

Contextualisation of the function of investor relations from an institutional and private investor perspective

Nirvana Bechan*

Abstract

There has been a lot of uncertainty and instability in world financial markets in recent times. National economies have slowed down and stock markets have been on the downturn globally, leading to the current 'global financial meltdown'. In an attempt to address this crisis, national governments were forced to respond with acts such as the National Credit Act in South Africa, and the federal bailout of banks and corporates such as Goldman Sachs and General Motors in the United States. This global crisis has had a huge impact on how investors screen organisations before they decide where to invest their money. Investors or shareholders have very specific information needs. They control the resources that enable a company to operate and expand. The aim of this study is to contribute toward contextualising the function of investor relations from an institutional and private investor perspective, by assessing what the needs of this community are, other than financial performance. This study adopts a quantitative approach where a questionnaire was developed and 40 large institutional and private investors responded on what they believe are the most important non-financial aspects of an organisation's communication with the investment community.

Key words: Corporate reputation, investor communication/public relations, investor relations, shareholders, stakeholders

INTRODUCTION

There has been much uncertainty and instability in the world financial markets ever since 9/11. Some analysts call it the worst financial crisis since the Great Depression of the 1930s. Organisations, large and small, have come to experience the impact of the 'global financial meltdown' as credit facilities dried up and global trade declined while markets crashed worldwide. There has been a slow-down of national economies and new national laws have come into effect regarding all aspects of financial affairs. In South Africa, for example, the credit act was implemented and in the United States (US) organisations such as General Motors, Goldman Sachs and JP Morgan Chase experienced the effects of the federal government bailout.

Research problem

Since 9/11, it has emerged that investors are no longer only looking at financial results anymore, but also at how organisations conduct themselves in the communities in which they operate. Aggressive stakeholder groups have emerged and are now scrutinising all the functions of an

* Nirvana Bechan is an associate professor in the Department of Public Relations Management, Cape Peninsula University of Technology, South Africa. E-mail: bechann@cput.ac.za

organisation. Rensburg and De Beer (2003) claim that organisations need to gain trust and stay legitimate by defining who they are and by making sure they have stakeholder engagement that is symmetrical.

Aims and objective of the study

The primary aim of the study is to contribute toward contextualising the function of investor relations by assessing what the needs of the investment community are, other than financial performance. The study also undertakes to investigate what organisations need to consider, in order to develop and maintain a successful investor relations stakeholder strategy. The focus is therefore on communication tools, channels and messages that can enhance the relationships with current and prospective investors, and thus improve the reputation of the organisation and increase the value of its stock in already difficult financial times. These aspects are the function and responsibility of the corporate communication/public relations specialist.

There is currently a very small literary hive of knowledge surrounding the study of investor relations within the context of corporate communication/public relations. The objective of this study, then, is to present new information that will be of value to current scholars and practitioners researching this field, as well as future research/practice that looks to build on this area.

Methodology

This study adopts a quantitative approach to assess what non-financial aspects of information investors require. A questionnaire was developed and 40 large institutional and private investors responded on what they believe are the most important non-financial aspects of an organisation's communication with the investment community.

BACKGROUND TO INVESTOR RELATIONS

Investors are one of the primary stakeholder groups in any organisation, as they provide the base capital for the growth and development of the organisation. When individual companies require excess amounts of capital to expand their operations, one way to do this is to become a publicly listed company. Once they have conformed to all of the regulations of the regulatory body for listing, such as the Johannesburg Stock Exchange or the Dow Jones, they are then in a position to trade their stock with the public. In essence this means that shareholders can buy these shares for their own investment purposes and thus increase the funds the company has at its disposal for growth and expansion.

Investors (or shareholders, as they are sometimes called) have very specific information needs. They look out for information that makes them buy, sell or keep their shares. They control the

resources that enable the company to operate and expand. It is therefore extremely important that organisations provide the most relevant and useful information to these investors, in order to benefit from their investments. Besides providing information, this process also entails developing and maintaining good relations with this stakeholder group, in order to benefit from long-term opportunities. These are functions that organisations cannot afford to neglect, now more than ever, as we experience the uncertainty and volatility of the global economic recession.

The function of investor relations is generally the responsibility of a finance director or manager who is aided by communication specialists. These communication specialists put together the financial information organisations need in order to communicate with their investors, using various channels of communication such as annual reports. In addition, communication specialists implement a variety of strategic initiatives, such as roadshows, in order to develop and maintain good relations with investors.

