



Research objectives:

1. To describe the current approach to financial communication, from a theoretical perspective.
2. To identify the shortcomings of the current approach to financial communication, from a theoretical perspective.

CHAPTER 2

Financial communication - an investor relations perspective

Where, in its early days, investor relations was a poor adaptation of the basic skills and promotional techniques of public relations, today investor relations is its own science, and its own art form. - Marcus and Wallace (1997:2)

2.1 Introduction

The term “investor relations” has acquired an important place in corporate vocabulary during the last two to three decades. But what exactly is meant by the term is subject to debate, and mostly depends on who uses it. There are mainly two schools of thought regarding investor relations. One regards it as a public relations function; the other as a separate and distinct discipline, although it often still falls under the Finance Director’s department.

The principal objective of this chapter is to describe the current approach to financial communication from an investor relations perspective. This will be achieved by providing an overview of the literature related to the objectives of investor relations, elements of uniqueness, the knowledge and expertise needed for investor relations, and most importantly, the organisation and management of investor relations. Theoretical as well as empirical perspectives will be discussed to elucidate the latter. In order to provide a complete picture of the investor relations approach to financial communication, a short section about the marketing approach to investor relations is also included. Finally, the most important shortcomings of the investor relations approach to financial communication are identified. This particular section establishes the connection between this chapter, Chapter 4 (which provides a theoretical

justification for an inclusive approach to financial communication) and Chapter 5 (where a conceptual model for an inclusive and integrated approach to financial communication is proposed).

In the light of the fact that there is no consensus regarding the meaning of the term “investor relations”, it is essential to establish what is understood by the term for the purposes of this chapter. This is done in the section that follows.

2.2 Clarification of terminology

Confusion exists surrounding the terminology associated with financial communication. Wilson (1980:9) observes that the term investor relations is used interchangeably with “financial public relations”, “financial relations”, “financial publicist” or “corporate communications”.

Both the terms “financial public relations” and “investor relations” are used in public relations textbooks. However, in more recent publications, the term “investor relations” is used more commonly. The reason for this might be that there is a growing recognition that financial communication is not merely public relations directed at the financial community (Marcus & Wallace, 1997:2; 313), but that it is a highly specialised and interdisciplinary field.

It is also important to note that most definitions of both financial public relations and investor relations only refer to communication with the *financial community*. For example, Baskin *et al.* (1997:317) define financial public relations as the building of positive relationships with the financial community. Cutlip *et al.* (1994:101) provide a very similar definition, but use the terms “investor relations” and “financial public relations” interchangeably. Arfin (1994:7) refers to “managing the interface” to describe the flow of information between a company and its financial stakeholders. Andrew (1990:22) describes financial public relations as communication with key groups such as financial institutions, investment analysts, shareholders and the financial press.

Marston (1996:477) defines investor relations as the link between a company and the financial community.

Some definitions are even narrower. For example, the definition that Marston and Straker (2001:82) provide only focuses on managing the relationship between a company and its shareholders or potential shareholders. Brown (as quoted in Rao and Sivakumar, 1999) and Farragher, Kleiman and Bazaz (1994:404) define investor relations as providing present and potential investors with information about a company's performance and future prospects. Savage (1970:125) limits the financial community to "those through whom the buyers and sellers of securities transact their business".

Note that stakeholders who are traditionally not seen as members of the financial community, such as employees or customers, are not included in any of the foregoing definitions. Buchner's (1994:231) definition of financial public relations is one exception. He defines financial public relations as "the science of communicating with specific target audiences, respectively or generally, about a company's trading activities and conditions, financial status, strategy, and values, on a consistent basis, so that they may accurately evaluate their investment". Buchner (1994:233-235) adds that, although it is commonly thought that shareholders are the only target audience of financial public relations, other target audiences include financial institutions, creditors, financial analysts, customers, employees, government, opinion leaders, the general public, the media, trade unions and pressure groups. In its latest definition of investor relations, the National Investor Relations Institute in America (NIRI) refers to two-way communication between a company, the financial community and other constituencies. It is, however, not made clear what is meant by "other constituencies" (NIRI, 2003).

From the above it becomes clear that the narrower definition of financial communication (i.e. communication with the financial community alone) is dominant. Furthermore, it is not possible to distinguish clearly between the terms "investor relations" and "financial

public relations”, based on the proposition that definitions of investor relations focus on the financial community alone, while definitions of financial public relations focus on other non-financial stakeholders as well (excluding Buchner’s 1994 definition).

Although the term “financial communication” is preferred for the purposes of this dissertation, the term “investor relations” will be used for the remainder of this chapter. The reason is that this chapter is dedicated to a review of relevant investor relations and financial public relations literature. The main theme of this chapter is the current approach to the organisation and management of investor relations. In order to contextualise this theme, it is necessary to briefly relate the historical background of investor relations.

