

A DESCRIPTIVE ACCOUNT OF THE INVESTOR RELATIONS PROFESSION

A National Study

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Despite being a practice of vital importance for corporations, investor relations commands little attention in scholarly research. The studies of investor relations from a strategic communication standpoint are almost nonexistent in the United States. At the same time, investor relations today is undergoing a major shift from financial reporting to building and maintaining relationships with shareholders. The article reviews literature to define the current body of knowledge and state of research in investor relations. Then, the article reports on a survey of Fortune 500 companies to identify major investor relations practices at corporations: investor relations activities, their target audiences, their place in organizational structure, the education of investor relations officers, and what problems investor relations officers face.

Keywords: *investor; shareholder; strategic communications; corporate communications*

Investor relations has been one of the least researched areas of corporate communications. In fact, Petersen and Martin (1996) conclude that “theory building studies of investor relations as a function of corporate public relations are rare in the communication scholarly literature” (p. 173). Since the time of this quote in 1996, the investor relations field has caught much attention from publics and legislators largely because of corporate scandals that shook the U.S. investment market (e.g., Enron, WorldCom, Global Crossings). The communication profession has experienced significant

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changes to adapt to this new environment. Nevertheless, the communication academic research in the field of investor relations is still meager. Thus, the proposed study seeks to contribute to a better understanding of the investor relations field of inquiry.

Indeed, scandals with financial accounting practices at such companies as Tyco, Global Crossings, Williams, and others have led to a call for more scrutiny of disclosure standards and investor relations in general. But the largest scandal of all was Enron: "The collapse of energy giant Enron is the largest bankruptcy and one of the most shocking failures in US corporate history" (C. E. Allen, 2002, p. 206). At the same time, Enron's bankruptcy was a wake-up call for corporate America that made shareholders scrutinize closely the companies they invest into: "In the post-Enron era, investor relations vaults to the top of the corporate agenda, as companies must begin to rebuild investor confidence" (p. 206). Today, "trust will no longer be assumed" and, thus, investor relations is recognized as an activity capable of creating "a competitive advantage" (pp. 206-207). As a result, today, the significance of investor relations is emphasized as the investor relations profession not only seeks to increase stocks' valuations on the market but can and must also regain the trust of people in the whole model of corporate America that "seriously eroded in recent years" (Tonello, 2006). Such trust can only be built through establishing reliable and open communication streams between corporations and investors as well as building mutually beneficial relationship between them. It comes as no surprise that "after Enron, clarity will be valued above spin. Simple, practical communication tools for the average investor should be the focus" (C. E. Allen, 2002, p. 211). The communication and relationship-building components of investor relations are important as never before.

In fact, even the slogan of the investor relations profession expressed by the National Investor Relations Institute (NIRI) is focused on communication. It reads, "Enhancing corporate value through effective communication" (NIRI, 2004). Yet, communication expertise does not seem to be utilized in the investor relations industry much. Petersen and Martin (1996) conclude that investor relations is largely viewed not as a communication function but as a financial function. Favaro (2001) and Morgenson (2002) also argue for the need to improve communication skills of the investor relations practitioners. Yet, it is very rare to find a communication school in the United States that offers a graduate or undergraduate course in investor relations.

The leading professional organization, NIRI (2003), 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 clearly emphasizes not just communication but two-way communication, a concept well-known to public relations and strategic communication scholars. Yet, *Communication Abstracts* has references to only two academic publications on investor relations, dated 1992 and 1996.

With such a low volume of academic research and a lack of educational opportunities in investor relations from a communication standpoint, investor relations professionals are unlikely to have strategic communication education or expertise and are likely to distinguish themselves from corporate communication or public relations functions in their organizations.

To investigate these propositions, this exploratory research seeks to learn the present state of investor relations practices in the United States through the survey of investor relations officers (IROs) at Fortune 500 organizations. The study claims that investor relations is a practice on the border of finance and communications, and the synergy between these two areas is essential. Cooperation of all parties—practitioners, educators, and professional organizations—is needed to make a claim that investor relations is a vital function for publicly traded corporations capable of promoting ethical standards of accountability and transparency and enhancing “corporate value through effective communication” (NIRI, 2004).

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LITERATURE REVIEW

As mentioned before, the studies of investor relations from a communication standpoint are rare. Despite a clear emphasis on the communication and even two-way communication in the definitions of the investor relations,

communication research largely ignores the area of investor relations. As explained above, *Communication Abstracts* has references to only two academic publications on investor relations or shareholder relations.

Of these two articles, one, "Memory for Investor Relations Messages: An Information-Processing Study of Grunig's Situational Theory" by Glen T. Cameron published in the *Journal of Public Relations Research* in 1992, is not really concerned with the practices of the investor relations in the industry since the article tests the situational theory on undergraduate students. The other article, however, "CEO Perceptions of Investor Relations as a Public Relations Function: An Exploratory Study" by Barbara K. Petersen and Hugh J. Martin published also in the *Journal of Public Relations Research* in 1996, is relevant to the current study. The authors survey chief executive officers (CEOs) of non-banking public companies in Florida to learn whether senior managers of the organizations perceive investor relations as a communication function and what departments and employees are involved in the supervision of the investor relations functions. The authors observe, "conventional wisdom among public relations scholars and practitioners considers the two functions bound together under the organizational umbrella of communication management. However, corporate reality is that the investor relations function only infrequently reports to public relations executives" (Petersen & Martin, 1996, p. 173). None of these two studies had IROs themselves as subjects of their research.

