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The role of the mass media in investor relations

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Abstract

Purpose – The purpose of this paper is to observe the investor relations (IR) process from the perspective of media sociologists.

Design/methodology/approach – The focus of the piece is the changing role of the financial news media in equities markets. It is based on two lengthy periods of research into the part played by communications in investment in the London Stock Exchange. The research looked at three sets of participants and three stages of the communications process: financial public/IR and the IR function, financial journalists and news reporting, and professional investors and their evaluation processes. Much of the work involved semi-structured interviews with over 100 high-level participants.

Findings – The findings suggest a slow decline in the importance of financial news media in the investment process. However, financial news also continues to play a significant role in trading in the city and can, at times, still have a powerful impact on investment patterns. Consequently, all sides – companies, IR practitioners, analysts and investment managers – continue to target and consume it.

Originality/value – The paper introduces readers to theories and research methods used in the adjacent research field of media and communications.

Keywords Mass media, Financial information, Equity capital, Investors

Paper type Research paper

This piece introduces readers to theories and research methods used in the adjacent research field of media and communications. Based on work in media sociology it is intended as a piece to stimulate practitioner thinking. The case study material offered comes from two lengthy periods of research (1998-1999 and 2004) on the role of media and communications in the equities (FTSE AllShare) market of the London Stock Exchange (LSE). Enquiry sought to explore the impact of financial public relations (FPR) and traditional media (print, broadcast, news wires) coverage on mergers and acquisitions, individual share price movements, and more extreme market movements such as bubbles and crashes. In so doing, the work attempted to merge theory, from media sociology, with empirical work focusing on market participants.

The research, therefore, looked at three stages of the communication process: the production and dissemination of financial information, media coverage and "media-source relations" in the market, and the use of financial media by professional investors. In order for the financial media to play a significant role in the investment process, investor relations (IR) must target it, journalists must relay that information, and analysts and investment managers must act on it. While parts of the research relied on the generation and collection of quantitative data much of it also involved depth and semi-structured interviews with senior participants. Over 100 such interviews, predominantly with senior investor (financial public) relations practitioners, financial journalists and investment managers[1].

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The producers of financial messages: companies and communications practitioners

The first question to tackle is: how is the financial media regarded as a means of communicating information by IR practitioners and their client companies? The findings here are rather mixed. On the one hand, financial news media appear to be of decreasing importance to the professional communicators of financial messages. On the other hand, it is still appears to be central to much market communications and, therefore, is regarded as something quoted companies ignore at their peril. To see where media fits into the communications mix see Figure 1.

The accounts of practitioners and journalists suggested a steady decline in the importance of financial news media in the investment process over recent decades. There are several reasons for this. First, was a tightening up of information regulation. Greater self-regulation by the LSE, government acts on company disclosure, and a strengthening of financial watchdogs reduced the scope for releasing price-sensitive information into the public domain via news outlets. Second, the rapid expansion of electronic information services after "big-bang" made many aspects of financial news media redundant. News cannot compete in terms of quantity or speed of information transmission. Third, was the continuing decline of the retail investor as an influential force in the LSE. UK pension and life fund institutions grew to dominate the market and were then joined by overseas banks and institutions. Estimates currently put retail holdings in the LSE at less than 15 per cent which is significantly smaller than most other international stock markets. Since retail investors are often highly dependent on financial news for investment information their own decline has had consequences for how financial news is itself considered.

This was clearly relayed in interviews. In terms of communications practitioners the industry oriented itself towards "IR" as opposed to "FPR". As interviewees described their activities, one significant difference in practice was that FPR focused primarily on media relations and IR on private communications with institutional investors. As one