Investor relations is associated with communication with financial stakeholders, who mainly consist of shareholders and the financial community (analysts, brokers and the financial media). Davis (1995: 72) explains that investors in the US turned to the stock markets in the 1960s in the hopes of making their fortunes. These investors obtained information on listed companies from former financial journalists who wrote press releases and exchanged financial information with newspapers. At that point in time, communication with investors was almost non-existent, except where Chief Executive Officers (CEOs) had to answer questions from shareholders.

Schoonraad (2004: 21) sites the 1980s in the US as the time of mergers and takeovers in American businesses. She states that investor relations only really became a full-time business operation in the 1990s and grew as a specialist profession because of

- the growth of the financial media;
- deregulation, globalisation and the impact of electronic trading and information systems;
- growth in institutional investment;
- the development of corporate governance rules.

Laskin (2009: 1) classifies investor relations according to three phases: the communication era (1945–1970), the financial era (1970–2000) and the synergy era (after 2000). The communication era was the first time in Western history that companies began to see the benefit of showing an interest in the needs of investors, and they started creating investor relations departments to compete more actively for shareholders and their investments. Americans were experiencing a post-World War II boom and had additional cash that could be invested. Public relations (PR) personnel, publicists or members of the press were tasked with managing investor relations at this stage. They had little financial expertise and did very little (if no) research at all into understanding shareholders. Communication was one-way and the focus was on getting the name of the company which they represented, into the media. This type of practice began to tarnish the image and credibility of PR in the financial community. Investor relations in this era lacked managerial and strategic skills.

In the financial era, there was a shift from individual to institutional investors. The focus shifted from PR to financial and accounting professionals. Investor relations now came to life under the supervision of the Chief Financial Officer (CFO). The focus came to be on institutional investors and financial analysts, not the individual investor. Communication was now two-way, with the aim of increasing the company's share price through persuasive communication (Laskin 2009: 2).

According to Laskin (*ibid.*), investor relations is now in the era of 'synergy'. Investor relations practitioners are required to have both communication and financial skills. They are supposed to provide top management with feedback that affects the overall corporate strategy of the organisation and they must understand profits and losses. In addition, Laskin (2008: 2) states:

More and more, the focus of investor meetings shifts to intangible and non-financial aspects of business. A recent drop in Apple's stock price, caused by concerns that CEO Steve Jobs looked thin, comes to mind once again, to emphasize the importance of non-financial information to a company's valuation.

According to Laskin (2007: 2), the function of investor relations is to allow companies to compete for capital in an open and competitive market. The National Investor Relations Institute (NIRI) (Laskin 2008: 2) 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.

This definition has come a long way from the 1996 NIRI definition, which stated that investor relations was a 'marketing activity' that had to portray a company in such a way as to positively affect its value. The current definition includes the expertise of 'communication', 'law' and 'finance'. It is indicative of the changes in the business world from 2000 onwards, when we experienced a surge in corporate scandals and subsequent changes in corporate governance laws. This is why the new NIRI definition of investor relations states that organisations must present a 'fair' value or a true value of a share, as opposed to a 'high' value which would include the element of volatility and instability.

STAKEHOLDERS OF INVESTOR RELATIONS

Investor relations personnel must be able to recognise and understand the needs of the various stakeholders within the field, so as to maximise opportunities and initiatives for effective communication. Stakeholders of investor relations, according to Michaelson and Gilfeather (2003: 1), include:

- Regulators – these are bodies that oversee stock exchanges, broker deals, investment advisors, mutual funds and public utility holding companies;

- Public corporations – this legal entity is separate and distinct from its owners. Such a corporation can own assets, incur liabilities and sell securities;
- Analysts – these are the employees of brokerage firms or institutional investors. They study companies and then make recommendations;
- Stockbrokers/Financial consultants – these individuals are registered and licenced to solicit business for a commission. They manage brokerage accounts on behalf of individual investors. They can buy and sell orders of stocks, mutual funds, bonds, bond funds, futures and commodities. They can/cannot/do not offer advice;
- Portfolio managers – these individuals are responsible for the portfolios of individual or institutional investments such as mutual funds, pension funds, profit-sharing plans, insurance companies etc. They manage assets and select which assets may be the most profitable over periods of time. Their responsibility lies with the institution where they are employed, rather than with the investor;
- Financial media – sometimes the general media carry articles on financial news, but the financial media (such as *Business Day*, *Financial Mail* and *Wall Street Journal*) carry information specifically for the investment community. These publications also exist on-line;
- Advisory services – these are organisations that compile information about companies and then publish it for the benefit of the investor.