A public relations professional organization defines investor relations as one of public relations' functions. The Body of Knowledge Task Force of the Public Relations Society of America (1988) included investor relations as one of the seven sub-functions of public relations, along with media, internal/employee, consumer, community, government, and fundraising/donor relations. At the same time, Sallot, Lyon, Acosta-Alzuru, and Jones (2003), who attempted to evaluate the academic research and theory building in public relations by content analyzing all articles published in *Public Relations Review* and *Journal of Public Relations Research*, found that out of the 748 articles published, 148 articles (19.8%) had contributed to theory development in 19 subcategories. Not one of these articles contributed to theory building in investor relations.

As a result, investor relations is viewed as a financial function of an organization rather than a communication function. Petersen and Martin (1996) found out that in 57% of cases, chief financial officers (CFOs) supervise the investor relations activities related to the disclosure of information affecting the stock price, while communication/public relations

officers are in charge of such activities only in 13% of all cases. The study also found out that the investor relations activities are largely conducted by the financial affairs department—63% of the total—while public relations departments were responsible for the investor relations activities only in 12% of the total cases (Petersen & Martin, 1996). Petersen and Martin conclude that the investor relations function is seldom managed by communication/public relations practitioners not because the activities are essentially different but because CEOs “do not perceive investor relations to be part of the public relations function” (p. 173). Although that study had a sample limited to one state only (Florida), the study advances an important claim—the investor relations function is not sufficiently integrated into the strategic communication activities of the organizations and is managed predominantly by treasury/financial departments. The authors summarize that investor relations is “most frequently treated as a financial function, both in terms of who is in charge, and what are qualifications for the job” (p. 204).

In general, then, scholars have advanced the thesis that academic journals have, by and large, ignored studies of investor relations (Brennan & Kelly, 2000; Farragher, Kleiman, & Bazaz, 1994). Marston and Straker (2001) conclude that “although there has been some academic research into IR [investor relations] carried out within the USA and UK, there have not been many studies to date” (p. 82). The published research rarely focuses on investor relations itself and investor relations professionals. The analysis is often substituted with “how-to expositions” (Farragher et al., 1994). Marston and Straker (2001) conclude, “In the USA descriptive studies of IR procedures are not in evidence” (p. 83). Thus, this study attempts to provide such a descriptive account of the investor relations practices in the United States.

PRACTICE OF INVESTOR RELATIONS

The appearance of the first shareholders can be traced back to the 17th century’s Dutch East India Company (Encyclopedia Britannica, 2007) or sometimes even to the 13th century’s Stora Kopparberg Mining Company (Wikipedia, 2007). In the United States, the first public company is believed to be the Boston Manufacturing Company, founded in 1814 (D. Allen, 2004). When the owner of this company needed to expand the business, he sold the stock in the company to his associates. The separation of management and ownership became the key pre-determining factor in

the developing of investor relations. Yates (1989) explains, "The separation of ownership from management (a separation that was usually physical as well as functional) dictated that the factory manager communicate the accounts and other information to the owners in writing" (p. 3).

Nonetheless, the issue of communicating with investors and shareholders did not catch much attention from executives until 150 years later (NIRI, 1985, 1989). David Silver (2004) elucidates that "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" (p. 70).

The major growth, however, happened in the second half of the 1980s. Indeed, NIRI (1985) conducted research that indicated that only 16% of the Fortune 500 companies had investor relations departments in 1985. However, a similar study in 1989 showed that already 56% of these organizations claimed to have an investor relations department (NIRI, 1989). The sudden need in the investor relations function could be explained by the actions of the social activists. In fact, the study by Rao and Sivakumar (1999), who analyzed the appearance of investor relations departments, reveals that organizations developed their investor relations activities in the late 1980s and early 1990s under pressure from social movement activists and financial analysts: "Whereas social movement activists framed shareholder rights as a problem and compelled organizations to uphold them, professional analysts subtly coerced organizations to signal their commitment to investor rights by creating boundary-spanning structures" (p. 27). In other words, not only did companies increase their shareholders' base, but social movement activists framed the relationship with shareholders as important and, thus, called for investor relations. A study of investor relations practices in Japan arrives at similar conclusions when the author suggests that changes in the ownership structures and corporate finance practices require companies to engage in communicating with their investors (Yoshikawa & Gedajlovic, 2002). Communication is quite important because investor relations, in this sense, serves 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.