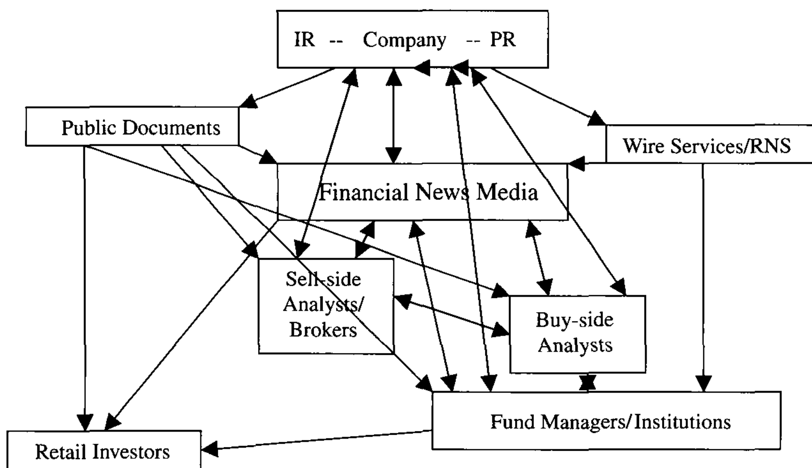

Figure 1.
Lines of communication in the FTSE AllShare of the LSE

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practitioner explained (anonymous IR practitioner interview, 1998), in relation to the development of IR:

> By around 1980 the term "investor relations" began to appear, almost imperceptibly, within corporate affairs departments... It was no longer the 25,000 shareholders in Bournemouth and Bristol and Edinburgh that mattered any more. Rather, it was these fund managers... The take-over battles of the 1980s and 1990s made this abundantly clear to the company – that a few institutions owned the company and could make the decisions that affected its future.

As the chairman of one top FPR company put it (anonymous PR practitioner interview, 1998):

> The private investor, most of the time, is now regarded as an irrelevance. 90 per cent of shares are now held by institutions, so private investors are generally ignored. So we concentrate our efforts on institutions[2].

Many financial journalists felt the 1990s was a period in which they were becoming second-class citizens. Access to the CEO and finance director of a company had become more restricted. Journalists were no longer invited to the first (or even second) rounds of presentations made by companies to the city. They got the information after fund managers and analysts. As one financial news editor put it (financial news editor interview, 1999):

> There is also the fear that the PR is a barrier between you and the source that you want to get to. And the CEOs who are happy not to go through the filter of the PRs are becoming less and less. There are very few now and there is a sense of losing something there.

In fact, as studies by Marston (1999) and Holland (1997) revealed, when it comes to the dissemination of financial information, companies consider private meetings/disclosure to be considerably more important than public meetings/disclosure.

At the same time, however, there was still a strong sense amongst practitioners and senior company management that the financial news media had to be constantly managed. In the first place it was clear that financial journalists were in regular communication with analysts, fund managers and other players in the investment community (Figure 1). That private interchange between journalists and other third parties and investors could not be ignored. As one MD of public relations in a FTSE 100 company said (anonymous interview, 1998):

> But what is quite apparent is that journalists and analysts swim in the same waters. Journalists increasingly write stories based on analysts' reports and comments.

As another put it (anonymous director of public relations interview, 1998):

> They [analysts] get feedback from the institutions and we find out what arguments are weak and which are strong and we go back and work on our messages accordingly... At the same time the press are also talking to the analysts. The press is going to the market and asking what they think about all this.

There was also a common feeling that media exposure was important for the general management of company and/or CEO/management team reputation. As one consultant and ex-fund manager explained (interview, 2004):

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> I'm told, for example, that when the *FT* and *Sunday Times* and others do profiles of business leaders they are very popular. And somebody said to me "look there's a queue". In other words, people are desperate. This is a classic way of improving the image of the company.

This certainly makes sense considering that in most investor surveys, the opinion of the chief executive and senior management of a company are either considered the most important or second most important factor in making investment decisions (MORI, 1998, 2000).

Several interviewees on all sides (management, IR, investor) spoke of the way share prices were promoted and expectations managed through the financial news media. According to one company chairman (anonymous interview, 2004):

> Now I'm a great believer that "shares are sold not bought"... What tends to happen is that they [fund managers] build up a prejudice to buy or sell from a number of calls they are getting or a number of articles they are reading – factors that they are aware of... It's triggers. Most people need a trigger to make an investment. In the end there are lots of external triggers.

Although regulation had reduced the scope for releasing price-sensitive information via the media several interviewees acknowledged it still went on. As one fund manager explained (anonymous interview, 2004):

> You know the rules roughly. You roughly know instinctively how far you can go and how far you can't go. Look at contrasting companies. BT plays it straight down the line. They never trail information ahead of results but Vodaphone always do. Ditto Shell and BP. Shell play it absolutely straight – not done them an awful lot of good I think. But BP are very adept at managing the results beforehand and if they know there's going to be a change they are very good at making sure the market knows beforehand. So, there's two contrasting ways of doing it. There's a classic case of using the press to manage people's expectations of up-coming results or any up-coming information of any kind. So in that respect the press has become more important. It is one of the ways companies manage their relations with investors.