Martin (2005: 8) distinguishes between two types of investors:

- Retail investor – otherwise known as the individual investor who invests on his/her own behalf;
- Institutional investors – these would include investment companies, mutual funds, brokerages, insurance companies, pension funds, investment banks and endowment funds.

OBJECTIVES OF INVESTOR RELATIONS

The value of investor relations lies in its contribution to the bottom line of the business. More specific objectives would include to

- improve the value of the stock by preparing and disseminating transparent and informative disclosures to shareholders, which adds credibility to the company through effective communication;
- increase trading volume and thus capture a bigger piece of the capital market;
- provide useful feedback to the board after communicating with and surveying analyst coverage;
- build positive relationships and trust with investors;
- build positive linkages with the broader investment community, including financial media and analysts, and thus have more control over information being circulated about the organisation;
- create and maintain investor confidence in the company;
- attract new investors by selling the company as an attractive investment opportunity.

INVESTOR RELATIONS AND THE REFLECTIVE PARADIGM OF PUBLIC RELATIONS

The empirical research and theoretical underpinning of this study are situated within the context of the reflective paradigm of public relations. Holmstrom (2004: 121) maintains that the reflective paradigm of public relations is based on late-modern sociology and includes elements such as multi-stakeholder dialogue, symmetrical communication and triple bottom-line reporting. The reflective paradigm is concerned with the perceptions of individual stakeholders and the belief that top management need to know this at all times and need to work this knowledge into organisational strategy. It includes new checks and balances that organisations need to follow in order to remain legitimate amongst all stakeholders concerned. Holmstrom (2005: 501) states:

Organizations establish routines to relieve the risk involved in daily decision-making: the finance director follows specific routine procedures to take into consideration social and environmental audits and ethical investors; the logistics director automatically checks foreign suppliers' approaches to child labor; and the production director complies with internationally acknowledged standards to ensure that the production lives up to sustainability certification.

These elements are meant to build trust and confidence in the perceptions that stakeholders hold of organisations and to comply with new rules of good governance. The latest NIRI definition of investor relations, as already cited in this article, concurs with the reflective paradigm in terms of governance, compliance and two-way communication.

Steyn (2009: 528) explains the role of the public relations strategist as the 'reflective strategist' who serves as the link between the organisation and the environment. She states that the reflective strategist provides management with a societal view on the organisation's position in a larger context. The reflective strategist is meant to scan the environment and gather information of concern to the organisation. This information is then fed into the strategy formulation process. Thus, the reflective strategist is responsible for informing management of society's or stakeholders' views, values and expectations regarding what they deem socially and environmentally responsible behaviour. In the context of this study, this will be the job of the investor relations practitioner. Steyn (2006: 6) describes this practice as 'enterprise strategy', where the organisation is led by the corporate communication/public relations strategist to demonstrate its commitment and contribution to the 'people', the 'environment' and 'profits'. Steyn (2009: 528) adds that management is influenced to respond to stakeholders in a way that is directed toward 'two-way communication' and building trusting relationships with stakeholders on issues related to the organisation's strategy. Steyn (ibid: 529) states:

The reflective strategist acts as an advocate for key stakeholders by explaining their views to management, making the latter aware of the impact of their behavior on organizational policies and strategies on key stakeholders and social interest groups.

This study aims to point out what the needs of the investment community are, so that investor relations practitioners and scholars are better able to inform top management of the views of this particular stakeholder group, and thus to initiate or enhance symmetrical communication. In terms of the theoretical underpinning of this study, this is known as the ‘reflective paradigm’.

POSITIONING INVESTOR RELATIONS

Laskin (2008: 1) asserts that the practise of investor relations is the highest-paid area of specialisation in PR, judging from several surveys conducted globally. Crisis management and reputation management followed second and third respectively in this study. CEOs view investor relations as a key business area and not an auxiliary, as they would with community relations and public affairs. Laskin (ibid: 4) states that PR expertise is underutilised where investor relations practice is concerned. He states that two-thirds of investor relations practitioners come out of a finance or an accounting background, and lack skills and expertise in communications and public relations. Most investor relations practitioners or departments report directly to the CFO, rather than the CEO. While it is essential for investor relations personnel to have expertise in finance and accounting, non-financial aspects cannot be ignored.