Therefore, this article advances a claim that investor relations is deeply rooted in the area of communication and public relations sciences. William Chatlos (1984), in the chapter on the evolution of investor relations, notes that "communications became the chief ingredient in all

investor relations activities” (p. 85). Indeed, the business disciplines award investor relations with specialized terms, equations, and jargon, while the communication heritage contributes strategies and tactics of delivering this highly specialized message. In the post-Enron era, the importance of communication is increasing. C. E. Allen (2002) suggests, “The communication skills of the IR specialists will be more important than ever” (p. 211). In the end, both areas of expertise, business and communication, are essential to the successful practice of investor relations.

Recent developments of the U.S. stock market demand increased attention and reevaluation of investor relations practices. Hockerts and Moir (2004) of the Centre for the Management of Environmental and Social Responsibility explain, “Investors increasingly consider non-financial aspects in their assessment of companies” (p. 85). Favaro (2001), a practitioner in the area of investor relations, although giving the responsibility for the investor relations function to the CFO of a company, at the same time recognizes new challenges and pressures that investor relations develops. He elucidates, “CFOs have to be able to explain not only the numbers, but also the nature of the business, its long-term strategy, and non-financial information, as investors have learned to incorporate these higher-level questions into their buy and sell decisions” (p. 7). Rogers (2000) adds that investors today clamor “for interpretive data that offer insights as to what the financial may mean” (p. 426).

It comes as no surprise that these new challenges require new approaches to investor relations and new strategic skills and knowledge, which could be borrowed from strategic communication and public relations scholarship and practice. In fact, Favaro (2001) continues by recognizing that today’s investor relations requires “possessing extraordinary public relations skills and understanding the implications of upcoming announcements for all of the company’s major stakeholders—including employees and the community—and not just the shareholders” (p. 7). Thus, investor relations practitioners and scholars recognize now the need for the introduction of public relations and communication ingredients of investor relations both in practice and in research. In addition, the need to integrate communications with investors into all other communication streams of the organizations becomes apparent. Indeed, one can hardly isolate a communication stream intended for investors from other publics such as the community or employees; the same is true for mass media or mediated communication, traditional public relations activity, which can be accessed by investors as well. A unified strategic approach to communication management is required and organizations are looking for ways

to manage information flows in their best interests (Marston, 1996). Thus, it is increasingly important for a company to speak in a unified and coordinated voice to all of its publics.

Silver (2004) goes further, saying that “the convergence of IR and PR has become so important that not combining those functions could have negative consequences for a public company’s share price” (p. 60). The accounting scandals, bankruptcy of corporations, and Wall Street scrutiny might, despite all their negative consequences, potentially benefit the market by leading it into the “golden era of investor relations and public relations” (p. 61).

As a result, this is the time for communication scholars to add their contribution to the relatively new field of investor relations. The initial step of such research should be understanding and describing the investor relations function in corporations. It becomes important to evaluate the state of the investor relations profession in the United States before one can answer the practical questions on how to improve investor relations and help companies meet new challenges that investors impose. Gretchen Morgenson (2002) of *The New York Times* elucidates, “Everyone agrees that the quality of information by companies has to be improved if investors are going to regain their trust in corporate America and the capital markets.”

Thus, it is a unique opportunity for strategic communication and public relations to contribute knowledge and a theoretical base to enhance investor relations. Argenti (2002) recognizes that although, traditionally, investor relations was managed by finance/treasury departments, “the focus today has moved away from just the numbers to the way the numbers are actually communicated to various constituencies” (p. 46). In addition, as public relations is more than submitting a press release to a newspaper, investor relations should be recognized as more than providing financial documents to the shareholders. Tuominen (1997), studying investor relations practices in the Finnish stock market, proclaims that “success in investor relations requires the companies to extend the scope of investor relations from a mere publication of obligatory annual and interim reports to more frequent, extensive, proactive and diversified two-way interaction and communication” (p. 46). Minow (2002), editor and co-founder of *Corporate Library*, summarizes, “Markets do not run on the money; they run on trust.” Investor relations is not about numbers any more; today’s investor relations is about building and maintaining relationships. The need for better communication and relationship management is clear not only in the United States but in other countries as well (Clarke & Murray, 2000).

Based on the above discussion, this study attempts to call the attention of communication and public relations scholars to the area of investor relations through an exploratory study of the major investor relations practices among the Fortune 500 companies. Because this is an exploratory study, the study begins with proposing the following research questions:

Research Question 1: What specific departments manage the investor relations function?

Research Question 2: What are some of the investor relations' common activities?

Research Question 3: To what publics do investor relations officers communicate?

Research Question 4: What educational backgrounds do investor relations officers have?

Research Question 5: What do investor relations practitioners consider to be the biggest problems facing investor relations today?

METHOD

The researcher began the analysis by collecting data from corporate Web sites. The study then employed a survey method to reach IROs. Wimmer and Dominick (2003) explain that "decision makers in businesses, consumer and activist groups, politics, and the media use survey results as part of their daily routine" (p. 167). Such a wide applicability of surveys is attributed to the following advantages of survey research: realistic settings, a large amount of data, no geographic constraints, and reasonable costs (Wimmer & Dominick, 2003).

