, but does not promote transactions to borrowers; rather, it expects borrowers or their representatives (e.g., arranging banks) to contact the Investor with investment propositions, which it then reviews. This does not preclude the Investor from actively screening new opportunities, both in primary and secondary markets, although even then the Investor defines itself as a buyer.

With regard to trust, both the Issuer and Investor discussed it as something the borrower has to build among lenders, thereby reflecting the view of a marketer's role in relationship marketing. The Issuer also expressed the view that a lack of good knowledge about the Issuer is an impediment to investors' trust in it. The Investor expects transparency and openness from borrowers, even if borrowers do not need to be proactive in their communication, as long as they respond adequately to the Investor's queries. The Investor was prepared to deal on a transactional basis, but expressed a preference for an ongoing dialogue or relationship because it facilitates investment processes.

4.2 Research strategy

Considering that both corporate debt marketing as well as the context of blurred buyer-seller roles are little studied, the present study was designed to be exploratory. This suggests the use of qualitative methods. As this study focuses on contemporary events, without the researcher's ability to control behavioural events, criteria outlined by Yin (2003, 5) suggest the case study method as being appropriate. The value of a qualitative research strategy is seen to lay in its exploratory and explanatory power (Attride-Stirling, 2003, 403). Qualitative research is also considered to be able to deal with more complex research questions (Gummesson 2003, 483). Perry and Gummesson (2004, 317) argue that marketing management phenomena are legitimate topics for marketing research, but the methodologies to investigate them have to focus on complex activities in an in-depth manner not achievable by quantitative methods. The specific research strategy chosen for this study is that of an extensive case study. Eriksson and Kovalainen (2008, 118) write that an extensive case study, involving multiple cases, is suitable for mapping common patterns or properties across cases. This definition lends itself well to this study. Given the difficulty of measuring credit availability for a firm, as argued by Petersen and Rajan (1994, 18), this study engages in a phenomenon that is difficult to quantify. This further supports the use of a qualitative research strategy in this study.

The study's unit of analysis is the set of large borrowers' debt marketing activities. Firms are studied through the views of persons responsible for corporate borrowing in their organisations, and questions are aimed at discovering how they execute, approach, or define different activities. This can introduce a source of bias as the respondents could discuss more what they ideally would do, rather than what they actually do. This was addressed through critical interpretation and triangulation and is discussed in Chapter 7, among the validity and reliability considerations.

As an alternative research strategy, a survey could also have been considered. Such strategy was used, for example, by Cannon and Perreault (1999) for a classification of different relationship types in business-to-business marketing. However, this strategy was rejected for two principal reasons. First, the lack of previous research on debt marketing and the phenomenon of blurred buyer-seller roles suggest an exploratory study in which the phenomenon is explored in depth at the level of a firm. This can be achieved best by a combination of structured and open questions, which are discussed and probed in an interactive setting such as an interview. Furthermore, the interview data could be complemented by data on the companies' debt. Such data included companies' debt compositions and other public sources such as newspapers. Secondly, as the study question can be best researched by studying large firms with diversified debt portfolios and debt investor bases, the potential scope is more limited and even harder to access for a survey. In assuming that this study produces interesting findings and other findings regarding different patterns of debt marketing approaches, these patterns will provide a framework for future quantitative studies on the subject.

4.2.1 Sampling strategy

This subsection outlines sampling criteria based on the different contexts of corporate borrowers. There is no clear agreement about the adequate number of cases, but Carson, Gilmore, Perry, and Gronhaug (2001, 104) found that the widest accepted range for the number of cases seems to fall between two and four as the minimum, and between ten and 15 as the maximum. Eisenhardt (1989, 545) considers four to ten as an adequate number of cases in a multiple, or extensive, case study. The objective here was to source case companies in different contexts so that the theoretical findings could reach an adequate depth.

Flick (2002, 61–70) describes different sampling processes and the criteria for their evaluation in the context of research objectives. Gummesson (2003, 488) considers gradual sampling as purposeful in business-to-business case study research. Gradual sampling strategies are mostly based on theoretical sampling (Flick 2002, 61). Shank (2002, 29) describes it as sampling with a purpose. Both a priori and gradual determination of the sample structure were possible.

This study deployed a theoretical sampling strategy. The aim of sampling was to select firms in different contexts, as described later. Furthermore, the ambition was to select firms which offer rich data on the subject. Ultimately, the sampling process was gradual; aiming at saturation. However, due to the research budget and access restrictions, there was also an element of convenience sampling.

Bank oriented financial systems are characterised by long term relationships between banks and borrowers, whereas market based systems exhibit a bias towards short term or arm’s length lending (Lehman and Neuberger 2001). In Europe, a more institution heavy relationship based system is more prevalent, whereas the market intensive arm’s length system is more prevalent in the United States (Rajan and Zingales 1995). The Finnish system is also bank oriented (Seppänen 1999), meaning relationship oriented. Also other country specific factors appear to affect corporate borrowing behaviours. Bancel and

Mittoo (2003) showed that cross-country differences in legal systems were related to differences in companies' debt policies. Among eight Asian countries, Esho et al. (2001) found significant differences in the debt issuance practices between companies from Japan and the other sampled countries. For the present sampling strategy, this implied that firms both from countries with bank based and with market based systems should be targeted.

According to Majala (1975), narrowly owned firms have important constraints on their debt funding that are not faced by publicly owned firms with access to capital (equity) markets. The same is argued by Brav (2009) who found UK privately owned firms to have higher leverage and different funding sources than listed firms. Jonsson (2008) argues that, in the case of SMEs, a firm's organisational identity has a bearing on SME's financial decision making. Among privately owned firms, those that are sponsored by private equity have their own typical debt usage patterns with considerably higher risk tolerance and debt funding objectives than other types of firm (Moody's Nov-2006). For this reason, firms with different ownership structures were recruited for the study interviews.

In retail financial services, specifically life insurance, Tang, Thomas, Thomas, and Bozzetto (2007) have found that the external economic environment has an important influence in driving purchasing behaviours on financial products. Credit markets can fluctuate between lender's markets where borrowers need to make considerable efforts to find funding, to borrower's markets when lenders knock on borrowers' doors (Seal 1998). This is also illustrated by a view expressed in the Financial Times in February 2008 (FT 19.02.2008) as follows: *"Previously, issuers would quote their price and it was up to an investor whether they wanted to print a deal or not. Now there is much more price discovery process and issuers are keen to be shown opportunities and to have more regular discussions about what is available to them."* With regard to the sampling in this study, this fluctuation suggested that, if interviews cannot be timed into different phases of the credit cycle, it would be desirable to find firms with a sufficiently long borrowing history and informants who have personally experienced credit market fluctuations during their tenure at the case firm.

The credit quality of a borrower is an important marketing consideration, as different credit qualities appeal to different investment appetites and investors. Investors which appreciate safety prefer high grade bonds, whereas investors which seek higher returns and potential for some appreciation invest in high yield bonds (Datta et al., 1997, 380–381). Furthermore, borrowers which lack public credit ratings are closed off from certain debt market segments and need to approach potential debt investors in a different way. Denis and Michov (2003) found credit quality to be the primary determinant of a firm's choice of what debt instruments to issue. Consequently, this study sampled firms with different credit ratings as well as unrated firms (i.e., firms with no public credit ratings).

The borrowing needs of firms are driven, among other reasons, by the nature of their business. Large firms with high asset intensity are likely to need more debt funding, and thus more access to debt markets than smaller firms with low asset intensity. When a firm's borrowings have strong seasonal fluctuations, it is likely to use more short term debt, whereas firms with lumpy long term capital expenditures may need more long term debt. Sampling in the present study reflected these differences.

The study's sampling criteria are summarised in Table 10. Only the criteria of credit market phase differences was not satisfied, as it was not feasible to undertake this study as longitudinal research. However, the timing of the interviews was in some ways fortunate, and provided some compensation for the lack of longitudinal data as discussed later.

Table 10 Sampling criteria

Criteria	**Different criteria / values**
Financing system or environment of the borrower	(Capital) market based vs. relationship based financing systems (countries)
Ownership base	Listed companies vs. privately (family) owned companies vs. private equity sponsored companies
Credit market phase	Experiences in a borrowers' market vs. a lenders' market
Credit quality	Borrowers with and without public credit ratings, and in different parts of the credit spectrum
Business characteristics (particularly as to affecting borrowing needs)	Different asset intensities, investment patterns or debt uses, seasonality and cyclicality

The original intention was to follow Yin's (2003) suggestion of approximately six to ten companies as being typical for a multiple, extensive case study, and to recruit a well diversified set of ten or slightly more companies for the study. However, Eriksson and Kovalainen (2008, 124) point out that there is no hard and fast rule for the number of companies in an extensive case study, but that it is more important to reach a point where the incremental contribution of an extra case becomes marginal. After approximately ten interviews, new directions and approaches still kept appearing. Therefore, it was decided to increase the sample size with the recruitment of case companies being stopped after 23 interviews, by which point the diversity of the companies had been further increased and no materially new approaches were detected in the interview data.

As one test of saturation in the sample, the author conducted a hierarchical cluster analysis (as shown in Finch and Huynh 2000) of the binary choice data from the responses to the questions in Part III of the question list (Appendix III). While these data are only a limited part of the overall data, they were simple to use for a quantitative analysis and provided an indication of saturation. The companies were clustered after the first 12, 18, and the final 23 interviews. Further details regarding the application of cluster analysis in this study can be found in Chapter 5.

Hierarchical cluster analysis, using the average linkage method, produced three clusters each time when clustering was terminated at the point where the smallest weighted average distance in the remaining matrix exceeded the average distance in the original distance, or similarity, matrix. The clusters were very stable, as indicated by the fact that of the first 12 companies, all were clustered with the same companies in the second round (first 18 companies) and when all 23 companies were included in the data. Of those companies added after the first round (an additional six to increase the number from 12 to 18) all also clustered with the same companies in the complete set of all 23 companies. The stability of the clusters and the fact that each time three clusters emerged according to the same criteria suggests that the additional firms in the sample did not lead to an emergence of new patterns in the limited dataset used for the cluster analysis. This, together with no new qualitatively different observations from the latest interviews, led the author to conclude that the sample had reached an adequate size.

It should be noted that there was no indication that three should be the ideal number of clusters in this analysis. The method of deciding the correct number of clusters still has no universal definition (Borgen and Barnett 1987); here, importantly, the number was determined by using the same criteria in each round, and this led each time to three clusters.

Once it was decided to expand the group of companies beyond ten to 12, there was also a deliberate aim to find some pairs of very closely comparable companies to enable at least some pairwise comparisons. This is in line with Shank’s (2002, 29) definition of sampling with a purpose, which here was to explore whether similar borrowing characteristics (e.g., size; credit quality; industry; credit quality) can yield different debt marketing approaches. Flick (2002, 68) lists maximum variance sampling as one possible method, and as the sample by that point had already achieved a broad range of variation, it was considered to be equally useful if minimal variation among the contexts could reveal new findings. Yin (2003, 51–53) supports the use of similar and different cases within a multiple case study. Eriksson and Kovalainen (2008) consider both similar and different cases as being useful for cross-case comparisons within a multiple or extensive case study. The set of companies included two very comparable pairs. The first pair were very highly rated utility companies within a narrow subset of utilities, with the same set of public credit ratings, and also with similarly sized debt portfolios. The second pair also represented an infrastructure business, with both being in the same field of business, having very similar business models, and both being listed companies. As discussed in later chapters, the comparisons between the similar pairs revealed that similar borrower characteristics are not a sufficient factor in explaining a firm's debt marketing pattern.

The study used mainly qualitative data collected in semi-structured interviews with relevant representatives of corporate borrowers, but the interviews did not necessarily have confrontational questions as suggested by Flick (2002, 81). The data were complemented by press articles, financial data about the firms, as well as market data on their debt, the latter two categories of data being quantitative. Toivonen (1998, 98) points out that it is hard to define the difference between quantitative and qualitative analysis. From this perspective, the use of quantitative data did not contradict the study's qualitative character. Eisenhardt (1989, 538) also states that case studies can involve qualitative or quantitative data, or a combination thereof.

4.2.2 The case companies

The case companies were recruited through personal professional contacts or through former colleagues with useful contacts. Cold calling produced only one, thankfully very interesting, interview. The recruitment process was relatively slow. Since a decision had been made to sample gradually, there was no single mailing of multiple requests to participate in the study. In the end, and in line with the sampling criteria outlined above, the author obtained a sample of 23 companies, diversified by geography, industry, credit quality, and ownership. Short descriptions of the case companies are in Appendix IV.

Table 11 shows the diversification of the case companies across the sampling criteria discussed previously. As the table shows, the borrowers were concentrated among listed companies with public investment grade ratings and high capital intensity. This is quite intuitive, since large, investment grade rated and listed companies with high capital intensity are also larger borrowers than companies with smaller borrowing needs (e.g., low capital intensity) or limited capital markets access (e.g., companies with no listed equity).

Table 11 Case companies' distribution along the sampling criteria

Financing environment	Strong local banks	Local banking market dominated by foreign-owned banks, or otherwise reliance on foreign-owned banks	Capital markets the main source of debt funding
# of companies	18	3	2
Ownership	Private	Private equity sponsor	Listed
# of companies	4	1	18
Publicly rated	Yes	No	
# of companies	16	7	
Credit quality	Investment grade	High yield	
# of companies	16	7	
Capital intensity	Low	Medium	High
# of companies	3	7	13

According to this classification of the sampling criteria, there would be 108 (3 x 3 x 2 x 2 x 3) different combinations of the sampling criteria. In a case study, this would be a very large sample and a suitable size for quantitative analysis. However, from the perspective of research economics, such a sample size was not achievable, and, furthermore, not necessary as the aim of the sampling was not to find firms that would represent all of the theoretical combinations. This sampling grid and breakdown in Table 11 illustrates that the general sampling criteria were reasonably well met and identifies considerations regarding possible limitations to the theoretical generalisations from the analysis.

In terms of geography and industries, the case companies were diversified as follows: 13 companies are based in European Union countries and, in total, there were 17 European companies in the sample; five companies are domiciled in the southern hemisphere and, of the 23, three or four could be classified as companies from emerging markets countries; the biggest number of companies from a single country was four and there were five companies from the Nordic region; the three main issuer segments of corporate bonds, namely autos, utilities, and telecommunications & media were all represented among the case companies; three of the companies in the group have globally recognised brands.

In an ideal world, the group of case companies could have included more companies from outside the European Union, and more private equity owned companies. However, the overall size of the group and its diversity provided rich data, and as a practitioner, it is hard to imagine what kind of additional debt marketing approaches could have emerged from a larger or more diversified group. The time it took to obtain participation from a company is probably an indication of the scarcity of time that firms have to respond to this kind of inquiry. It may also indicate that, given the purpose of this study, there may have been reluctance to share the data being requested. From this perspective, the achieved sample can be considered both good and interesting.

4.3 Data acquisition

4.3.1 Interview design

The interview design reflected that of expert interviews, as described by Flick (2002, 127–128), who considers it suitable when the particular interest in the interviewee is in his or her role as an expert, and when the subject under study is limited to expert knowledge in institutions. These criteria apply to this study. Possible problems with this method could arise from potential confusion by the interviewees over their roles as experts and as private persons, or diversion by the interviewee into related problems that are not relevant for the subject under study, or that the expert impedes the interview because of a lack of expertise (Flick 2002, 89–90). These potential problems were at least partly mitigated by the author/researcher's personal 25 years of experience in the field and by the selection of the interviewees.

The respondents were considered as informants, in the sense described by Yin (2003, 90). In such context, informants are not only expected to provide the researcher with insights, but also with suggestions for corroboratory or contrary evidence. In particular, given the lack of definition for borrowing outcomes, respondents were asked to provide their own definition for them.

Furthermore, as even large borrowers may not undertake certain types of debt transaction, or may meet with some of their debt investors only infrequently, statements by respondents may suffer from biased selection. The author attempted to mitigate this potential problem by comparing, wherever possible, statements by interviewees with published data on the firms' debt activities, such as debt profiles from the financial statements or anecdotal data from markets. Furthermore, the design of the questions, and the author's own experience in the field, mitigated this problem. Alternative data collection methods could have suffered from other significant problems. For example, a survey would have been bound to provide shallow data on the overall phenomenon, even if providing deep data on a single feature of it.

In the context of using why questions in the data analysis, Alasuutari (1995) points out that these questions can be important to discover norms embedded in the statements of the respondents. The philosophical position of this study is that the respondents are persons who consider themselves as having the ability to influence the outcome of a firm's debt marketing. This is not inconsistent with Shank’s (2002, 44) view that qualitative interviews seek to discover the everyday world lived in by the interviewees.

The interview questions and their relationship to the theoretical framework are shown in Appendix III. The list reflects the outline of the theoretical framework in Figure 1, and the relationship between the questions and the theoretical framework is summarised in Figure 6. Part I of the question list covers background data on the firms and the respondents. This part was partially completed by the researcher from publicly available sources. Part II included open questions on the same activities in order to obtain more depth to the pairwise questions asked in Part III. This last part of the question list contained 20 pairs of statements that were made with regard to different debt marketing activities from both the buyer and seller perspective, and respondents were asked to select which of the statements better reflected their approaches to the named activity. For example, the same activity can be approached by the borrower from the perspective of how it creates value for investors (seller’s view), or what value investors’ provide to the borrower (buyer’s view). This approach to look at generic debt activities is a logical reflection of Gummesson’s (1991) view of not looking only at activities that are specifically defined as marketing activities by the marketing function, but to consider the marketing meaning of an activity undertaken by a part-time marketer. Some of the statements contrasted a view on the activity either from the perspective of satisfying a borrower’s need (buyer’s view) or satisfying a debt investor’s need (seller’s view). The pairs were not intended to be opposites or mutually exclusive but as ways to interpret the approach to the said activity, and were based on the discussion in Chapter 3 of this study. Part III of the questionnaire also contained one open question that asked about the respondents’ view of how he or she would have dealt with the same questions in the favourable borrowing environment that existed pre-2007. There were no questions about the borrowing environment, but such data were recorded from other, public sources at the time of the interview.

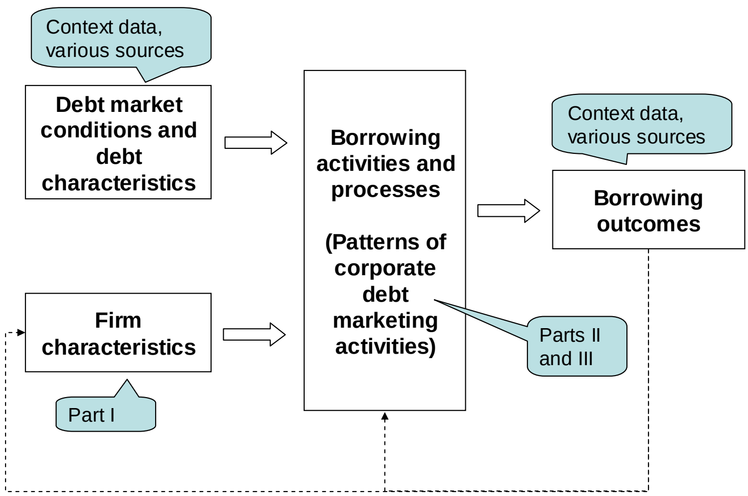

Figure 6 Relationship between interview questions and the theoretical framework

The list of questions was sent in advance of the interviews, with a letter explaining the overall purpose of the study as well as explaining the confidential treatment of the information to be provided. The respondents were provided with the options of responding in writing with a follow-up interview, a face-to-face interview, or a telephone interview. Given the fact that the respondents and the researcher are experts in the field, this possible variation in the information gathering methods can be considered acceptable, particularly since the respondents were also asked to be available for follow-up questions in case of ambiguities in the information or in case the data show findings that should be clarified through follow-up questions.

The draft list of questions was pre-tested in September 2008 with the treasurer of a large Finnish corporate borrower with 2.0 billion of outstanding debt at the end of 2008. Given the treasurer's 21 years of banking experience, with over six years tenure at the company as the main counterpart for its lenders, he provided insightful comments that helped to shape the list of questions into its final form. The feedback about the draft list of questions included the following comments, all of which were taken into account in rewriting the final list (shown in Appendix III):

- The questions emphasising borrowers as sellers of their debt could be more balanced and written in a shorter, less leading form.
- The questions in parts II and III could be arranged in the same sequence according to their main theme.

Furthermore, the reviewer commented that, in his view, responses could well be context dependent in the sense that if they were asked during times of credit tightness, as experienced in the extreme during the day of the feedback session (September 30, 2008), they could have been different than if answered during times of easy credit. He made no suggestions for additional questions or themes. The session to obtain the reviewer's feedback took one hour.

The interview list and its accompanying letter were also submitted for review of their English to an experienced capital markets banker who is a native English speaker. The only comments received back, were on the accompanying letter - on its style, plus minor grammatical suggestions.

4.3.2 Background data on borrowing outcomes

For background information, this study included data that can loosely be described as borrowing outcomes. This means data that show what actually has been done or achieved in terms of concluded borrowing transactions. These data should help to cast light on the motivations or drivers behind firms' debt marketing choices.

The literature indicates two main dimensions of borrowing outcomes: the cost of borrowing and access to a sufficient amount of debt. As to borrowing cost, the borrowing spread is considered a measure of success in borrowing (Fang 2005, Datta, Iskandar-Datta and Patel 1997).

Particularly in bank-small firm relationships, debt availability is considered a key outcome of relationships (Petersen and Rajan 1994). Borrowing access itself has several aspects. Things that can be used to describe a firm's debt access or availability can include the following: (a) unutilised credit lined available to a firm; (b) the size of its debt investor base; (c) diversity of its debt investor base; (d) existence of outstanding debt issues; (e) the debt's secondary market pricing, as an indication of the borrower's acceptance by markets. True market access can only be verified when a transaction is launched and investors are asked to concretely express their appetite for a new debt issue, and it varies over time. At other times, it is just informed guesswork based upon signals provided directly by debt investors or through market prices.

There is evidence that access to debt sources and borrowing spreads are correlated (Santos and Winton 2008). In any case, in line with its qualitative research strategy, this study will consider debt marketing outcomes through a range of aspects such as depth of investor base, reliability of access, pricing, volume of debt availability, and flexibility in product design, rather than attempting to squeeze outcomes into one or a few crude measures.

Importantly, in the data one will have to look for how borrowers themselves define (good) outcomes.

4.3.3 The interview process

The data were collected in expert interviews in which the range of potentially relevant information provided by the interviewees is much narrower than in other interviews (Flick 2002, 89). The interviewees' expert status is based upon the fact that they are in decision making positions in their employers' debt funding, they work in the area of interest to this study, and they have considerable length of experience in this area, with only one interviewee engaged in corporate funding for less than ten years.

Collectively, the interviewees had about 370 years of working experience in corporate funding or in relevant banking roles. The average relevant working experience of the interviewees was 15 years, with a median of 16 years. The interviewed persons have actual involvement and decision making power in debt marketing. They represent the following positions: CFO; Group treasurer; Treasurer; Corporate finance manager; Investor relations manager.

The interviews were held between 14th November, 2008 and 19th August, 2009. Figure 7 shows the dramatic evolution of credit spreads on corporate Eurobonds during the latter part of the period 2004–2009. The dots on the line denote dates of the interviews or receipt of the written responses from companies that preferred this method over interviews. It should be noted that many dots overlap because of the proximity of the interview dates. This time frame is significant, since it was in the middle of the credit crisis that started in early 2007, and which continued into 2009. September 2008 saw the collapse of Lehman Brothers, until then a significant global investment bank, and the announced absorption of Merrill Lynch, a bulge bracket investment bank, by the Bank of America, accompanied by government bailouts of numerous banks in the US and Europe. During the weeks of the first interviews credit market conditions remained particularly tight, and politicians around the world expressed concern about companies' access to finance and the crisis' possible negative effects on their economies.

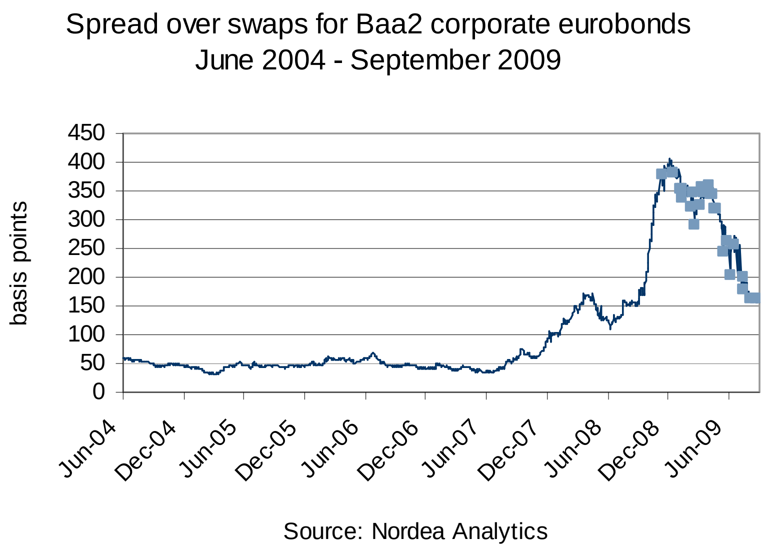

Figure 7 Timing of interviews vs. corporate Eurobond spread evolution

As Figure 7 shows, there was a considerable period, until toward the end of 2007, when corporate spreads (i.e., relative borrowing costs) had been very low for an extended period, and companies' access to funding was easy. In the context of this study, the relevance of this is that the interviews were held at the time when many people still had very fresh memories of a dramatic deterioration of access to debt markets by many firms. The rise in spreads during 2008 indicates not only an increase in borrowing costs, but reflects a shift in investor demand towards safer instruments than corporate debt and, therefore, a possible need for many firms to find new debt investors or to increase their reliance on some sources as other sources were drying up. Conducting the interviews in this specific market environment may have yielded data that limit interpretation with regard to the specific context but, since at this time many corporate treasurers worldwide had been forced to rethink their borrowing practices, the timing was fortunate.

The sample included three firms that in the last two to three years had experienced a need to significantly shift their funding approaches and processes due to a deterioration of their credit quality, or credit ratings. These companies made reflective comments about this during the interviews.