Perhaps, what was most important for companies was the ability to manage bad news situations and crisis moments. All communications practitioners were aware of the potential damage that could result from negative news coverage of a company or its products. As one group corporate affairs director volunteered (anonymous interview, 1998):

> Keeping something out of the papers might be the most significant thing we do all year... If you're in an area like banking, half your work might involve keeping stuff out of the media, taking on negative stories and so on.

The importance of effective news management is also vital during takeover activity. It is thus a time when FPR and IR practitioners can build reputations and experienced practitioners are in high demand. As one former advisor and regulator (interview, 1998), argued:

> I have been in companies where we did not deal with the press as well as we should have done... By the time we came to the critical bit, the institutions said they didn't know anything about us. We had lost the press battle and we were ignoring the press. We had taken the high-handed city attitude that who cares what the press says. You will not find anyone in the Square Mile with that kind of attitude now.

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For each of these reasons it is deemed vital for quoted companies to maintain their financial media relations operations and to coordinate such activities with more privately-oriented IR work (Figure 1). Attempting to set "media agendas" and "frame" media coverage[3] can contribute significantly to the setting of investment agendas.

Impact on financial news

The second question is: how successful are companies and communicators at getting their messages into the financial media and managing company reporting? For larger companies, especially FTSE 100 ones, the day-to-day "hit rate" is pretty good. For companies in fashionable market sectors, from bioscience to telecommunications, coverage can also be fairly regular; at least as long as the investment fashion lasts. For many smaller companies, it can be very difficult indeed to get coverage in the mainstream financial media. The main opportunities for gaining exposure are when they are being taken over or at the centre of a crisis. At this level it is more likely that companies will find positive exposure in regional papers or specialist magazines such as *Techinvest* or the *AIM Newsletter*. In media sociology terms this conclusion is very much related to the "news values" that journalists apply when deciding what to cover (Gans, 1979; Galtung and Ruge, 1965). In the case of financial reporting journalists clearly view the largest companies and/or those in sectors perceived to have investment potential, as being most "newsworthy" to their readers.

For those companies that gain high levels of coverage it is more a matter of managing information flows in the most positive way. In this, on the whole, they are extremely successful. Surveys and interview material, from the FPR perspective, tend to indicate that financial news has the highest level of PR content of any news section. In a *PR Week* (1994) poll the *Financial Times* was considered to be the paper with the highest level of PR content (26 per cent). Many practitioners regarded the levels of financial PR content to be higher still. In the view of one former director of the PRCA (anonymous interview, 1998):

> In the nationals it's [PR] less than 20 per cent, but in the financial sections an enormous amount is. It's virtually all connected to PR in some way. The FT is at least 50 per cent. PR...

According to the few media sociology studies that exist of financial and business news (Davis, 2002; Parsons, 1989; Tumber, 1993) it is indeed this news section which is most uncritical of its sources. As Parsons (1989, p. 213) concluded:

> The danger is that, as in the past, the financial press may become more participants and "puffers" than observers and more extensions of PR companies than independent commentators and reporters.

There are several reasons for this. Most news producers gain their income from a mixture of advertising and sales. In financial and business newspapers this balance is heavily skewed towards advertising. Consequently, business advertisers have more influence in these news sections (Curran, 1978). Through recent decades advertising has funded the expansion of financial news coverage but the employment of financial journalists has not kept up. This has, in turn, led to a greater dependency on the "information subsidies"(Curran, 1978) provided by FPR practitioners (Davis, 2002). Lastly, sell-side analysts, whose opinions are frequently cited in financial news, have become more wary of publicly criticising the companies they analyse. The conflicted

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roles of analysts, in relation to the reporting of their views in financial news, has recently become a key concern of the Treasury and Financial Services Authority (2002, 2003). All of which means that positive, price-sensitive news, "buy" recommendations and a general pro-equities culture has come to dominate the content of financial news. As one FPR (anonymous, 1998), confidently asserted:

> The national financial press are written for the city by the city. So we know that when we are getting coverage we are getting through. What you use the press for is to provoke a thought or confirm a thought. So if an investor is interested and if it's in the press then it gets discussed.

