INVESTOR RELATIONS & IMPORTANCE IN THE GLOBAL FINANCIAL MARKET

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Abstract: The aim of the elaboration is to draw attention to selected aspects of investor relations importance for capital market functioning to increase the quality of communication with investors in the global financial market. The article presents the importance of investor relations from a macroeconomic and microeconomic point of view. The theory was complemented with selected surveys results. The surveys were conducted by the author on a sample of individual investors, stock-quoted companies and sell-side analysts on Polish capital market between June 2009 – March 2010. In the article, description method, comparison method, case study and questionnaire method were used.

INTRODUCTION

Investor relations (IR) deal with relations between company and investors. Their importance and goals are much wider than only to establish and maintain the channel of bilateral communication with financial market, but they are also to create a kind of dialogue (Laskin 2010, pp. 3–6; Guimard 2008, p. 26). At present, investor relations are one of the standards in public company functioning (Alpheus and Gruber 2009).
The aim of the elaboration is to draw attention to selected aspects of investor relations from the macroeconomic and microeconomic point of view.

In the article, comparison method, case study and questionnaire method were used.

Also, a few surveys were conducted by the author on a sample of individual investors, stock-quoted companies and sell-side analysts on Polish capital market between June 2009–March 2010. The surveys were based on questionnaire method. The PASW Statistics software was used for data analysis.

**EVOLUTION OF INVESTOR RELATIONS**

Investor relations started to be separated in the U.S. in the 60s of 20th c., but they were treated as a sort of sales of additional company products whose securities were viewed as such products (Silver, 2004, p. 70). So, IR encouraged institutional and individual investors to buy shares, bonds and commercial papers and they persuaded analysts to make favorable recommendations. Because of that kind of expectations formulated (kind of salesmen who sell securities), in Europe IR were not introduced. In Europe, IR were implemented generally in the 21st c. in a new formula.

It can be viewed as a paradox, but the new era of modern IR was started by Enron case. As a result of crisis connected with Enron, IR were rebuilt and developed, and it can be concluded that they consistently gained in importance. Of course, Enron did not create that change but speeded up the changes which were already slowly happening in IR activity. The task to regain trust in financial market after the Enron case was given to IR departments.

As a result of stronger more restrictive law regulations and market pressure, American companies changed their style of communication with the market. One of the first was creation of active, bilateral communication with all stakeholders. Later on, they implemented ethics codes and good practice codes. Therefore, it can be concluded that IR have been used as a situation stabilizer on the capital market, or even wider – on the financial market. And, what is also important, with success.

Also financial market participants have formulated new expectations towards companies’ IR. They perceive IR as a tool to reduce the level of systematic and specific financial investment risk thanks to providing the market with complete information on the situation within the company and in its environment. It is clear that the information value and the level of acceptance for company management may differ from the one for investors and market analysts. That form of IR activity dedicated to stakeholders is
accepted worldwide and it is developing. In effect, IR enter a new stage: a tool for active and open informing about current company value and its perspectives.

But now, companies are observed to be looking for even wider and more active formula for IR framework. In that newly crystallizing formula, IR are converted into non-financial asset generating company value as e.g. know-how. So, IR are evolving from a tool which informs about company value into company value generator.

**ESSENCE OF INVESTOR RELATIONS ACTIVITY**

Investor relations are unique in their two scopes of activity: obligatory and non-obligatory (Figure 1). At the same time, obligatory scope equals minimal scope of company investor relations. In the case when company does more than only fulfills the regulatory requirements such activity can be called wider scope or advanced scope. Depending on the scope, intensity and quality of the non-obligatory actions taken by company, it is possible to identify different levels of such advancement.

**Figure 1.** Scope of investor relations activity

Obligatory scope results from the requirements included in a wide range of law regulations. The company’s voluntary and freedom level is limited in its form, time, manner, layout, scope, as well as tools used in communication. However, information content is not regulated, therefore it is possible to minimize the usefulness of information quality.
In non-obligatory scope, the regulatory requirements are limited only to equal access to information. It means that company investor relations can creatively arrange for building and strengthening the relationship between company and investors as well as other groups of stakeholders.