Despite, in part, the very structured format of the interview questions, the interviews were conducted as guided conversations in the manner defined by Yin (2003, 89). This was evident from the significantly varying length and content of the answers and commentary. The interview notes do not just resemble a completed survey questionnaire with which Yin (2003, 89) finds interviews being often, incorrectly, associated.

The author considers the interviews to have been expert interviews, as both sides, and particularly the respondents, have relevant practitioner experience as defined for expert interviews.

The interview questions were always in English, and sent beforehand to the interviewees. At the beginning of each interview, the interviewees were reminded that:

- They would receive a transcript of the interview within a few days of the interview, with a request for them to review it, correct any inaccuracies, and return it to the author.
- The persons and companies would appear on a codename basis in the study, and in a manner that does not enable their identification based on statements in the study.
- A final draft of this study would be submitted for their review in order for interviewees to ask for any data that ran the risk of revealing the person's or case company's identity to be edited in a manner that would protect confidentiality.

Finally, the interviews or data collection were conducted in different ways, depending upon the preference of the respondent. Two thirds (15 out of 23) of the interviews were executed as telephone interviews, and only two companies provided their responses in writing. The different methods and number of companies using them to respond are shown in Table 12.

Table 12 Data collection methods' breakdown by number of companies

Method	Number of companies
Telephone interview	15
Face-to-face interview	3
Written response with follow-up interview	3
Written response without interview	2
Total	23

The apparent variety of data collection methods legitimately raises questions about the depth and quality of data from each sampled firm. This potential problem and its mitigating factors are discussed in the evaluation of the study.

4.3.4 Description of the data

The interviews were recorded in handwriting, either in a notebook or onto the actual questionnaire. Within two days of the interview, often on the same day, the author typed the interview notes into a document together with the list of questions, in a different font (i.e., coloured; underlined), and with the responses immediately following the questions in the typed text. This way the interview data were more ready for use in analysis, and this was considered also to be efficient for the interviewees' reviews, as there is a clear visual relationship between the statements from the notes and the questions that prompted them. On average, the interviews lasted for 50 minutes, with a median of 52 minutes, and variance of between ten and 106 minutes in length. The shortest interviews were those where the respondent had provided detailed responses in writing prior to the interview, so there was only a need to clarify or add points.

Handwriting is typically not recommended in qualitative research but the reason for choosing it was that, initially, some of the interviewees indicated greater comfort with this than with the interviews being tape recorded. Given that these were expert interviews, the author is confident that all relevant data were captured by this method and, furthermore, the door was always left open to ask further questions if the analysis so required. Five of the firms provided their responses primarily in writing as shown in Table 12. The data from three of these four firms were very similar, albeit with a shorter narrative than the typical text the author wrote based on the interviews. The fourth and fifth firms provided much shorter text, and did not answer all of the questions, but even these were useful data. The fact that the text written by the respondents, in terms of substance and jargon, was similar to the author's notes enables it to be argued that there was no material loss of information by recording the interviews in handwriting.

The main body of the collected data comprises the typed interview notes. These data were the primary source for analysis. On average the interview notes amounted to approximately three typed pages per company. The five sets of data from companies that responded only or mainly in writing were shorter, being in bullet point format, but still provided useful material for analysis. The brevity of those comments required some clarifying questions which received prompt replies. In this instance, the author's practitioner experience was beneficial, since the common background with the respondents enabled an understanding of the jargon in the written responses without difficulty.

The question list included both open and binary choice questions, with both types helping to acquire textual data. Frequently, the binary choice questions triggered comments that added depth to the preceding questions, and provided more contexts to the selections in the third part of the question list.

Other supporting data for the analysis included the case firms' annual reports, from which the author compiled their debt profiles. Further material included press clippings, for example, from the Financial Times, as well as rating agency reports and companies' press releases. For each company, a debt profile, including its breakdown by debt instrument and its debt programmes, capital markets issuance currencies, and unused credit commitments was compiled to provide measures of their borrowing needs and achievements. Discussions with various colleagues provided background data on the market situation and on the reference points on the debt market performance of some of the peers of the case companies. Lastly, with certain companies, there were personal recollections about debt activities or related perceptions.

4.4 The analytical approach and process

The analysis proceeded by studying the varied, mainly narrative, responses to the questions and other background data that provided a range of data categories. The initial review helped to identify new questions or gaps that gave direction to the further analysis of the data. The aim of the first step of the analysis was to find categories by which the debt marketing patterns of the borrowers could be classified. This higher level process is presented in Figure 8.

Soon after starting the analysis it became evident that, as an extensive case study with 23 case companies, the study report could easily become very long with the risk of main findings being buried within the individual case studies. Consequently, the research is reported as an extensive case study, even if all firms were individually analysed as single cases.

The analytical process started to evolve once the reading of data began. In a sample of 23 firms the extent of qualitative data is relatively voluminous, and reporting detailed case studies on each of the 23 could result in confusion if undertaken without screening the data in a way applicable to all sample firms.

As a qualitative study, the analysis relied on exploiting the richness of the narrative data. However, the large number of firms in the sample also meant that the analysis could be complemented by quantitative data analysis, which is captured in the diagram in Figure 8.

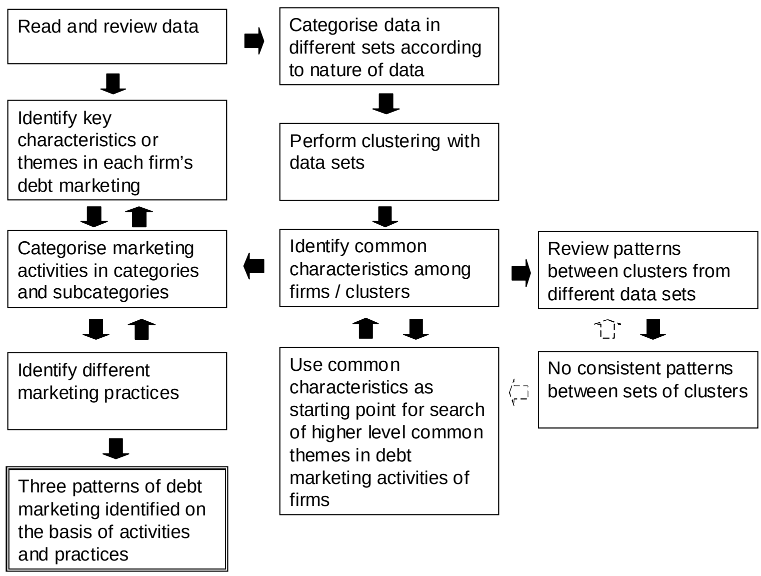

Figure 8 The data analysis process

The overall data comprised three sets, each with distinctly different characteristics. Most importantly, there were the narrative interview data, which comprised typically two to four typed pages for each firm. Next, there were the data on actual debt instruments, which were largely quantitative (e.g., volumes of debt outstanding in different instruments) and to a lesser extent categorised qualitative data (e.g., types of debt programmes outstanding). Lastly, there were the binary data on approaches or attitudes towards debt activities and processes. The binary choice data and the categorised narrative datasets were individually subjected to cluster analysis, as later described. The purpose of the quantitative analysis was to identify whether such classification of the data could produce groupings of firms on the basis of shared patterns that could be explored. Moreover, reading the firms' narratives individually also required categorisation of key themes or characteristics in the data, which could naturally be entered into a matrix lending itself to quantitative methods. While the clusters from the quantitative analysis did not directly lead to debt marketing patterns, the key themes and concepts that were identified, or indicated by comparing cluster features, helped to progress the identification of debt marketing patterns.

The main line of analysis followed is described by the boxes on the left side of the diagram in Figure 8. The reading, coding, and comparing of the narratives, combined with the search of communalities between firms, sought to establish core features of debt marketing. There was no a priori assumption that possible discoveries in the quantitative analysis would have to define possible patterns, but only that such analysis might identify variables that group firms together, and thereby uncover patterns that the qualitative analysis would have to corroborate.

4.5 Analysis of binary choice data on debt processes

Next, the author describes the quantitative analysis, which had a limited role in the overall analysis.

In the binary choice questions (Part III of the question list) respondents were asked to choose between two statements to describe their approaches to a debt process. This distinct dataset can be characterised as representing choices of preferences regarding debt marketing activities. With only six (or 1.3%) out of 460 responses on the binary choices not provided, the dataset was nearly complete. Because the data were readily classified and uniform for each respondent, it was relatively straightforward to subject them to quantitative analysis. What such data do not capture is the strength of the preference, only its direction. Two respondents could make the same choice whereas one would feel that both statements are in line with his or her thinking, while another respondent might see both as only marginally relevant; however, both are still expressing the same preference.

The author applied hierarchical cluster analysis to these data, which is a statistical method for classification that makes no prior assumptions regarding important differences within a population (Punj and Stewart 1983, 135; Fraley and Raftery 1998). Cluster analysis is considered suitable for the development of a typology or classification (Aldenderfer and Blashfield 1984, 9), as well as to be generally suitable for exploratory analysis and also with binary data (Finch 2005, 85), as is the case in this study. Fünfgeld and Mai (2009) applied cluster analysis to segment consumers according to financial attitudes and behaviour, providing an example of the use of cluster analysis in financial services research.

For the purposes of this analysis, the responses to the 20 questions were classified as either a 0 or 1 for the right and left hand alternatives on the list, respectively. As the measure of distance or similarity, matching coefficient (Finch 2005, 88) was used. The matching coefficient is justified ahead of the Russell/Rao Index or Jaccard coefficient because, in these data, it is meaningful to count whether two firms agreed or disagreed when making the same choice on a specific question (i.e., the same left hand choice puts them as close to each other as the same right hand choice). The matching coefficient was then expressed as 100% minus the percentage of the total number of questions where the two firms chose the same alternative. This makes the matching coefficient into a distance measure, which could also be called a dissimilarity coefficient, where a high number indicates a high distance, or dissimilarity, between the firms. The hierarchical clustering was achieved using the average linkage method. This algorithm has been found to perform generally well (Punj and Stewart 1983). The tree diagram of the clustering and its explanation is in Appendix V.

Out of possible 460 responses to the binary choice questions, 454 choices were obtained. For all of the 253 matching coefficients for the firms in the sample, the average was 41.5% and the median value was 40%, meaning that firms on average made a different choice for 41.5% of the questions, or made the same choice on average on 58.5% of the questions. The highest individual matching score was 73.7% (i.e., a different choice on 14 out of 19 responses) and the lowest matching score was 15% (i.e., the same choice on 17 out of 20 questions). The variation in the questions captured differences in the firms' approaches to debt marketing activities.

At this stage of the analysis, a decision was taken not to exercise statistical tests of significance on the quantitative data. The binary data are soft in nature, even if quantified. They show only what was chosen when respondents were pushed to choose, but can conceal the fact that there was possibly a low affinity for both alternatives, or that both alternatives were seen as very appropriate statements to describe a firm's approach or activities.

A similarity matrix was also calculated for the 20 binary variables, as opposed to firms, as a simple measure of association to see if certain questions, in terms of responses, were associated with specific other questions. This matrix is also presented in Appendix V. This analysis did not yield further clues that appeared fruitful; more specifically, the closest linkages typically were between questions in the same group of questions (see Appendix III, Part III). The last variables, or questions, to cluster were those numbered 5, 7, 10, and 13, which dealt with tools (e.g., public credit rating; syndicate; loan drawdown; documentation), indicating these as uncorrelated variables.

4.6 Narrative data classification

The next quantitative dataset was derived by classifying narrative data. The data are termed "debt approaches", reflecting that they not only describe activities but also include opinions and attitudes towards them, as found in the narrative. This part of the analysis was conducted in the stepwise process described in Table 13.

Table 13 Steps in analysing the narrative data

Narrative data analysis process
1. Reading of each interview note and underlining any statements that described the actual way or intensity of a debt process by the firm, or statements expressing attitudes or opinions that are material in terms of reflecting how the respondent would or does act.
2. Writing the activity in a row of a matrix where rows represent statements and columns represent firms, and marking a 1 (one) in the cell representing the firm. When a highly similar statement was already identified in the matrix, the mark was made in this row.
3. Rereading all interviews for a second time to review that same level of detail was applied in the identification of relevant statements from each firm's interview note.
4. Comparison and cross-checking of classifications where two or more firms were marked to have made the same statement to satisfy that the assigned similarity was appropriate.
5. Once the matrix was produced after two readings of the notes, it was streamlined by merging rows which contained statements that in substance were sufficiently similar as not to cause any loss or bias of data from merging the rows. Furthermore, rows with only one mark were deleted.
6. Once the matrix was complete, the firms were grouped by cluster analysis.

This stage was enacted with the data of 22 firms because one firm, which replied only by e-mail, yielded insufficient information for this part of the analysis. The initial matrix contained 176 rows with a total of 659 observations, carrying on average 30 data points per respondent, with a median of 29, a minimum of 16, and a maximum of 46. This means that, of all cells, 17.0% had a mark 1 (one). At this stage, 37 rows carried only one mark.

Through the process of merging rows and removing data which would provide nothing additional for measures of similarity, as described in Step 5 in Table 13, the final matrix contained 106 rows, and had 579 marks, meaning that 24.8% of the cells had a mark (value = 1). The average and median value for the number of statements or marks by a firm was 26, with a minimum of 15 and a maximum of 36. The reason for the number of marks reducing from 659 to 579, or by 12.1%, was that where two rows were merged there were a number of instances where some firms already had marks in both rows. Almost half (256 out of 579) of the marks were in rows which had six marks or less. The definition of statements that would be considered important was not made a priori, but it emerged as the author read, reread, and interpreted the texts.

Three points of this dataset are important to note. First, the matrix contains only values 1(one) or empty cells, which can be considered as value 0 (zero). Whereas in the binary dataset, where values of zero for two firms on the same question could denote the same degree of similarity, it is not the case in this dataset. Two firms sharing a value of 1 in the same row are similar in respect to having made the same statement, but not having made such statements is not considered as representing similarity of the firms. The absence of the statement does not mean that a firm has an opposing view, but rather that it might have an opposing view, which then would be reflected in a different row in the same matrix (e.g., one line stating that the firm does not do deal roadshows, and the other stating that the firm does deal roadshows). However, it could also mean that the firm did not, for example, discuss conducting roadshows at all.

The second point is that both in terms of reading the narrative and selecting statements that appeared to be relevant, the choice was made by the researcher (present author). The selection of the statements followed a diligent process, including re-readings, aiming at a consistent classification of relevant statements by each firm. Equally, the merging and streamlining of the data was conducted based on the researcher's judgement. This process relied not only on analytical rigour but also on the researcher's personal understanding of the field in question, and ability to interpret the data in its context. It could not be totally excluded that another researcher would interpret and categorise the data somewhat differently. However, in the author's opinion, the combination of the repetitious reading and cross-checking of the classifications combined with knowledge of the field have minimised the risk of diluting or biasing the data.

Thirdly, the narrative data unavoidably also reflect the verbosity of an interviewee and the time made available for the interview. Consequently, the variation in the number of statements identified from the interview notes varies greatly. The streamlining of the data reduced this variation somewhat from a minimum-maximum range of 16–45 to a range of 15–36. Nevertheless, this variation indicated that cluster analysis could yield clusters where interviewees making more statements would cluster more rapidly with firms whose interviewees also spoke at more length. At this stage of the process, it was not feasible to go back to the interviewees to complement the data, as questions to complement the narrative would have been indirectly leading questions, and thus could bias the data.

The cluster analysis was again conducted as hierarchical clustering. Potential measures of similarity for this calculation were the Jaccard index and the Russell/Rao index, as opposed to the matching coefficient used for the cluster analysis of the previous dataset. Both of these indices base similarity on occurrences where both entities reported the same trait; for instance, made the same statement (see Finch 2005, 87). The reason for not using the matching coefficient was justified by the fact that, in this dataset, the values are observations of a specific trait and not the position on a binary scale or an expression of preferences. Of the two indices, the Jaccard index was chosen because the variance in length of the narratives had yielded very different numbers of statements between firms, and using the Russell/Rao index would have led to a clustering that would strongly correlate with the number of statements made by firms; for instance, the longer the narrative, the faster the firm would cluster. This was tested by clustering with both indices. The clustering with the Russell/Rao index indeed yielded clusters that mainly reflected the length of the narrative, whereas firms with the shortest narratives failed to join any cluster. Finch and Huynh (2000) found that on a Monte Carlo dataset, generated using a 2 Parameter Logistic model, different measures of similarity performed very similarly. However, with regard to this study's dataset that was clearly not the case, which will be worth remembering when applying cluster analysis to datasets where similarity matrices could be sensitive to variation in the volume of narrative data from different sample members.

4.7 Cluster analysis of the classified narrative data

The similarity matrix was constructed so that the higher the value, the higher the similarity between the firms. The matrix contained Jaccard index values between 2.4% and 34.0%, whereas the theoretical maximum with this index is 100% and the theoretical minimum was is 0% (zero). The average value in the matrix was 16.8%, meaning that on average, two firms were observed to have overlapped on 16.8% of the statements each made. The median value in the matrix was 17.0%.

This dataset produced three clusters, one of 13, one of five, and one of four firms when clustering was stopped just before the average similarity between the clusters dropped below the average similarity of the whole sample. The average number of statements identified per firm in each cluster was 28, 24, and 25, respectively, indicating that the length of the narrative was not decisive in cluster formation.

4.8 Full dataset analysis on debt tools, activities, platforms, and relationships

Next, the whole content of the empirical, mainly narrative, data from the interviews was analysed to seek broader themes. This time the narrative data were categorised according to the broad categories reflected in the categorisation of the interview question list, as well as subjects identified by the cluster analyses as possible differentiators. The categories were assigned subcategories to base the search for patterns on a reasonable number of empirically observed characteristics of the subjects.

The focus at this stage of the analysis was on data that demonstrated activities and genuine practices, and not only preferences or objectives. However, given the nature of the data collection method, a firm's opinions and ambitions could not be kept totally outside the analysis. The results of the analysis are presented in the next chapter.

5 CORPORATE DEBT MARKETING PATTERNS

This chapter discusses the findings of the analysis. The overall flow of the processes and the outcomes of the analyses are shown in simplified form in Figure 9.

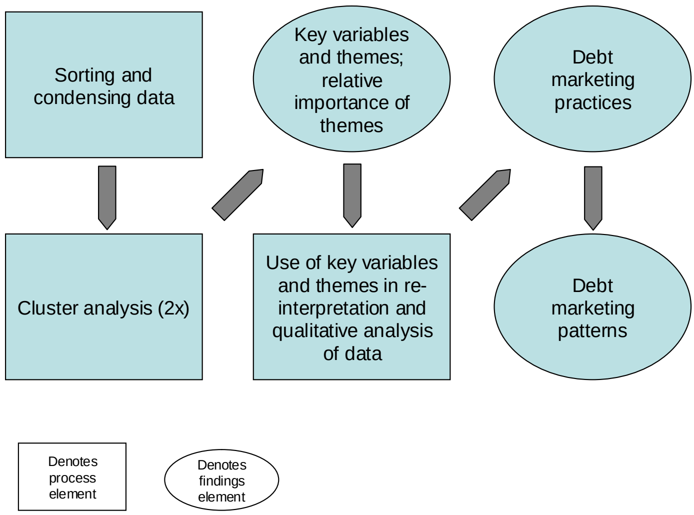

Figure 9 The flow of the analytical processes and outcomes

The chapter starts with a discussion of the cluster analyses and their outcomes, and how they guided the final analysis. The main role of the cluster analyses was to help sort the rich qualitative, and partly quantitative, data to find the main elements of debt marketing activities from the large range of activities at the detail level. Once these were established, they helped to reinterpret the data and establish what marketing practices existed in the sample, and how these practices defined debt marketing patterns.

5.1 Cluster analysis outcomes

5.1.1 Binary choice data clusters

Three clusters were identified from the binary choice data (Appendix III, Final list of interview questions, Part III), and the process is described in Subsection 4.4. Being based only on a small categorised subset of the overall research data, this analysis was initially convenient but could only yield tentative ideas for further analysis. The main aim at this stage was to evaluate whether the clusters had characteristics by which they were unified or differentiated. Differences between the clusters were driven by approximately five questions out of 20 where the particular cluster members responded differently from members in other clusters, thereby yielding only limited insights. In sum, the following characteristics were broadly shared within the clusters, while separating a cluster from the others:

- First cluster: Banks chosen for overall service (relationship), proactive addressing of credit analysts' concerns, and funding cost viewed from internal perspective. Firms: 1, 2, 3, 4, 5, 6, and 7.
- Second cluster: Emphasised reactive approach towards institutional investors. Firms: 8, 9, 10, 11, 12, 13, 14, 15, 16, and 22.
- Third cluster: Emphasis on proactive investor dialogue and respecting market practices over internal targets; firms in this cluster clearly more than in the two others (68% vs. 38% and 42%) chose the seller's stance (rightmost column in the questionnaire, Part III) in their responses. Firms: 17, 18, 19, 20, 21, and 23.

In terms of context data, five of the six firms in the third cluster had some characteristics that made third credit in recent times more challenging to sell than an average capital markets issuer. They had above average risk in terms of recent corporate actions, home country risk, or industry risk. The second cluster, on average, had the highest reliance on capital markets funding. Why these two clusters grouped these firms with similarities in their context data is not clear, but gave pointers for further analysis.

Averages for each question were calculated for each cluster. These averages are shown in the Figure in Appendix VI. The data by cluster show that a number of questions failed to differentiate between the clusters; for instance, the choices were similarly distributed in the clusters. No statistically significant strength could be claimed by this analysis but, as stated, it provided some clues for themes to be tracked in the qualitative analysis.

What did this analysis yield? First, it pointed to the nature of bank relationships (e.g., relational vs. opportunistic; breadth of services) and general approach (e.g., proactive vs. reactive) toward institutional investors as subjects that may characterise debt marketing patterns and, therefore, should be explored in the analysis of the full data. Second, it indicated that the degrees to which firms see themselves as buyers or sellers when they borrow indeed varies, contributing to the answer of the research question regarding blurred buyer-seller roles. Lastly, it also suggested that a firm's borrowing context or its borrower characteristics, as well as outcomes (e.g., access to capital markets), may help to understand debt marketing patterns.

5.1.2 Clusters from the narrative data on debt activities

This cluster analysis (process described in Subsections 4.5 and 4.6) also yielded three clusters. Again, the author focused on the characteristics that differentiated the clusters from each other:

- Representatives of firms in the first cluster clearly made more references to opportunistic, or less relational, behaviour than other firms. It was the only cluster in which firms indicated they also chose non-lenders as arrangers, and its interviewees made more references to opportunistic timing of issuance as a means to create value in borrowing. No member mentioned a bank's past track record with the firm as a selection criterion in awarding mandates. Firms: 1, 2, 3, 4, 5, 6, 7, 15, 16, 18, 20, 22, and 23.
- In the second cluster, lending by banks was key to winning mandates, and these interviewees made more comments about how they monitored their banks. All of them used their equity name recognition as a tool in their debt marketing. Firms: 8, 10, 11, 14, and 19.
- The third and smallest cluster was in many ways similar to the previous cluster, but explicit remarks about pricing being a market matter, with less focus on internal targets, were made. This group also made relatively more statements about maintaining their own debt investor contacts. Firms: 9, 13, 17, and 21.

The first cluster (13 firms) was not entirely homogenous as its size might suggest. The narratives emphasised bank relationships even if some firms used capital markets to a significant extent. The cluster members more frequently mentioned their own documentation objectives, and indicated more insistence upon internal pricing targets as opposed to discussing pricing from a market perspective. As these borrowers use capital markets too, they are aware of the markets' demands, but rely on banks for their use, and more frequently admitted to not knowing their institutional debt investors well. To some extent, this represents behaviour where the borrower sees itself more as a buyer of debt services than as a seller of debt.

The second cluster, with five firms, comprised relatively highly rated, listed firms all of whom are blue chip stocks in their national markets, with market capitalisations of at least Euro 6 billion each at the time of the interview. Because of their good equity markets visibility, they already have an institutional investor base and all of them use capital markets for a considerable portion of their debt. Collectively they made as many statements about criteria for selecting arrangers as the 17 firms in the two other clusters combined, indicating that because they use capital markets actively, they give more frequent consideration to these capabilities among their relationship banks.

The third cluster of four firms, albeit having numerically the highest cohesion, or highest average similarity index value, did not feature strikingly similar characteristics. Each of them had challenging credit characteristics, either because of high risk or lack of comparable peers. One of the four is publicly rated, with a sub-investment grade. Each of them managed their funding through banks, even if they were also at least sporadic users of capital markets. All discussed the achievement of credit volumes as an important borrowing objective, which is logically consistent in focussing on banks for a higher certainty of funding than can be provided by fluctuating markets.

Overall, the clusters from this analysis did not display such homogeneity within or differences between clusters that could be interpreted as debt marketing patterns. Nevertheless, this analysis provided useful clues for the qualitative analysis of the data. It indicated that firms communicated different approaches in terms of how much of their debt marketing is undertaken through or delegated to banks.

5.2 Debt marketing activities in the empirical data

Following the analysis of the narrative data, categories of debt marketing activities could be identified. In this way, the author moved from a generic marketing activities' definition to a debt marketing activities' definition, due to its specific activities that could provide a set by which to compare firms' debt marketing in the further analysis. The debt marketing activities were based on the literature review, and their more detailed content and how firms assign importance to them were derived from the narrative data. The categories of debt marketing activities that were supported both by the literature and present in the interview data were as follows:

- Creation and exchange: The method and frequency of creation and delivery of debt products was a relevant category title. The concepts of creation and exchange are considered simultaneously, as debt can be seen as a product for which production often occurs simultaneously with the exchange of the product. This category does not only cover specific debt products, but in a more abstract manner, how frequently and in what kind of interaction the product is created.

- Communication: This category covers the platforms, either means of communication or ones institutions applied in communication, and its nature in terms of content, intensity, or how pro-active it is.
- Delivery channel: The category of delivery covers the choice, nature, and management of the delivery channels in terms of their members and stability, establishment of selling platforms, as well as the active or value adding (i.e., pricing level; stability) extent of the distributors' role.
- Valuation: Valuation includes the ways firms set or define the value or price of their debt, and how they attempt to influence it, including the valuation of its non-financial terms.