The media and the investing audience

The final question is: how influential is the financial media on those that buy and sell shares? Here again the research is fairly conflicted. On the one hand, the general conclusions of much "media effects" research (McQuail, 2000; Ruddock, 2001) would suggest that the media would have a limited impact on the investing audience. Most fund managers interviewed denied that the news media played much part in their day-to-day investment decision-making on specific trades. On the other hand, the role of news media is in evidence everywhere in the city. Large-scale shifts in prices and markets occur because multiple buyers and sellers must be acting simultaneously in response to shared information. A number of quantitative studies have found significant statistical correlations between publication of price-sensitive information and price movements (Lloyd-Davies and Canes, 1978; Beneish, 1991; Sant and Zaman, 1996; Barber and Odean, 2002).

For professional fund managers the financial news media appeared to have little conscious influence on their evaluation of individual shares. Print news media information always lagged behind other sources. Fund managers had much greater direct access to CEOs and finance directors than journalists. Indeed, some fund managers conducted over 500 private meetings a year with company management. Similarly, fund managers had greater access to research and more time to analyse it than hard-pressed journalists. As one director of corporate affairs explained (anonymous interview, 1998):

> Even experienced journalists who have been covering the financial services sector for years are not experts and some have admitted to me that they don't really understand the field.

In fact, few of the fund managers interviewed regarded news media as one of their top two information sources for assessing companies. Company accounts, meetings with managers, analyst reports and news wires were all more highly regarded as key information sources.

However, the media clearly played a significant part for retail (private) investors and, also, at the margins of the stock market. The main reason was the same in both cases. News media was either the only source of information for a particular investor or there were few alternative sources of information on a particular stock. Private investors are highly dependent on editorial comments and share-tipping in financial news columns because they have little time or specialist knowledge to make considered decisions. Several studies which looked at US stock markets (Beneish, 1991; Sant and Zaman, 1996; Barber and Odean, 2003) concluded that retail investors reacted much more to media information than professional investors. For those fund managers

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dealing in smaller shares, where retail participation was high, the media had a significant and regular impact. In one small-cap fund manager's experience (anonymous interview, 2004):

> The retail element is totally media-driven because they don't have the time or the resources, I imagine, to read every morning of the week, at 7 a.m., the results statements. And they rely on the Investors Chronicle. And it's amazing the impact the Investors Chronicle has on share prices on Friday mornings. You come in, you see what's being tipped, and the market makers always mark up or down those shares because they know they are going to get hit by a swathe of retail investor buying and selling orders on that Friday. At the same time, you get the Sunday press, which people do tend to read, which is very concise, and contains very small amounts of information to make a proper investment decision on. But that's what retail people do.

Similarly, professional investors explained that at the mid and small-cap ends of the FTSE AllShare and AIM markets analyst research could be extremely scarce. In which case, little alternative information was in circulation and any media coverage could have a strong impact. This was also a finding of Huth and Maris's (1992) quantitative study. This research found that media tips about smaller firm shares had a greater impact on prices than tips about larger companies.

However, there is also much room for speculation about the impact of financial news media on professional investors. As stated, financial news and the news wire services are central to the fund manager's routine. A MORI (2000) survey found that 51 per cent of professional investors rated newspapers as amongst "the most useful" sources of information for their job (Huth and Maris, 1992). Thirty-eight per cent said the same of news wire services. Every fund manager I interviewed read the *Financial Times* and, in most cases, consulted other mass circulation news sources as well as more specialist media.

For many fund managers the news media were one of several sources which contributed to a "scatter-gun approach" (Figure 1). As one explained (anonymous interview, 2004):

> There are almost an infinite number of information sources. A good fund manager is a bit of a news addict... I mean the FT, BBC news, dinner party conversation, what companies tell him in meetings. The good fund manager doesn't just start thinking at 8:00 in the morning. The problem is the good fund manager doesn't know how to switch off. He is just like a sponge, continually absorbing information almost unconsciously.

Under such circumstances the media plays a role in triggering and/or reinforcing fund manager opinions about companies or market trends. For another fund manager (anonymous interview, 2004):

> The media is just part of the process. It's a reflective part of the process. It's picking up on the trends that are already there. Most of the time it's falling in with those trends and puffing them along. Most of the financial media get their ideas from the analysts they talk to, their mates in the city tell them what's going on and what's likely to go on. They are basically trying to sell things and then the journalists pick up on the trends – by and large.