Investor relations can be defined as a complex of intentional, planned and systematic activities undertaken by company to provide appropriate communication in financial-economic field between company and financial community, especially with investors and potential investors (Dziawgo 2008, p. 66). The activities should result in gaining and maintaining trust to the company. In effect, investor relations should:

- fulfill obligatory law requirements connected with information,
- help increase company market value.
- The following elements were emphasized in the definition (figure 2):
- the necessity of planning and systemizing,
- the addressee of activity which is financial community with special emphasis on current and potential buyers of company financial instruments,
- the result, which is trust gained from all stakeholders groups, not only from financial community (it can also be viewed as priority goal),
- the main goal, which is appropriate financial-economic communication from such fields as: finance, accounting, taxes, law, strategy and its implementation in practice, conditions and macroeconomic prognosis in country, region and global circumstances, potential influence on changes in law regulations for company activity and results. The term ‘appropriate’ means that communication is provided according to legal requirements and to IR model developed within company. But it should be mentioned that the communication strategy established in company does not equal the expectations of information addressees, but it is adequate in the opinion of company management,
- specific goals connected with two key fields:
  - to fulfill adequately legal information requirements; it can result in loss of stock-quoted company status, or suspension of financial instrument trade,
  - to increase the company market value; a priority goal for the majority of leading companies, therefore looking for tools for their implementation in practice.
**INVESTOR RELATIONS IMPORTANCE – THEORETICAL BACKGROUND**

The importance of investor relations can be analyzed in microeconomic perspective – from the point of view of a single company, and also in macroeconomic perspective taking into consideration capital market and economy (Figure 3).

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**Figure 2.** Main elements of investor relations definition

![Diagram of investor relations](image)

Source: own work.
Figure 3. Investor relations significance

Effects of investor relations

- microeconomic perspective
  - reduction of information
  - macroeconomic perspective

For company (own IR)
- financial-economic
- nonfinancial-economic
  - legal
  - others

Other companies (external IR)
- facilitate own capital allocation
- reduce cost of collecting information
- improve own IR based on external patterns

Universal
- create friendly investment atmosphere
- operate effectively on financial market
- assets valuation
- capital accumulation
- capital transfer
- capital allocation

For specific country
- increase competitiveness of country financial market
- strengthen transparency of capital market (especially emerging)
- increase level of corporate culture
- keep domestic capital
- attract foreign capital
- increase level of direct investment of domestic investors, also individuals
- increase level of indirect investment of domestic investors, including individuals
- opportunity for capital access for SME segment

Source: own work.
From both microeconomic and macroeconomic perspectives, the key advantage of investor relations is reduction of gap asymmetry information which is one of the basic threats to financial market effectiveness. Transmission of reliable information to financial community reduces risk of non-effective functioning of modern capital market.

From microeconomic perspective, investor relations were divided into investor relations managed by a given company (own investor relations) and by other companies (external investor relations).

In the macroeconomic perspective, the attention has been drawn to universal importance of IR for efficient functioning of global financial market and therefore for entire world economy. Meanwhile, investor relations importance for individual country, exemplified by Polish market has been distinguished. Poland is still classified as an emerging market, therefore investor relations which meet market expectations should increase competitiveness of companies from Poland when competing for capital in domestic as well as global financial market (Dziawgo 2009, p. 545).

However, it should not be ignored that investor relations alone cannot obtain such effects as higher market efficiency but can only co-contribute to achieve them. However, lack of appropriate investor relations can result in not achieving desired effects due to the complexity of interaction between different elements in unstable and uncertain environment. Therefore, the importance of IR should be viewed in the context of many different activities which take place in financial market and in economy.

**MICROECONOMIC IMPORTANCE**

*The importance of own investor relations for a company*

There is no doubt that intentional creation of investor relations by company increases its chance for success in the financial market. However, company success cannot be carried out (in the long term) without investors’ success – company investor relations should also help investors achieve financial success and manage risk. When creating effective investor relations, the relation should not be left out (Bragg, 2010, pp. 1–3).

Many different factors influence a company’s position in the financial market. Part of them are beyond company impact. Hence, investor relations should be appreciated as an additional way for a company to influence economic environment within investors attitude. Investor relations can be used to eliminate negative effects of some events in the past, at present and in the future.
It can be assumed that the minimal significance of investor relations in company is equal to keeping the public company status. Therefore, company passively fulfills legal requirements at the level sufficient not to be removed from the public market, although such minimalist approach does not satisfy either financial community or company management. The increasing significance of investor relations depends on each company individually – as it is the company where company mission, the goal of activity and strategy to achieve it are formulated. Investor relations are only a part of company activity but that part can be very active.