2.3 Historical background

The roots of investor relations can be traced to the mid-1930s when the Securities Act of 1933 and the Securities Exchange Act of 1934 were instituted in America (Seitel, 2001:458). According to Marston (1996:479), investor relations was also first recognised as a management specialism in America. During the 1960s investors turned to stock markets to strike their fortunes (Seitel, 1995:398). During this period, former financial journalists took responsibility for writing press releases and exchanging financial information with newspapers (Davis, 1995:72). Companies also relied on their brokers and merchant bankers for advice on communication and informal investor relations (Arfin, 1994:5).

According to Marcus and Wallace (1997:311), investor relations was mainly performed by public relations practitioners (who had limited knowledge or understanding of the financial world) until about 1975. During this period, communication with shareholders did not take up much of management’s time, except for the few occasions where the Chief Financial Officer responded to shareholders’ questions. Investor relations amounted to little more than crisis management (Rao & Sivakumar, 1999).

Investor relations slowly but surely became an integral part of public relations programmes and gained special prominence during the 1980s, the beginning of the era of takeovers and mergers (Cutlip *et al.*, 2000:474). By the 1990s, investor relations had become a full-time professionalised operation (Rao & Sivakumar, 1999).

With the dawn of the new millennium, investor relations is still increasing in importance and is seen as one of the most challenging areas of corporate communication (White & Mazur, 1996: 218). There is, however, a recent trend towards the isolation of the investor relations function from the corporate communication or public relations functions (Diamond 1997:29). This trend becomes even more evident in the discussion of the organisation and management of investor relations in Section 2.7.

According to Davis (1995:73) the following are the main reasons for the growth of the investor relations profession:

- The scope and influence of the financial press has increased. Increasing numbers of newspapers and magazines report on business and an increasing amount of space is devoted to financial news within the wider media.
- Deregulation, globalisation and the impact of electronic trading and information systems have resulted in information being distributed to a wider audience more promptly and equitably.
- The globalisation and growing importance of institutional investment. This view is also expressed by McGrath (1974:ix).
- The introduction of more and more rules governing the disclosure of financial information.

Marston (1996:479) refers to another reason that can be added to the list above. Due to the increasing sophistication of the world's capital markets, increasingly sophisticated information is needed to facilitate investment decisions. These developments necessitated a much more professional approach to communication between companies and financial stakeholders. In earlier years, there was little systematic

attempt to decide what the company should be communicating and to whom. In order to facilitate a more professional approach to investor relations, more clarity is needed in terms of its objectives.

2.4 Objectives of investor relations

The objectives of investor relations, as stated in the literature, are numerous and diverse. Some are very general, while others are very specific. Some of the general objectives include:

- to assist a company in achieving its corporate objectives in order to reward shareholders for their investment (Andrew, 1990:15);
- to convey something of the spirit of the company and its objectives (Smith, 1989:12);
- to help a company compete in the capital markets (Marcus & Wallace, 1997:1; McBride & McBride, 2001);
- to attract resources, especially capital (Baskin *et al.*, 1997:318, McGrath, 1974:9);
- to lower a company's cost of capital (Baskin *et al.*, 1997:317; Thompson in Allen, 2002:209);
- to build positive relationships with the financial community (Baskin *et al.*, 1997:317); and
- to link a company's management with its financial stakeholders (Evans & Strenski, 1997:39; Marston, 1996:477, Miller in Petersen & Martin, 1994:2).

The following objectives specifically relate to the decision to invest in a company:

- to minimise investor risk by providing information that is clear and understandable (Thompson in Allen, 2002:209);
- to build trust and credibility amongst investors (Allen, 2002:207; Arfin, 1994:38);
- to create and maintain investor confidence (Baskin *et al.*, 1997:317; Farragher *et al.*, 1994:404; Fleck, 1997:17-18; Hanrahan, 1997:149);
- to disclose information that will have an impact on investors' decisions to buy, sell or hold shares (Seitel, 2001:458);

- to tell the company's story to investors: its performance, strategy and prospects (Green, 1997:11);
- to attract new investors (Baskin *et al.*, 1997:319); and
- to help the financial community and investment public to evaluate the company as an investment opportunity (Buchner, 1994:231; Smith, 1989:13).

According to Dilenschneider (2000:44), there is some controversy surrounding the objectives of investor relations. Some companies declare that enhancing shareholder value is their one and only objective. Others perceive this objective as too narrow and also focus on serving employees, customers and the community.