The study relies on the index of publicly traded companies already existing: Fortune 500. The Fortune 500 list includes only companies that must publish financial data and must report part or all of their figures to a government agency. This is a requirement largely associated with publicly traded companies (although not always).

The survey instrument (see the appendix) was constructed in accordance with the purposes and methods of the current research. The questionnaire was constructed based on previous research of IROs (Petersen & Martin, 1996) as well as investor relations and corporate communications textbooks that review investor relations activities (Argenti & Forman, 2002; Chatlos, 1984; Marcus & Wallace, 1997; Rieves & Lefebvre, 2002). The survey used both closed-ended and open-ended questions. The addition of the open-ended questions is explained by the exploratory nature of the research and low number of the previous studies in the area of investor relations.

The study used the Web sites of all Fortune 500 companies to identify contact information for their investor relations departments. The invitation to participate was delivered via e-mail. Several measures were taken to increase the response rate including offering the respondents access to the final report and sending e-mail reminders.

The researcher was able to identify contacts at 292 companies. Out of these 292 contacted, 13 refused to participate in the survey. The most commonly cited reason was corporate policy that did not allow participation in surveys. The total number of respondents who completed the survey was 63; thus, the response rate from the 292 companies exceeded 21%. However, if measured out of the 500 companies on the Fortune list, the response rate was about 13%.

RESULTS

The initial analysis of the Fortune 500 companies' Web sites revealed that the investor relations function is valued in large corporations. In fact, out of 499 corporate (one company Web site was unavailable when the research was conducted) Web sites visited, only 71 company homepages did not have a direct link to investor relations. The remaining 428 companies had direct links on the title page to their investor relations information. The link was usually labeled as "investor relations," "for investors," or simply "investors"; in some cases, the link was named "financial information" or "financials."

Research Question 1

When asked in the survey about the place of the investor relations function in the organizational structure, the majority of respondents ($N = 41$; 65%) confirmed working in a dedicated investor relations department. The other 35% did not have a dedicated investor relations department. Instead, for 27% ($N = 17$), the investor relations function at their organization was handled by the finance/treasury department, and for 8% ($N = 5$), the investor relations function was managed by the communications/public relations department.

The survey also inquired about the normative view of IROs: what department should ideally carry out the investor relations functions. The responses mirrored the actual distribution of the investor relations function ($\chi^2 = 101.45$, $p < .001$). One of the respondents summarized that "depending on

the corporate culture and the role of the investor relations officer, . . . it can be effectively handled by either the finance/treasury department or corporate communications/public relations.” The respondents from finance/treasury departments, however, emphasized the importance of the financial component of the investor relations function, no matter what department handled it. “The IR team should have direct access to the CFO,” and “finance should take the lead,” explained two respondents. However, respondents from the communication/public relations departments believed that the investor relations function should be managed by the corporate communications or public relations departments.

Research Question 2

The respondents were asked to rate on a scale from 1 to 4 how often they were involved in various investor relations activities (see the appendix): *never*, *seldom*, *often*, or *most often*. The activities participated in most often were roadshows, presentations, and conferences ($M = 3.93$) and responding to requests from shareholders, analysts, or stockbrokers ($M = 3.93$). Almost all (93%) respondents specified that they were most often involved in these two activities. The other activities that IROs named among the ones they were involved in most often were providing information to top management or other departments of the organization ($M = 3.79$), one-on-one meetings, negotiations ($M = 3.61$), ownership research and analysis ($M = 3.65$), and report preparations ($M = 3.44$). Activities that also scored highly were management tasks ($M = 3.20$) and compliance with regulations and policies ($M = 3.14$). The least common activity among the IROs was mass media communications, with a mean slightly above 2 ($M = 2.09$), and 19% of respondents claiming that they never participated in mass media-related activities.

The results, however, take a different shape if a controlling variable is introduced. If controlled for the first variable, “what department manages the investor relations function,” the responses to the most common activities question presented a different pattern. If among all respondents, the mass media activities had a mean of 2.09, among organizations where investor relations was managed by corporate communication/public relations departments, IROs’ involvement in the mass media communications mean grew to 3.75—in other words, practiced most often or often. At organizations with the investor relations function managed by the finance/treasury departments or in dedicated investor relations departments, the mass media communication mean was less than 2. An analysis

of variance indicated that these differences were statistically significant ($F = 15.53$; $p < .001$).

Another statistically significant finding ($F = 3.90$; $p < .05$) was the involvement in one-on-one meetings. IROs from the corporate communication/public relations departments were not as often involved in one-on-one meetings ($M = 2.75$) as officers from finance/treasury departments ($M = 3.63$) or from a stand-alone investor relations department ($M = 3.69$). Similarly, IROs from stand-alone investor relations departments ($M = 3.63$) and finance/treasury departments ($M = 3.81$) were more likely to engage in ownership research and analysis than IROs from communication/public relations departments ($M = 3.00$). The difference was also statistically significant ($F = 3.50$; $p < .05$).

If controlled for the first variable, "what department manages the investor relations function," the responses to the most common activities question presented a different pattern.