Potential effects of investor relations result from goals/a set of goals which a company wants to achieve. Investor relations activity should affect gaining the planned effects.

The importance of external investor relations for a company

External investor relations are helpful in company investment decision making. For individual company, investor relations of other companies are connected with investing financial surpluses also in mergers & acquisitions or strategic alliances. Thanks to them, capital flows to best companies (investment safety).

Therefore, investor relations of other companies can be treated as a tool which makes easier capital allocation, but also as the element which reduces the costs of obtaining information about: branch of company, competitors and their activity, condition of banks whose services company already uses or is going to use, cooperators, investment items.

Also, the possibility of investor relations self-improvement based on observation of other companies IR – especially those which are acknowledged as leaders in investor relations scope, should not be left out.

MACROECONOMIC IMPORTANCE

Universal importance of investor relations

Universal importance of investor relations results from the importance of financial market in modern global economy. There is no doubt that financial market is a crucial element for economy functioning and developing and, in consequence, for society. It facilitates capital valuation through capital effective accumulation, transfer and allocation. On the financial market transformation of maturity and risk takes place, and money savings are transferred into financial capital and re-allocated thanks to different financial instruments. Because in the financial market the object of turnover is capitals and
promises in the form of financial instruments, therefore it undergoes a special regime, including equal access to information.

Investor relations help generate effective functioning of modern capital market as its integral part. Informative character of the relations corresponds with turnover safety on capital market and on market stabilization during crisis.

When analyzing the universal meaning of investor relations, it is also important to mention the aspect of creating friendly investment atmosphere based on exceptional capital called “capital of public trust”. Stock-quoted companies gain it when going public. Public company transparency, standards of quality managed business and its relations with environment should be useful to create and maintain that special capital whose importance was clearly seen during the last two crises in the financial market. Public companies should be viewed as model of behavior for other enterprises.

Specific importance of investor relations

For each local market, investor relations have universal, as well as specific, meaning due to the specifications of each country market – in particular raising the competitiveness of the country’s market. A perfect example of investor relations is Polish capital market.

Poland, in spite of being EU member, is still classified as an emerging market, i.e. countries with high level of investment risk. Therefore, investor relations in Poland should be used in construction of modern financial market in order to make Poland classified as developed market and to intensify its market attractiveness. It can be stated that emerging markets to a higher degree require more effective investor relations to minimize the distance to advanced markets.

Higher competitiveness of Polish capital market requires its strengthening and improvement of its functioning. Investor relations should be widely used in this process to raise the quality of domestic market.

Two most important aspects in which relations can be useful, are the increase of market transparency and the increase of level of corporate culture.

Strengthening transparency of capital market is related to information requirements of public companies in a given country. Financial society gains simultaneously access to the same information, but the level of the requirement may be different for different countries. However, companies can make voluntary disclosure widening the scope of revealed information. It influences the increase of a company’s transparency. It also encourages investors from domestic market and other countries to invest. Moreover, it influences specific risk reduction, and in the case of the whole market, systematic risk related to investing in a given market.
Increasing corporate culture level is really important in young capital market and, to some extent, it results from creating market transparency with the use of so-called soft laws. It also refers to so-called best practices code. In the majority of countries a rule „comply or explain” is introduced. It means that a company has to follow the rules but is not obliged to accept them. However, when a company decides to reject them, it must justify the decision.

High quality of investor relations should foster achieving other effects on domestic capital market. A number of them is indicated below.

Important effect is to keep domestic capital which is usually easy to mobilize. Its outflows from a country forces enterprises to find resources on the international market, weakening domestic financial market and exposing them to exchange risk. Therefore, domestic capital market should be taken care of, among others, through satisfying investors with investor relations. Although the effect of necessary geographic diversification of investment portfolio is known, gaining domestic capital for investing domestically still has high importance.

Attracting foreign capital to invest in a given company takes various ways among others through credit rating. However, without appropriate investor relations, gaining and maintaining the capital will be impossible. Whereas, the wider investors’ base and the higher number of countries they come from, the more stable the company market value is. High public company operations standards on Polish market should clearly be accompanied by effective communication in the English language.