There is a significant body of evidence that shows the link between effective communication in investor relations and its contribution to the bottom line in business. Laskin (2007: 2) states that successful investor relations is about building and creating a competitive advantage for organisations to compete for capital in the marketplace. The National Investor Relations Institute (ibid.) states that investor relations is about ‘enhancing corporate value through effective communication’.

Much of investor relations is about building trusting relationships between an organisation and the investment community. According to Minow (Laskin 2007: 8), ‘[m]arkets do not run on money, they run on trust’. Strong relationships between an organisation and its investors are important in times when external factors such as the timing of communications and the disclosure of certain elements that may not be of benefit to the organisation (e.g. when financial losses are disclosed). Laskin (ibid.) states that building relationships with shareholders increases investor confidence and trust and that information is interpreted through these relationship lenses. Garland (in Martin 2005: 8) contends:

Investor relations is vital to a company’s financial success, especially now that intangible assets such as management quality, product quality, and innovativeness – comprise so much of a company’s worth ... Such non-balance sheet value resides in the Street’s perceptions. It is no coincidence that *Fortune*’s list of ‘Most Admired’ companies averaged nearly 45%, versus 18% for the S & P from 1990 to 2000. Reputation adds value.

Even though the link between communication and investor relations is evident, many organisations and CEOs do not see this as a function of corporate communication/corporate affairs or public relations. Traditionally, the contribution of corporate communications/public relations to the area

of investor relations has included the design of annual and quarterly reports, profit statements, press releases and the communication of Annual General Meetings. According to Schoonraad (2004: 26), the job of investor relations requires a knowledge of corporate finance, law, economics, public relations, marketing, investment banking, corporate structure, how markets work, experience and knowledge in financial media, and experience and skill in writing financial reports. It is for these reasons that investor relations is sometimes placed in the charge of the Financial Director or the CEO. This situation should hold serious considerations for PR/corporate communications education curriculums. Graduates need to be sent out with sufficient knowledge and adequate understanding of the financial world, if they are to be respected and taken seriously as professionals by the investment community.

It is essential for the investor relations team to have direct access to top management. Schoonraad (ibid: 33) states that the people or person in charge of investor relations must be fully informed with regard to top-level policy and planning. Ideally, this person should report to the Financial Director and be supported by the Communications/Corporate Affairs Manager, to get the best of both disciplines. Schoonraad (ibid: 34) states that any communication with financial stakeholders must adhere strictly to statutory requirements, and the investor relations person should therefore understand and be able to cope with these requirements.

The effectiveness of communication can help move the stock price up or can help decrease the risk of a stock. Good investor relations can also push up the demand for a stock, which can lead to better share prices. Poor communication can have the opposite effect. Laskin (2007: 8) states that the way an organisation communicates can make or break a deal, adding: 'Investor relations helps a share price to achieve a fair valuation and helps a company to tell a story about its future.'

TRENDS IN INVESTOR RELATIONS

Investor relations personnel must always check the accuracy of analysts' coverage (ibid: 29). They must communicate with brokerage firms and analysts to make sure that their organisation is covered by the major advisory services that analysts and portfolio managers use as reference tools. They must also initiate direct communication with actual investors such as portfolio managers, rather than always viewing matters through the lenses of analysts and journalists. This can be done via direct mail, marketing to investment groups and corporate advertising.

Journalists are the gateways and monitors of information about company performance. Lewis (1999) states that in studies conducted on business journalists, there is a close correlation between the rating of companies' press relations and journalists showing favour to them. He states that 'the coverage of a company in the business pages is as strongly influenced by the company's communications effectiveness as by its business performance' (Lewis 1999). In other words, being on a bad footing with the business media can only harm the public perception of the company.

When looking at where influential investors source information from, Harrison (2007) cites the following US research findings:

- Personal experience
- Major business magazines
- Articles in national newspapers
- Word of mouth
- Articles in trade journals
- Television news
- Articles in local papers
- Television current affairs programmes.

From this list, it appears that people are prone to constructing their perceptions and opinions of companies based on either their own personal experience, or the experience of others as they encounter them through the media, or through word-of-mouth communication. With the new social media trend that allows any ordinary citizen to freely publish their views worldwide, one investor's bad experience can potentially destroy the carefully managed reputation of an entire organisation.