IROs from communication/public relations departments were also more often involved in the controlled media communications and performing managing tasks than officers from finance/treasury departments or stand-alone investor relations departments. However, these differences were not statistically significant. The results are presented in Table 1.

Research Question 3

The survey also investigated to what publics IROs communicate and to what publics IROs communicate to the most often and the least often. The survey's approach to this question was threefold. First, practitioners were asked what percentage of their time was devoted to the activities targeted at one or another public. The second question asked respondents to rate the importance of the same target publics for an investor relations officer. The third question asked to rate the importance once again of the same publics in terms of their influence on the stock price of the organization.

Table 1. Comparison of Investor Relations Activities Managed by Investor Relations Departments, Finance/Treasury Departments, and Communication/Public Relations Departments

<i>Activity</i>	<i>Overall</i>	<i>Investor Relations Departments</i>	<i>Finance/Treasury Departments</i>	<i>Communication/Public Relations Departments</i>
Responding to requests from shareholders, analysts, stockbrokers, etc.	3.93	3.92	4.00	3.75
Roadshows, presentations, conferences, etc.	3.93	3.92	4.00	3.75
Providing information to top management of other departments of the organization	3.79	3.75	3.88	3.75
Ownership research and analysis	3.65	3.63	3.81	3.00
One-on-one meetings, negotiations	3.61	3.69	3.63	2.75
Report preparations (annual reports or other shareholder reports)	3.44	3.44	3.44	3.50
Management tasks	3.20	3.17	3.25	4.00
Compliance with regulations and policies	3.14	3.08	3.19	3.33
Controlled media communications (Web sites, mailing lists, newsletters, other companies' media)	2.96	2.86	3.06	3.75
Securities placements (IPOs, private placements, etc.)	2.71	2.86	2.44	2.33
Mass media communications (advertising, editorials, etc.)	2.09	1.97	1.99	3.75
Other	2.60	3.00	2.20	n/a

Note: Responses were collected on a 1–4 scale, where 4 = *most often*, 3 = *often*, 2 = *sel-*
dom, and 1 = *never*.

The results revealed that funds and other institutional investors consumed most of the IROs' time (almost 40% of time on average) with stock analysts following closely behind (consuming almost 33% of time). Although investor relations is a heavily regulated area and, in fact, many of IROs complained in this survey about complexity of regulations, activities targeted at compliance with various regulatory organizations consumed on average only 3% of IROs' time.

Table 2. Perceived Importance of Different Publics for Investor Relations Officers (IROs) and for the Stock Price

<i>Publics</i>	<i>Importance for IROs</i>	<i>Importance for the Stock Price</i>	<i>t Value</i>
Institutional investors, funds, and similar	3.97	3.95	1.00
Stock analysts, brokers, and similar	3.88	3.70	2.51*
Internal publics (employees, management, and similar)	3.66	2.70	8.23**
Stock exchanges, trading systems, and similar	2.96	2.40	5.22**
Government and other regulatory organizations	2.93	2.44	3.92**
Private investors	2.93	2.35	6.51**
Mass media	2.66	2.82	1.56
Other	2.43	1.69	2.03

Note: Responses were collected on a 1–4 scale, where 4 = *important*, 3 = *somewhat important*, 2 = *somewhat unimportant*, and 1 = *unimportant*. Bolding represents statistically significant *t* values.

* $p < .05$. ** $p < .001$.

When asked to rate the importance of publics for an IRO on a scale of 1 to 4—*unimportant*, *somewhat unimportant*, *somewhat important*, and *important*—the majority of respondents rated institutional investors as important ($M = 3.97$), followed by stock analysts ($M = 3.88$) and internal publics ($M = 3.66$). The results of rating publics in terms of their influence on the stock price were quite similar, with institutional investors rated as the most important ($M = 3.95$), followed by stock analysts ($M = 3.70$). However, paired-sample *t* tests identified several statistically significant differences between various publics' perceived importance for IROs and their perceived influence on the stock price. The respondents believed that internal publics ($t = 8.23$; $p < .001$), private investors ($t = 6.51$; $p < .001$), stock exchanges ($t = 5.22$; $p < .001$), regulatory organizations ($t = 3.92$; $p < .001$), and financial analysts ($t = 2.51$; $p < .015$) were more important to IROs in comparison with their influence on the stock price. The results are presented in Table 2.

The importance of various target publics as perceived by IROs might also influence the way these officers would communicate with them or what activities these officers are involved in most often. To investigate

these assumptions, Pearson's correlation tests were conducted. IROs who valued institutional investors the most were more often involved in one-on-one meetings ($r = .603, p < .001$) and ownership research ($r = .439, p < .001$). Moderate correlations for IROs who value institutional investors were identified with participating in roadshows ($r = .321, p < .015$) and responding to investors' requests ($r = .321, p < .015$). The more, however, the IRO valued private investors, the more likely such IRO would be involved in mass media-related activities ($r = .365, p < .01$) and management tasks ($r = .394, p < .01$).