Table 14 shows how the categories and activities from the empirical data corresponded with the categories in the framework used for the data gathering, as presented in Table 8 (Subsection 3.3). The categories reflect the modified categories of the marketing mix, as proposed by van Waterschoot and Van den Bulte (1992). This is also natural because the data gathering was based on the marketing mix concept. The right hand column of Table 14 shows the categories of activities as identified in the empirical data, and how they relate to the categories in the left hand columns, established from the literature.

Table 14 Marketing activities and debt marketing mix categories

Generic marketing activity	Relevant debt marketing mix category
Search	Communication
Communication; promotion	Communication
Product design	Creation and exchange
Production	Creation and exchange
Logistics; distribution	Delivery channel
Pricing	Valuation
Purchase decision	Delivery channel
Delivery of product	Delivery channel
Monetary payment	Delivery channel
Service recovery or quality responsibility	Communication
Risk of unsold inventory (carrying)	Delivery channel
Demonstration of trust	Delivery channel; Creation and exchange; Communication
After sales service	Communication

Table 14 shows that the categories from the empirical data match well those derived from the literature.

At this stage it was unavoidable that the lines between the categories were somewhat blurred. This is consistent with the observation by van Watershoot and Van den Bulte (1992) that some degree of overlap between marketing mix categories is natural. The interviews provided not only a great variety of answers, but also showed that firms had different applications of some activities or institutions. For example, some firms saw the credit rating process simply as a necessary, formal step to obtain a required certification for their debt. Other firms saw it as a tool to obtain feedback on how to position their credit towards investors, as well as to obtain feedback for their internal processes.

The following subsections describe categories of activities, institutions, and processes as interpreted through the lenses of marketing definition. Later, the author focuses on important themes that emerged from the data, and which ultimately describe the practices and different debt marketing patterns of large corporate borrowers.

5.2.1 Creation and exchange of debt

The creation and exchange of debt has two subcategories that emerged from the empirical data. These subcategories have their own drivers, and can be considered standalone constructs that, in different ways, describe the creation and exchange of debt.

The first subcategory of this debt marketing mix category is called *issuance frequency*. Debt products or instruments can be offered continuously, so that the borrower creates or is prepared to create new debt instruments on an ongoing basis. The largest borrower in the sample has a total debt portfolio of tens of billions of Euros, with the portfolio naturally being split into a large number of transactions and instruments. In such a portfolio there are frequent redemptions, which means regular and frequent refinancing needs. There are also borrowers with smaller debt portfolios which rely significantly on reverse inquiry where investors approach dealers or even borrowers directly, expressing an interest to buy debt instruments. Such borrowers relying on reverse inquiry maintain established platforms, processes, and institutions in readiness to issue at almost any time. For example, one firm whose debt portfolio was only 55% of the median, mainly used its EMTN programme for its debt funding by MTN issuance, and had at the time 39 notes outstanding. Even if such an issuer may be out of the market for months, there are frequent enough maturities to ensure it maintains a continuous dialogue with dealers and institutional investors in order to be able to issue if conditions were deemed suitable. In this sense, the borrower shares many characteristics with firms that actually issue frequently. Furthermore, with this business model, the firm relies on an intact ability to refinance maturing debt.

At the other extreme of this dimension are borrowers which launch new debt transactions infrequently, excluding drawdowns under established bank credit facilities. This pattern of infrequent deals appears not only to be a function of relatively low borrowing needs, but also of managerial preference. There were borrowers with similarly sized debt portfolios at both ends of this subcategory.

Another aspect of debt creation and exchange was that some firms considered debt issues closely matched with their assets. For example, in industries such as airlines, real estate, or shipping, financing is often raised against specific assets such as aircraft mortgages. There are also industries such as natural resources, where capital expenditures can be very bulky, possibly in risky environments, and through joint ventures, that tend towards debt and asset matching. In the study's sample, some firms also have business models where obtaining new clients requires substantial asset investment and, therefore, leads firms to consider their debt as being closely matched to specific assets. Firms following this method clearly had in their debt portfolio more specialised instruments, as opposed to general purpose loans, that mirrored this type of financing, whereas firms raising debt from the perspective of managing one overall debt portfolio seem to use more standardised instruments. The author calls this subcategory s*tandardised vs. situation driven debt issuance.*

The linkage by firms of their borrowing with other financial services business regularly appeared in the interviews. Some of the firms tightly bundle their non-credit financial services business with obtaining loans or credit lines from banks. However, essentially all firms establish such links, but for some it was clearly a non-negotiable condition that other business would not be allocated to non-lenders. One firm in the sample made it very clear that debt arrangement mandates or other fee business is regularly allocated only among members of the syndicated loan facility. Another firm, however, stated that while obtaining credit lines helps the banks to win other business, they ultimately choose arrangers for other business based on their expertise and credibility in terms of league tables.

The bundling of credit availability with the purchase of other banking services is an important expression of a relational versus transactional approach to marketing. All firms seek to have relationship banks, but there were different degrees of commitment expressed towards relationships. The recent and ongoing banking crisis has forced many firms to reconsider how dependent they want to be on a limited number of banks, when the future of some well-known banks was in doubt. However, this feature of borrowers' behaviour was more linked to the management of their bank relationships, and was reflected in the category of Debt delivery channels.

5.2.2 Debt communication

Debt communication refers to the form and intensity of a firm's communication with existing and potential debt investors.

Some firms emphasised terms such as *learning* or *feedback solicitation* when discussing their interaction with debt market participants. Even many or most of those firms not making such expressions see the purpose and method of debt communications, not only as the dissemination of information but also as a means to obtain knowledge of what works in the markets. The empirical data suggest that there were differences of strength in this aim for feedback or learning through the dialogue. For example, one firm stated that the meaning of the public credit rating process is to obtain a benchmarking that is also taken into consideration when top management considers strategic issues. On the same subject, another firm stated that for them the rating process essentially was about providing the rating agency information that is sufficient to obtain the rating, implying a view of the rating only as being a formal requirement of the markets. Further, on the same subject, a firm with most of its debt raised from the bond markets stated: *"If debt investors have questions, they will typically contact our (equity) investor relations team"* and *"We do not offer (to debt investors) any additional information over and above what is available publicly for equity investors."*

At the other end of the spectrum, another active user of capital markets regularly visits its main institutional debt investors, not only to update them about the firm's development but also to seek direct feedback about investors' appetite and the conditions available for debt issuance. Some firms also talk with other corporate borrowers about pricing and other conditions regarding which they have information. Such contacts can complement a narrow set of banks and investors as communication partners. Furthermore, firms which are listed and have a very large market capitalisation naturally obtain more feedback from institutional investors and the media, and may, therefore, emphasise this less in discussion as they consider it to be a routine matter.

The title for this subcategory of debt communication is d*egree of feedback seeking*, short for communication as feedback seeking versus dissemination.

It must be noted that, even if there were differences in the intensity and method of feedback seeking, firms actively sought feedback and obtained it from different sources. From this perspective, all borrowers display market orientation which according to Slater and Narver (1995) includes the continuous collection of information of target customers' (here meaning investors) needs and competitors' capabilities (here meaning debt issue performance and borrowing costs) and use this information to create continuously superior customer value (here meaning to place debt at a price meeting investors' expectations).

An interesting comment on the debt dialogue came from a borrower whose representative stated that he does not think that he or his colleagues know the firm's ten largest bondholders. Contrasting this with some other borrowers' statements that they directly interact with the biggest investors in their key markets shows two different approaches, and suggests the application of both transactional and relational approaches towards bond markets by different borrowers. Considering the relational approach consistently applied towards banks, this is in line with the findings of Coviello and Brodie (2001) that relational and transactional marketing can coexist in a firm. Some firms also commented that in today's financial crisis they regret not knowing well enough the institutional investors holding their debt. Yet another borrower stated that they sometimes talk to their main institutional debt investors, but do not want to interfere with the banks' marketing effort for their debt, whereas one borrower implied that she is not content in relying on what the banks say about institutional investors' appetite for the firm's debt. A few firms also stated with regard to debt investor targeting that they expect banks to deliver them the investors when launching a new capital markets debt issue. All of these comments show that, beyond the breadth of debt communication channels, there is a subcategory that covers the *intensity of direct institutional debt investor dialogue*.

The same subcategory also arose when borrowers were asked about the post-transaction monitoring of their deals by investors. Some firms stated that they either do not follow such activities at all or that it is left to investors to request information. Others stated that they proactively arrange update meetings, with the aim to avoid surprises to banks. Challagalla, Venkatesh, and Kohli (2009) propose that proactive post-sales service has three subcategories, namely proactive prevention, proactive education, and proactive feedback seeking. Some of the abovementioned activities can be considered as proactive post-sales service. Particularly, firms with a desire to be able to issue frequently are keen to keep investors in their past deals comfortable with timely information, and also at times when their performance may be below expectations.

The next subcategory was called *Personal communication vs. standardised disclosure*. This was derived from the observation that some firms, even those that had frequent and close contact with institutional investors, relied in their communication essentially on standardised information such as formal press releases, and standard question and answer sheets for investors. This is understandable since listed companies particularly are restricted by financial regulations from treating investors unequally. This could be interpreted as firms offering their products to bond markets as generic offerings due to regulatory reasons. Pels, Coviello, and Brodie (2000) propose that in a context of generic offerings, firms are more likely to apply transactional marketing practices. Firms' offerings of bonds through intermediaries to investors that the firms may not know would be in line with such an interpretation.

There were other firms which regarded it as important to give key institutional debt investors access to their top management, thereby applying more personalised communication. Some firms also mentioned direct meetings between top management and institutional investors, whereas, for all firms, key banks regularly meet the top management. Heavy reliance on their equity investor relations activity for debt investors was an observed pattern among a meaningful minority, whereas others had a dedicated debt investor relations person, who not only kept debt investors informed but also conveyed the message that the firm appreciates the distinction of the different perspectives between debt and equity investors.

5.2.3 Debt delivery channels

Debt delivery channels mean the methods, platforms, and institutions of delivering a firm's debt to end-investors. This always involves banks, but the manner of engaging them, and the division of labour between the borrower and the selling or arranging bank varied. The studied firms had distinguishably different approaches to the delegation of tasks to intermediary banks. In some cases there may be direct reverse inquiry from institutional investors, reducing the role of the delivery channel to one of coordination or booking as opposed to originating a transaction. This shows that even with a product such as debt which implies a relationship, given the way it is consumed, there is still room for transactional or even opportunistic behaviour in some aspects of debt marketing. This echoes the findings of Coviello, Winklhofer, and Hamilton (2006) that in a small-firm sector (e.g., accommodation), which some literature would suggest as being dominated by relational marketing, transactional marketing coexisted well alongside relational marketing.

This tendency to see a bank's role in a debt transaction as relatively commoditised was reflected in the view of Firm 2 that stated *"bonds, arrangement mandates, are a gift to our banks, and we know well the banks* *capabilities in this area while also knowing well our key institutional debt investors"*, implying that it did not see the role of the banks as very extensive. The firm carried out a lot of the critical work, including informal sounding, and planning of the structure of the transaction, as well as developing its name and reputation in capital markets. The author calls this subcategory *value added role of delivery channel*.

A further expression of this task delegation to the delivery channel was the expectation that was set for banks as intermediaries of debt transactions. Some firms placed great importance in the selection of arrangers that the arrangers continuously kept them updated about market conditions, and were proactive in generating ideas about new structures and deal opportunities. One firm stated that *"we reward with extra points banks which are proactive in bringing us new ideas."* Firm 1 also stated that in *"exceptional cases where a bank comes with a particularly useful… idea, they obtain the arrangement mandate"*, not only expressing the importance of banks being proactive, but also the need for something exceptional in order to jump the queue of lending banks when vying for mandates. Another firm explained that debt issuance is very much driven by internal planning, and that once a requirement for new funding has been defined, banks are given relatively narrow parameters within which an initial proposal should be submitted. The whole arranger selection process is for them relatively formalised, and thereby sets limits on how much a bank can proactively develop a deal opportunity for the borrower. These approaches suggest that borrowers view differently how much added value a channel can create by new ideas, or how much of the value adding in debt marketing is expected to be undertaken by the delivery channel. From another perspective, this can be considered to reflect how far borrowers try to commoditise the debt arrangers' role; both to reduce costs and create interchangeability between banks as arrangers.

Some borrowers get very involved in the syndication process, and actively direct it by bringing in investors, particularly in a syndicated bank loan. The other borrowers stated that they left the whole syndication and allocation to the arrangers. There were opposite views about involvement in allocations in bond issues where many of the firms said that they left it to banks, but some also stated that they had become quite involved in this part of the process. The above examples indicate that another relevant subcategory of debt delivery and channels is the level of freedom or space given to the intermediaries in identifying and structuring transactions. The title for this debt marketing activity subcategory is *debt delivery channel autonomy*. It would be wrong to claim that complete autonomy, if it could even be defined, or total control of the delivery channel would be the observed extremes of this subcategory. In practice, even at the extremes, the delivery channel has some autonomy.

The borrower cannot alone determine the channel’s actions and decisions in placing the firm’s debt.

Firms are considered to deliver their debt to debt investors directly when no intermediary acts between them. This is naturally the case with bilateral bank debt. However, as to who sells a firm’s debt, there were different expressions. Firm 10 stated that it did not see banks as sellers of its debt to institutional investors and, consistent with this, maintains a close dialogue with key institutional debt investors. On the other hand, some users of capital markets emphasised good relationships with dealers (e.g., of their MTN programmes) in order to keep them interested and capable of selling the firm’s debt. The author calls this subcategory s*eller in debt placement*.

Given that bank relationships tend to be relatively stable, as expressed by most participants who discussed the subject, then delivery channel structure can be considered quite stable. In bond transactions, some borrowers like to maintain the same basic structure of their debt syndicate over time. One stated that *“the leads for a bond are chosen from the members of the credit revolvers syndicate…and all other participants in the credit revolver are given co-arranger status in the bond”*, implying continuity in the structure of the delivery channel. Some firms were more open to choosing debt arrangers outside their core banks, but the delivery channels seemed not to be markedly different in their stability. Interviewees made no remarks on channel stability or its significance and, consequently, channel stability did not form an identifiable subcategory within this category.

5.2.4 Debt valuation

When firms were asked about their approach to pricing, both directly and indirectly, a range of approaches emerged individually; however, when piecing the picture together at a more abstract level, differences between them were not significant. Partly this could be because the interviewees saw themselves as responsible for the firm’s borrowing costs and, needless to say, would see its minimisation as a self-evident objective. From a marketing perspective, what appeared relevant was how firms developed their view of the right pricing and how flexible they were about their pricing expectations.

As an illustration of the different approaches, one borrower stated that *“three years ago banks pushed to the firm underwriting at crazy prices where they were for sure losing money…but we took the offers anyway.”* Another firm explained how they had had a clause in the revolving bank commitment that enabled, at one stage, the extension of the facility at a pre-agreed spread, but the firm refrained from the extension, as it would have caused pain (i.e., losses) to the banks. Contrasting these views with the definition of the goal of debt management by Finnerty and Emery (2001) as the maximisation of shareholder wealth by minimising the firm's after-tax cost of its debt, the examples suggest that defining the right cost of debt contains considerable ambiguity including different views on short and long term pricing implications.

The multiple ways of defining the cost of debt became apparent in the ways that the firms responded to the question about how they define the success of their debt activities. Some of the firms stated that pricing is something that the market determines, and that it cannot be influenced by an individual firm. Another firm stated that they routinely challenge banks' pricing suggestions and never take these at face value but rather form and maintain their own view.

For most firms, regular comparisons of primary and secondary market prices of the debt of peers are a routine part of planning debt issuance, as well as measuring the success of their borrowing activities. Such peer comparisons may lead to strong views, also influenced by pride, regarding what one would like to achieve. At the other end of the spectrum, some firms stated that peer comparisons are currently irrelevant and not much used.

Pricing was probably the area where it was most evident that firms had adjusted their views or approaches since the beginning of the credit crisis. Even if pricing approaches seem to have many aspects or drivers, only one subcategory appeared within this category as distinguishing between firms, and the title of this subcategory is *internal vs. investor led view of pricing*.

5.2.5 Summary of the categories and subcategories of the debt marketing mix

Table 15 shows the four categories of debt marketing activities and their subcategories as established from the empirical data of the study. Altogether, nine subcategories were defined under the four categories. These served as the main axes of the comparisons of firms' debt marketing practices and patterns.

Table 15 Categories and subcategories of debt marketing activities

Category	Subcategory
Creation and exchange of debt	1. Issuance frequency 2. Standardised vs. situation driven debt issuance
Debt communication	1. Degree of feedback seeking 2. Intensity and pro-activity of direct debt investor dialogue 3. Personal communication vs. standardised disclosure
Debt delivery	1. Value added role of delivery channel 2. Debt delivery channel autonomy 3. Seller in debt placement
Debt valuation	1. Internal vs. market led view of pricing

The meaning of these categories in the further analysis was that they served as tools with which to compare firms. Some of these subcategories were particularly effective in separating firms into similar subgroups: (i) Standardised vs. situation driven debt issuance in Creation and exchange of debt; (ii) Intensity and pro-activity of direct debt investor dialogue and Personal communication vs. standardised disclosure in Debt communication; (iii) Value added role of delivery channel and Debt delivery channel autonomy in Debt delivery.

To proceed with the analysis, it is important to appreciate the meaning of these categories and their contribution to the analysis related to the specific research questions. For this, a number of questions need to be considered. First, would the categories and subcategories presented in Table 15 have been identifiable based only on the review of the theoretical and practitioner literature. The author argues that the categories, and their subcategories, in Table 15, while resembling the main categories as developed in Chapter 3 of this study, capture a firm's debt marketing in a simpler manner by reaching a good balance between abstraction and being specific to debt marketing. The level of abstraction reached in the categories was not self-evident from the literature review. A literature review most likely would have produced a bigger number of categories or subcategories without meaningful weightings to them, whereas the high frequency of comments and discussion of communication and debt delivery channel related activities showed their key role among debt marketing activities, with product creation and pricing clearly having less emphasis.

It should also be asked whether the identified categories and subcategories cover the overall subject of debt marketing or if they leave out something important. Also here, the author is confident that everything has been considered to reach a level of categories that covers the subject appropriately.

It would have been possible to consider debt design in more detail, since specific debt products or practitioner processes are not individually identified in the categories and subcategories. However, this outcome was a conclusion from the empirical data, as it emerged that firms see different applications for the same instruments or processes. Defining the categorisation closer to the terms that emerged from the literature review would very probably have created more categories and subcategories, and made the classification scheme more complex.

A further question could be asked regarding whether product quality or signalling should be a relevant subcategory in one of the categories. Indeed, a number of borrowers stated that, for them, ratings are something akin to an approval to issue in capital markets, in line with the certification character of ratings identified by Beaver et al. (2004). Furthermore, product quality in securities markets may be signalled by the quality of the arrangers (Fang 2005). However, all borrowers want to be seen as attractive to lenders, and the responses did not show materially different approaches between companies. Some borrowers indicated that arranger reputation towards investors played a role, but essentially all borrowers emphasised their direct communication or disclosure as the main tools of building investor confidence. The categories Creation and exchange of debt and Debt communication capture the quality issues adequately. The author considers it unlikely that a separate subcategory would add much to the analysis.

In September 2009, the author discussed tentative findings with the interviewee representing Firm 4 and asked for general feedback, particularly if he thought that the preliminary version and subsequent, slightly modified version of the categories and subcategories are something he felt that differentiated between firms. The interviewee referred to his own knowledge and experiences of his peers in other industrial firms, and opined that the proposed subcategories provide a basis for differentiating firms. He provided examples of firms acting differently in specific subcategories. He suggested considering documentation as a more explicit feature of the subcategories, quoting firms' flexibility and resistance to introducing more favourable clauses to debt to the detriment of existing lenders. Moreover, he suggested exploring the relationship between different debt marketing patterns and the success of firms' debt funding.

The author also considered whether flexibility in documentation could be singled out as a debt creation subcategory, but concluded that this was not observable in the data. Firms made statements about being less or more flexible in documentation issues, but more in terms of attitudes or objectives and less so in terms in debt issuance. Furthermore, documentation matters are embedded in other subcategories of the Creation and exchange of debt category.

5.3 Debt marketing practices

As the narratives were read, coded, and reread, three main themes emerged: asset based borrowing; capital markets behaviour; reliance of banks as both lenders and debt arrangers. These themes emerged through the coding of individual ideas expressed in narratives, and by grouping similar ideas into higher level topics or themes. Through stepwise grouping, the above three themes emerged as those that could be consistently traced in every case firm. In other words, all of these themes were present among almost all of the firms. Therefore, on their own these themes did not define debt marketing patterns. To develop this further, the author employed the concept of marketing practices as a new step in the analysis, as an intermediate construct on the way to define debt marketing patterns. Marketing practices were not considered at the outset of the study, but as the analysis progressed, and the abovementioned themes emerged, the data indicated them to be different practices.

As stated in Subsection 5.2.5, there were five subcategories of debt marketing that suggested clearly different themes which were observable in the sample to different degrees. These subcategories were (a) Standardised vs. situation driven debt issuance in Creation and exchange of debt; (b) Intensity and pro-activity of direct debt investor dialogue and (c) Personal communication vs. standardised disclosure in Debt communication; (d) Value added role of delivery channel, and Debt delivery channel autonomy in Debt delivery. The first in the list points to a small group of firms that emphasized the matching of debt with specific assets to a clearly higher extent than the other firms which consider debt as fungible. The subcategories in (b), (c), and (d) above suggested two themes. One focused on direct dialogue with investors in a capital markets setting, and the other theme emphasised the use of banks as a source of debt and as a subcontractor for other debt placements.

The three main themes fitted three distinct marketing practices when described through the Contemporary Marketing Practices (CMP) classification scheme and its dimensions presented in Coviello, Milley, and Marcolin (2001, 28), and provided a bridge that could used to define debt marketing patterns. Essentially, these practices reflect three different modes of borrowing that cannot be described only by products, types of investor, or debt instruments, but they involve a broader set of characterisations that will be described in this subsection and summarised in Table 16. As intermediate concepts these debt marketing practices helped to organise the data and to define different debt marketing patterns.

There is a solid, well-established body of research into marketing practices, led by the CMP programme and summarised in Brodie, Coviello, and Winklhofer (2008) who define dimensions of marketing practices as comprising transaction marketing, interaction marketing, database marketing, and network marketing. Coviello, Milley, and Marcolin (2001) defined a classification of marketing practices based on a literature review of themes and dimensions that have been most commonly discussed. CMP studies, such as Murray, O'Driscoll, and Torres (2002), Downes and Palmer (2005), or Lado, Duque, and Bassi (2010) typically follow the abovementioned nine-dimension classification scheme describing four distinct, generic marketing practices introduced by the CMP programme. This implies a definition of marketing practices as different configurations of relational exchange and managerial dimensions of marketing.

Some studies also follow implied definitions of marketing patterns. Implicit definitions can be found in Flambard-Ruaud (2005, 54) of marketing practice "as the sensitive adaptation of the relationship marketing concept", and Ellis (2005) implying it as "the execution of the marketing function in terms of specific marketing activities." Lindgreen, Palmer, and Vanhamme (2004) provide examples of the application of different marketing practices by well-known European firms. Given the application of the same classification scheme by CMP researchers, it is very appropriate to apply this CMP classification in this study.

As the above definitions suggest, the notion or concept of a marketing practice is broad. Given the particular and narrow context of this study, the dimensions used by Coviello et al. (2002) are too broad if not interpreted with adequate flexibility. However, the author still considers the term marketing practice as also being fairly applied in the context of this study, since, as shown in Table 16, these practices can be defined using the same classification scheme of the nine marketing dimensions (succeeding the original model of 12 dimensions as, for example, presented in Brodie, Coviello, Brookes, and Little 1997), as has been applied in the CMP programme, and as presented in Coviello, Milley, and Marcolin (2001, 28). As the descriptions in the cells of Table 16 show, the CMP categorisation quite naturally fits the attributes of the categories of debt marketing activities.

Table 16 Debt marketing practices according to the CMP classification scheme

	Asset based debt marketing	Bank debt marketing	Capital markets practice
Relational exchange dimensions			
Purpose of exchange	Economic transaction; assets drive funding decisions	Economic transaction, interactive relationship	Economic transaction, interactive relationship; standardised and regulated products
Nature of communication	Firm to markets; dissemination and dialogue	Firm to banks; feedback seeking most frequently observable	Firm to markets; dissemination and dialogue
Type of Contact	Arms' length, with small element of personalised	Mix of arms lengths and personalisedpersonalized	Arms' length, with small element of personalised
Duration of exchange	Intermittent	Continuous	Continuous
Formality of exchange	Emphasis on formal; buyer of debt services	More room for informal elements; buyer of debt services	Emphasis on formal; seller of debt
Managerial dimensions			
Managerial intent	Debt investor attraction and retention	Debt investor attraction and heavy emphasis on retention	Debt investor attraction and retention
Decision focus	Product; internal and market pricing	Relationships; internal and market pricing	Brand (continued market access); market pricing; delivery channel performance in value creation
Managerial investment	Debt investor relations within existing treasury structure	Debt investor relations within existing treasury structure	Debt investor relations effort, often extension of equity investor relations
Managerial level	Firm treasury, debt investor relations	Firm treasury	Firm treasury, debt investor relations

The three different debt practices each represent a different set of activities for creating, communicating, delivering, and exchanging debt offerings that have value for debt investors. Table 16 shows how the debt marketing practices have been defined and differentiated in a comprehensive manner by the CMP marketing practices classification. These reflect an aim at a particular debt marketing area or objective, and their definitions proved to be a clarifying intermediate step in defining debt marketing patterns. Specifically, these practices can be given narrative descriptions as follows:

Asset based debt marketing practice is applied when firms create and market debt that is attractive to lenders, not only because of the broad characteristics of the firm but also because of the features of the specific assets that back the debt. Examples of this include project financing or mortgage debt. This practice frequently involves the development of relationships with specialised lenders and intermediaries, such as mortgage backed debt investors, or working with banks with expertise in a special asset, such as aircraft financing specialists. This typically means a narrower debt investor group compared to other practices, as well as specialised communication and disclosure towards the target investors. Five firms applied this practice.

Bank debt marketing practice takes place when firms manage bank relationships very much relationally to maximise the availability of debt from them, and banks are frequently used to “sponsor” a borrower by signalling to other debt investors their engagement as a lender to the firm. Twenty-one firms applied this practice.

