The Role of Communication in Investor Relations Practices

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『経 営 論 集』74 号（2009年11月）抜 刷

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1. Introduction

Since the turn of the century, the landscape for global financial markets and publicly held companies has changed dramatically, and so has the operating environment for investor relations professionals. A host of corporate scandals resulting from the post-1990s meltdown on Wall Street have brought the investor relations function to the top of the corporate agenda, as companies scrambled to rebuild investor confidence.

Changes in the business and regulatory environment have forced investor relations professionals to deal with not only the investing public but other constituencies as well, particularly the powerful forces of the financial news media. In this edgy era of financial information, investor relations professionals are no doubt struggling to communicate corporate news effectively.

Against this backdrop, the investor relations (IR) function is increasingly involved in activities traditionally handled by public relations (PR) and media relations professionals and communicating with many of the same constituencies (Argenti, 2002, p. 143). Thus, a solid coordination between IR and PR is of utmost importance. And yet, this does not seem to be the case in many companies with a gap existing between the two professions.

This paper attempts to identify various communication problems on the part of IR professionals and looks into the reasons why a gap remains between IR and PR. The paper then argues for a better coordination between the two, with a particular emphasis on the need for an enhanced role of communication in IR practices.

2. What is Investor Relations?

The National Investor Relations Institute (NIRI), the leading U.S. professional organization, defines investor relations as “a strategic management responsibility that integrates finance, communication, marketing and securities law compliance to enable the most effective two-way communication between a company, the financial community, and other constituencies, which ultimately contributes to a company’s securities achieving fair valuation” (NIRI, 2003). As this definition illustrates, investor relations is both a financial discipline and a communication function. It clearly emphasizes not just communication but “two-way communication,” a concept well-known to public relations scholars.

However, the field of investor relations is rather undeveloped from the communication theoretical perspective. Petersen and Martin (1996) note that “theory building studies of investor relations as a function of corporate public relations are rare in the communication scholarly literature.” In fact, according to Laskin (2005), communication abstracts have references to only two academic publications on investor relations dated 1992 and 1996.

Under such circumstances it is possible to hypothesize that investor relations practitioners themselves will be unlikely to have strategic communication education or expertise, will be likely to distinguish themselves from corporate communication or public relations functions in their respective organizations, and will be likely to avoid communication tasks in their day-to-day activities (Laskin, 2005). As evidenced later, there is indeed not much communication expertise in the investor relations practice today.

Despite demanding from investor relations to uphold “the most effective two-way communication,” why is it that the practice of IR lacks knowledge and expertise that comes from the communication research? And with that, why can it be argued that IR and PR should be coordinated, or even converged? Before discussing these issues, it may be appropriate to take a brief look at the evolution of investor relations and the traditional role of public relations.

3. Evolution of Investor Relations

Investor relations emerged into its own in the 1960s, often associated with the so-called dog and pony shows for sell-side analysts and retail investors, usually held at the offices of securities brokerages (Silver, 2004, p. 70). At the time, the important clients were stockbrokers with lots of rich clients and individual investors.

However, from the 1970s through 1990s, the money managed by institutional investors exploded. According to Silver (2004, p. 70), assets of equity mutual funds (let alone insurance companies and pension funds) jumped to $4.31 trillion in 2000, from a mere $37.5 billion in 1975, making institutional investors an even more important constituency for IR practitioners.

As the volume of institutional assets grew, more investors were beginning to call on companies to disclose information not only on financial performance of the companies but also on non-financial aspects of their activities because share prices were increasingly affected by non-financial factors. According to a report from Ernst & Young's Center for Business Innovation, investors give non-financial measures, on average, one-third of the weight when making a decision to buy or sell any given stock (Light, 1998). Examples of non-financials include the quality and execution of corporate strategy, management credibility, innovativeness, and the ability to attract talented people.

The importance of non-financial measures grew even greater in the wake of the accounting scandal involving U.S. energy giant Enron, which erupted in late 2001. The fall of Enron sent shock waves through the stock market, shook investor confidence and sparked clamors for substantive reforms in such areas as financial reporting, corporate governance and executive compensations (Allen, 2002). Alan Towers, president of TowerGroup, a New York public relations firm, notes, "Enron's blow to investor faith is the Watergate of business. Trust will no longer be assumed. Companies will have to earn it with behavior, communications and leaders that inspire confidence" (Allen, 2002).