The importance of internal publics for IROs was positively correlated with IROs' participation in performing managing tasks ($r = .417, p < .001$). Finally, involvement in managing tasks was also positively correlated with the importance that IROs assign to communications with regulatory organizations ($r = .365, p < .01$), although this correlation was less significant. The correlations are presented in Table 3.

Research Question 5

The study also addressed the educational background of IROs. More than 85% of all respondents ($N = 54$) had a business-related education in finance, accounting, management, or marketing. Only six respondents (10%) reported a communication-related education such as journalism or public relations. Thirty-eight respondents (60%) had a graduate education, with an MBA being the most often mentioned degree.

Research Question 6

Finally, the study sought to find out what practitioners consider to be the biggest problem facing investor relations today. To collect these responses, an open-ended option was selected to avoid limiting the respondents to the preconceived notions of the researcher. The content analysis of the responses allowed identifying five major categories that all responses fall into. First, the majority of respondents ($N = 25; 40%$) mentioned the complexity of regulatory requirements that IROs have to comply with. For example, one of the respondents said that the biggest challenge of today's investor relations was being aware "of all of the regulatory requirements." Respondents were critical of the regulation in the area of investor relations. As one of the respondents explained, "regulation is confusing and increasing, and does not enhance information but instead creates unnecessary bureaucracy." The regulations were blamed for interfering with disclosure

Table 3. Correlation Between Investor Relations Activities and Perceived Importance of Different Publics

	<i>Stock</i>						
	<i>Institutional Investors</i>	<i>Analysts, Brokers</i>	<i>Internal Publics</i>	<i>Stock Exchanges</i>	<i>Government, Regulators</i>	<i>Private Investors</i>	<i>Mass Media</i>
Responding to requests from shareholders, analysts, stockbrokers, etc.	.321*	.106	.201	.073	.053	.047	.044
Roadshows, presentations, conferences, etc.	.321*	.316*	.201	.167	.134	.120	-.039
Providing information to top management of other departments of the organization	.123	.182	.271*	.018	.183	-.002	.027
Ownership research and analysis	.439**	.333*	.223	.111	.068	.135	-.038
One-on-one meetings, negotiations	.603**	.184	.013	-.041	-.184	-.054	-.098
Report preparations (annual reports or other shareholder reports)	.124	.243	.084	-.062	.160	.088	.069
Management tasks	-.141	.089	.417**	.145	.356**	.270*	.394**
Compliance with regulations and policies	.030	.077	.191	.168	.253	.021	.201
Controlled media communications (Web sites, mailing lists, newsletters, other companies' media)	-.242	.049	.012	-.067	.250	.224	.188
Securities placements (IPOs, private placements, etc.)	-.040	.077	.054	-.021	.056	.031	.156
Mass media communications (advertising, editorials, etc.)	-.482**	-.027	-.010	.106	.232	.356**	.303*

Note: Bolding represents statistically significant correlations.

* $p < .05$. ** $p < .001$.

of information instead of helping it; in fact, one respondent called “balancing tougher disclosure requirements with market’s desire for greater transparency” as the biggest problem investor relations faced.

Sixteen respondents (26%) stated that the largest problem for investor relations resided within their respective organizations where they have to struggle for “support of senior management,” “recognition of investor relations as key function of the company,” and “showing the value that investor relations brings to the table.” Respondents also complained about the lack of resources that organizations assigned to the investor relations function; IROs explained that “most IR groups are understaffed” and most investor relations work “is done by one or two individuals.”

Among other problems mentioned were the dichotomy between Wall Street’s need for short-term profit and the organization’s goal of creating long-term value. IROs struggle to “educate Wall Street on the long term strategies for value creation.” Another respondent elucidated,

A mismatch between management’s own horizon in running the company versus the Street’s fixation on what’s happening now creates challenges for IR in communicating with the Street, which often focuses on short term issues that really have no long term bearing on the company’s ultimate success.

Six respondents also mentioned the diminishing role of sell-side analysts (10%); four respondents wrote about meeting informational needs of a diverse group of investors and analysts (6%) and other problems.

CONCLUSIONS

The results of the survey presented above suggest that investor relations is still largely treated as a financial function rather than a communication function. Despite demanding that investor relations professionals “enhance corporate value through effective communication” (NIRI, 2004), there is not much communication expertise in the investor relations practice today. These findings are in line with the literature review that also reveals dominance of financial executives in the investor relations domain. Petersen and Martin (1996) place the blame for this situation at the feet of CEOs who “do not perceive investor relations to be part of the public relations function” (p. 173). However, following this study, one might wonder why CEOs should treat investor relations any differently when a majority of IROs have a financial or management education and investor relations programs are managed by finance/treasury departments more often than by communication/public relations departments. It is unclear how, without a background in strategic communications, IROs are expected to carry out “effective communications” and enhance through

them corporate value. Although IROs seldom communicate with the media, they are often involved in roadshows and presentations, responding to information requests, and communicating with top management and in one-on-one meetings, all of which are part of the communication domain and demand strategic communication expertise. In other words, both areas of expertise, business and communication, are essential to the practice of investor relations.