Capital markets practice refers to a practice where borrowers are more directly present and active towards institutional investors by maintaining a direct dialogue with them, and relying less on banks alone as their debt sources. Active pursuers of this practice also have the maintenance of public credit ratings and the conduct of debt investor roadshows in their range of activities. Fifteen firms exhibited this practice.

Essentially all firms engage in bank debt marketing practice, whereas there are some firms for whom the use of one or both of the other two practices was moderate or weak. For each borrower, it was possible to identify a dominating practice even when the two other practices were also used. This observation is consistent with the repeated findings of CMP researchers (Coviello et al. 2002; Murray, Driscoll, and Torres 2002; Brodie, Coviello, and Winklhofer 2008) that multiple marketing practices are typical for a large number of firms. Pels, Brodie, and Johnston (2004) in a review of marketing practices of companies in Argentina, New Zealand, and the US, found that the marketing practices of a large proportion of the firms in Argentina were not significantly different from firms in the two other countries. This study also showed that the range of debt marketing practices applied by the three or four (depending upon the definition) emerging markets companies was as broad as in the rest of the sample, and in this sense echoed the findings of the abovementioned study.

These debt marketing practices cannot be directly linked to the more generic marketing practices of the CMP, namely (a) transaction marketing, (b) database marketing, (c) interaction marketing, and (d) network marketing, as defined, for example, in Coviello and Brodie (2001). The three practices defined here are closest to (c) and (d) in the above list, although they are not directly matched.

The difference between the CMP defined practices and those in this study is defensible, because the debt marketing practices established by the CMP programme were drawn from research across a number of industries and contexts. Therefore, those four practices can be seen as more generic, whereas the practices identified in this study are very context specific. This study aligns with the argument that for specific contexts, the marketing practices should be adapted. In the context of social marketing, Donegan (2008, 140) suggested that for purposes of studying social marketing, the dimensions of marketing practices should be modified. Similar flexibility was called for in the context of marketing in emerging markets by Flambard-Ruaud (2005).

5.4 From debt marketing practices to patterns

The analysis proceeded to identify debt marketing patterns on the basis of the observed application of different debt marketing practices. The three marketing practices identified three groups of firms and three debt marketing patterns, in each of which one of the marketing practices dominated, with the other two being present in a weaker form.

In one group capital markets practice is most strongly observable. The firms in the group are more proactive towards institutional debt investors by maintaining direct contact with them and recognise these investors explicitly, and not only through equity investor relations. These borrowers are generally more active borrowers in terms of how frequently they issued new debt, and they have public credit ratings which are crucial for a regular issuer in debt capital markets. Overall, they exhibit the broadest set of marketing behaviours.

Another distinct group comprised firms for which asset based debt marketing is strongest, and whose borrowing is strongly driven by their asset side because they explicitly match most of their assets with specific debt. These firms then also look for specialist capabilities or track records in choosing their banks or intermediaries, be it the capability as a relationship bank or the special industry, product, or regional expertise of the bank.

The third group of firms lies between these two; they do not match debt to specific assets and they generally have quite diversified debt portfolios, but do not interact that much directly with institutional debt investors. For them, bank debt marketing is the most strongly observed practice. The firms rely more on banks for some of the tasks in which the first mentioned group of firms gets more actively involved. For these firms, the linkage between lending and other services from banks is very strong, and they rely more on banks as suppliers of credit. These three groups of borrowers, representing three different debt marketing patterns, are described by the three different triangles in the diagram of Figure 10.

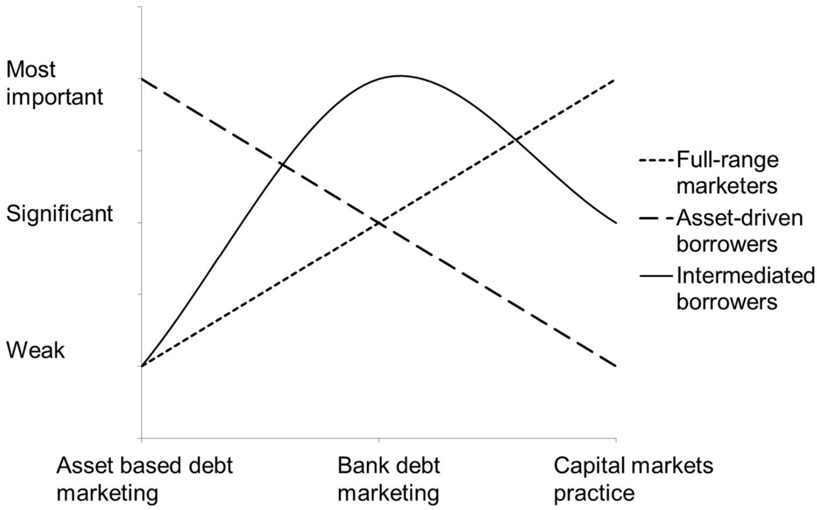

Figure 10 Debt marketing practices and patterns

Figure 10 shows the relative order of importance of the different debt marketing practices in the three debt marketing patterns. It should be noted that while each group is named according to a defining characteristic, all of these characteristics are present, albeit to different degrees of strength, in each group.

These three groups, representing three different debt marketing patterns, are named as (i) Full range marketers, (ii) Asset driven borrowers, and (iii) Intermediated borrowers. In the following, these patterns and how they are justified, particularly from the interview narratives of the informants, are discussed in more detail but with less emphasis on the debt marketing practices which have already been described.

5.5 Full range marketers

Full range marketers is the name for this pattern because the firms identified with it deploy the broadest range of marketing activities, even if not all of them use the full range of debt instruments. For them, capital markets practice dominates the two other practices. Market presence, issuance and institutional investor contact, transparent market pricing, and good name recognition among target debt investors are important for the firms. Another way to describe this pattern is to define it as marketing where marketers have the broadest range of relationships, which are the ones most actively engaged in the whole value chain of the debt process and are most reliant on broader market perceptions of their credit. Even if full range marketers have a broad set of activities, not all of them engage in asset based debt marketing because they prefer to manage their debt as a liquid and relatively homogenous portfolio.

This pattern was displayed in the behaviour and activities of Firms 4, 6, 8, 10, 11, 15, and 23. Interestingly, both the smallest and largest borrower in the sample is in this group. This observation broadly echoes the findings of Coviello, Brodie, and Munro (2000, 541) that small firm marketing, although unique in certain aspects, is not fundamentally different from that of large firms.

Given their borrowing needs, and their relative attractiveness to investors, full range marketers pay very strong attention to how their name is perceived in debt markets, and undertake more direct efforts to make and keep their name appreciated by debt investors. To achieve this, most of them run a specific debt investor relations activity, and they use public credit ratings and banks' fixed income research among their tools to communicate their credit story to debt investors. The use of ratings is in line with Graham and Harvey's (2001, 211) finding that in debt policies, large firms are very concerned about their credit ratings.

These borrowers place debt relatively frequently in the market, and have multiple capital markets instruments outstanding. They also issue typically from standardised platforms such as medium term note programmes, asset backed programmes, or issue standard format bonds. Thereby they have their name relatively frequently in front of investors which may buy bonds in the secondary market, as the borrower provides investors the opportunity to buy products which also have secondary market liquidity. For example, Firm 8, which was a far smaller borrower than the largest borrower in the sample, has seven outstanding bond issues in two different currencies, and issued in the primary market at least once a year in the recent past. When Vargo and Lusch (2004, 5) state that "the service centred view of marketing implies that marketing is a continuing process…with which the firm is constantly striving to make better value propositions", this could well describe full range marketers' continuous efforts, through multiple avenues, to keep their name as a good value debt investment.

Even when products are offered in a homogenous form, these borrowers act in the Aldersonian[7] sense of treating markets as heterogeneous (as cited in

[7] Refers to Wroe Alderson

Goodrich 2007), as they try to make their debt available in a standardised format, while in many other aspects, such as size, maturity, place, catering for heterogeneous demand.

Full range marketers' firms see intermediaries as a value adding element of the debt value channel, even where the firms see themselves as the seller of the debt. They also display a strong opinion of what they expect from intermediaries, not necessarily as lenders but as distributors of their debt to investors, and give them freedom in exercising this role. Firm 6 stated that *"sometimes we have direct contact with pension funds for bonds, but we must be careful not to interfere with the marketing effort done by our investment banks."* Even where the borrower has the institutional investor contacts, the firm sees that the intermediaries have an important role in completing a debt placement.

These borrowers have a strong sense of market pricing, even Firm 4, whose discourse on debt pricing was more strongly tilted towards its own internal view of pricing, conceded that *"deals have to offer enough incentive for dealers to come back to us for new deals."* The author interprets this as meaning that it wants to give banks adequate incentives to fight for the best price for the firm.

Three of the six firms relied on intermediaries to conduct more of their debt marketing towards institutional investors. Firm 15 expressed this as follows: *"we have very good relationships with our dealers; they put our name in front of investors."* Such borrowers rely more on their name recognition or public credit rating as the key entry points into institutional investors' attention. For these three borrowers, communication was more driven by public disclosure, and in two instances was tagged on equity investor relations.

For the other three, a good knowledge of key debt investors and maintenance of direct contact with them were important in their debt marketing. For example, the interviewee from Firm 10 stated that *"we know well the big players, the top ten in each of the debt market segments"* and *"we have to do the sales pitch, we do not see the banks as the seller or the agent, but they are – have to be – good at organising roadshows and running other aspects of the deal."* These firms also do not restrict their key debt institutional investor relations to conferences and general investor presentations, but actively use one-on-one dialogue, and may give debt investors access to top management. Firm 6 expressed this by stating that *"investors need to understand how management ticks, and this needs personal interaction."*

Four of the firms have a dedicated debt investor's function which does not mean providing debt investors with more information than other investors, but means a dedicated following of such investors, their preferences and questions. One of the three other firms has a CEO who is very actively in contact with key debt and equity investors. One of the firms has a worldwide strong brand name, and knows the key debt investors, thanks to the equity side, so that no further effort is needed to meet current debt issuance needs. The third firm actively leverages its equity investor relations effort also to follow and inform debt investors.

Within this group, firms' debt marketing was not uniform. Some of the firms have higher intensity investor dialogue, know their institutional investors better, and maintain a direct dialogue with them, whereas others in this group do not maintain a particularly intensive dialogue with institutional investors.

Full range marketers' behaviour towards banks was most strongly associated with the approach to banks as suppliers of a range of services. They allow banks freedom in running deals and they choose banks as arrangers based on the demands of a deal with lower emphasis on existing relationships. Partly this reflects that their bank relationships have been built to include a group of banks which all have high or adequate competence in relevant areas.

This general approach and the approach to banks are logically consistent. Banks are treated as an element of the delivery channel that complements the borrower's internal debt marketing resources and name recognition. Borrowers which want to rely less on bank funding still need banks as intermediaries to find other debt investors.

Full range marketers identify themselves more strongly than other firms as the sellers of their own debt. Most strongly this was stated by the largest borrower in the group whose representative said that *"banks do not sell our debt, we do it."* Because of the size of their business they may have very large borrowing needs which banks alone cannot accommodate. Others have very long term borrowing needs combined with stable business models which are more attractive for institutional investors which may be willing to fund firms at rates at which banks cannot lend profitably. Even when the full range marketers are blue chip names with which banks are very keen to do business, they too appreciate that markets are fickle and moods can swing.

The firm-by-firm debt marketing characteristics are summarised in Appendix VII.

5.6 Asset driven borrowers

Firms called asset driven borrowers, more than others in the sample, apply asset based debt marketing practice. This means that their product is more frequently targeted to specialised investors without an aim for it to have a broader appeal. These borrowers tailor their transactions based on their internal need, which in some ways is the opposite of the modus operandi of full range marketers which use standardised products and offer them more or less continuously in a format preferred by the markets. It is fair to state that asset driven borrowers use less routinized transactions than other borrowers, if applying Aldersonian terminology (as cited in Goodrich 2007). This group included firms 5, 7, 17, 18, and 21.

Firm 5 is a natural borrower of secured debt because of its business model, just as Firm 17's customer related investments are very naturally financed with operating leases, a form of asset financing. Firm 7 undertakes a lot of important capital expenditures in joint ventures, sometimes in risky environments, and often prefers to finance assets on a matching basis. Two of the firms also counted development finance institutions as being important debt investors for them.

Three firms in this group use to a significant degree specialised debt sources (e.g., leasing; asset backed debt; project finance) outside the general, plain vanilla, or simplest form, corporate debt markets, whereas they do and can use the markets for straightforward, most standardised instruments too. The nature of these debt instruments can considerably influence how the overall debt marketing activities are conducted. Another firm in the group operates in a home market, which has a very limited domestic capital market for longer term debt, finances each new asset individually, and avoids refinancing risk. To some extent, these tailored funding arrangements which, particularly for two of the firms, can be flexibly used to feed the firm's growth, fit the description of relationship-specific adaptations that were used as a criterion in the taxonomy for business-to-business relationships developed in Cannon and Perreault (1999).

This pattern does not show itself in lesser investor relationship cultivation or less active debt marketing communication, but it has other features that distinguish it from other patterns. In considering pricing, the firms may assess their borrowing success more on a transaction-by-transaction basis, as stated by Firm 7. Four of the firms emphasised that they define their funding success or lack of it in terms of access to sufficient volumes. Firm 17 used the concept "*headroom to borrow more*" as a key monitored item. The fifth, Firm 7, defined its borrowing success on the basis of the general suitability of the instrument for the situation, implying, for example, its matching of debt with the asset it funds. While other firms also recognised debt access and flexibility to raise more debt as important, there was a clear difference between this group and other borrowers in the relative emphasis between access to debt funding versus longer term spreads. Comments on secondary market spreads were almost absent in the narratives from these firms, whereas they appeared more frequently in other firms' discussions. This is also logical from the perspective that if a firm offers varying instruments their spreads can be quite different and, consequently, there cannot be uniform pricing targets.

This group of five firms exhibited common activities and behaviours reflecting the banks' role as a seller of firms' debt, and somewhat lower intensity of institutional investor contact. There was also a lower frequency of borrowing transactions outside bilateral bank borrowing. The representative of Firm 5 stated that *"financial market, institutional investors, are often lazy and look too much at the rating agencies"*, and that the firm has hardly any one-on-one meetings with institutional investors. Firm 7 commented that *"it is important to have the right advisor and arranger for our bonds, as they have to sell it."* In the author's view both comments indicate that the firms are comfortable leaving the cultivation of institutional investors' interest in their debt to the banks. Firm 18 stated that *"investors typically approach us, or are introduced to us by banks or other investors"* implying its comfort with not needing more effort to maintain an adequate debt investor base.

Another feature was that these firms appear more restrictive towards their banks in terms of getting involved in activities which other firms may be more comfortable to leave to the banks. Firm 17 said that *"we, with our lawyers, drive the documentation process"*, and Firm 5 stated that *"we work with the lead banks and choose the banks…there just are some banks we do not want in a syndicate."* In the case of Firm 17, this approach arises from the nature of specialised financing tied to specific assets, and ensuring that specialised providers of finance also remain open in the future, whereas Firm 5 had experienced recent rating downgrades and needed to manage its bank group very tightly to protect its funding access. For some firms this attitude was reflected in the fact that they self-syndicate their bank deals as club loans. All of the firms in this group had constraints which appeared to be more substantial than for other borrowers. Two of the firms are so-called emerging markets borrowers. Even as national blue chips, they do not enjoy the same international name recognition as some others in the sample, and thus attract a narrower debt investor universe.

One company in this group, but not the only one in the sample, is a fallen angel[8] in a cyclical sector, which is a factor limiting some institutional investors' interest. Another is a private equity owned company with a narrow bank group. Yet another firm, with strong credit characteristics, described itself as a relatively unique firm in terms of lack of comparables, which could narrow its potential debt investor universe. However, the fact that these firms have to work somewhat harder than many others to attract debt investors does

[8] Firm which used to be rated investment grade but has been downgraded to sub-investment grade, and for the time being remains sub-investment grade.

not seem to be a sufficient reason for them having chosen their borrowing patterns.

This above observation raises two questions: (a) Do riskier borrowers need a bigger marketing effort than the less risky, more highly rated borrowers? and, (b) Are more risky borrowers stronger sellers of their debt than other firms? The data provide partial answers to these questions. Riskier borrowers are subject to more intensive monitoring and, by this, have a more frequent dialogue with their lenders. In such dialogue, they need to keep debt investors motivated to continue lending and, in this sense, are engaged in more intensive marketing dialogue than less risky borrowers. Riskier firms rely on managing their bank relationships more for availability or building targeted institutional investor relationships, but it would be hard to quantify if they put more effort into their debt marketing. Direct debt marketing expenses (see Subsection 6.7) showed no correlation with credit risk.

To some extent, using asset backed or other specialised forms of debt can be a response to the marketing challenge. Approaching specialised lenders, which are more familiar with taking a specific risk, is a way to make the marketing effort easier or more efficient.

As to a firm’s view of itself as a seller, all firms in the whole sample appreciate that they need to sell their own debt, but the degree to which they seem to appreciate it varied. Being a riskier firm carries the notion of needing to be proactive in satisfying lenders, which also implies treating them as buyers. This group of borrowers, as stated above, often uses banks quite intensively in the sales effort, and by this they delegate some of the selling activities.

5.7 Intermediated borrowers

The largest sub-group of firms comprised 11 borrowers that visit capital markets less regularly, or sporadically, with less ongoing marketing effort than full range marketers. This group is named intermediated borrowers because they mainly apply bank debt marketing as their most prominent debt marketing practice. These borrowers typically rely on banks also as intermediaries to keep their name in front of investors and to conduct significant elements of the firm’s debt marketing.

As these borrowers appear to put more emphasis on their bank relationships, it is interesting to consider the nature of these relationships. Campbell (1985) describes industrial buyer-seller relationships in three categories: independent, dependent, and interdependent. Firms in this group recognise the interdependence in their bank relationships, by more often emphasising reciprocity in bank relationships. Interdependence was recognisable in the numerous statements about how the firms relied on credit availability from banks, while simultaneously wanting to keep banks very much on their toes by emphasising the banks' need to keep extending credit in order to obtain other business. They professed loyalty to banks by pursuing equitable allocation of business between their lending banks.

The group of firms exhibiting this pattern featured a combination of relatively standardised borrowing instruments and direct debt investor relations effort focused on banks, first as lenders and second as intermediaries. All of the firms had a relatively high proportion of capital markets instruments within their outstanding debt. These firms do not maintain an active ongoing dialogue with institutional debt investors, and communication with them largely tags on equity investor communications. Firm 16's interviewee expressed this by saying that *"I am not sure of the identity of our ten largest institutional debt investors"*, while mentioning the existence of an active equity investor dialogue.

The difference between full range marketers and intermediated borrowers has nothing to do with sophistication. All large corporate borrowers have developed a good degree of sophistication, and well understand the practices of debt marketing. Because they do not need to borrow a lot or do not want to do it frequently, or because their name recognition is sufficiently good, they easily attract adequate volumes of debt with less effort than full range marketers.

With the exception of one, these 11 firms are stock exchange listed and already have an up-and-running equity relations function, which is a useful resource for debt investor relations. These borrowers seek to simplify their borrowing processes or activities with a combination of standardised instruments and delegation of some tasks to intermediaries. At the same time, they provide extensive disclosure either as a function of their equity investor relations effort or as part of general corporate image building.

Firms within this pattern or group exhibited differences in how they work with their banks in debt relationships. Some of these borrowers (Firms 2, 9, 13, 14, and 16) rely on banks placing their debt with institutional investors. They also seek to commoditise the debt intermediation function or they may not consider there to be significant value added in the debt intermediation function. Firm 2 stated that *"bond mandates are gifts to our banks, they get fees but do not have to commit"*, implying that lending is valuable to it, while arranging bonds is something relatively easy (and overpriced) that can be achieved by any of its relationship banks. Firm 14, which valued the quality of the debt capital markets and research support of its banks, would still choose arrangers only from its syndicated lenders among whom it had seven or eight potential arrangers with the necessary capabilities. This behaviour mirrors findings by Cannon and Perreault (1999, 457) that there are business-to-business relationships in which some firms do not want or need close ties with all of their suppliers.

In the case of firms as borrowers, firms want to retain enough flexibility and a sufficiently large number of relationships with banks as suppliers of services in debt raising, but try to limit the level of commitment toward any individual bank.

These borrowers manage their bank group closely. Firm 16 stated that its bank syndicate has to comprise banks which had a clear rationale for their presence in it, and that it carefully considers how to allocate its banking business among banks that also have capital markets capabilities.

The firms have a market presence in the sense that they have at least a few traded issues outstanding. This absence of a need to be constantly in the markets underpins their pragmatism in delegating debt work to intermediaries. They also tend to be quite close to their banks when debt issues are made, often intervening in the syndication process and monitoring banks very closely. Firm 9 stated that it *"directs allocations in a bond deal"* to what it considers as *"good quality investors but also relies strongly on banks' advice on this."* Firm 2 goes even further, stating that *"as to bond syndicate structure, we manage everything."*

The other six borrowers in this group (Firms 1, 3, 12, 19, 20, and 22) were distinguished by relatively infrequent capital markets transactions and by being comfortable in delegating most of the work to intermediaries. The main common feature was a relatively high degree of comfort with capital markets practices combined with relatively lower borrowing needs that do not warrant a more extensive capital markets capability inside the borrower's organisation. The largest borrower among these had gross debt just in excess of Euro 2 billion. Firm 20 expressed this by stating that *"the banks know the investors…we are too small an issuer to attract their interest on an ongoing basis."*

This group could at times be quite opportunistic in terms of choosing their debt arrangers. Four of them gave examples of transactions where they chose a non-lender as an arranger, demonstrating a weaker link between lending and fee business.

Four of the borrowers exhibited a strong focus on internal pricing views. Firm 19 stated that *"we set a price target when getting internal approval for a bond issue"*, indicating a willingness to abandon a transaction and to wait for a new window of opportunity. Firm 1 expressed this internal view by stating that it builds *"our own pricing view…and not only go by the pricing ideas of our banks."* For one firm, its regulated revenue is based on government bond yields, so that the spread it pays on its debt has a very direct and material link to the firm's profitability. There was no disrespect or ignorance of investors' pricing expectations among the intermediated borrowers, but through their internal incentive structures many of their treasurers had a strong focus on minimising spreads.

Before proceeding with the discussion of the nature of corporate debt marketing in the next chapter, the author notes three features of corporate borrowers that are relevant for practitioners, but which did not differentiate debt marketing patterns:

- *A public credit rating*. This was featured among firms in all three patterns. The full range marketers included no unrated issuers. For frequent visitors to capital markets, public ratings are important tools and, without a rating, the marketing toolkit of borrowers with large needs would appear somehow deficient. A rated, as well as an unrated borrower, could well fit the other debt marketing patterns. High yield borrowers with public ratings were present among full range marketers and intermediated borrowers. Intuitively, there is no sufficient reason for a high yield borrower not also be an asset driven borrower.
- *Public listing*. Ownership didn't separate borrowers into specific debt marketing patterns. Large borrowers would normally tend to be large companies, and thereby more likely to be listed, but there are also many infrastructure companies in the public sector borrowing in their own name and without an equity investor base. As to the sole private equity owned firm in the sample, it exhibited a broad range of marketing activities, despite having a relatively low level of diversification of its debt sources.
- *Debt issuance programmes*. Many borrowers had MTN or CP programmes that enable issuing standardised debt instruments on a regular basis. However, these are not absolutely necessary for such issuance, and not even all full range marketers had active debt issuance programmes, whereas even some of the infrequent issuers had relatively operative programmes, particularly CP programmes.

The fact that these features were distributed among the different debt marketing patterns supports the view that background factors alone do not determine a firm's debt marketing patterns or approach. Also, it appears that tools such as public credit ratings can be used in different combinations of debt marketing mixes. This suggests that firms have their individual preferences regarding management of their debt marketing mixes to optimise borrowing outcomes.

5.8 Summary of the analysis phases responding to the research questions

As this chapter shows, the analysis proceeded through a number of steps in terms of analytical approach, in coding, and in condensing data from individual expression to topics and higher level themes. At some stages, the analysis required a review when an initially interesting idea did not lead to definitions that would describe the set of cases in a meaningful manner. Nevertheless, the different steps added rigour to the process, and forced a re-evaluation of the coding and categorisation of ideas.

As an overview of the analysis process, and to facilitate a critical evaluation of it, the analytical process is summarised in Table 17.

Each step had a slightly different bearing on the different research sub-questions. In total, these steps, as discussed in the evaluation of the study, reflect a consistent but flexible approach as is necessary in qualitative research. This has led to a robust definition of the debt marketing patterns and to valid answers to the research questions. The final part of the analysis is presented in Chapter 6 that discusses the findings.

Table 17 The contribution of different analytical phases to answering the research questions

Research question → **Analytical stage ↓**	**What patterns of debt marketing activities do large corporate borrowers exhibit?**	**What aims and motivations describe the possibly discovered patterns of debt marketing activities?**	**To what extent do large corporate borrowers' debt marketing activities reflect generic buyer or seller roles?**
Cluster analysis of binary choice data	Important differences in how banks' relationships are handled, particularly in terms of opportunism vs. relational behaviour, and in perception of the depth of services required from banks.	Firms' borrowing characteristics suggested as a factor driving choices of debt marketing activities.	Data showed clear differences, and firms in one out of three clusters had a higher frequency of seeing itself as a seller than the firms in the other two clusters.
Cluster analysis of categorized narrative data	Role and extent of banks used as marketing agents for firms' debt as a differentiating factor defining firms' debt marketing.	Firms' borrowing characteristics suggested as a factor driving choices of debt marketing activities.	More detailed observation of both buyer and seller behaviour but no generalisable differences found.
Definition of debt marketing activity categories and content from narrative data	Context specific definitions for cross-firm comparisons of the narrative data.	-	-
Narrative data analysis	Three overarching themes emerged: asset based borrowings; capital markets behaviour; reliance on banks as lenders and debt arrangers.	More insight into motivations, with firms' characteristics, individuals' characteristics and borrowing objectives as influencing choices.	Repeated observation and evaluation of statements on buyer or seller behaviours.
Analysis of debt marketing practices	The main themes from the narrative analysis organized themselves into three marketing practices. These then indicated the defined marketing patterns, one dominant and two lesser marketing practices.	Continued mapping of possible motivations, and their interpretations.	-
Review of narrative in relation to the defined debt marketing patterns	-	Further understanding and definition of drivers of debt marketing patterns.	Further interpretation of behaviour in blurred buyer-seller roles.