Dan Flick (in Strongin-Dodds 1998), head of investor relations at Eastman Kodak, states: 'The message should always be where management strategy is going and explaining why this is an intelligent place to be. The thing you're invariably punished for by the financial community is uncertainty.' According to the Internet site I-Net Bridge (2007), 'now, more than ever, investors are placing a premium on accessing quality information both timeously and consistently from corporates. Simplified views of financial data and summarized highlights are more effective ways to present your investment vision than drowning investors in incomprehensible data.' In addition to this sentiment, Pettit and Morcos (2005) of Hill and Knowlton state that information to investors needs to be available in a way that is quick and easily accessible. They point out that the risk of an investment increases as less information is available about that security.

According to a study conducted by Hill and Knowlton (2004: 3–5), Wall Street investors are rewarding organisations that place ethical and safety issues high on their agendas. Selcraig (2006: 101) states that investors are increasingly screening organisations before deciding where to commit their money. He adds that even brokers and insurance companies are hesitant about doing business with corporate clients who are not socially responsible. Selcraig (ibid.) points out that investors are now scrutinising organisations for the following:

- Good environmental protection policies;
- Equal employment opportunities;
- Good treatment of employees;
- Sensitivity to their surrounding communities.

It is noteworthy that all of these factors pointed out by Selcraig fall within the scope of the reflective paradigm of public relations and triple bottom-line reporting that have already been discussed.

MEASUREMENT OF INVESTOR RELATIONS

According to Michaelson and Gilfeather (2003), investor relations personnel can measure and evaluate the impact of their work through the following means:

- Number of reports written about the company;
- Quality of the analysts' coverage (based on the reputation of who writes the reports);
- Media coverage (influence on stock price).

In addition, the perceptions of the various sectors of the investment community can also be measured regularly by surveys that ask for specific knowledge about the company, the likelihood of investors holding onto stock, and ascertaining whether a stock is volatile or not.

METHODOLOGY

This study replicated an annual survey conducted by the internationally based public relations company, Hill and Knowlton (2006), entitled 'Return on reputation'. The survey was conducted among financial analysts based in the US, Canada, the United Kingdom, Europe and Asia. The research aimed to investigate the extent to which financial analysts take reputation into account when rating the potential of a business. This survey includes all of the elements of good corporate governance that feature in the triple bottom line of business reporting. Theoretically, this is referred to as the reflective paradigm of PR. The survey was used for this study, modified for the South African context and presented in the form of a questionnaire. The questionnaire used in this study attempts to describe the current perspectives and views held by institutional and private investors on what information, other than financial performance, they consider when buying shares on the stock market.

A quantitative approach in the form of a questionnaire was adopted, but consideration was also given to the fact that respondents may have wanted to include additional perspectives that were absent from the survey. Provision was thus made within the 16 questions for some qualitative responses.

The questionnaire was prepared in both hard and soft copy, to give respondents the option to answer whichever form best suited them and so to maximise the successful rate of return. Permission to send out the questionnaire was first sought from the respondents, either telephonically or via e-mail. Once permission had been obtained, the questionnaire was immediately dispatched. Leedy and Ormrod (2005: 185) state that the biggest drawback of questionnaires is that they are often not completed by the originally intended sample population. This factor was taken into consideration and the researcher made many follow-up checks with respondents so as to prevent this from happening. The time frame from initial contact with respondents to receiving the completed questionnaire was three months. During this time frame respondents were sent frequent reminders

to complete the questionnaire (in either hard or soft copy), and hard-copy questionnaires were collected in person.

The successfully completed questionnaires were analysed quantitatively and the findings thus appeared statistically. Microsoft Excel was used to capture the data in various information fields and filters were added to derive the results in percentage value. The answer to each question was converted to a percentage value in order to gain a holistic view of the situation.

Financial analysts and individual investors who deal in amounts of over R100 000. 00 per trade, were targeted. The bigger and better-established financial companies were selected in order to lend credibility to the study. Out of the 60 questionnaires sent out, 40 were returned completed. The findings of this study are based on these 40 responses, which include responses from all the major banks operating in South Africa, Excalibur Wealth, Liberty Life, Sharenet, Metropolitan Life, Allan Gray, Old Mutual and Trinity Holdings.

The 16 questions asked, dealt with the non-financial aspects of a company's reputation such as corporate governance, stakeholder communication and employee relations. The outcomes of this survey can assist organisations to better manage their investors, as the global business world undergoes a shift away from a purely financial focus to a more multi-dimensional approach.