Consequently, this study demonstrates that investor relations would benefit from a merger of both business and communication expertise. Chatlos (1984), in the chapter on the evolution of investor relations, notes that “communications became the chief ingredient in all investor relations activities” (p. 85). Indeed, the business discipline awards investor relations with specialized terms, equations, and jargon, while the public relations heritage contributes strategies and tactics of delivering this highly specialized message. It does not mean that the knowledge of finance and accounting is not important. Rather, investor relations should integrate both financial knowledge and communication skills to develop targeted and effective strategic communications programs. Lou Thompson, former president of NIRI, at a Securities and Exchange Commission-sponsored public forum, expressed concerns in communications produced by the investor relations departments: “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” (C. E. Allen, 2002, p. 209).

Another conclusion that perhaps might be connected with the previous one is the reactive nature of the investor relations activities. A dominant majority of IROs (93%) reported that their most common activity is responding to requests from shareholders, analysts, stockbrokers, and so on. All respondents reported that they respond to requests most often or often. Thus, today, investor communications are caused by the other party, with IROs simply trying to cope with the requests. The proactive and strategic way of investor relations is perhaps underutilized. In fact, controlled media communication, such as Web sites, mailings lists, newsletters, or other companies' media that might allow IROs to set an agenda and proactively deliver information to the interested parties, is mentioned by only 30% of officers as the activity they are involved in most often. Another 30% state that they seldom use the controlled media communications. This finding is in line with the previous studies. For example, Rao and Sivakumar (1999) state that IROs are mostly consumed by technical rather than strategic activities. They conclude that even today, “an exclusive emphasis on intended

technical activities deflects attention from the symbolic nature of investor relations departments and the institutional sources of organizational structure” (p. 30). At the same time, roadshows, presentations, and conferences are the activities rated highly ($M = 3.93$). These activities might be either proactive or reactive activity, and thus, more research is required before any definite conclusions about the reactivity/proactivity of investor relations can be made.

Another activity important to IROs is providing information to top management or other departments of the organization ($M = 3.79$). Along with ownership research, providing information to management might suggest that two-way communication is in the very nature of investor relations, when information is not traveling simply from organizations through IROs to target publics, but IROs also deliver information from the investors, financial analysts, or brokers back to the management of the organization. This emphasizes an important function for investor relations—counseling the management. Thus, two-way communication, part of strategic communications, seems to be incorporated in the very nature of investor relations. In fact, based on the models of public relations, “two-way symmetrical public relations attempts to balance the interests of the organization and its publics” (Grunig, Grunig, & Dozier, 2002, p. 15). Indeed, if the profession of public relations has continued to struggle for two-way symmetrical communication, investor relations might be the area where symmetrical communications are quite common. Investor relations practitioners are required not only to deliver the company’s message to the shareholders but also to learn the shareholders’ position and present it to the company’s top management. NIRI recommends, “The company’s investor relations officer . . . [should] report feedback from investors and analysts” (Thompson, 2002).

In other words, both areas of expertise, business and communication, are essential to the practice of investor relations.

The job of the IRO is more than providing information about investors to the organization; the IRO’s job is also to serve investors and analysts by providing them with reliable information about the company to let

investors make an informed decision. This dual function seems quite similar to the “mixed motives” model of public relations (Cancel, Cameron, Sallot, & Mitrook, 1997; Grunig et al., 2002; Murphy, 1989). IROs must become loyal both to their employers and to the target publics they serve. In today’s investment market, responsibilities of IROs to the investment community at large are growing. C. E. Allen (2002) writes, “Investor relations officers should heed marketplace rumblings about earnings measurers and understand exactly what analysts and investors of the company want, but may not be getting, from financial disclosures” (p. 210). Indeed, serving investors is the exact work that corporations’ management requires from the IROs. Lou Thompson, president of NIRI, elucidates,

The role of investor relations is to minimize investor risk by assuring that the company is providing information that is clear and understandable through means that achieve full and fair disclosure. The lower the perceived risk in investing in a company, the lower the company’s cost of capital. There is a true bottom line benefit of full and fair disclosure. (p. 209)

Effective investor relations programs provide investors with the information they need, thus reducing uncertainty and lowering the risk premium that investors demand for their investment. In other words, the more IROs serve the public, the investment community, the better it is for the organization because it decreases investors’ risk and subsequently decreases the cost of capital for the company. The mixed motive and two-way communications appear to be at the very heart of the investor relations profession. Several other studies also link the effective investor relations and expanded informative disclosure with increased demands for the corporation’s shares and lower risk premium and, thus, lower cost of capital (Benston, 1986; Fishman & Hagerty, 1989; Gelb, 2000). Additional research, however, is desired to learn the specific nature and content of these information streams as well as the strategic intentions behind them.