6 THE NATURE OF CORPORATE DEBT MARKETING

Following the description of the debt marketing patterns, this chapter discusses the broader question of what corporate debt marketing is, and the more detailed research questions. This is done by comparing the key characteristics of each debt marketing pattern, as shown in Table 18, and discussing other characteristics that are relevant for debt marketing, even if they do not exhibit major differences between the different debt marketing patterns. This chapter also includes a discussion of the possible dynamics of debt marketing patterns.

6.1 Comparison of debt marketing patterns

To start the discussion of the meanings of the debt marketing patterns, Table 18 provides an entry to answering the main study question - How do large firms market their debt? Partially this has been covered in the previous chapter's description of the debt marketing mix. As analysis has shown, large corporate borrowers' debt marketing can vary by product design, marketing channel, communication strategy, and its relationship intensity. Large corporate borrowers have differing approaches to pursuing what they consider the best pricing for them, and they have varying approaches to providing debt investors with appropriate debt instruments that fit the investors' investment objectives.

At a theoretical level, Table 18 suggests that the debt marketing patterns can, to a significant degree, be described by using the marketing mix concept that van Waterschoot and Van den Bulte (1992) describe as the prime classification scheme in marketing. Clearly the table has several elements that are taken directly from the marketing mix, although consideration must be given to Grönroos' (1997) argument that *"the marketing mix is actually a list of categories of marketing variables, and…this way of defining or describing a phenomenon can never be considered a very valid one."* It can be argued that, for the categories or elements defining the debt marketing patterns, a broader definition of marketing activities than through the marketing mix in its original context of consumer marketing has to be adopted. Table 18's elements of issuance frequency, investor contact intensity, or intermediary role are not directly derived from the marketing mix, but as activities or their characteristics, they fit a classification scheme that reflects tenets of managerial marketing which houses the marketing mix concept too. As Gummesson (1994, 9) states, *"the 4Ps and their extensions will always be needed, but…being contributing parameters to relationships, networks and interaction."* In this sense, those elements may still be considered adaptations or extensions of the marketing mix concept.

Table 18 Debt marketing patterns in comparison

Variable	**Full range marketers**	**Asset driven borrowers**	**Intermediated borrowers**
Product design	Standardised, multiple products	Asset driven, complemented by standardised instruments	Standardised, less diversified range of debt instruments
Product platform	Programmes	One-off or programmes	One-off or programmes
Issuance frequency	High	Irregular	Irregular to regular
Debt capital markets branding / image building	High attention / use	Moderate	Moderate
Intensity of institutional debt investor contact	Regular to high	Lowest	Low to moderate
Content of institutional debt investor communication	Personal and standard disclosure	Standard disclosure	Personal and standard disclosure
Intermediary role	Closely monitored member of the debt marketing channel	Clear value adding role recognised	Commoditised and lending driven, sometimes broader role with some value added
Seller of debt	Borrower	Bank	Bank
Borrower's emphasis on role	Seller of debt	Buyer of a debt service	Buyer of a debt service
Relational orientation	Generally very attentive towards key debt investors, but as borrowing in fluctuating markets, opportunistic actions also clearly observable (but not dominant)	Cultivates strong relationships with key players, but also enables an opportunistic approach	Strong loyalty towards banks and only rare displays of opportunistic behaviours

Table 18 shows that the borrowing patterns are well distinguishable from each other. Full range marketers are characterised as firms with the most acute awareness for the need to maintain a good capital markets branding for their debt. Their names are frequently in front of investors, so that they are recognised, but this also means that firms need to communicate actively to ensure that investors are satisfied that the quality of the name is intact.

In comparison, intermediated borrowers, which can also include well recognised names, do not need or want to engage in an equally active effort to maintain their capital markets branding because the need for it is much lower, and because a smaller investor base suffices for them. For these borrowers, the bank channel plays a relatively bigger role in the debt processes, and is managed differently than by full range marketers.

Asset driven borrowers do not exhibit weaker concern for their image or branding in capital markets than the two other types of borrower but their higher reliance on specialised lenders, such as investors in asset backed debt, development banks, project finance banks, or leasing companies, means that they have to satisfy the particular criteria of such lenders. These criteria can be different from the criteria of issuers of very standardised corporate debt instruments.

The more easily observable outcomes of debt marketing efforts, such as the composition of debt, bank relationships, or volume of debt raised, have some similarities and differences between the firms in different debt marketing patterns. The overlaps between the debt marketing patterns stem from the fact that in each pattern, borrowers applied a set of practices but with different intensities. This is consistent with findings by the CMP research programme that different marketing patterns frequently coexist within one firm (Brodie et al. 2008). Particularly, the CMP programme’s findings about the coexistence of relational and transactional approaches within the same firm are also present in this study’s sample, as reflected on the last row of Table 18. It also resonates with Seal’s (1998, 103) observation regarding swings in the balance of power between banks and borrowers, and suggests that, particularly, firms with regular borrowing needs may seek to maintain flexibility through a broad range of practices.

Fruchter and Sigué (2005) proposed an analytical model to formally examine how a seller should design an intertemporal marketing programme that includes transactional and relational activities. The model suggests that an exchange occurring in an environment that does not favour opportunistic behaviour among partners should be supported by large investments in relational marketing programmes. Certainly, corporate debt does not see marketing programme elements, such as TV or radio advertising and mass mailings, as tools of choice as they particularly are in transactional or more opportunistic marketing.

6.2 Banking relationships of large corporate borrowers

Within the debt marketing patterns, it has already been noted that intermediated borrowers rely more on their banks and that the other two types of debt marketer exhibited a somewhat higher tendency to treat banks opportunistically. However, there are more features in bank relationships which help to understand debt marketing in general, even if they do not add to the definition of the overall debt marketing patterns.

Generally, with their banks, and particularly as to bank debt marketing practice, many firms behave very much as reverse marketers seeing themselves as buyers while at the same time being proactive towards banks, which are seen as suppliers of debt services. Rewards for good ideas and services were expressed in many of the interviews explicitly, and implied in most others. Leenders and Blenkhorn (1988), in describing reverse marketing, state that there is everything right about favouring exceptional suppliers, and point out the long term perspective of such supplier choices. This behaviour was frequently observable in the data evidencing well spread reverse marketing practices.

Bank relationships are important for all the firms, and the firms rely on banks as lenders particularly in times of financial market dislocations. There was no firm which would see bank borrowing as a purely transactional business. All of the firms stated in their own way that banking is about important relationships. With such communality in views on banking relationships, it is logical that the differences in the marketing patterns are clearer when observing the firms' activities and behaviours vis-à-vis institutional investors and instruments in which these invest.

Bharath et al. (2007) found that the existence of lending relationships is also strongly associated with an increased probability of winning future debt underwriting business from the same customer. These behaviours of the borrowers in this study's sample suggests that the likelihood of winning business may also be predicted by the debt marketing pattern of the borrower, with intermediated borrowers providing the highest likelihood for relationship lenders to win other business.

There were different views of what bank relationships should deliver, and in what manner. No firm saw banks solely as providers of credit, but there were differences in the emphasis. For example, Firm 2 stated very clearly that banks in the bond syndicate had to be lenders too, as did Firm 14 which stated that *"bookrunners…must be a credit provider in our…outstanding credit revolvers."* At the other end of the spectrum, while giving high importance to lending and linking it to specific business, Firm 4, for which the MTN market is an important funding source, stated that *"dealers do not need to be in the bank group, and dealership is not linked to lending."* This implied a willingness to act in a more opportunistic manner when non-lenders bring interesting funding offers. Firm 15 expressed that *"we have very good relationships with our dealers and banks"*, implying that the two do not need to be one and the same, where the term bank refers to a lender, and dealer refers to an intermediary which finds buyers for the firm's MTNs. In between, there were firms which generally seek to allocate the fee based components of their debt and other banking business to lending banks, while also keeping the door open to non-lenders. Such reasons were typically the delivery of good ideas or recognised placing power as evidenced by strong league table positions. The narratives included explicit statements from 13 of the 23 firms about the importance of their bankers' standings in league tables or similar evidence. However, no one expressed that such standing, or reputation, alone would constitute a sufficient reason for selecting a bank to arrange a debt issue.

What then were deliverables of a bank relationship? To different degrees, firms expect to receive one or several of the following from their banks:

- Loans, balance sheet availability
- Access to institutional debt investors
- Ideas about (new) funding methods and instruments
- Market data
- Secondary market support
- Roadshows and other investor and issuance related logistics
- Research support
- Documentation support
- Advice on structuring, marketing

Another interesting observation was how the firms either saw themselves in the driver's or the passenger seat with the banks. For example, Firm 2 maintains banks on a very tight leash, and stated that *"we know well what the right price for us is, and banks have very little incentive to try to play games on us in pricing as they know that catching (playing games to overprice debt) them means being cut off from our other business – we like the ability to threaten them with it."* The firm implied that it has very clear and strict rules for banks, and that it can be unforgiving because it has enough choice. In power theory, this could be considered as a firm exercising its reward power (Molm 1997, 49) by withholding rewards.

Firm 20, on the other hand, stated that it had requested banks to arrange investor meetings, but that this was not accommodated by the banks. However, it noted that it did not necessarily use lending banks to arrange deals, and therefore, it may not have the same leverage on the banks as the larger borrower Firm 2.

In SME banking, firms have incentives to occasionally switch banks in order to minimise hold-up costs (Ioannidou and Onegna, 2010). The large borrowers in the sample do not appear to have the same degree of need or motivation to switch. Rotation of mandates between key banks and the ability to threaten them with withdrawal of business curbs banks' hold-up capability. Firm 13 stated that it shows its relationship banks their share of the wallet: its own estimate of how much it spends on various banking services and how much the bank in question gets and may get in the future. This gives banks a transparent picture of what they can expect to achieve. This statement embeds two relevant concepts. One is that transparency in allocating banking business may be considered to enhance the quality of the relationship. The other is that banking relationships are tiered, where core banks get a shot at more business, but are also expected to make more credit available. The same thought was apparent in other firms' statements. Firm 7 stated that to obtain a mandate a bank has to *"be a relationship bank and have a good league table position"*, and Firm 6 expressed that *"our syndicated deals always include our three house banks."*

Dwyer, Schurr, and Oh (1987) and Grayson and Ambler (1999) argue that trust plays a particularly important role early in a relationship. Firm 13 exemplified this by stating that *"the entry ticket into a relationship is a…bilateral loan."* Empirical evidence in finance studies supports the view that banks benefit from providing relationship loans to firms in the form of a higher likelihood of receiving other business from the borrowers (Bharath, Dahiya, Saunders, and Srinivasan 2007). Not all firms expressed this view as explicitly, but most of them implied that without demonstrating trust in the firm by providing credit to it, a bank is at a significant disadvantage to obtain other business. This could be described as a question of where trust starts – "Can I trust you before you show you trust me?" To ask whether it is logical or rational for a firm to expect a bank to trust it before it can trust a bank seems irrelevant. The author takes the view of Nozik (1993, 178), who argues that rationality is not built on the answer to the question "Why is it rational ever to trust anything another person tells you?" but builds on such trust that then gets further built upon.

As banking is a business built upon trust, banks know that once they have a strong relationship with a firm it also makes the firm vulnerable to a bank. Consequently, for banks to get into that position where they have access to a firm's business, and are in a position to make the firm vulnerable, it can be rational for them to take a first step in expressing trust through granting credit. This issue has come more to the fore since 2008 when Lehman Brothers, an important investment bank for many global corporations, went bankrupt or the near collapse of other banking giants made firms question on which they could rely. Firm 7 made this point by stating that *"when considering the value of a debt investor for us, we are not too concerned about availability of funding from them, but about the safety of our deposits with them."*

Another issue, directly linked to this study's research questions was to what extent large corporate borrowers see themselves as buyers of a lending service or as sellers of their debt towards banks. Large borrowers appeared consistently aware that they had to sell their credit to potential lenders. Firm 21 expressed this by stating that *"the most important thing in finance is to build good relationships with financiers so that those good relationships can buy a company time to get through difficult times…we are in business because we have the support of our banks.*"

Firms demonstrated awareness of how much credit their ancillary business could help to obtain, implying that buying certain services from banks can induce banks to lend to the firms. Firm 4 stated that its limited ancillary business is reflected in the pricing it gets, implying that banks would be more willing to make pricing concessions on loans, if there were an opportunity to have more non-lending business from the firm. Firm 16 stated that *"our ancillary business is not attractive enough for many banks"*, implying that the volume of ancillary business sets a limit to the number of banks it can satisfy. The asymmetry of corporate banking relationships has become generally accepted according to Tyler and Stanley (1999, 109). The carefully controlled allocation of ancillary business can be seen as a strategy to reduce this asymmetry.

Considering this behaviour from the perspective of the marketing mix, the strongest elements visible in the marketing mix is Communication in many different forms. Within the debt marketing mix applied towards banks, Place and Price are very much given, and Product is more seen from the perspective of the product mix that can be offered to banks to optimise their loan availability and pricing. This is in contrast to institutional investors, towards which active capital markets users are more willing to adjust product features or platforms.

The firms saw themselves as sellers of their credit and regarded banking as a relationship, but they also maintained a degree of opportunism in allocating their banking business, including debt arrangement roles. A number of firms expressed that they either already did or were prepared to allocate debt arrangement roles to non-lenders, and gave examples of relatively new relationships having been awarded arranger roles. This observation is in line with the argument by Tyler and Stanley (1999, 106) that in a corporate banking context, individual transactions and exchange relationships should not be seen as mutually exclusive. A good example of this duality was given by Firm 10, which on one hand said that it systematically scores its banks in terms of the quality of the relationship, and uses this as a basis for allocating business to banks, while, on the other hand, also stating that *"we do not see the banks as the seller of our debt."*

Reverse marketing concepts, and its processes as described in Leenders and Blenkhorn (1988), were visible in firms' approaches towards banks. Some firms implicitly considered whether reverse marketing was worthwhile, and opted to try to commoditise banking business, effectively minimising their engagement in reverse marketing processes. Others conduct analysis of potential banks' capabilities as suppliers, discuss and negotiate with banks to understand mutual expectations, and subsequently behave consistently in allocating their business, providing banks with good visibility of what they can target.

Characteristics of bank relationships are summarised in Table 19. It shows the different areas and provides two approaches, here called Control driven and Cooperative approaches, which can be seen as extremes of this characteristic. The latter fits more a view of a firm as a seller of its debt, with banks as supporting players in the process.

Table 19 Differences in the handling of bank relationships by large corporate borrowers

Area	**Control driven approach**	**Cooperative approach**
Demands from relationship	Lending overrides other deliverables	Lending and other services
Demonstration of trust by bank (by lending) at start	A must	Helpful
Bank's role	Buyer of debt	Supplier of services
Arranger selection	Relationship driven	Deal driven
Ancillary business	Tightly allocated	Partly linked to lending
Debt selling role	Bank buys and sells	Bank as one part of distribution channel
Bank's freedom in debt distribution	Higher	Lower

It should be noted that the split implied in the table emerged from the data after repeated readings and comparisons between narratives from different interviews. Reflecting upon this table through the lens of the interaction research framework used by the IMP Group (Håkansson 1982), the areas it raises relate in particular to how firms affect the atmosphere of conflict or cooperation in which relationships are lived. All of the seven areas in the leftmost column of Table 19 embed the aspect of opportunism versus loyalty to relationship banks, and the two approaches relate to how this loyalty or opportunism can be observed.

The way firms handle their bank relationships also shows some shared features within the debt marketing patterns. First, all full range marketers emphasise the service provision of banks ahead of lending and, in relative terms, once selecting them as arrangers, give banks freedom in exercising their value adding role in debt placements. This places them more in the cooperative approach. Intermediated borrowers all aligned with one feature of bank relationships, namely seeing banks as lenders, instead of just acting as agents, and lending being a strict relationship requirement by the firms. The asset driven borrowers did not show any broadly shared features, but their bank relationships were characterised by more deal driven and opportunistic decisions on borrowings.

6.3 Drivers of debt marketing patterns – aims and motives

As an exploratory study with a qualitative research strategy, this study was not designed to reach explanatory power in terms of statistical generalisability or to provide causal explanations. Nevertheless, to provide some background to the borrowing patterns, this subsection discusses possible explanations regarding the origins of the borrowing patterns. Debt marketing patterns get expressed through the choice of target debt investors and in activities to reach and communicate with them, the choice and design of debt instruments, and in the communication activities. A view of the underlying drivers of the debt marketing patterns based on the data is shown in Figure 11. As a starting point, *borrowing needs* occupy an important position, figuring both in the considerations by firms of what instruments to use and which types of investor to target.

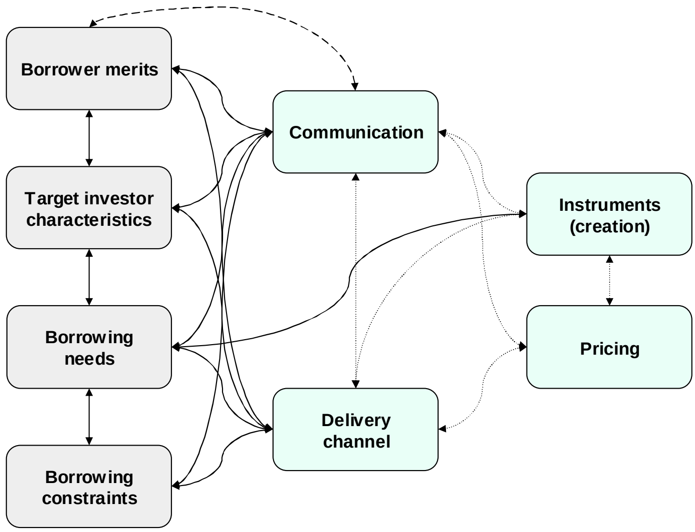

Figure 11 High level drivers of debt marketing patterns

The largest borrower in the sample wanted to have strong contact with key investors in all major bond markets. Firm 14's Director of Corporate Finance stated that the firm's high name recognition combined with its specific borrowing needs means that, up to the interview date, they had enjoyed a sufficient bond investor base among the institutions that follow its equity. Firm 19 had in the recent past specifically carried out a major corporate action, increasing its borrowing needs, which then prompted the use of a new debt instrument and targeting new investors. With regard to the implications of its borrowing needs, Firm 16 stated that *"not being a public benchmark issuer has its own limitations…for example focussing on…US private placement investors would currently take more effort than is worthwhile for us."* Borrowing needs were different in content, but always one starting point when considering debt marketing.

Borrowers also consider their merits, or attractiveness, and constraints as a borrower, such as credit rating level, cash flow stability, or the general perception of its business outlook. The author views merits and constraints separately, because they can coexist and weigh differently on decisions about borrowing activities. Merits may have more to do with target investors, whereas constraints more with specific instruments and their formal requirements. Firm 11 found that, because of the nature of its business and its high name recognition, it is a very natural borrower for buy-and-hold investors (e.g., pension funds) in its home country and in the US. Two other firms stated that, because of their smaller borrowing needs, they are unattractive for certain types of institutional investor even when their credit ratings are a positive factor. Firm 23 is constrained by the nature of its home bank markets which has prompted it to seek investors abroad.

Communication occupies a big role in the overall debt marketing mix. In this scheme it loops back into shaping the perception of the firm's merits as a borrower. In considering which investors to target and what instruments to issue, borrowers typically listen to investors and more general market feedback. The feedback can induce borrowers to provide or maybe adjust their disclosure to address investors' requirements or to better articulate the relationship opportunity for banks. The representative of Firm 8 put this into words as follows: *"we see in the credit analysis by investors what they appreciate or do not like about us, and what we need to explain better to them."* By being open, borrowers seek to convince lenders about the positive aspects of their credit quality, with some also seeking to be open about their challenges in order to show that they are being managed. In several interviews, it was stated that firms actively follow how their peers' debt trades in the market, and how investors view these peers. This information is not only used to compare pricing but also to understand questions that markets might have about the firm.

From this perspective the Aldersonian concept of *"heterogeneous markets which…are cleared with information, in contrast to homogeneous markets which are cleared by price"* (as cited in Goodrich 2007, 496), is apt. Even if debt markets are relatively commoditized, and borrowers cannot escape market pricing, there are unexplained gaps in pricing and unexpected fluctuations in market liquidity. To protect access to adequate debt volumes, borrowers use information as a tool to clear markets, both informally through personal relationships and with formal disclosure. This idea crystallised in the comment by the CFO of Firm 21 who stated that *"we are in the business because of the trust of banks…good relationships can buy a company time through difficult times…no part of our business is off limits to banks and their analysts"*, expressing a view that information and transparency, not pricing, make lenders stick with borrowers in difficult times.

As a study in the field of managerial marketing, the extent to which finance managers shape or drive the debt marketing of firms also needs to be considered. As the discussion above shows, there are no single drivers or combination of drivers that would exhaustively explain why borrowers adopt certain marketing patterns. Finding an explanation was not an objective of this study. However, observations from the interviews suggest that among the persons handling firms' debt decisions there are individuals with diverse backgrounds and personalities. Some clearly felt more at ease and even enjoyed being in direct contact with large numbers of investors, whereas others were not so disposed. Since debt marketing decisions involve a number of subjective judgements, the author assumes that the personalities of the players also shape firms' debt marketing; however, determining this would be the subject for another study.

6.4 Blurred buyer-seller roles

One of the main premises of the study was that debt marketing is set in a context of blurred buyer-seller roles. The analysis has shed light on this. Blurred roles here mean that a borrower overlaps between buyer and seller roles or behaviour when borrowing. This is different from role ambiguity, where a person experiences ambiguity about the content or his or her role.

The context of blurred buyer-seller roles means here that firms indeed see themselves both as buyers and as sellers when they are borrowers or oscillate between the two roles. Towards institutional investors the firms are sellers, which are aware that these buyers can be difficult to reach and convince, and need regular information on borrowers. However, when it comes to banks, these are seen by the firms as suppliers of financial services, which as with any other supplier have to be kept happy, while also being made to compete against each other. As lending is not always readily available on demand, firms allocate their overall banking business in a manner that optimises availability of credit from banks, with borrowers practising reverse marketing.

Perhaps the easiest way to describe this blurredness in the study's context is to consider it through Table 20, in which the left hand column is the same as in Table 8 in Chapter 3.4. When firms' stated behaviours in specific marketing activities differed in terms of demonstrating an approach as a buyer or as a seller, then this is considered to evidence blurredness of buyer-seller roles. The table also lists role ambiguity as observed in the interview data. The blurredness was observed generally, across all or most firms, depending upon the category, whereas the role ambiguities were observed in individual firms. In most of the marketing activity categories, there was evidence of both buyer and seller behaviours among the firms, whereas role ambiguity related to this blurredness was rarer.

Table 20 Activities of buyers and sellers in early marketing contexts

Debt marketing activity	Evidenced blurredness	Evidenced role ambiguity related to blurred roles
Search	Generally, search seen as an activity by lenders, but this is to different degrees facilitated by borrowers.	Some implied low sensitivity towards investors' search activities.
Communication, promotion, advertising	Range of approaches from very proactive direct communication with debt investors, to relatively reactive approach with high reliance on third parties.	Some firms demonstrated uncertainty regarding how, as sellers, to approach institutional investors.
Product design	Different views in terms of who initiated ideas for product structures.	Sometimes very low willingness to accommodate investors' wishes.
Production	n.m.b.	n.m.b.
Logistics, distribution	Variation between active distribution channel management to some borrowers seeing themselves at the receiving end of a bank's channel delivering debt offers.	Occasionally inadequate attention to acquiring and controlling data on investors.
Pricing	n.m.b.	n.m.b.
Purchase decision	Some emphasised that price is set by investors or markets, whereas some stated no deal made if pricing firm's price target not accepted. Implied different views on who has final decision.	Subjective view on pricing data could lead to inflexible position and lost deals.
Delivery of product	n.m.b.	n.m.b.
Monetary payment	n.m.b.	n.m.b.
Service recovery or quality responsibility	n.m.b.	n.m.b.
Risk of unsold inventory	Most firms consider proactively how to manage this risk, but some expressed this as banks' task.	Over-reliance on banks' handling of this may lead to underestimation of its long term costs.
Demonstration of trust	Different views as to who has to take first step demonstrating trust, borrower or bank lender.	When trust in own name is taken for granted this could lead to misjudgement of deals.
After sale service	n.m.b.	n.m.b.

n.m.b. = no meaningful or significant blurredness or role ambiguity observed in this category

Particularly in the marketing activity categories that are more at the front end of the process, namely search, communication, and product design, there was blurredness. This suggests that some firms expect to be solicited as borrowers, mainly by banks, and that it is up to the potential lenders to conduct searches, to approach the firm, and to propose product ideas. At the other end of the spectrum, borrowers approached debt raising as sellers of debt, actively exploring what markets want to buy, and seeking direct communication with, mostly institutional, investors. At the same time, it was also observed that this blurredness manifested itself particularly in how differently banks and institutional investors were approached.

Firms with very strong debt investor appeal and plenty of banking business to allocate could treat banks more selectively. Firms with more challenging credit stories recognised a need to undertake considerably more efforts to keep their bank lenders satisfied. There were firms which recognising that their non-debt business gave only limited leverage to push banks to lend to them. Some firms' quite methodical application of reverse marketing process phases (described in Leenders and Blenkhorn 1988) shows that they were aware and comfortable in being both a buyer and seller in their debt marketing.

Generally, the firms are some ways well aware of this blurredness and apply both buyer and seller roles as appropriate. However, as shown in the rightmost column in Table 20, in some cases there was also evidence of role ambiguities which typically reflected the firms' low willingness to treat investors as sellers. These observations of role ambiguity are grounded in the interview data, but they suffer from the weakness that they are inferred from interview data gathered from interviewees who were unlikely to have been candid about their firms' deficiencies in this particular area. What is implied in some firms' statements is that the ambiguities and consequent behaviour may in some cases have led to firms missing borrowing opportunities. A study of the relationships with data from relationship participants could probably reveal more on this subject.