FINDINGS

Once all of the findings were calculated, they had been grouped into three focal areas:

- Issues affecting corporate reputation
- How the actions of top management affect reputation
- Effective investor communication.

Issues affecting corporate reputation

Respondents were asked to indicate what single factor they believed (excluding financial performance) most influenced investors' confidence in a company. The top three results were:

- Quality of management (35%);
- Ability to deliver on promises (27.5%);
- Transparency (17.5%).

The fact that 'transparency' was deemed highly is in line with the general call worldwide for increased corporate accountability. This comes in the wake of corporate scandals such as the Enron fraud case. The findings reflect a need for top-quality management personnel who can deliver, on behalf of the organisation, on its promises.

Investors were asked what the other important factors are (excluding financial performance) that influence investor confidence in a company. Respondents were allowed to choose more than one option. The most common responses were:

- Truth in communication;
- Financial reports being delivered regularly and on time;
- Good crisis management;
- Positive staff relationships;
- A good risk profile and track record.

Most of the factors cited are related to corporate governance, and indicate that investor priorities are in line with the general move on the part of businesses worldwide towards more ethical corporate governance, as identified in the literature review of this study. It is worth pointing out that they also expressed concern about good staff relations.

Respondents were asked what factors, other than poor financial performance, caused them to give a negative rating to a company. The most common responses were:

- Bad service record;
- Poor corporate ethics and mismanagement by the board;
- Poor labour relations;
- Untruthful communications.

Bad customer service was the most common response, indicating that investors consider customers to be important stakeholders, whose treatment can significantly influence investor perceptions and market movement. Lewis (1999) states that the public are now expressing increasing interest in companies' performance that goes beyond branding and the products presented to them. To this end, the public (including investors) are looking 'to use their consumer power to reward "good" companies and punish "bad" ones' (Lewis 1999).

Respondents were asked which aspects of corporate governance most influence investor assessment of a company.



Figure 1: Aspects of corporate governance that influence investor assessment of an organisation

Transparency in reporting (32.5%), living up to promises (21.6%) and investor confidence and trust (20.8%) were the issues most selected by investors from the choices provided. Transparency was selected as the most important factor, indicating that ethical corporate governance needs to be adhered to in order to maintain investor support. In a 2005 study conducted in Switzerland (Centre Info 2005), researchers looked at whether corporate governance mattered to Swiss financial analysts. The findings indicated that ‘corporate governance is increasingly recognized as a major contributor to a company’s performance’.

How the actions of top management affect reputation

Of the respondents, 92 per cent stated that the reputation of top management was either very important or important when they made a judgement on investing in a company. They stated that the reputation of the CEO in particular is extremely important, with 95 per cent stating that the CEO should be dismissed if his/her behaviour has a negative impact on a company’s reputation. The majority of the respondents (44%) felt that the CEO should be allowed only four consecutive bad quarters before being dismissed. This indicates that CEOs have a very limited time frame in which to prove themselves before investor confidence is compromised. This shared opinion indicates that investors are prone to quickly withdraw shares if they fear there is a hint of risk in terms of top management’s performance.

Respondents were asked what aspects of a CEO’s leadership are considered most important when evaluating their performance.

From the list of choices offered, the top three responses were:

- Execution of company strategy (25%);
- Focus on profitability (20.8%);
- Attention to customers (17.5%).

The findings indicate that investors are keeping a watchful eye on the ability of the CEO to successfully lead and manage the company in terms of both strategy and making profits. It therefore stands to reason that a CEO has to be a highly specialised individual who has the ability to manage multiple tasks and issues with a great deal of business acumen. We also see that customers are considered an important stakeholder group, again indicating that management needs to focus on good relations with this group in order to maintain investor confidence.

Respondents were asked what were the most important ways for a CEO to repair a damaged or weakened reputation.