Another finding of this research that confirms the literature review is the unclear and undefined functions of the investor relations departments at organizations. Investor relations jobs vary in activities and responsibilities at different organizations. In addition, based on departmental affiliation, the investor relations function is performed quite differently. In fact, communications with the mass media are almost never done by IROs under the supervision of finance/treasury departments, but IROs under the supervision of communication/public relations departments label mass media-associated activities as the ones they are involved in most often or often. The means are

also quite different for controlled media activities and one-on-one meetings depending upon who supervises the investor relations function at an organization. In fact, further research should be done to attempt to create a typology of investor relations functions. Further research can also help to establish if the departmental assignment of the investor relations function is caused by the activities needed to be performed, or the departmental affiliation determines how investor relations is practiced.

Similarly, personal preferences of the IROs seem to influence what activities they will participate in. In fact, IROs that value institutional investors over private are more likely to engage in activities targeted at such investors: roadshows or one-on-one meetings. IROs who believe in the importance of internal publics (employees, management) are more likely to be involved in internal managing tasks. In other words, not only is the department that oversees investor relations activities important, but personal preferences and beliefs of the IROs are important because they might influence what activities such officers will perform more often and what publics such officers will be dealing with more often.

Two final conclusions are concerned with the changing role of the investor relations activities. As one of the respondents explains, investor relations today is getting "more responsibilities, fewer resources." IROs are struggling for "support of senior management." However, the purpose of these struggles could be quite different: In some cases, IROs have to fight for recognition of importance of the investor relations function, while in other cases, IROs have to struggle against an overestimation of capabilities of the investor relations department. One respondent explains, "Internal executives think that we [IROs] can manage the stock price." Additional research is needed to evaluate the role and assigned importance of the investor relations function at the organizations, their influence on the stock price, and their estimation of resources and responsibilities of investor relations departments.

Changing regulatory environment and compliance with these regulations is the biggest problem facing investor relations today as claimed by the majority of respondents. Yet, only 29% of the very same respondents say that activities associated with compliance with regulations and policies are the activities they are involved in most often. Only 3.4% of their time is spent in activities associated with regulatory organizations. Additional research is required to explain this dilemma; one might propose that compliance and regulatory activities could be outsourced by the IROs either to legal departments of the organizations or to a third party outside of the organizations. In this case, the importance of such activities

is recognized (outside specialists are brought in to deal with these issues), yet they do not consume much of the IROs' time.

This article should not be used to make overall generalizations about the practice of investor relations in the United States. It simply serves as an initial descriptive account limited in its scope and methodology. Investor relations is an important professional activity for corporations, and thus, it should be an important area of research for both business and communication scholars. Additional research on investor relations is recommended to successfully define the profession and its role, importance, responsibilities, and entry requirements. Investor relations is a practice on the borderline of business and communications, and synergy between these two areas is essential. Cooperation of all parties—practitioners, educators, and professional organizations—is needed to make a claim that investor relations is a vital function for public corporations that, in fact, can “enhance corporate value through effective communication” (NIRI, 2004).

APPENDIX

Web-Based Survey of Investor Relations Practitioners

1. Is the investor relations function at your organization managed by:
 - Finance/treasury department
 - Corporate communications/public relations department
 - Investor relations department
 - Other (please specify) _____

2. Do you think the investor relations function should be carried out by:
 - Finance/treasury department
 - Corporate communications/public relations department
 - Separate investor relations department
 - Other (please specify) _____

3. In a typical week, what percentage of your time is devoted to the activities targeted at:
 - Private investors
 - Institutional investors, funds, and similar
 - Stock analysts, brokers, and similar
 - Stock exchanges, trading systems, and similar
 - Government and other regulatory organizations
 - Mass media and similar
 - Internal publics (employees of the company, management, and similar)
 - Other (please specify) _____

(continued)

APPENDIX (continued)

4. Please rate the importance of the following publics for an investor relations officer as important, somewhat important, somewhat unimportant, or unimportant:

- Private investors
- Institutional investors, funds, and similar
- Stock analysts, brokers, and similar
- Stock exchanges, trading systems, and similar
- Government and other regulatory organizations
- Mass media and similar
- Internal publics (employees of the company, management, and similar)
- Other (please specify) _____

5. Please rate the importance of the following publics in terms of their influence on the stock price of the organization as important, somewhat important, somewhat unimportant, or unimportant:

- Private investors
- Institutional investors, funds, and similar
- Stock analysts, brokers, and similar
- Stock exchanges, trading systems, and similar
- Government and other regulatory organizations
- Mass media and similar
- Internal publics (employees of the company, management, and similar)
- Other (please specify) _____

6. Please rate how often (most often, often, seldom, or never) you are involved in the activities associated with:

- Report preparations (annual reports or other shareholder reports)
- Ownership research and analysis
- Controlled media communications (Web site, mailing lists, newsletters, other companies' media)
- Mass media communications (advertising, editorials, etc.)
- Securities placements (IPO, private placements, etc.)
- One-on-one meetings, negotiations
- Roadshows, presentations, conferences, etc.
- Responding to requests from shareholders, analysts, stockbrokers, etc.
- Providing information to top management or other departments of the organization
- Compliance with regulations and policies
- Management tasks
- Other (please specify) _____

7. Please specify your years of experience in investor relations:

8. Please specify your educational major:

9. In your opinion, what is the biggest problem facing investor relations today?

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