Increasing direct investment of domestic investors, including individual investors, is highly needed by companies. It reduces their dependence on financial investors, creating wide investors society and not only consumers society. Proper communication with the groups allows not only for attracting and maintaining the capitals, but also increasing the level of financial involvement and building investors’ loyalty. Moreover, it means increasing society participation in direct investment in Polish financial market. Simultaneously, it influences reallocation of Polish society capital resources and increase of savings level, which is an important macroeconomics aim.

Increasing indirect investment of domestic investors, including individuals, means maintaining participation in society investment process in Polish financial market through investment funds, asset management and insurance companies.

Chance for access to capital for SME segment through public market is connected with fostering acquisition of needed capital on stock exchange, NewConnect or Catalyst. They offer the possibility of investing in shares and debt instruments, which widens the groups of potential investors.
INVESTOR RELATIONS
IMPORTANCE – SELECTED SURVEY
RESULTS OBTAINED IN POLISH MARKET*

IR importance for market functioning

Respondents definitely value the importance of investor relations for fi-
nancial market functioning. Merely 7 out of 416 individual investors stated
that investor relations are not important. Such a result can be perceived as
proof that investor relations are important for individual investors (Figure 4).
In the sample of analysts they were unanimous in their opinion that IR are
important for investors and market.

Figure 4. Range of answers to the question: ‘In your opinion the quality of compa-
nies investor relations are for investors and the market:’ (%) – individual investors
sample (416 respondents)

Source: based on research.

At the same time, individual investors confirm that in their case the long-
er they invest on the market the more important investor relations are for
them (Figure 5).

* More results: Dziawgo (2011).
Figure 5. Range of answers to the question: ‘Does in your case a relation occur that the longer you invested the more important investor relations became, you attached a higher importance to them?’ (%) – individual investor sample (354 respondents)

Source: based on research.

What seemed interesting was checking if respondents declaring an increase of investor relations importance were new or longstanding investors. Table 1 shows cross-tabulation of the two parameters. As presented, the longer the period of investing on stock exchange is the higher the increase of investors valuing importance of investor relations occurs.

The smallest distance is within the new investors – in that group the difference between answers “yes” (53%) and “no” (47%) is only 6 percentage points. Within the group of experienced investors that difference equals 20 percentage points and for veterans as high as 40 percentage points.

Table 1. Cross-tabulation for increase of investor relations importance * length of stock investing (number of valid answers in individual investors sample)

| Investment years                          | Does in your case a relation occur that the longer you invested the more important investor relations became, you attached a higher importance to them? | Total |
|------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------|-------|
|                                          | no | yes                                      | Total |       |
| up to 3 years (new investors)            | 42 | 47                                       | 89    |
| 3-10 years (experienced investors)       | 36 | 54                                       | 90    |
| over 10 years (veterans investors)       | 38 | 90                                       | 128   |
| Total                                    | 116 | 191                                      | 307   |

Source: based on research.
IMPORTANCE OF INVESTOR RELATION DURING INVESTING PROCESS

The importance of investor relations is also connected with the stage of influence of decisions to invest in given company. As many as 63% individual investors confirm, at least at the average level, that investor relations influence their investment decisions to buy given shares (figure 6). In analysts group that level was also high – 7 out of 10 analysts confirm that investor relations are important during the process of making a decision whether to invest financial resources in the company or not. In the companies sample, 81% of respondents confirmed that such an influence exists.

Only 7% of the enquired investor relations think that the quality of investor relations does not influence their investment decision. Within the groups of analysts and companies, such answer was not chosen.

Therefore, it is possible to conclude that the quality of investor relations is important for individual investors but it is not a crucial element in the process of making a decision whether to invest or not. Such results can be treated as obvious because the main goal of investing in shares is gaining profits. However, it is interesting that nearly 60% individual investors confirm that in their case there exists IR influence, at least at the average level, on the decision about investing in shares of given company.

Figure 6. The range of answers to the question: ‘How far does the quality of company investor relations influence your decision to invest in the company?’ ‘In your opinion, how far does the quality of company investor relations influence investors decision to invest in the company?’ (%)
The quality of investor relations is also taken into consideration later on: 52% respondents take IR quality into consideration during decision process about investment portfolio reconstruction (Figure 7).