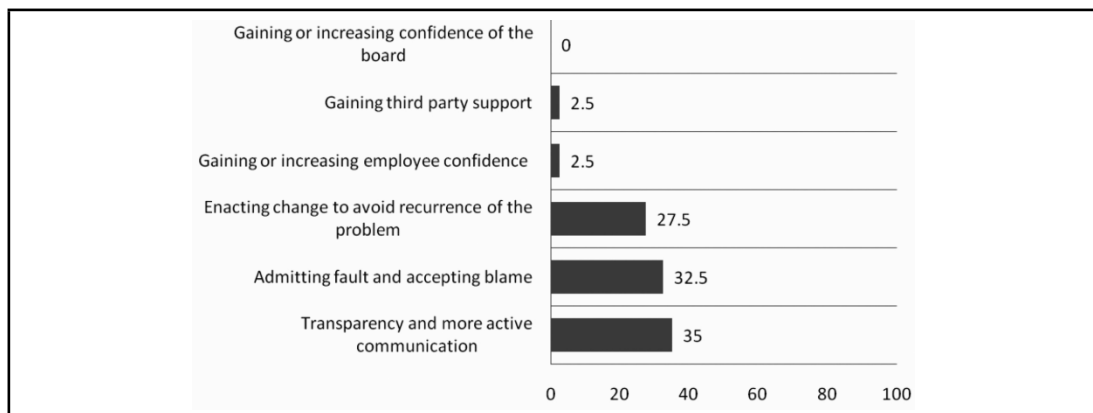


Figure 2: Ways in which a CEO can repair a damaged or weakened reputation

From the list of choices illustrated above, respondents overwhelmingly stated:

- Transparency and more active communication (35%);
- Admitting fault and accepting blame (32.5%);
- Enacting change to avoid recurrence of the problem (27.5%).

Transparency comes up as a top consideration for investors. This indicates that effective communication is extremely important to investors and helps build trust, in the light of many corporates filing for bankruptcy as a result of non-transparency, fraudulent activity and poor governance (Enron, for example). It is interesting to note that no respondents felt that gaining the confidence of the board was a factor to be considered. This may indicate that CEOs do not necessarily need the support of the board in order to maintain a successful company reputation.

Effective investor communication

Communication with the investment community is a vital element in winning the trust and confidence of investors. An overwhelming 98 per cent of respondents indicated that they were likely to lower their ratings of companies where sufficient information was not available to them. Without access to relevant information, analysts cannot make an accurate assessment of a company. There is a general perception that when companies do not make information available and accessible, they are trying to hide something. This ultimately undermines the trust between the organisation and its stakeholders.

When asked where most of their information on a company is sourced, most respondents indicated:

- Articles in the business media;
- The company website;
- Customer research.

The results reveal that well-timed and well-placed media releases, strong relationships with business journalists and carefully formulated websites can create positive sentiment with investors. It is interesting to note that investors look at customer feedback before deciding to invest in an organisation. This finding underscores previous research in which investors indicated that they take the perceptions of customers seriously.

When investors were asked what type of communication methods they preferred, most replied as follows:

- Annual reports;
- Company presentations to groups of analysts;
- One-on-one meetings with company leadership.

The results suggest that next to access to extensive information provided in the annual report, investors place a high value on face-to-face communication. There is, therefore, room for investor relations personnel to engineer more customised communication between individually targeted members of the investment community and their company leaders.

When asked what the most important issues are to communicate to the investment community, other than financial performance, respondents stated:

- Clear path or strategy;
- New product or service developments;
- Changes in senior executive team.

From this finding, it seems that investors want to be more aligned with organisations that have clarity in terms of managements' decisions on the way forward. Clear and effective communication in this regard is therefore vital.

When asked whether companies should listen more to the views of analysts concerned with their sector, the following results were found: (setter delete Table 3 in graphic)

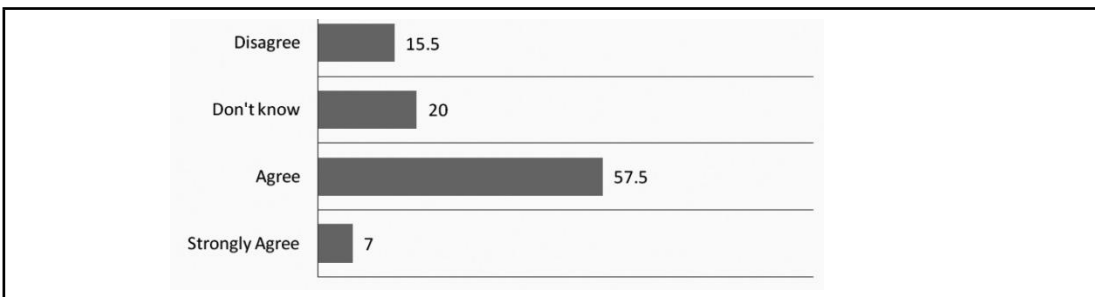


Figure 3: Organisations need to listen more to the views of analysts concerned

This finding indicates that investors are somewhat divided between listening to analysts and making their own decisions. The finding is indicative of the fact that shareholders as individual stakeholders are now more empowered and in control of their own decisions and rely less on the advice of external commentators than they did before. Shareholder empowerment could be attributed to technology and mass media making the buying and selling of shares more accessible to the ordinary citizen.