6.5 Stability of debt marketing patterns

Murray, O'Driscoll, and Torres (2002) found in an industrial marketing context that configurations of marketing practice appear to change over time, and that marketing practice varied with the strategic type of a firm. As this study was conducted at a specific point in time, with one interview per company, it cannot provide a conclusive description of how, when, or why firms move from one borrowing pattern to another. However, the data suggest that firms themselves do not see their current practices as being set in stone.

Firm 15 was defined as a full range marketer, but it was also a close match as an intermediated borrower. At the time of the interview, the firm appeared to be in transition from an intermediated borrower to a full range marketer. Firm 14 also stated that it would increase its marketing activities to include roadshows, if its borrowing needs warranted it. Both firms expressed interest in increasing and broadening their marketing efforts towards institutional investors.

There were also strong indications that bank relationships are not seen as stable or rigid. While firms like to have stable core bank groups that act as a reliable source of debt when capital markets are more selective, these groups are not immutable. Firm 17 commented that *"a few years ago we reduced our bank group from 30 to 15, and it was done on the basis of…to whom we can offer value and who can offer value to us…today we are more focused on directing ancillary business to banks which lend to us, and converting banks which have transaction business from us into lenders."* This is an example of banks not having been switched only because of price, but also because the firm wanted to run its bank relationships with other considerations.

An example of external drivers affecting borrowing behaviour was provided by Firm 23 which stated that its behaviour as a borrower is driven by a desire to mitigate the volatility of the financial markets in its emerging market home country. This aligns with Flambard-Ruaud's (2005) call to consider the emerging markets context as requiring adaptation in marketing. Two other firms in the sample are headquartered in countries where the banking sector is dominated by foreign-owned banks. They did not state directly that these factors made them change their borrowing behaviour. The fact that they discussed this matter in itself implies that the structure of the domestic financial market plays a role in the policies that govern a firm's borrowing approach. Firm 16 mentioned that at the time when it established its MTN programme, which was enacted prior to its home country joining the Euro, *"there were no domestic banks with the credibility to arrange the programme, but today this is no longer the case and they are now in a position to be awarded such mandates."* This indicates that changes in the banking environment are possible factors driving changes in handling banking relationships.

The last of the author's interview questions asked what firms were doing differently at the time of the interview than before the financial crisis. This question led to comments on what firms learned from the financial crisis. Six firms found that they had not really changed their behaviour or that they did not perceive a need to adapt to the consequences of the financial crisis. Other responses showed that some firms had been thrown quite abruptly into a situation where a debt seller's market changed into a debt buyer's market.

There were quite candid comments from the firms that had adapted or changed their practices or behaviours. Firm 15, a relatively active user of capital markets and with quite a broad investor base, went so far as to say that *"this is a weakness of ours, and it has come back to haunt us...that we have not monitored where our paper was placed, and we have not done non-deal roadshows…this is a challenge now…we need to find out where our investors are."* In different ways, the learning points from the crisis related to underestimating debt investors' changing demands. This included having to adapt pricing expectations to investor demands, adapting documentation standards to better reflect investor preferences, or providing more disclosure. In this sense, firms demonstrated adaptive learning as a demonstration of market orientation (Slater and Narver 1995, 64). These and other comments showed that the marketing patterns are not necessarily permanent.

Firms expressed a willingness to consider new instruments or new debt markets, recognising the need to adapt their activities to match them. Also, as an indication of possibly modifying debt marketing activities, an unrated firm expressed its willingness to obtain public credit ratings. Some firms with a public credit rating also expressed their willingness to abandon ratings and to replace them with other means of communication. One firm stated that after it was downgraded to sub-investment grade, it decided not to update its MTN programme, implying that if and when it gets upgraded the matter could be reconsidered.

The data, by their nature, is weak on demonstrating the ways that firms might change their borrowing patterns or whether there might be typical migration paths for changes in firms' debt marketing patterns; however, they provide some suggestions. Comments by firms about their limited attractiveness to certain types of lender, for example, because of the size or preferred currency of their debt issues, suggest that the growth of a firm, particularly the growth of its borrowing needs, can precipitate a change in debt marketing. It can also trigger broader investor targeting and more intensive communication with debt investors. As firms grow, they might expand their debt marketing activities to become full range marketers.

In contrast, firms which have taken on large volumes of debt, for example, to fund acquisitions, but then deleverage may find that there is no longer a need to maintain intense institutional debt investor contacts. Such firms may switch from being full range marketers to intermediated borrowers. Asset driven borrowers may sometimes be more constrained in what they can do in debt markets, but when their constraints lessen they may also switch debt marketing patterns. Such switches could be in two ways: either towards less intense marketing as it is no longer required or towards a broader set of debt marketing activities as they become feasible or necessary.

6.6 Debt profiles

The initial conceptual framework in Figure 1 (Subsection 1.5) contains the element *Debt profiles*. Here, debt profiles means the characteristics describing the visible mix of debt instruments, or products, and the tools firms have in place. They describe how debt marketing is undertaken only to a limited extent, but they describe some outcomes of debt marketing efforts in terms of what tools have been established and how much and what kind of debt has been raised.

The debt profiles in this subsection provide some background for the comparison of firm's debt marketing activities and for the discussion of the possible motivations behind firms' debt marketing. They also provide some back-up to statements made by interviewees, as inconsistency between intentions and actual debt outcomes could be visible. The debt compositions were provided in the interview forms before the interviews, and usually they were commented upon by the interviewees.

Table 21 compares the size, composition, and debt platforms of the firms in the different debt marketing patterns. It suggests that the borrowing patterns do not express themselves in the volume or instruments of debt, or through relationships (e.g., banks; rating agencies). Looking only at the size of the debt, both smaller and larger borrowers in the sample can follow any pattern. The rationales for these borrowing patterns from the borrowers' perspective contain more drivers than just the size of the borrowing need. These also involve managerial preferences, such as financial strategy, and are not only formed because of external factors. Lado et al., (2010) observed variety in marketing practices even among small scale firms, so it should be plausible that such variety could also occur among larger firms and in the debt marketing context.

Table 21 Size and diversification of debt in the groups of firms

Variable	Full range marketers	Asset driven borrowers	Inter-mediated borrowers
Number of companies in group	7	5	11
Number of companies in group with public bonds or MTNs outstanding	7	2	9
Biggest total debt, Euro millions	>50’000	5’000	9’000
Smallest total debt, Euro millions	500	700	700
Highest debt diversification index value *	81%	67%	70%
Lowest debt diversification index value *	30%	0%	17%
Number of relationship banks	11–30	3–20	10–50
Number of firms with public credit ratings	7	2	7

* Numeric value expressing the degree of diversification of firm’s debt sources: high values indicate high diversification; low values indicate high concentration (see Appendix VIII).

The measures of debt profiles show that the structures of firms’ debt have several dimensions, and that there is considerable variety between large corporate borrowers’ offerings to debt investors. There can be different ways of how firms have raised their debt through a mix of different tools and relationships.

The size of the debt portfolios varied between Euro 500 million and over 50 billion Euro (from the last full year financial figures available on the interview date). The median borrower had gross debt of about Euro 1,800 million, and four borrowers had gross debt of Euro 5 billion or more. A median borrower in this sample is not yet a frequent bond issuer, which for some bond market practitioners is a measure of being a big or very sophisticated player. However, even the smallest borrowers in this study are borrowers that by various measures had diversified their debt sources, and conducted a range of sophisticated activities to achieve and maintain these debt sources.

These debt profiles provide some quantitative data indicating that full range marketers show the biggest diversity in the Product category of the debt marketing mix. This is shown in the number of companies with public bonds or MTNs outstanding, as well the values of their debt diversification indices. As these indicators also express variety in the number of platforms used for debt issuance, they indicate more diversity in the Place category of full range marketers’ debt marketing mix.

In the study interviews the terms *relationship bank* and *core bank* were regularly repeated. The respondents were asked to provide the number of each with which they did business. The manner of using the terms revealed that a *relationship bank* usually means a bank that lends to the firm, and with which the firm does repeat business. *Core banks* are a subset of relationship banks, and are typically those with the highest lending exposure to the firm. Usually, core banks are also those which are expected to support the firm in challenging situations. They get more opportunities to bid for the firm's other banking business and are typically also considered for rotation. Rotation means that a firm deliberately allocates important mandates in turn among its key banks, as long as the chosen bank's competence and track record is adequate.

On average, the 23 firms had 18 relationship banks, the number varying between three and 50. Considering the range of firms in the sample, there were particular differences between them in terms of the structure of their domestic banking markets, business models, ownership bases, and financial policies. These all have a bearing on why the firms decided upon the number of relationship banks they have. The number of core banks was naturally smaller but this indicator was omitted from the comparisons as the firms had significant differences in their definitions of a core bank.

The Debt source diversification scores' (see Appendix VIII) distribution is shown in Figure 12, with each bar representing one firm. With the theoretical range between 0% and 100%, there were two firms with highly concentrated debt sources (scores of 0% meaning low diversification), with one only having bank loans in its debt funding. A third firm raised its debt in the bond market but had significant unused bank credit lines to back up its (re)financing needs, which shows the limitations of this score. Nevertheless, Figure 12 shows that there were considerable differences in the debt source diversification of the firms, and confirms that the sampling yielded a good range of different borrowers with different debt investor appeals.

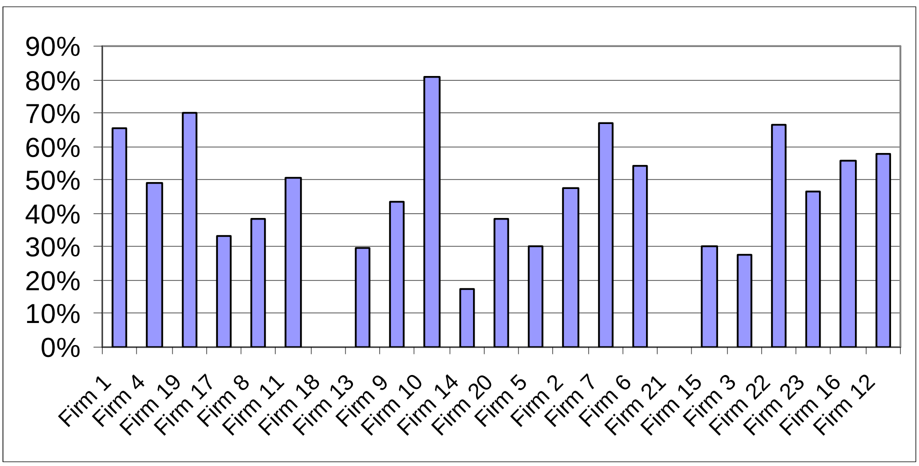

Figure 12 Debt source diversification scores

Elements of debt profiles were plotted in three xy-graphs. The graphs, in Figures 12, 13, and 14, suggest that within this sample, there are no significantly strong links between the three measures, debt diversification, number of relationship banks, and size of total debt. Figure 13 plots source diversification and the number of relationship banks.

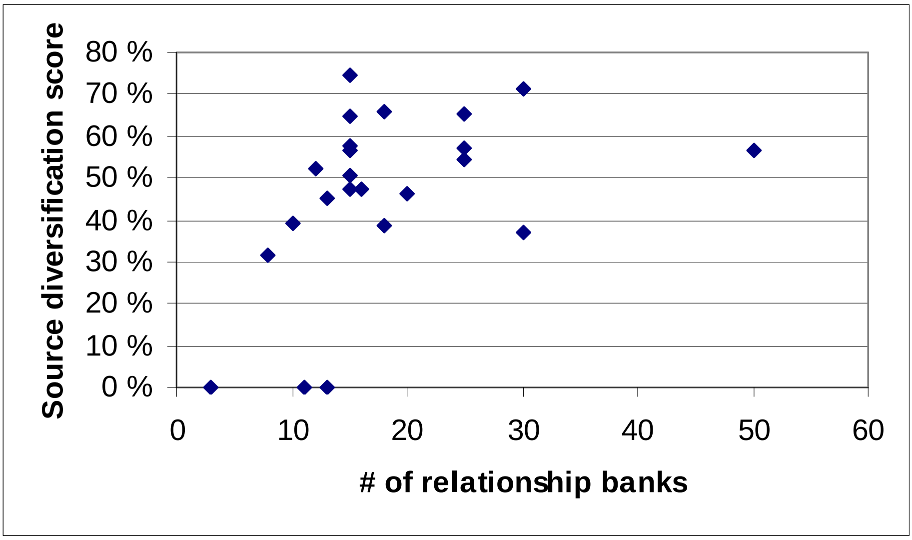

Figure 13 Source diversification and relationship banks

The scattergram suggests some linkage between the number of relationship banks and the level of debt diversification, however, the small number of observations does not provide for statistical significance. Nevertheless, Figure 13 suggests that having many relationship banks is not necessarily a substitute for diversifying debt sources into other than bank debt markets; at the same time, there are relatively many firms with high debt source diversification and a high number of bank relationships. It also indicates that behaving transactionally (choices between many sources) can coexist comfortably with behaving relationally (having many relationships). Broader bank relationships may indeed be an element in diversifying beyond bank debt. This would be a rather natural conclusion, given the important role of banks in placing debt with institutional or retail investors.

Similarly, Figure 14 suggests that the size of debt, on a logarithmic scale, is not the only driver behind the number of bank relationships. Some of the smaller borrowers have a considerable number of relationship banks, and vice versa.

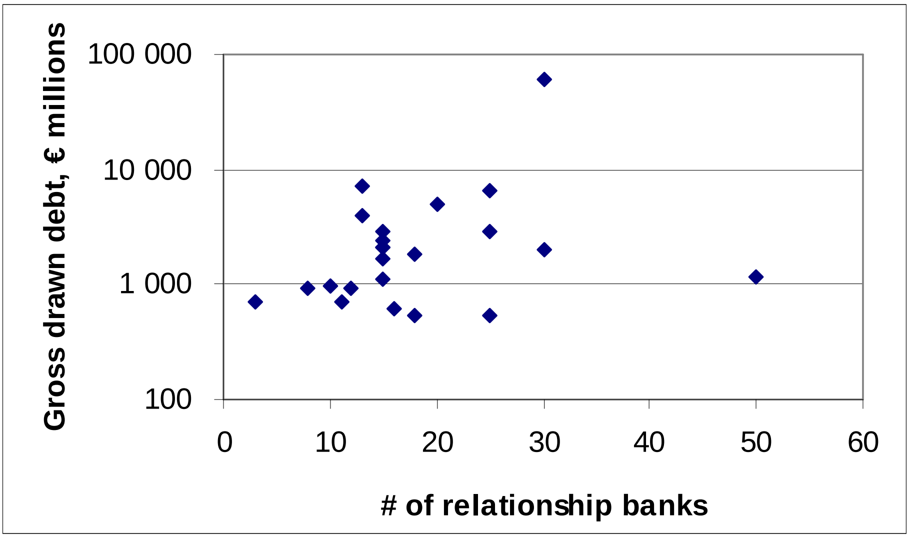

Figure 14 Number of relationship banks and total debt

The absence of a significant link between the size of debt and its diversification is also visible in Figure 15, where total debt and debt source diversification are plotted. Even some of the smallest firms in the sample show similar debt source diversification scores as larger borrowers. This absence of a link raises the questions of whether there are differences between large and smaller companies' diversity of debt sources, and how they work to achieve debt diversification.

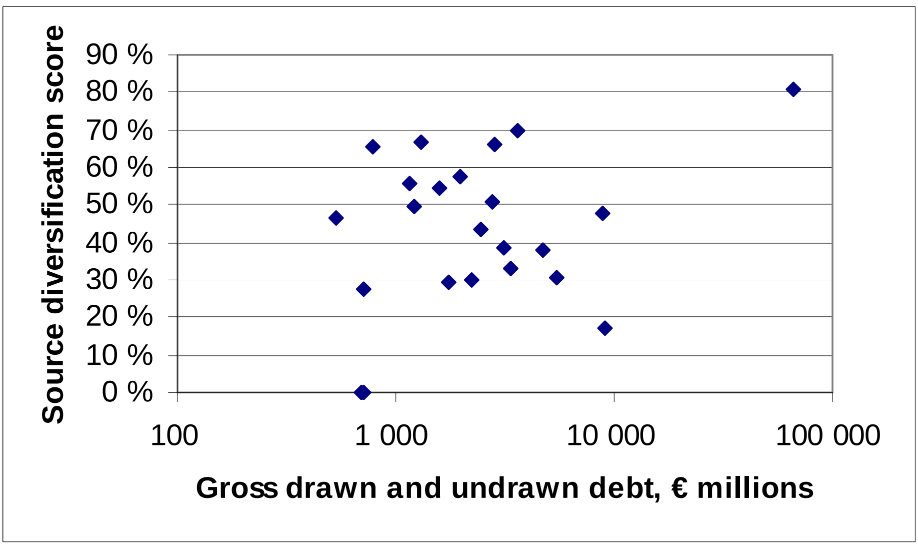

Figure 15 Total debt and source diversification

6.7 Direct debt marketing expenses

As a further way to consider the meanings of the discovered debt marketing patterns, the author estimated the direct debt marketing expenses of the firms, which were estimated using publicly available data on the firms' debt composition.

Banks arranging a syndicated loan receive various fees (Gadanecz 2004). The arranger and other members of the lead management team generally earn some form of upfront fee in exchange for putting the deal together. This is often called an arrangement fee, and can be considered to be a cost of distribution. Syndicated loan underwriters earn an underwriting fee for guaranteeing the placement of the full amount. Debt marketing expenses were also defined here to include debt publicity costs, debt registration costs, and annual ratings maintenance costs for each public credit rating disclosed by the firms.

These costs can be reasonably well estimated with the exception of possible discounts that the largest borrowers may obtain from banks, lawyers, or rating agencies. Listing fees, prospectus costs, standard arrangement and underwriting fees are well disclosed, and estimates of rating agency costs can also be obtained with good accuracy. The generic unit costs of the different debt marketing expense elements were obtained from public industry sources, such as stock exchanges' web pages, and private sources - bankers active in debt capital markets.

For each firm, the absolute debt marketing expenses were calculated by applying the generic unit costs on an annualised basis. The annualisation was based on the most recently disclosed debt compositions and average debt maturity of the firms. The figures are consistent and reasonable estimates, but they are still estimates. This is due to the abovementioned limitations and the non-availability of indirect costs, which can include items such as management's time spent, for example, on bond roadshows or in non-deal meetings with institutional investors, as well as the firm's internal out-of-pocket expenses on debt marketing.

The calculation showed that on average, annually these firms spent directly an amount equivalent to 0.13% of their gross funded and unfunded debt on arrangement fees, public credit ratings, debt listings, prospectuses, and debt programme establishment or updates. Details on the level of estimated debt marketing expenses among the different types of borrower are shown in Table 22.

Table 22 Annualised direct debt marketing expenses of the firms as a % of outstanding debt

Borrowers	Average %	Minimum %	Maximum %	Range %
Full range marketers	0.144	0.061	0.205	0.144
Asset driven borrowers	0.089	0.000	0.150	0.150
Intermediated borrowers	0.131	0.018	0.270	0.251
All firms	0.129	0.000	0.270	0.270

Table 22 shows considerable variation among the expenses, some of which can be explained by their nature as estimates. Beyond that, there are also other observable facts that can partly explain the variation. The asset driven borrowers in the sample used debt instruments which have relatively lower marketing expenses. They use domestic mortgages mainly from banks, and leasing. These debt instruments do not command expensive prospectuses or high arrangement fees.

The heaviest users of capital markets, the full range borrowers, have on average only slightly higher direct marketing expenses than the overall sample. This is intuitive if it is assumed that full range marketers put more effort into marketing.

Despite the nature of the figures as estimates, there are a few substantive points in the marketing expenses calculation. First, applying the average costs in the sample, even the smallest borrowers spend Euro 600,000 annually in direct debt marketing costs. For one firm, this calculation showed a zero cost in this category, but this is only achieved by substituting direct marketing expenses with interest costs. Secondly, considering the variation of expenses between 0.00% and 0.27% p.a. as a reasonable estimate for the variation in the aggregate sample, even for the smallest borrowers different debt choices can make a difference of over Euro 1 million annually in direct debt marketing expenses, and for the largest firms it can mean multiples of this.

7 CONCLUSIONS

7.1 Main findings

The first research question was “What patterns of approaches towards debt marketing activities do large corporate borrowers exhibit?” The sample yielded three distinct patterns of debt marketing activities and processes, which have been named (a) Full range borrowers, (b) Intermediated borrowers, and (c) Asset driven borrowers. The debt marketing patterns were defined through differently weighted use of three different debt marketing practices: (i) Capital markets practice; (ii) Bank debt marketing practice; (iii) Asset based debt marketing practice. The debt marketing patterns are distinguished at the activity level by (a) the level of marketing task delegation to banks, (b) what debt product designs are used and how these are driven by internal versus external factors, and (c) by the intensity of the direct contact with institutional debt investors. A further distinguishing factor is (d) the extent to which the borrower firm itself is engaged in selling its debt to lenders. Pricing approaches was not a distinguishing factor between the patterns.

The debt marketing patterns are well anchored in the empirical data but their demarcation lines leave some grey areas, meaning that some variation remains within these patterns. The patterns were defined through a condensed set of characteristics expressed in varied activities in different categories. None of the 23 firms exhibited a completely matching set of debt marketing activities. As discussed in Chapter 6, full range marketers have the most diversified debt marketing mixes among the sample’s borrowers.

On theoretical considerations, it is unlikely that there should be other patterns not observed in these data. One could speculate about there being potentially some highly opportunistic or transactional borrowers with almost complete disregard to relationships. However, this would run against the notion of large corporate borrowers which need relationships and channels for repeat access to debt markets. Nevertheless, not all firms fitted into these three patterns perfectly, but this does not obviate the findings as any such classification should be able to fit diverse firms. For example, Firm 21 is clearly an active marketer in many ways similar to firms defined as full range marketers but, because of its narrow investor appeal and its asset driven borrowing pattern, it was defined as an asset driven borrower.

Embedded in the first research question is also the question of whether large corporate borrowers consider themselves as marketers of their debt, which can also be contrasted with large corporate borrowers' treatment of their banks as suppliers.

The analysis shows that all firms in the sample behave as marketers and sellers. They decide on the design of their product, they communicate to convince lenders to make lending decisions, and they all make conscious decisions regarding the kind of lenders from which they aim to obtain debt funding. In accordance with the definition of reverse marketing as a marketing approach to achieve supply objectives (Leenders and Blenkhorn 1988; Blenkhorn and Banting 1991), many large corporate borrowers can be considered reverse marketers when they view their banks as suppliers.

Mirroring the more general definition of marketing, the firms behave as follows:

- Deploy a set of *activities and processes*, such as obtaining and analysing market information from different sources, transacting with banks, or providing product and corporate information to markets.
- Have a set of *institutions*, such as their product platforms, dealer relationships, or research community relations.
- *Create* debt *offerings* in standardised or one-off formats.
- *Communicate* targeted messages via a range of channels and engage in relevant dialogues.
- *Deliver* their debt to lenders or create alternative delivery channels for their debt to reach investors.
- More or less regularly *exchange* debt *offerings* with their investors.
- Reflect in their debt pricing a view of what represents *value* for their debt investors.

The next research question was "What meanings can be given to the patterns of debt marketing activities possibly discovered?" In brief, all of the debt marketing patterns include relational marketing, but they have somewhat different emphases or starting points. For full range marketers, the emphasis of their debt marketing is stronger than for other borrowers in developing their market presence or customer relationships in terms of direct contact with institutional debt investors. More than others, asset driven borrowers emphasise their own debt products from the perspective of matching them with specific assets. Intermediated borrowers can be described as emphasising supplier development in terms of stronger reliance on banks and delegating their debt marketing to banks. Transactional marketing behaviours were more frequently observable among the first two debt marketing patterns, but the study also showed that in all patterns, relational and transactional marketing can coexist.

The last research question was "To what extent do large corporate borrowers' approaches to corporate debt marketing reflect a generic buyer's or seller's approach?" The analysis showed that large corporate borrowers distinguish between banks, which they typically treat as suppliers, and institutional investors, which are treated as buyers of debt. Frequently, the firms move comfortably between the role of a buyer from banks and a debt seller to institutional investors. When issuing new debt, a firm needs to persuade investors that it is a good borrower and its debt is a good investment. At the same time, when it comes to dealing with banks, firms are also purchasers of a range of services and often act as reverse marketers. Both in terms of marketing debt to institutional investors as well as in managing banks' relationships, firms follow different approaches. Moreover, the data also suggest that some role ambiguity may exist or the seller role may in some instances have been underemphasised to the extent that firms have later adjusted or attempted to adjust their debt marketing activities. Consequently, it is possible that such ambiguities have led firms at times to miss borrowing opportunities, be they in non-concluded transactions or by paying higher interest rates.

7.2 Theoretical contribution

This study was partly motivated by Kotler's (1972) and Ross' (1989) calls to bring a marketing perspective to the study of firms' financing. It also responds to Lehmann and Neuberger's (2001) comment regarding too few studies on interaction in firm-bank relationships and Skinner's (2011) comment that still there is little known about how the various features of debt contracting fit together. To the author's knowledge these research gaps still exist. In response to Whetten's (1989) question "*Why should colleagues give credence to this particular phenomena?*" the present author would respond that this study's broad account of debt marketing, with an explicit view of the marketing mix elements in debt marketing and their relative emphasis, enters new territory in marketing research. It has provided insights into marketing in a context where the roles of buyer and seller are blurred. Here, two parties are not just exchanging cash for a product but exchanging different services that are of value at both receiving ends. Lastly, this study's findings can help to design new studies in the same empirical field. The ongoing international debt crisis suggests that there are many good reasons for such studies.

In this study, the author took the perspective of the marketing management school of marketing and developed an empirical view of corporate debt marketing links, as summarised in Figure 16.