Thus, investors increasingly consider non-financial aspects in their assessment of companies. Among these intangible factors, corporate social responsibility (CSR) has received a particular amount of attention (Hockerts & Moir, 2004). The traditional role of IR professionals is to ensure that a company's share price is fairly valued, and thus the effectiveness of IR might be regarded largely from the perspective of that of securities analysts or by volatility in share price. "However, as investor interest in CSR grows, the role of investor relations expands," Hockerts & Moir (2004) argue.

Louis Thompson, former president of the National Investor Relations Institute (NIRI), agrees, saying investors need to know, simply, how a company makes money. "To do so requires that companies disclose information beyond financial performance, to include the growing importance of non-financial factors and intangible assets that today make up a significant portion of a company's market value," Thompson notes (Allen, 2002).

In fact, the market capitalization of public companies is increasingly determined by intangibles. The investor perception of intangibles means that a stock could trade higher or lower, depending on how investors perceives a company, especially in terms of the company's response to its multiple stakeholder publics. IR practitioners today, therefore, need to address issues which impact multiple stakeholders such as employees, customers, the community, the media as well as shareholders and investors.

Among those stakeholders, the media deserves a particular amount of attention because the stakeholder perception of a company is in large part formed through the lens of the financial news media. This is where PR professionals could play a role. "The resulting obligation of management and directors is to make sure that the IR team and the PR team are in fact on the same team. As a result, we are now entering what could be called the 'Golden Era of Investor Relations and Public Relations'," Silver (2004, p. 61) argues.

4. Traditional Role of Public Relations

Public relations is defined as the management function that establishes and maintains mutually beneficial relationships between an organization and the publics on whom its success or failure depends (Cutlip, et al., 2006, p. 5). It involves two-way communication to foster relations with its multiple stakeholder publics, such as employees, customers, investors, governmental agencies, the community, and the media.

The concept of modern-day public relations is said to have originated in the United States, and its rise as a profession correlated with the rise of mass circulation newspapers and magazines from 1900 through 1917 (Silver, 2004, p. 67). Powerful business interests in the early 1900s employed public relations to defend themselves and their monopolies against muckraking journalists and increasing interest in government regulation (Cutlip, et al., 2006, p. 2). The emphasis was on telling their side of the story and on counterattacks designed to influence public opinion and to prevent increased governmental regulation of business. In this environment, one-way persuasive communication dominated, and mutually beneficial two-way communication was virtually nonexistent.

But as companies came to realize they could not survive unless they take public interests into account, they began to adopt two-way public relations to build relationships with their stakeholder publics. Under "two-way symmetrical communication," which is a standard communication model for today's public relations, an organization uses research and dialogue to manage conflict, improve understanding, and build relationships with publics (Grunig & White, 1992). With the symmetrical model, both the organization and publics can be persuaded, and both also may change their behavior.

When it comes to the traditional role of public relations, it is important to remember that PR practitioners in those days operated in an era before the huge upsurge of the electronic financial media and the Internet. They navigated a world dominated by general circulation newspapers and magazines, many of which were susceptible to skilled PR campaigns, perhaps backed up by advertizing dollars (Silver, 2004, p. 69). “As a result, corporate PR emerged first, and separately from IR, and was thought of more in connection with marketing, government relations, and general corporate image campaigns,” Silver (2004, p. 69) notes.

Until recently, PR practitioners were largely regarded as news release writers, more tactical than strategic, while IR officers as the disclosers of company numbers and handlers of the dog and pony shows for investors. But this should not be the case anymore. “Today’s IR and PR officers must understand regulatory mandates and obligations that affect their jobs, while at the same time alertly fielding questions from institutional investors, analysts, and the media,” Silver (2004, p. 64) emphasizes.

The question then arises as to what specific activities IR officers are actually doing in day-to-day business, what working relationships they have with PR practitioners, and what overall operating environments they are placed in. In the following sections, we will look into these questions by reviewing findings of IR surveys conducted in the United States and Japan.

5. IR Practices in the United States

Laskin (2005, 2009) conducted a survey of Fortune 500 companies -- an annual list of the 500 largest firms in the United States, published by Fortune magazine -- to identify major investor relations practices at corporations. The questions asked in the survey were: activities of IR officers, their target audiences, their place in organizational structure, the education of IR officers, and what problems IR officers face.

When asked in the survey what specific departments manage the IR function, 65% of respondents answered that their organizations have a dedicated IR department. The other 35% did not have a dedicated IR department. Instead, 27% responded that the IR function at their organization is handled by the finance/treasury department, while only 8% answered it is managed by the communication/public relations department.