When asked how often they would like to receive communication from a company, the respondents appeared to prefer a ‘keep-in-touch’ mentality, to frequent communication. They showed a preference for quarterly or monthly communication, as indicated in Figure 4.

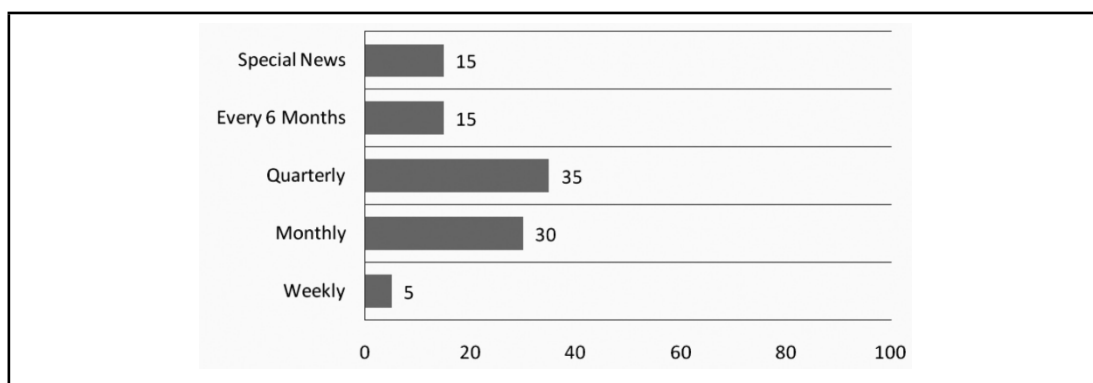


Figure 4: Frequency with which investors would like to receive communication from organisations

When asked if a company that fails to look after its reputation will ultimately suffer financially too, 95 per cent of respondents replied in the affirmative. From a specialist communication perspective this response was expected, as it confirms the link between corporate reputation and investor confidence.

CONCLUSION

The aim of the study was to contextualise the function of investor relations by assessing the information needs, other than financial performance, of the investment community. The literature review indicated that there has been a definite paradigm shift in terms of the information needs of investors. In the past, investors were solely focused on financial reports. Now they are demanding triple bottom-line reporting instead.

The most notable findings of this study are that investors believe organisations need to be more transparent, to comply more with the rules of corporate governance, to continually strive to improve

customer service and satisfaction, and to initiate more face-to-face contact with institutional and private investors.

The latest NIRI definition of investor relations and the reflective paradigm of public relations place 'compliance' and 'good governance' high on the agenda for organisations. The findings of this study confirm the literature findings. If organisations are to be taken seriously by institutional and private investors, they need to act and report in accordance with the rules of good governance and transparency in business reporting.

Respondents cited the experiences of customers as having a powerful influence in the investment community. It is thus important that organisations take this stakeholder group seriously. It is up to the 'reflective strategist' to continually monitor this group in their context and to feed this information back to top management on a continuous basis, so that it can be factored into the organisation's business strategy.

Respondents expressed the need for more frequent face-to-face communication with organisations. This finding correlates with the reflective paradigm that advocates for more symmetrical communication between the organisation and its stakeholders. Organisations need to take advantage of this finding, as it can provide a potentially beneficial avenue to positively influence and manage this group. It is strongly advised that companies conduct research into the experiences and needs of each of their stakeholder groups, in order to gain refined information which is more suited to their individual needs.

The literature findings reveal that it is necessary for educators in the field of PR/corporate communication to place greater emphasis on the role of the financial PR/corporate communication practitioner, in order to develop individuals who are better equipped to meet the demand for investor relations specialists. These would be individuals who have the best of financial and PR/corporate communication skills and understand how to read a rapidly transforming world, in which markets, demanding stakeholders and technology are changing everything around us, all the time.

The results of these findings can be used to develop formal investor relations policies and strategies for organisations and scholars, and thus build on the existing body of knowledge in the field of investor relations. It would be valuable for a future study to look at what activities investor relations personnel perform and what they report on, as a complementary analysis to this study.