In analysts sample, such influence is confirmed by only 4 out of 10 analysts, and in the companies sample answers ‘definitely yes’ and ‘rather yes’ constitute as many as 77%.

**Figure 7.** The range of answers to the question: ‘Is poor quality of company investor relations a reason for your reduction or disinvestment?’ / ‘In your opinion, is poor quality of company investor relations a reason for investors reduction or disinvestment?’ (%)

The analysis of data presented in Figure 6 and Figure 7 leads to the conclusion that the quality of investor relations is slightly more important for individual investors at the stage of including company to investment portfolio than at the stage of correcting its structure (63% vs. 52%). In the analysts sample that difference is clearer: 7 vs. 4 answers. The inquired companies are convinced about investor relation quality both at the stage of introducing the company to the portfolio and excluding it from the investor’s portfolio (81% vs. 77%).

Investor relations are also important in decision about investment horizon for as many as 84% of individual investors and 60% of analysts (Figure 8).
**Investor relations evolution & importance...**

**Figure 8.** The range of answers to the question: ‘To what degree does the quality of company investor relations influence your horizon to invest in it?’ (%)

![Bar chart showing the range of answers](image)

Source: based on research.

**THE VALUE ADDED OF INVESTOR RELATIONS**

It seems interesting to analyze the declaration of readiness to pay some extra premium for better quality of company investor relations or company transparency. Figure 9 shows the achieved results for three research samples.

As many as 48% respondents declare readiness to pay extra premium for transparency (from 0.1% to 80%). It is interesting that in the analyzed sample opinions on that question were nearly equal. So it can be generalized that 48% individual investors are ready to pay some extra premium for company transparency and 19% the whole sample declare minimum 10%.

Even if such answers were to be treated with high research caution, these answers prove investors’ determination to look for transparency, credibility and reliability in the financial market.

In analysts sample, the readiness to pay extra premium was even higher than in the sample of individual investors – as many as 9 out of 10 analysts declared such readiness. The premium was declared at the level from 5% to 20%. So, in that group the spread was narrower than in individual investors sample. Meanwhile, 6 out of 10 analysts declared the premium of minimum 10%.
Figure 9. The range of answers to the question: ‘Would you be ready to pay extra premium for better quality of investor relations/company transparency?’ and the open question: ‘What percentage?’ (%) – individual investors and sell-side analysts samples

‘In your opinion, would investors be ready to pay extra premium for better quality of investor relations/company transparency?’ and the open question: ‘What percentage?’ (%) – companies sample

a) individual investors (416 respondents); declared value from 0.1% to 80%

b) sell-side analysts (10 respondents); declared value from 5% to 20%
c) companies (36 respondents); declared value from 2% to 30%

As many as 2/3 stock-quoted companies also confirmed that investors are ready to pay some premium for higher transparency. They estimate the value of that premium in the range of 2 to 30%, but 28% companies indicate a minimum of 10%.

Analysts and companies were asked about investor relations influence on company market value. Analysts’ answers concerning the issue were not so explicit. In companies such influence was confirmed by two-thirds of that sample (Figure 10).

**Figure 10.** Range of answers to the question: ‘Have you observed influence of investor relations activity on company market value?’ (%)
CONCLUSIONS – INVESTOR RELATIONS AS A STANDARD OF PUBLIC COMPANIES FUNCTIONING

Clearly, investor relations constitute an unquestionable standard of public company functioning worldwide. They are continuously strengthening their importance in company activities, mainly due to:

– the increase of the level of detail and restriction of legal regulations concerning communication between company and capital market,
– wider acceptance of active implementation of investor relations in cooperation with financial society for more effective achievement of company goals.

Modern society and modern economy need safe and effective financial market with capital market within it; whereas modern financial market and global economy development is conditioned by transparency and trust. They must concern both market (its mechanisms, procedures, tools) and market participants. Building and maintaining that trust is not possible without bilateral communication, especially in financial and economic area, and that is exactly what constitutes investor relations domain.

Modern tele-information technologies, information society vision as well as the vision of economy based on knowledge may constitute along with investor relations logical, coherent, harmonious and effective entity.

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