The survey also asked IR officers what department should ideally carry out the IR functions. Several officers emphasized the importance of the financial component of the IR function, no matter what department handles it. “The IR team should have direct access to the CFO (chief financial officer),” and “finance should take the lead,” explained two respondents.

As for specific activities of IR officers, almost all (93%) respondents specified that they are most often involved in two activities -- responding to requests from shareholders, analysts or stockbrokers, and giving road-shows, presentations and conferences, the survey shows. In contrast, the least common activity among the IR officers is mass media communications, with 19% of respondents claiming that they never participate in mass media-related activities.

In terms of the perceived importance of different publics for IR officers, institutional investors took top spot, followed by stock analysts and brokers, internal publics (employees and management), stock exchanges, government (regulatory organizations), private investors, and mass media. Here again, mass media ranks the lowest, confirming the earlier finding that mass media communications are the least common activity among IR officers.

Regarding the educational background of IR officers, more than 85% of all respondents have business related education in finance, accounting, management or marketing. But only 10% have a communication related education such as journalism or public relations. Almost 60% of all IR officers have a graduate education, with MBA (master of business administration) being the most often mentioned degree.

The survey also sought to find out what practitioners consider to be the biggest problem facing investor relations today. The majority of respondents (40%) mentioned complexity of regulatory requirements that IR officers have to comply with. Moreover, 26% stated that the largest problem resides within their respective organizations where they have to struggle for support of senior management, recognition of IR as a key function of the company, and showing the value that IR brings to the table.

6. IR Practices in Japan

A similar survey is conducted annually in Japan by Japan Investor Relations Association (JIRA), a private non-profit organization working for proliferation and improvement of IR activities in Japan. JIRA's latest survey (JIRA, 2009) in March 2009 was sent to all 3,864 listed companies in Japan, of which 1,119 firms responded.

According to the survey, almost all companies (more than 97%) reported that they practice investor relations, and 73% have a department staffed with full-time IR officers with 13% answering that they have a dedicated IR department. But the majority (almost 40%) responded that the IR function is handled by the corporate/management planning department, while 23% reported it is managed by the communication/public relations department and 7% by the finance/treasury department.

The IR function in Japan used to be handled almost exclusively by the finance/treasury department, but it has increasingly been managed by the corporate/management planning department in recent years, according to JIRA officials.[1] Behind that trend is the fact that more top managers have come to realize that investor

1 Based on an interview with JIRA officials on March 26, 2009.

relations is part of their job. In fact, 95% of companies surveyed reported that top executives at their firms participate in IR activities, such as seminars and conferences for investors or analysts.

The corporate/management planning department in Japan is usually staffed with some of the best and brightest people and deals with a wide range of policy planning issues related to overall management, finance, and strategy. The staffers are generally considered in-house management consultants and enjoy direct access to top management.

JIRA's survey also showed that, of those companies which have a department staffed with full-time IR officers, 17% reported that there are other departments that have supporting IR staffers. The majority (52%) of these respondents indicated that such staffers work in the finance/treasury department, 41% in the corporate/management planning department, and 19% in the communication/public relations department. The respondents were asked to make multiple selections where appropriate.

As for the professional background of IR officers, 41% answer they have previous work experience in finance/treasury and/or sales, 38% in corporate/management planning, and 26% in communication/public relations. Regarding training, more than 80% of IR officers received training in finance, accounting and law, but nothing in communication or public relations.

When asked to rate the importance of IR activities, respondents reported that the most importance task is to ensure that companies' share price is fairly valued, followed by tasks to promote understanding of companies' business and to build a relationship of trust with shareholders and investors. The survey also found that the majority of respondents (57%) specified that the biggest challenge for investor relations today is how to communicate non-financial aspects of corporate values effectively.

Regarding the perceived importance of target audiences for IR officers, another survey conducted by the Keizai Koho Center (2006), a nonprofit organization, showed that domestic institutional investors top the list, followed by securities analysts, overseas institutional investors, domestic private investors, credit-rating agencies and foreign private investors. A notable absence is mass media, representing a clear indication that mass media communications are the least common activity among IR officers in Japan as is in the United States.

7. Need for IR-PR Convergence

Major findings of the surveys above suggest that investor relations is still largely treated as a financial function rather than a communication function of an organization. Despite the definition of investor relations calling for "the most effective two-way communication between a company, the financial community, and other constituencies" (NIRI, 2003), the reality is that there is not much communication expertise in the IR practice today. It is still heavily geared to the financial community, and little effort has been made on the part of IR officers to build a relationship with other constituencies, especially with the media.