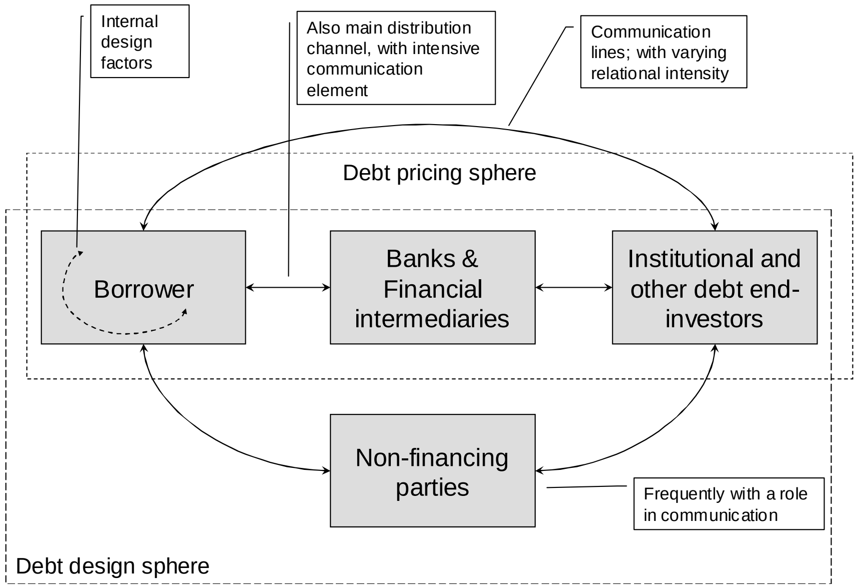

Figure 16 Summarised view of debt marketing links from the perspective of managerial marketing studies

Figure 16 shows the main elements of marketing management: product design, communication lines, distribution channels, and the pricing sphere, all of which are managed in a predominantly, but not exclusively, relational manner; within it all marketing mix categories are visible. The theoretical basis of these elements can be found particularly in Subsections 3.3, and 3.5 to 3.7. The debt product itself is designed by the borrower, but typically in close consultation with banks and other parties such as legal counsels or rating agencies, as described in Subsections 5.3, and 5.5 to 5.7. The distribution channels for corporate debt are a firm's bankers, typically based on longer term relationships. Elements of the channels may be contracted on an ad hoc basis as also shown in Subsections 5.3, and 5.5 to 5.7. As to pricing, it is mainly established on the firm–bank axis, but at least indirectly also by canvassing key institutional investors, as shown in Subsection 5.3.4.

This study touches on the discussion regarding the usefulness and the possible flaws of the marketing mix and on how the aims of marketing activities or tools should be understood. As already demonstrated by the services research scholars since the 1980s, marketing activities do not only aim to close immediate transactions. Debt marketers conduct most of their marketing activities without an immediate debt transaction in mind and build relationships. They also maintain their distribution platforms or their borrower reputations in order to be prepared to deal with transitionally oriented investors when a transaction is to be launched. At the same time, the debt marketing activities are still conveniently categorised by the marketing mix categories, arguing for the continued usefulness of the marketing mix as a tool to categorize marketing activities.

Debt marketing activities can be seen, as suggested in Figure 17, being applied to the desired engagement level (e.g., relational) to modify desired product character (e.g., branded vs. commoditised); to optimise marketing outcomes, they are applied in the context of competition and market infrastructure or the borrowers' business strategies. In this sense, debt marketing activities can be seen as seeking an impact in a number of different ways including the indirect, oblique application.

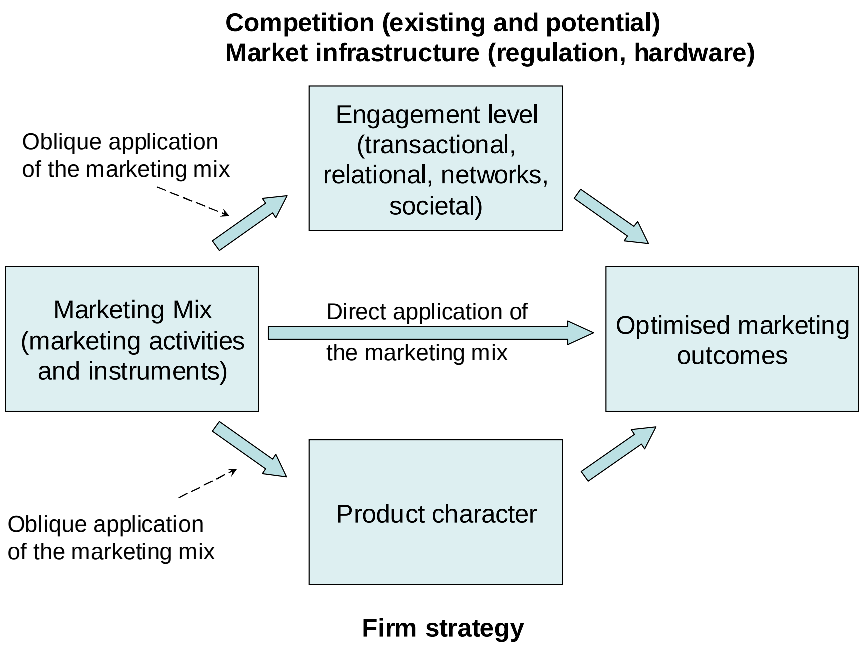

Figure 17 Marketing mix and its place in the marketing field

Kay (2010) describes obliquity as getting closest to the ultimate goals by pursuing intermediate objectives, or working towards some higher goal that may have the side effect of delivering what is needed. With better knowledge of a client's needs, there is now a better understanding of how marketing activities are applied to modify the product's character through engaging with the client as a co-producer and by emphasising service elements. Relationship marketing activities are launched to develop and retain relationships rather than to just transact. In this transformation of marketing, the role of communication has gained more prominence among marketing activities and is definitely very prominent in debt marketing.

Leading scholars (Brodie, Coviello, and Winklhofer, 2008, 90) of the CMP programme have indicated that CMP's conceptual foundations require ongoing review and redevelopment in order to remain contemporary. This study contributes to the marketing practices research by describing marketing practices that are specific to the debt marketing context, and which have emerged directly from empirical data without prior assumptions regarding types of marketing practice. In this way it extends the CMP framework into a new area without using the generic marketing practice definitions developed by the CMP programme. At the same time, the author would suggest a reconsideration of CMP's classification scheme's (see Table 16) relational exchange dimensions *Nature of Communication* and *Type of Contact*, which in this study's context appear to describe the same phenomenon. At the same time, in this study's context, these two dimensions seem to house diverse features such as the perceived nature of trust (unidirectional vs. two directional), directness or indirectness of contact, and buyer versus seller roles. This leads the author to ask whether there could be a different breakdown of these two original dimensions, or maybe just a need to modify them in this specific context. The response is left to future studies.

As mentioned in Chapter 1, a significant bulk of the literature on corporate lending is from the SME context. This study has shown that large firms' debt marketing carries a broader set of instruments, relationships, and activities as for smaller firms. The listing and characterisation of these elements of corporate borrowers' toolkits can help to evaluate larger firms' debt marketing in new ways.

With experts interviewed by an expert during data collection, this study shows some of the possibilities and risks inherent in such a method as experienced by the author, who hopes that some of the resulting observations can contribute to successful future study designs.

7.3 Evaluation of the study

In evaluating the study, its construct validity, reliability, and external validity or generalisability are considered. These are discussed next.

7.3.1 Validity

Validity means the degree to which a study reflects or assesses the specific concept that the researcher is attempting to measure (Eriksson and Kovalainen 2008, 310). Construct validity concerns the degree to which proper operational measures have been established and employed for the concepts being studied (Yin 2003, 34).

The study used a framework based on the definition of marketing, as well as the categorisation of debt marketing activities and processes extracted from the academic and practitioner finance literature. This framework, used for the design of the data gathering and interview questions, provided a comprehensive coverage of the elements of debt marketing. To approach the subject in an exploratory study required a degree of openness and avoidance of overly detailed predetermination of the content of the data to be gathered. This was accomplished by using open-ended questions, supplemented by the general debt data of the firms, and exploring some preferences with binary choice questions.

Important subjects that were not anticipated in the study questions, such as the freedom given to banks in syndication or allocation, also indicate that the constructs used for the study were not perfectly articulated in the questions. However, the fact that these topics were still discovered with sufficient consistency suggests that the constructs were adequately designed.

7.3.2 Reliability

Reliability is defined as the extent to which a measure, procedure, or instrument yields a consistent result in repeated trials (Rudestam and Newton 1992, 38; Yin 2003, 37; Flick 1998, 220; Eriksson and Kovalainen 2008, 309), or simply as accuracy (Shank 2002, 91).

Ryan et al. (2002, 155) consider the assessment of the reliability of case study research to have to be addressed through procedural reliability, transferability, and contextual validity. Procedural reliability requires that appropriate research methods have been applied to specifically address the research question (Flick 2002). Transferability refers to the extent that the study's findings can be generalised to other settings. Contextual validity indicates the credibility of the case study evidence and conclusions from the case studies. These concerns have been addressed in the research design through the choice of the research strategy, sampling, and analysis of the data.

It could also be asked whether the quantitative analysis was genuinely useful for the study in providing accurate, or reliable, findings. In the author's view it was useful for two reasons. First, given the range of data, the classification of the narrative data for quantitative analysis also served the qualitative analysis by forcing its disciplined reading and interpretation. With 23 firms in the sample, the study became an extensive case study with a large set of narrative data. Here the systematic and repeated review and categorisation of the data for possible broader themes was necessary. Second, comparisons between firms, as well as reflection of the narrative data against the hard data regarding firms' debt or the preferences expressed in the binary choice responses reinforced analytical conclusions. The initial themes provided by both quantitative and qualitative analyses yielded many signals about possible common higher level themes. The analysis of the data in different ways ensured that consistently signalled themes were included in the final pattern definition, and fruitless ideas were rejected.

The sampling strategy, in aiming for diversity, proved relatively sound. The fact that the sample included two pairs of companies with each pair in the same industry and with similar size and credit characteristics yielded incremental information by showing that shared credit characteristics are not sufficient to have similar debt marketing patterns. Observing three firms, with globally well recognised brand names, following different marketing patterns further supported the argument that debt marketing patterns are not just an outcome of a firm's credit profile or externally visible characteristics, but are also an outcome of managers' choices between various feasible marketing alternatives.

The chosen research strategy posed at least one data challenge. Data on debt issuance transactions that were not completed are hard to come by. However, such data would have been particularly valuable because they might have revealed more about situations where marketing had failed or had been inadequate. The lack of such data means that this study could have relied too much on data regarding success stories.

An expert interviewed by an expert configuration can be a source of strength as well as potential bias. Yin (2003, 61) argues that understanding the field in question is particularly critical for the ability to interpret the data from that field. In this study, the expert interview constellation can be a strength because of the author's ability to interpret responses and react to them with probing questions, as well as by generally being able to understand the jargon and terminology of the field. Gregory and Carroll (1978, 30) state that *"many specialist roles in our society so restrict the language used to realize them verbally so that they become fully comprehensible only to those acquainted with that specialisation and its characteristic verbalised actions."* Additionally, the author's practitioner expertise is a strength as his history provided the tools, at least with some case companies, to compare the interview data with other sources, and thereby better triangulate the interview data. Tannen (1990, 146) notes that in conversations between an expert and non-expert, a situation can easily arise where the expert tries to impress the other person of his or her expertise rather than just share objective information. With the interviewer also being a practitioner expert this risk should be at least partially contained.

The author's practitioner experience, particularly when related to case companies, introduced an element of observation in the data collection. In this study, it would mean casual and formal collection of evidence of firm's behaviours in line with Yin's (2003, 92) definition of observation. Yin (2003, 93) considers observational evidence as often being a useful source of information regarding the topic under study.

As a researcher, the author also needed to be aware of potential biases that his own expert position could introduce into the data. Initially, it was noted that it required good concentration to write down interviewees' comments without simultaneously trying to interpret them. Some forms of interpretation are harmless, for example, when it is just about writing down a special term in its correct form, but it could be more of a concern if the author started to write down, for example, his own interpretation of a vague statement. It is difficult but critical to manage this kind of data quality issue, but the author is confident that overall this was handled adequately, albeit with the first few interviews being learning exercises. Had the notes included completely inappropriate interpretations, which is considered unlikely, the interviewees should have commented on them in their reviews of the interview transcripts. It is possible that not receiving responses from some of the interviewees could hide some inappropriate interpretations.

Because of having very good knowledge of some of the case companies, and much less of some others, the weight given by the author to the cases could be different. This problem can be probed by asking if the same conclusions would have emerged if the data from firms known particularly well to the author would have been omitted. However, in the author's opinion, no individual firm's narrative took a dominant position in steering the inquiry. The author also considers it very unlikely that adding firms to the sample could introduce cases that could not be matched with the discovered debt marketing practices and patterns. Consequently, it is considered that this risk has been reasonably well mitigated.

Shank (2002, 50–52) describes how to interview experts to develop interview and research skills. The relevance of this view for this study's context is that the author needed to be conscious about using the interview to gather research data, and not to compare the interviewee's perceptions with his own practitioner perceptions.

Often male experts seek to dominate a conversation (Tannen 1990, 145–146); however, the risk of the author dominating as an expert in this study is mitigated by the fact that the interviewees were also experts. Furthermore, the interviewees reviewed in private the interview notes that were sent to them, with most of them providing comments that were extensive enough to indicate that they had carefully read the notes.

The reason for holding some of the interviews face-to-face was convenience, when both the interviewer and interviewee happened to be in the same city. The interview language was either English, or Finnish, or German, all of which the author speaks, reads, and writes at a native or near native level of fluency, including the financial jargon. The language employed was always chosen naturally, based on the strongest common language of both parties. The variance of the language should not be a problem, since in their expert-interviewed-by-an-expert context, a lot of the practitioner terms used were English anyway, and there were no problems in understanding each other. The interview notes (transcripts) were all in English.

The transcripts were sent by email to the interviewees within three working days from the interview (average 2.9 days). 14 of the companies reverted with explicit feedback on the interview notes and, in each case, their comments indicated no significant misunderstanding in the recording of the interview. Eight of the 14 reverted with their comments within a day, with the remaining six taking between eight and 93 days to return. It had been agreed with the companies that unless they revert with comments, the author could assume that the transcripts correctly reflected the interviews. However, explicit feedback in every case would be a stronger indication of recording accuracy. Given that seven companies did not revert with feedback, the risk that significant mistakes or inaccuracies went undetected exists but, evidenced by the feedback received, is considered to be small.

7.3.3 Generalisability

External validity or generalisability means the degree to which a study's findings are generalisable beyond the immediate case study (Yin 2003, 37) or how readily the study's results are generalisable (Ryan et al. 2003, 123). In this study it particularly means whether the discovered debt marketing patterns can be applied in other settings or are capable of describing debt marketing in a broader context.

The following criticisms, to which the author subsequently responds, could be levelled against the definition of the debt marketing patterns in this study:

- The difference between full range marketers and intermediated borrowers seems in some cases very small, which questions whether these genuinely are two different patterns.
- Because in some cases the difference between firms' categorisation in one of the patterns was based on attitudes or opinions expressed by the interviewees, the arguments supporting this set of patterns can be considered too weak.
- Having material variations between firms within two of the patterns might mean that there are more patterns to be discovered.

The discovered patterns do not only make intuitive sense but, more importantly, they are well grounded in empirical data. The facts concerning what firms actually do, rather than what they want to do, show that there are full range marketers which actually maintain active institutional investor contact themselves, and consider it as their own job to deliver the marketing pitch to potential lenders. This pattern is also supported by the fact that these firms, either because of their very large borrowing needs, or challenging credit history, or ambitious funding targets, need to work continuously to keep investors aware of their credit.

Equally, intermediated borrowers have core characteristics that are well observable, and highly plausible given the background of the borrowers. This pattern reflects a pragmatic attitude of delegating more of the debt marketing work, including investor identification, and participation in the communication of the credit history. Motivation for such a marketing approach stems from a lower borrowing need, or from pursuing the well-followed equity history of a borrower, or just a high credit rating that facilitates the sales pitch. As each firm has its own version of debt marketing, it is plausible that identifying a firm to one of the three patterns can carry some ambiguity. Still, this possible ambiguity does not refute the validity of theoretical constructs of the patterns. Where a marginal call was made in identifying a firm with a specific pattern it was supported by softer data, but not solely based on them.

Also asset driven borrowers is a pattern that was well grounded in firms' activities. While the definition starts from a product perspective, it also carries implications that were concretely observed, including more deal specific targets and arrangers, or distribution channel, selection. These borrowers also have characteristics that place them outside mainstream large corporate borrowers, with which institutional investors find it easy to become comfortable. Such a profile necessitates a different set of activities than the more straightforward credits associated with the other two patterns. At the same time, clear managerial choices had been made, expressing themselves in the hard data about specialised debt instruments particularly linked to specific assets of the borrowers.

The existence of patterns not discovered in this study should not be excluded as a possibility. However, they would most likely also necessitate the existence of an as yet unobserved debt marketing practice. This is not impossible, but its likelihood is rendered low by that fact that each of the three practices is dominated by one of debt’s key features: (a) its product character; (b) bank relationships; (c) marketing towards the broad set of potential debt investors.

One concept should be considered when applying the findings of this study in other contexts. In contexts where firms do not just exchange products for money but also exchange services, for example, in vertical channel relationships, buyer-seller roles might get confused. This study’s firms differentiated between banks with which they have multiple product interactions and other lenders where the interaction is based on one product. The same differentiation might apply in high-tech industries where some firms may have, for example, research partnerships with competitors and non-competitors, but which is the marketer in seeking the prospective partner’s interest could be a subject worth exploring.

7.4 Managerial implications

Large corporate borrowers deploy different approaches in marketing their debt to prospective lenders as well as in managing their bank relationships. An interesting discovery for the author was the different ways firms consider the value of bank relationships, and how firms balance the idea of commoditising banks’ services, particularly those with relatively high fees involved, against motivating banks continuously to come up with useful ideas for which they expect extra reward. The author’s research suggests a few questions that some firms might have partially overlooked, but which they could consider in more detail to ensure that they have covered all aspects of their debt marketing:

- How much is our ancillary business worth to banks, and how well do they value it? Some firms in the sample very explicitly show their estimates of how much of their banking business goes to a specific bank. By this they build trust through transparency, and more predictability of a bank’s loyalty through shared understanding of the value that the relationship carries.
- Should we know our non-bank debt investors better? The author was somewhat surprised by the direct admission or regret of some firms that they do not know their main bond investors well. Particularly during the financial crisis, good contact with key investors had proven to be very valuable.

- What prevents us from talking directly to key institutional debt investors? Another interesting observation in the interviews was that some firms found it difficult to establish a dialogue with institutional debt investors. This was all the more surprising because the sample included similar firms with relatively limited borrowing needs, but which still maintained good contact with key institutional debt investors. The author would suggest firms which find it difficult to maintain a good institutional debt investor dialogue should ask peer firms, rather than banks, for advice on this matter, and go for direct contact rather than seek banks to mediate the contacts.
- What sources of information can we access to calibrate our debt marketing? The participating firms applied a range of methods in gathering information about debt investors, designs or pricing. There were no two firms which would have described this in the same terms, suggesting that there not only is variation but that some firms may not use some of the potentially available information. Many firms made critical comments about information received from banks. However, not many mentioned discussions with peer firms or with relevant organizations, such as national treasurers' associations, as a source of useful debt practices information.

In sum, all of the above points relate to the dialogue in the debt sphere. The last three points are also embedded in Table 20's column on role ambiguities that can be linked to blurredness. These ambiguities may contribute to misdirected or lack of communication. There is no clearly superior configuration of tools that delivers the best borrowing outcomes. Firms may want to consider whether they define their debt marketing objectives broadly enough, both to ensure good access to relevant information and to be talking with the right counterparties. Clearly, there is more information that firms access and the incremental effort to access it may not be considered worthwhile. With the benefit of hindsight that some borrowers recognised, the cost of the effort may be overestimated, and the long term benefits underestimated. As the debt crisis still continues at the time of writing this conclusion, it is evident that communication based on solid facts is a key tool with which to protect market access. Paying a higher price for borrowing will make a difference in some but not all circumstances.

7.5 Limitations of the study and avenues for further research

This study's limitations stem from its narrow context and point-in-time nature. As a study of marketing in the narrow and specialised field of corporate debt, its findings cannot be applied in other fields without substantial reservations. Even in other areas of debt products, such as the debt of financial institutions or public sector borrowers, debt marketing may exhibit different patterns. At the time of writing this section in 2012, the European Union remains in the grip of its government bond crisis. However, this study's findings do not offer tangible explanations regarding the current situation. One aspect of the narrow context is also the size of the sample comprising 23 firms. This means that only theoretical generalisations can be made.

Since this study was made at only one point in time, it cannot be excluded that responses would have been different if asked at another time. Consequently, the study can offer only limited information on how firms might develop their debt marketing over time, and what milestones could mark such evolution.

As an exploratory study, the author's research project has also uncovered unanswered questions that warrant further study.

The first suggested question concerns the rationale for the different debt marketing patterns. Given that the firms in the sample had made conscious choices to execute their debt marketing activities in the selected way, and given that there were quite different patterns, is there an objective way to measure and compare the success or effectiveness of these patterns in order to provide more practical recommendations to corporate funding managers regarding how to choose one pattern over another? This study avoided comparisons of debt pricing between firms because of the ambiguity of such data in the context of this study's research questions and strategy. However, the author hopes that the descriptions of the borrowing patterns could provide a way to categorise a larger sample of firms on which comparable pricing data would be available. As a contribution to further CMP research into corporate debt marketing practices this study suggests seeking such answers in order to give practical guidance to managers in charge of large firms' borrowings.

It has been established in this study that debt marketing patterns do not need to be stable over time. However, as this study was a point-in-time study only, there are no data on how often the patterns change or what effectively triggers such changes. A longitudinal study to understand better the drivers of change in marketing patterns would provide further understanding of how debt marketing could evolve. Such study could also help understand how firms could anticipate and prepare for changing their debt marketing patterns.

As this study suggests positioning the marketing mix as a categorisation of marketing activities and instruments, further research into what the subcategories of Product, Place, Price, and Communication can contain is still desirable. Such research could define more clearly Communication's content and status as a marketing mix category, which in some marketing contexts can be the most significant category.

Pels, Möller, and Saren (2009) observe that so far different research schools in relationship marketing have failed to explain why firms apply multiple marketing practices, and how managers may not only adapt to but also enact their environments. Particularly contrasting firms from emerging market environments with highly rated OECD country based firms, there were differences in practices which could be related to differences between environments. This study has also provided some observations on how firms try to manage their bank relationships to mitigate their reliance on confidence sensitive markets. Studying larger samples with more emerging markets companies versus companies from AAA markets, as well as studies of the particular firm-bank networks could shed more light on the reasons of multiple marketing practices and how these balance transactional and relational marketing.

In a study on how US based companies adapt their marketing mix in international marketing, Powers and Loyka (2010) found that distribution was the area with the greatest level of adaptation. Debt marketing may reflect this too. Frequently, borrowers appear to adjust delivery channels and methods to achieve standardised pricing or product formats. Studies on debt syndicate composition in different contexts could shed further light on how firms borrowing in multiple geographic markets adapt their debt distribution.

In the same vein, in a review of studies on marketing mix standardisation, Birnik and Bowman (2007, 307) found that the majority of studies indicated that pricing is one of the least standardised elements of the marketing mix. In the context of this study, there were a number of borrowers prepared to accept different pricing from banks versus institutional investors, thereby reflecting only limited standardisation. However, as firms' definitions of what constitutes good debt, pricing varied considerably. Studies on different pricing practices in different borrowing contexts, and how firms internally decide when pricing was successful, could help to understand better how rigidly or flexibly, and how successfully, firms pursue their debt pricing targets.

For a researcher interested in this study's findings regarding different patterns of debt marketing activities, the study may provide a theoretical framework for future quantitative studies on the subject. The key themes that defined the debt marketing practices (see Subsection 5.3) can be used to design surveys to gather data on debt marketing practices and patterns in volumes that could enable the study of possible links between debt marketing and borrowing outcomes, such as achieved volumes and pricing.

For researchers preferring a qualitative orientation in studying this field, in addition to earlier mentioned research gaps, there is a broad range of why questions about debt marketing patterns that still call for answers. The whole question of why borrowers choose their specific marketing patterns has only been lightly touched upon in this study. In-depth qualitative studies that explore how firms choose their debt marketing practices and patterns, and what criteria they use for these choices, could generate important findings about large firms' borrowings. How management understand their ability to influence debt outcomes under constraints such as capital market conditions or internal expectations and objectives, appears to be an area worthy of further research.

As stated in the previous chapter, observations of role ambiguity are well grounded in the interview data, even if they suffer from the weakness that they are implied from interview data in which interviewees are unlikely to have been very frank about their firm's deficiencies in this particular area. However, statements in the interview narratives still strongly imply that some ambiguities exist, and consequent behaviour may in some cases have led firms to miss borrowing opportunities. A study of the relationships, with data from relationship participants, could probably reveal more if firms genuinely missed borrowing opportunities due to misunderstanding their roles as sellers or buyers in given situations.

Lastly, the study of direct marketing expenses in a more detailed manner could bring new insights to understanding the elements of total borrowing costs of firms, and refine tools to compare the efficiency of firms' borrowing operations. Reasonable estimates of direct debt marketing expenses can be established from publicly available data. Such data could be used in quantitative studies with large samples to explore whether firms effectively differentiate between direct and indirect marketing expenses, and how this might show in their overall debt marketing.

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APPENDIX I

Questions test interview with Investor

Relational towards existing and prospective lenders

- What efforts (tactics) do use to establish bonds (ties) with debt investors, including banks?
- How do you gather and analyse information about existing and prospective lenders and terms available from them?
- What channels of communication do you use to reach existing and prospective lenders?
- How do you enable lenders to learn about your company?

Primary ties with debt investors

- How do you monitor the trust you seek debt investors to maintain towards your company?
- How important is it for your relationship building and maintain efforts towards debt investors that they feel in all aspects satisfied about the relationship with your company? What does it mean to you if it is important? How do you take it into account in your behavio0ur towards debt investors?
- How (via what channels) is attentiveness towards your company by prospective lenders developed?
- What does it mean for your company to have a reputation as a good borrower? How do you see yourself as different from your borrowing peers? Is there a different, and if yes, how would you describe it, between your company being a good equity investment and a good debt investment?
- What does your company consider as elements of a good borrower’s image?

Closing borrowing transactions

- How do you decide what instruments to offer, and how are prospective lenders’ expectations taken into account in such decisions?
- How are conflicts resolved in existing transactions or in negotiations of new transactions?