In this respect the media has a number of less obvious effects. According to several studies in media sociology/psychology the media may not tell people what to think but it tells them what to think about. In addition to its "reinforcement" effect it has an "agenda-setting" function which also "frames" the way an audience interprets an issue

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(Iyengar and Kinder, 1987). In behavioural finance the terms are different but the results are the same. The media contributes to "saliency", "anchoring" and "cognitive dissonance" (Shleifer, 2000). Media pieces, therefore, not only continue to trigger investor thinking but are also a means of confirming one's own thinking – whether or not that thinking is right.

In more general ways the media also acts as an indicator of consensus opinion in the city. Most typically, coverage is of the analysts' consensus on some price-sensitive element of a traded company. But it may also involve the reporting of consensus beliefs on where interest rates are going, expectations about inflation or currency changes, the top analysts, or any other economic indicators which might affect trading decisions more generally. As one fund manager explained (anonymous interview, 2004):

> You have various surveys of economists expectations for interest rates. So, going into the MPC meeting Reuters will tell you that 26 out of 27 economists surveyed believe that economists will leave rates unchanged. So there is an expectation setting element that comes from that – borne of that piece of that information.

And by such means "investment fashions", "growth market sectors", and accounting methods all become commonly identified. Bioscience stocks, TMT (technology, media, telecommunications) sectors, oil and gas, conglomerates, hedge funds, "growth" and "value" investment styles, were all linked with the word "fashion" in interviews with fund managers.

For many participants and market observers such media influences can be strong contributory factors to dramatic individual price shifts. As one fund manager explained (anonymous interview, 2004):

> Let's take the demise of the M and S chairman there was an enormous amount of stuff in the press... It may well be the market that feeds the press, rather than the other way round. But, having said that, a big stories in the Sunday papers affected prices on Monday morning. Whether it just reinforced what was already out there, it's difficult to know.

More significantly, such media influences can also affect whole market sectors and, indeed, whole stock markets. Bubbles and crashes can be the result. For observers like Shiller (1989, 2001), Cassidy (2002) and Kindleberger (2000), an initial market response to changing economic circumstances, can be turned into something far more significant as a result of "feedback loops" operating through the media. Thus, according to Shiller (2001, p. 71):

> The history of speculative bubbles begins with the advent of newspapers... Significant market events generally occur only if there is similar thinking among large groups of people, and the news media are essential vehicles for the spread of ideas.

For many interviewees, when asked about market bubbles, the media was considered to be a key contributor to extreme trading responses: (anonymous fund manager, interview, 2004):

> There's an overlay on top of that which is the media element. In my opinion that tends to exaggerate the same themes. And, basically you get greed, fear, momentum, and over and under-optimism come into play as well. And that ties in with bubbles and crashes and shifts... It's like a spiral. People see the price going up so they feel they have to have some

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> so they exaggerate the price going up. And the reason the retail buyers were interested was because they were seeing prices going up by massive amounts in one and two day views and people making lots of money.

Once again, the media no longer appears to be used as a source of specific price-sensitive information for professional investors. However, in less obvious ways, it can still have a potentially significant effect on investors. For fund managers its main pricing impact is at the margins of the market and in its ability to exaggerate immediate market responses to breaking news. For the retail investor it is a key source of trading information. For both retail and professional investors its role in "puffing" up irrational market expectations can also be quite considerable.

Conclusions

By all accounts the financial news media has declined in importance as a medium for directly conveying price-sensitive information and influencing investment decision-making. However, it also continues to be treated with caution by companies and is keenly followed by the investment community. It remains a core part of the "culture" of the city. Journalists exchange ideas with all parties involved. News triggers and reinforces opinions even when it is not the main information source for decision-making. At times of company or market crisis it pushes trading activity to extremes. For all these reasons it continues to be targeted and managed by companies, and, consumed studiously by professional investors.

Notes

1. This was made up of 41 CEOs/directors of communication (either at FTSE 150 companies or PR consultancies), 12 financial/business journalists, 22 senior fund managers and 30 related participants, such as CEOs, research analysts, brokers and members of professional associations.
2. For an overview of developments at the LSE (Golding, 2003; Kynaston, 1999, 2001).
3. On news sources and agenda setting (Gandy, 1982; McCombs and Shaw, 1972; Schlesinger and Tumber, 1994).

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