Why does the situation remain as it is? Petersen and Martin (1996) place the blame on chief executive officers (CEOs) of organizations who "do not perceive investor relations to be part of the public relations function." Of course, investor relations and public relations are not the same function. But investor relations should serve as a "relationship management activity rather than just publishing financial information and thus, has a close resemblance to public relations and strategic communication practices in general rather than to accounting or financial reporting" (Laskin, 2009).

Both IR and PR not only target internal and external audiences and rely on the media and face-to-face communications to help a client achieve measurable goals, but they are also essential to today's "consultant" model of high-end, corporate public relations (Londner, 2002). As JIRA's survey shows, the biggest challenge for investor relations today is how to communicate non-financial aspects of corporate values effectively. Without good communication, investor relations can hardly meet that challenge, and therefore, a closer coordination, or even the convergence of IR and PR is needed.

Former NIRI president Thompson says the "Chinese wall" between IR and PR should be eliminated. "All roads of communication lead to shareholder value ... Consequently, we'll see PR and IR being managed under one umbrella. For the last decade or more, the emphasis in IR has been more financial than communication. As non-financial communications are more and more proven to affect stock price, we're going to see the pendulum swing the other way," Thompson argues (PR Week, 2001).

However, corporate reality is that the pendulum has yet to swing in that direction. As indicated in the surveys previously discussed, there seems to be little coordination between IR and PR. In Japan, for example, there are supporting staffers in departments other than the one staffed with full-time IR officers. But the majority (52%) of respondents reported that such staffers work in the finance/treasury department, while only 19% responded that they work in the communication/public relations department.

In fact, a survey sponsored by Business Wire, Investor Relations Business and Clientize.com finds that most companies lack an integrated reporting structure for their communications function despite the recognized need for a uniform message across IR, PR and marketing platforms (Business Wire, 2002). "PR and marketing departments report independently of IR at 71% of companies," the survey found, adding that nearly all respondents reported an increase in press coverage of IR-related issues, which consequently raised the perceived level of the function's importance within companies.

Despite a heightened awareness of the need to synchronize the corporate message, there are still gulfs to be bridged for a true IR-PR convergence. Londner (2002) notes that one prominent gulf is perception. "There is a perception on the behalf of IR professionals, regardless of how inaccurate, that PR professionals are not businesspeople and don't understand finance or investing," explains Deborah Radman, managing partner at KCSA Public Relations, an agency with both IR and PR practices (Londner, 2002).

To beat the conceit of IR professionals that PR people do not understand the basic language of IR, Radman advises PR professionals to prove their financial intelligence, demonstrate their understanding of investing, and how the PR function fits into the success of a company from a business standpoint. In order for them to do so, sufficient training and education will be indispensable.

At the same time, IR professionals will also need to learn that investor relations would indeed benefit from a merger of both business and communication expertise (Laskin, 2009). As illustrated in the surveys above, IR officers currently have little opportunity to develop communication expertise, although they are well trained in finance, accounting, or management. Former NIRI president Thompson, expressing concerns about communications produced by the investor relations departments, argues that "Most good writers labor to ensure they are communicating clearly and precisely while conserving on words. Companies need to follow the same practice in writing for investors" (Allen, 2002).

8. Conclusion

Marilyn Vollrath, president of Vollrath Associates, proposes that investor relations is a "hybrid," explaining that it is essentially a communications function that requires a specialized knowledge base. "The skill sets required for IR are the strong communications skills acquired through PR training, combined with the financial knowledge acquired through a business degree," Vollrath says (Londner, 2002).

Today, everything that happens in the life of a public company affects perceptions of investors and other stakeholder publics. Against this backdrop, not only the financial news such as earnings announcements and analyst reports, but also non-financial metrics, such as quality of management, relationships with customers, new product launches, innovation and more all have a magnified impact on stock movements. IR professionals must strive harder to communicate a variety of corporate news effectively and precisely.

In recent years, there has been a flattening of stakeholder publics, and the line between IR and PR has blurred. IR professionals are beginning to focus on business fundamentals as well as industry trends. PR professionals are aware of new product specifications and their financial implications. "This convergence is even more evident when you see sell-side research analysts and shareholders routinely quoted as industry sources, showing up on broadcast programs as expert commentators, and when trade shows are attended by investors and analysts along with the press” (Londner, 2002).

Consequently, messages to shareholders, media, business partners, and employees alike, are becoming more consistent. The continued convergence of IR and PR is therefore needed to make investor relations a vital, overarching function for effective communications at corporations.

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(2009年９月８日受理)