- How much do you seek specific feedback from end-investors on pricing and documentation before launching a transaction?
- How do you choose the distributors for your debt instruments?

Value of lender relationships

- What is the value for you in relationship with debt investors, and to what extent do you monitor or measure it?
- How does the perception of value of lenders and lending transactions affect the targeting of specific debt investors?
- Are prospective lenders valued as a portfolio or based or individually?
- What relationship benefits are factored into the targeting of specific debt investor relationships?

The context borrowing environment

- How do market conditions affect your targeting of specific lenders?
- How do you measure the relationship benefits to banks, and use these as a relationship development tool?
- How do you seek to mitigate the negotiation power of potential lenders?
- How far do you seek to exploit your negation power in a borrower’s market?

APPENDIX II

Questions of test interview with Issuer

- What efforts (tactics) do use to establish bonds (ties) with debt investors, including banks?
- How do you gather and analyse information about existing and prospective lenders, their preferences, and terms available from them?
- What channels of communication do you use to reach existing and prospective lenders?
- How do you enable lenders to learn about your company?
- How do you monitor the trust you seek debt investors to maintain towards your company?
- How important is it for your relationship building and maintenance efforts towards debt investors that they feel in all aspects satisfied about the relationship with your company? What does it mean to you if it is important? How do you take it into account in your behaviour towards debt investors?
- How (via what channels) is attentiveness towards your company (name recognition) by prospective lenders developed?
- What does it mean for your company to have a reputation as a good borrower? How do you see yourself as different from your borrowing peers? Is there a different, and if yes, how would you describe it, between your company being a good equity investment and a good debt investment?
- What does your company consider as elements of a good borrower's image?
- How do you decide what instruments to offer, and how are prospective lenders' expectations taken into account in such decisions?
- How are conflicts resolved in existing transactions or in negotiations of new transactions?
- How much do you seek specific feedback from end-investors on pricing and documentation before launching a transaction?
- How do you choose the distributors for your debt instruments?
- What is the value for you in relationship with debt investors, and to what extent do you monitor or measure it?

This is difficult to monitor, but very important still because CEZ needs the knowledge of who are prepared to lend to CEZ. Total availability in domestic bond markets, per issue, is estimated at CZK 6 billion.

- How does the perception of value of lenders and lending transactions affect the targeting of specific debt investors?
- Are prospective lenders valued as a portfolio or based or individually?
- What relationship benefits are factored into the targeting of specific debt investor relationships?
- What data do you use to assess the borrowing environment before you decide on a transaction?
- How do market conditions affect your targeting of specific lenders?
- How do you measure the relationship benefits to banks, and use these as a relationship development tool?
- How do you seek to mitigate the negotiation power of potential lenders?
- How do you exploit your negation power in a borrower's market?

APPENDIX III

Final list of interview questions

Dear Madam, Dear Sir

I refer to our telephone conversation, and thank you for your kind agreement to participate on my research on corporates' approaches towards activities related to debt funding.

As promised, I attach to this letter the list of my interview questions. I would like to discuss there with you in an interview, and in order to make the use of your time as efficient as possible, I submit these questions to you in advance for your consideration.

The list of questions is divided into three parts. The questions in the first part are about your organisation and your personal background. As you can see, I have tried to pre-fill them out where I believe publicly available information to be reliable. Please correct any mistakes that I may have made.

The second part contains open-ended questions where I ask you to provide more content on your approaches towards the previously mentioned activities. I would like to record your answers by writing them down or by recording them, as you deem appropriate.

The last set of questions consists of statements about certain debt funding related activities, and you are asked to choose between the two statements the one that in your view better reflect the approach of your organisation towards the mentioned process. None of these questions is supposed to have a correct or better answer. Rather, I hope to learn what large corporate borrowers consider as the statement the better describes the activity from their perspective. If you want, you can make your chosen statements already before our interview session.

If you so wish, the interview can be done in anonymity, both as to your person and the organisation you represent. The write-up of the interview, as it would appear in my dissertation will be submitted for your review in order that no confidential information is revealed. In case you choose anonymity, I would like to identify your organisation though the following attributes:

- …
- …

I would, however, as for your permission to share the name of your organisation with my supervisor and examiners, all of whose names I will provide to you. They will be bound by the same confidentiality as I am. This will allow them to better assess my research and its results.

I thank you for kind support.

With kind regards

Timo Teinilä

Part I – Borrower and respondent characteristics and background data

- Company name
- Company's industry and key financial indicators (to be assembled by interviewer prior to interview)
- Company's public credit ratings and their history, if company is publicly rated
- Name and position of interviewee
- Interviewee's experience in debt funding
- Company's gross debt position, detailed by instrument, currency and maturity, including disclosed information on undrawn credit lines, as of end of last reported financial year (to be assembled by interviewer prior to interview, from publicly available sources)

Part II – Borrowing outcomes

I kindly ask you to provide a short description of your view of the objectives followed by your firm in the following debt-related activities.

Debt investor relations:

- What does the analysis of your firm's credit by debt investors and banks mean for you?
- How do you choose investors for your debt investor targeting?
- Please discuss how you follow and measure the success of your borrowing activities (e.g. targets, benchmarks are used, .frequency of measurement)

Deal preparation:

- Please discuss how you decide to mandate arrangers for your debt issues?
- What meaning do obtaining and maintaining public credit ratings have for you?
- What constitutes for you advertising and promotion of your firm's debt?

Deal execution

- What principles do you follow in deciding on the syndication and underwriting of your firm's debt?
- How do you define debt pricing for your firm?
- What are your firm's principles for the structuring and documentation of its debt transactions?

Post-deal activities:

- What does investors' monitoring of your firm post a debt transaction mean for you?

Part III – Approaches to debt funding activities and processes

The following text makes statements about different activities involved in corporate debt funding. You are kindly asked to identify which statement within each pair of statements more closely represents the approach your firm takes in debt funding or debt investor relations.

Debt investor relations		
Our communication with credit analysts …	typically means responding to their questions	means pro-active addressing of credit analysts' main concerns
The establishment of new debt investor relationships (banks or institutions) typically…	follows from investors contacting us or our agents	results from our targeting of potential new debt investors
A particular debt investor's value to us means for us…	the attractiveness of the funding costs they can provide us with	the value the investor perceives in investing into our debt
Deal preparation		
Credit analysis ahead of a borrowing transaction or of a new debt investor relationship means for us…	informing investors about our borrowing objectives	satisfying the investor's possible information needs about our credit profile
We (intend to) have a public credit rating because we…	issue debt that requires public credit ratings	have it to support our image among credit investors
Advertising and promotion of our debt on an ongoing basis (not only new issues) consists mainly of…	issuance of prospectuses and other reports as required by relevant regulations	a range of activities to satisfy investors' information needs

We select a debt syndicate based on…	the depth and pricing of their other services to our firm	its placement power and services
We consider the mandating of a debt arranger role to a bank as…	our purchase of a debt service	the choice of sellers of our debt
Selecting a specific syndicate for our debt issue…	Signifies trust we place in it	should provide signals to investor’s
Deal execution		
In structuring and documentation…	we expect banks to present their proposals which we then accept or reject	we develop our own ideas on structures and test them with debt investors
In structuring and documentation…	we apply fixed documentation standards	we explore investors' preferences
We consider the pricing of our debt transaction a success when…	we achieve or beat our internal reference cost of borrowing	there is good market acceptance of the transaction
A loan drawdown signifies for us…	the acquisition of financial resources	the creation of an obligation to satisfy lenders
The price of our debt is…	our borrowing cost	is the investors’ perceived value of the debt instrument
The risk of our syndicate not being able to sell down the full amount of a transaction…	is a risk we pay the syndicate to manage, and thus, is primarily a concern of the syndicate	is a risk we seek to manage and monitor actively
Listing our debt is…	an additional cost of borrowing	an element of debt marketing
In structuring and documentation…	we consider it important to avoid terms that could make us make vulnerable to lenders' behaviour	we seek to protect lenders' trust in us
Post deal activities		
A syndicates’ commitment to our deal’s secondary market performance…	is mainly a matter between the syndicate and investors	is important for us
Post-transaction contacts with credit analysts are…	limited to responding to analysts’ questions	maintained pro-actively by us
The monitoring of the credit quality of our firm…	is an activity led by our debt investors	depends on our follow-up with investors

In light of the current credit market conditions, I also ask you to consider which questions, if any, in Part III, would you have answered differently in 2006?

I thank you for your time.

Timo Teinilä

APPENDIX IV

Descriptions of the case companies

Firm 1

- Privately owned (as opposed to listed or financial sponsor-owned)
- Capital goods producer, with a seasonal business
- EU country domiciled
- Global operations
- Turnover in excess of Euro 2 billion
- Funded and unfunded debt (including undrawn credit lines) of over Euro 600 million
- Diversified mix of debt instruments in use
- No public credit ratings

Firm 2

- EU country-based producer of industrial goods
- Publicly rated investment grade
- Turnover in excess of Euro 10 billion, and gross debt in excess of Euro 4 billion

Firm 3

- Business-to-business service provider based in EU and globally active
- Stock exchange listed
- Turnover in excess of Euro 1 billion

Firm 4

- Owned by strategic investors, not listed
- Utility, not cyclical, with somewhat seasonal business
- EU country domiciled, national activity, Euro based
- Turnover in excess of Euro 250 million
- Funded and unfunded debt (including undrawn credit lines) of over Euro 1,000 million
- Diversified mix of debt instruments in use
- Three, strong investment grade public credit ratings

Firm 5

- European property group
- Listed and publicly rated, sub investment grade
- Gross debt in excess of Euro 2 billion

Firm 6

- Infrastructure company, based in a European OECD country
- Stock exchange listed
- Publicly rated, investment grade
- Issuer of bank debt and bonds

Firm 7

- An oil and chemicals company based in the southern hemisphere
- Listed company
- Publicly rated, investment grade
- Debt in excess of Euro 1 billion

Firm 8

- Listed company
- Central European energy group with international activities
- Turnover in excess of Euro 5 billion
- Funded and unfunded gross debt (including undrawn credit lines) of over Euro 2,500 million
- Diversified mix of debt instruments in use
- Three, strong investment grade public credit ratings (S&P A, Moody's A2, Fitch)

Firm 9

- European basic industries company with global operations
- Total debt in excess of Euro 2 billion, including undrawn commitments
- Listed and publicly rated, sub-investment grade ratings

Firm 10

- European industrial group with a global brand and operations
- Total financial debt in excess of Euro 10 billion, including undrawn commitments
- Listed and publicly investment grade rated

Firm 11

- Asia-Pacific region based, global branded consumer goods group
- Turnover in excess of Euro 3 billion
- Three investment grade ratings
- Listed company
- Gross debt plus unused committed credit facilities in the region of Euro 2 billion

Firm 12

- Building materials company based in EU and internationally active
- Stock exchange listed, with public credit rating
- Turnover in excess of Euro 2 billion

Firm 13

- EU country industrial goods manufacturer with broad international operations
- Turnover in excess of Euro 2.5 billion
- Not publicly rated
- Listed company, with one significant minority owner
- Gross debt plus unused committed credit facilities at around Euro 1 billion

Firm 14

- Global software company based in North America
- Publicly rated, investment grade
- Debt in excess of USD 5 billion at end of fiscal 2008

Firm 15

- European integrated electric utility
- Not listed, publicly rated, investment grade
- Gross debt around Euro 2 billion

Firm 16

- Telecommunications operator in an EU country
- Listed, and publicly rated investment grade
- Gross debt in excess of Euro 1,000 million, including undrawn credit facilities

Firm 17

- Asia-Pacific region based services group
- Turnover in excess of Euro 3 billion
- Not publicly rated
- Listed company
- Gross debt plus unused committed credit facilities in excess of Euro 3 billion

Firm 18

- Southern European basic industries group with broad international operations
- Turnover in excess of Euro 1.5 billion
- Not publicly rated
- Listed company
- Gross debt plus unused committed credit facilities in excess of Euro 500 million

Firm 19

- Listed company
- Diversified chemicals, Western European country domiciled
- Global activity, Euro based, turnover in the region of Euro 10 billion
- Funded and unfunded gross debt (including undrawn credit lines) of over Euro 2,500 million
- Diversified mix of debt instruments in use
- Two, strong investment grade public credit ratings (S&P A, Moody's A2)

Firm 20

- EU country based, regulated utility
- Listed and publicly rated, investment grade
- Gross debt in excess of Euro 2 billion

Firm 21

- Provider of fleet related services
- Based in the southern hemisphere
- Sponsor owned
- Not publicly rated

Firm 22

- EU country based, worldwide leading airport operator
- Activities in several countries
- Stock exchange listed, no public credit ratings, and no publicly listed debt
- Turnover in excess of Euro 1 billion, with a planned capital expenditure programme around Euro 6 billion

Firm 23

- Leading media company in the southern hemisphere
- Publicly rated investment grade
- Listed company, with gross debt in excess of US$ 500 million equivalent

APPENDIX V

Cluster analysis on the binary choice data

The y-axis values show the matching coefficient values at which the firms or clusters were joined into new (bigger) clusters, and the x-axis points represent the 23 firms. The calculations as well as the drawing of the tree diagram were performed from the raw data in standard spreadsheet software without a specific program package, and in line with texts on cluster analysis (Punj and Stewart 1983, Aldenderfer and Blashfield 1984, Finch 2005, Borgen and Barnett 1987).

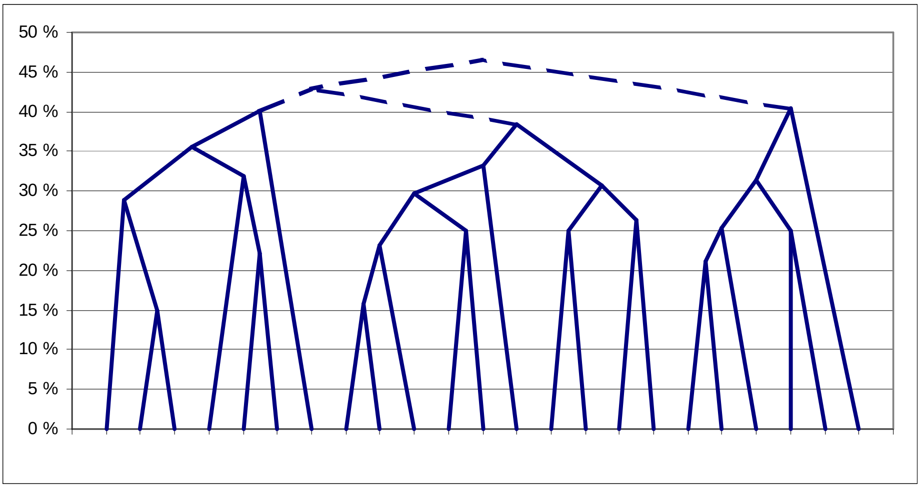

Figure – Tree diagram of clustering of the firms based on binary choice questions

Clustering was halted when the matching coefficient value between the clusters in the matrix reached a value that was higher than the average value in the original matrix. At that stage, three clusters were formed. The first included seven firms, the next ten firms, and the third six firms. The average matching scores between the entities within the three clusters were 34.3%, 33.6% and 37.4%, respectively. This means the average density within these clusters was 1.11–1.23 times the density of the whole sample.

Similarity matrix of binary data variables

	Credit analysis responding vs. pro-active	New debt relationship initiatied…	Investors value to us…	Credit analysis ahead of deal	Having public rating	Advertising & promo narrow or braod	Select syndicate	Mandating as purchase of channel	Selecting syndicate trusr vs signal	Structuring led by…	Structuring fixed or flexible	Pricing success	Drawdown significance	Price is cost or value	Syndication risk is whose problem	Listing is a cost or marketing	Structuring to avoid costs or to build trust	Syndicate secondary market commitment	Post-deal contacts analysts	Monitoring led by…
Credit analysis responding vs. pro-active		5	3	-3	0	-3	-6	3	-3	5	3	-5	2	1	5	9	3	-1	17	9
New debt relationship initiatied…			5	-1	4	3	4	9	3	-1	9	1	-4	3	-1	-1	1	-7	7	7
Investors value to us…				-3	2	1	8	-5	5	-3	11	-1	10	17	-7	1	11	-5	9	9
Credit analysis ahead of deal					-4	-1	4	-3	-13	-1	-3	9	-6	-5	7	7	-11	13	-5	3
Having public rating						0	-5	4	6	-6	6	-2	3	0	-2	-2	2	-4	2	2
Advertising & promo narrow or braod							2	5	-1	7	1	13	-4	3	3	3	-7	1	-1	-1
Select syndicate								-4	2	-4	4	8	1	10	-2	0	0	6	0	1
Mandating as purchase of channel									5	-3	-1	7	2	-3	5	1	-5	-1	5	3
Selecting syndicate trust vs signal										-1	9	-3	8	11	-5	-9	9	-7	3	-5
Structuring led by…											1	1	-4	-1	3	3	-3	1	-1	-7
Structuring fixed or flexible												-1	6	13	-3	-7	11	-9	5	9
Pricing success													-4	1	5	5	-9	11	1	-1
Drawdown significance														8	-8	-4	10	-4	8	4
Price is cost or value															-9	-5	13	-7	7	3
Syndication risk is whose problem																11	-11	9	-1	5
Listing is a cost or marketing																	-7	9	7	3
Structuring to avoid costs or to build trust																		-13	5	1
Syndicate secondary market commitment																			1	1
Post-deal contacts analysts																				11

APPENDIX VI

Binary choices by question and cluster

In the figure, the y-axis denotes the percentage of cluster members choosing the right hand alternative for the questions which are represented by the x-axis points in the order of the questions' appearance in Part III of the question list. For example, on question 1, all respondents (100% on the y-axis) in Cluster 1 chose the right hand alternative, and in Cluster 2, all respondents chose the left hand alternative. The right hand alternatives in Part III were those considered to represent more the view of a borrower as a seller of its debt as opposed to a purchaser of a debt service.

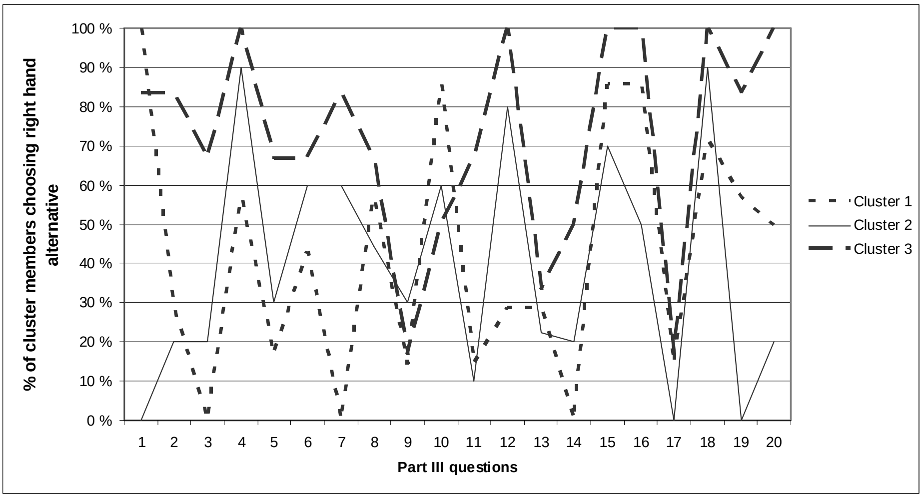

Figure – Binary data choices by question and by cluster

APPENDIX VII

Summary description of the debt marketing patterns of the firms

Summary description of the debt marketing of full-range marketers

Names not matching the numbered names

	Firm A	Firm B	Firm C	Firm D	Firm E	Firm F	Firm G
Listed bonds or debt programs	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Driver of debt issuance	Liability portfolio management	Liability portfolio management	Liability portfolio management	Liability portfolio management	Liability portfolio management	Liability portfolio management	Liability portfolio management
Debt investor relations function	Dedicated debt investor relations	Extension of equity investor relations	Dedicated debt investor relations	Dedicated debt investor relations	Extension of equity investor relations	Extension of equity investor relations; well-known brand	Dedicated debt investor relations
Contact with institutional debt investors	Active; knows and speaks directly with key institutional investors	Active, also regular access to top management	Direct and regular contact with key institutional investors	Intensifying contact which used to be too limited	Not very active direct dialogue, but active communication via conferences, equity IR and other channels	Established institutional investor base at home and in the US, no need for big effort to find debt buyers	Knows them well; multiple communication channels
Bank's role in debt placement	Organiser and channel member; not making the sales pitch for the debt	Dealer, source of ideas; not willing to rely overly on banks	Dealer and distributor	Dealer and distributor	Organises Organizes and supports the sales pitch	Find investors, manage syndicate	Support image building in debt markets
Publicly rated	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Emphasis in pricing approach	Market	Market	Internal	In the past more internal, but shifting to market view	Market	Market	Market

Summary description of the debt marketing of Asset-driven issuers

	Firm I	Firm J	Firm K	Firm L	Firm M
Listed bonds or debt programs	No	Yes	No	Yes	No
Driver of debt issuance	Considerable portion of debt funding with leases that match client specific investments	Liability portfolio management, and significant asset matching debt (project financing)	Capex driven, limited refinancing	Mortgage-backed debt an important tool	Debt raising closely linked to asset generation and replacement
Debt investor relations function	Extension of equity investor relations	Extension of equity investor relations	Relies on equity investor relations	Not much effort beyond banks	Not beyond banks
Contact with institutional debt investors	For time being not important	Banks find investors, otherwise reliant on standard disclosure	Not actively sought	Very limited	Only bank lenders
Bank's role in debt placement	Find investors, borrower sells the story	Arranger sells the debt	Introduces new investors	Main providers of debt; find other debt investors for firm	Buyers of the debt
Publicly rated	No	Yes	No	Yes	No
Emphasis in pricing approach	Shifting from spread to coupon view (internal)	Can vary between deals as deal specific; more market view	Market	Market	Market; not currently benchmarking

Summary description of the debt marketing of Intermediated delegating borrowers

	Firm N	Firm O	Firm P	Firm Q	Firm R	Firm S
Listed bonds or debt programs	No	Yes	No	Yes	Yes	Yes
Driver of debt issuance	Liability portfolio management	Liability portfolio management	Liability portfolio management	Liability portfolio management	Liability portfolio management	Liability portfolio management
Debt investor relations function	Extension of equity investor relations	not discussed	Extension of equity investor relations	Dedicated debt investor relations	Extension of equity investor relations	Extension of equity investor relations
Contact with institutional debt investors	Active, but more from the equity angle	not discussed	Limited	Moderate intensity	Very limited	Limited
Bank's role in debt placement	Find investors and distribute	not discussed	Find investors and distribute	Find investors and place debt	Comprehensive; arranges and sells	Sells the debt
Publicly rated	No	Yes	No	No	Yes	Yes
Emphasis in pricing approach	Market	Market	Market	Market	Internal	Market

Summary description of the debt marketing of Intermediated involved borrowers

	Firm T	Firm U	Firm V	Firm W	Firm X
Listed bonds or debt programs	Yes	Yes	Yes	Yes	Yes
Driver of debt issuance	Liability portfolio management	Liability portfolio management	Liability portfolio management	Liability portfolio management	Liability portfolio management
Debt investor relations function	Extension of equity investor relations	Extension of equity investor relations	Well-known equity provides a natural base	Run through equity investor relations	Extension of equity investor relations
Contact with institutional debt investors	Moderate	Limited, investors drive it	Knows key institutions well, but no particular targeting	Limited	Limited, but increasing emphasis
Bank's role in debt placement	Comprehensive; arrange and sell	Dealer and lender	Commoditised	Commoditised (pre-selection)	Find investors and distribute
Publicly rated	Yes	No	Yes	Yes	Yes
Emphasis in pricing approach	Market	Market extension of equity investor relations	Actively challenges banks (internal)	Market	Market

APPENDIX VIII

The Debt source diversification score and its calculation

In order to describe the diversity of a firm's debt, it was necessary to provide a quantitative measure of the diversification. Since there is no access to complete lists of investors in a firm's debt, the most feasible alternative is to measure the diversification by source. For this purpose, the debt was split into the following categories:

- Straight bank debt (includes other debt, as well as debt classified as that from financial institutions, since most typically this means banks), including undrawn bank commitments, since these have been negotiated, and are available
- Senior capital markets debt (bonds, private placements)
- Commercial paper
- Asset-backed and other secured debt (different securitisations, mortgages, operating and financial leases)
- Subordinated and hybrid debt (instruments with a junior raking and or equity features, such as convertible debt)

While many firms report categories differently, the above categories can be considered to represent debt instruments that typically cater to different types of investor and investment purpose, and therefore, tapping one of these markets does not necessarily cannibalise access to other markets.

Once the sums were calculated, their proportion of the total was calculated, and then the overall score, as shown in the example table below.

Table – Appendix VIII – Example: Calculation of the Debt source diversification score

Example: Debt source diversification score calculation	Amount, €	% of total	weight raised to 2nd power	
Straight bank debt	10	16.7 %	2.8 %	
Senior capital markets debt	15	25.0 %	6.3 %	
Commercial paper	25	41.7 %	17.4 %	
Asset backed and other secured debt	4	6.7 %	0.4 %	
Subordinated and hybrid debt	6	10.0 %	1.0 %	
Total debt of the firm, €	60		27.8 %	sum of weights to 2nd power
			72.2 %	100% minus above
		Debt source diversification score =	**81.4 %**	(72.2%/.8)^2, to scale from 0% to 100%, and to even out distribution

As shown above, in this example the firm in question obtains a Debt source diversification score of 42.5%, whereby 100% is the theoretical maximum. This calculation is a reasonable way to provide a comparison of the relative diversification of debt sources of the companies in the study's sample. If firm A has a higher score than firm B, then at least by this measure, A has more diversified debt sources when sources refers to generic types of debt.

However, while this score on this scale appears high, it does not mean that it is a good or bad score, only that the firm uses quite a diverse range of markets to raise debt. Even a borrower with a low score can have a good diversification of investors, if it manages to tap a broad range of investors in the specific market. Furthermore, a firm with a high score can still be very concentrated in terms of individual investors or one specific market.

Arithmetically, the initial scores were biased towards the higher end of the minimum-maximum scale. This means that when a firm's debt starts to sway to a second, third or further source, the value of the Debt source diversification score initially rises faster. Once the values were raised to the second power, they became more evenly distributed across the scale.

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