One objective, which has especially stimulated a lively debate, is related to the impact of investor relations on a company's share price and price/earnings ratio (P/E). A conservative view in this regard is that the objective of investor relations is to help stabilize a company's share price, or to help it reach an appropriate level (Baskin *et al.*, 1997:319; Farragher *et al.*, 1994: 403; McGrath, 1974:8; Savage, 1970:122; Seitel, 2001:458; Smith, 1989:9). But according to Savage (1970:125), this is a euphemism for "get the price of the stock up to where it realistically belongs and keep it there". McBride and McBride (2001) claim that one of the primary purposes of investor relations is to increase a company's share price. In a survey conducted by Petersen and Martin (1996:203), it was found that CEOs of the 250 largest non-banking companies in Florida (USA) considered increasing the share price as a very important outcome of IR.

Smith (1989:9;13) opposes this view and declares that the purpose of investor relations is not, and should not be, to push up a company's share price. He claims that the role of investor relations is to provide comprehensive information for independent assessment of the company and its prospects, and not to actively promote the purchase or sale of its shares. In contrast, McBride and McBride (2001) believe that investor relations is a marketing function. It is therefore quite logical that a company will market its shares to investors in similar fashion as it markets its products to buyers.

Farragher *et al.* (1994:403) adopt a critical stance and state that investor relations activities only involve the sophisticated repackaging of available information and are, thus, irrelevant when it comes to share price movement. Grunig and Hunt (1984: 350) remark that investor relations should entail more than mere disclosure of financial information. According to them, information should be interpreted and simplified for message retention to take place. Savage (1970:125) holds a similar view. Written messages form an essential part of financial communication. However, recipients will not necessarily understand, or even read, these messages if they are not presented in a user-friendly format.

Allen (2002:209) warns against the use of a “magic number” (such as share price or earnings per share) to evaluate a company’s performance. Although important, a company’s share price and earnings per share should be evaluated within the context of other information available about the company. Collingwood (2001) maintains that the quarterly earnings number is not so useful in predicting a company’s future performance. A real danger associated with the fixation with “magic numbers” such as share price or earnings as indicators of company performance, is that Top Management then tend to pursue ever-increasing levels, which is only in the short-term interest of the company (Atkinson 2002:214).

It is clear from the above, that the objectives of investor relations make it unique in many aspects. The most important distinguishing features of investor relations are discussed in the following section.

2.5 Investor relations: elements of uniqueness

Buchner (1994:232) identifies five elements that distinguish investor relations from other fields of public relations. The first distinguishing element is that the target audiences or publics of investor relations have very specific information needs, which usually is of little value or interest to other publics. According to Grunig and Hunt (1984:348), these publics are usually active publics. According to the situational theory of publics, active publics organise to discuss and do something about a problem. In this case the problem might

entail the decision whether or not to buy a company's shares. In other words, these publics control the resources that enable a company to exist. Grunig and Hunt refers to this type of linkage between a company and publics as an "enabling" linkage (1984:140).

According to Buchner (1994:232) the second element relates to the tools or media used for investor relations. Other fields of public relations do not commonly use annual reports, interim or quarterly reports, preliminary profit statements, or annual general meetings to communicate with publics. The third element of uniqueness is the skills and knowledge required for investor relations. This element will be dealt with in more detail in Section 2.6.

The fourth element that makes investor relations unique is the timing of communication. The release of financial information is governed by law (for example the Companies Act, 1973), the Listing Requirements of the Johannesburg Stock Exchange (JSE), as well as rules related to Generally Accepted Accounting Practice (GAAP). A company is obliged to disclose certain information at certain points in time, which does not necessarily serve the company's best interests at these particular times.

A fifth, closely related element of uniqueness, is the message itself. Due to the legal and statutory requirements mentioned previously, companies are obliged to disclose information that might not always be in its best interests, for example the announcement of a significant financial loss (Buchner 1994:233).

Grunig and Hunt (1984:21; 348-349) make a connection between this fifth element of uniqueness and the four models or types of public relations that they have identified, namely the press agency model, the public information model, the two-way asymmetrical model and the two-way symmetrical model. According to Ledingham, Bruning and Wilson (1999:169) the press agency model focuses on publicity, rather than truthfulness of message content. The public information model, on the other hand, emphasises truthfulness and objectivity, but only favourable information about the organisation is disseminated (Grunig & White, 1992:39). Public relations based on the two-way asymmetrical model uses research to determine which messages are most likely to

persuade publics to behave as the organisation wants them to. According to Grunig and White (1992:39) an asymmetrical worldview underlies each of these three models. Only one model, the two-way symmetrical model is based on a symmetrical worldview. Public relations based on this model focuses on dialogue, conflict management, improving understanding and building relationships with publics.

According to Grunig and Hunt (1984:348-9), legal and statutory requirements limit investor relations to the use of the public information or two-way symmetrical models of public relations. Due to very specific rules and guidelines regarding the disclosure of financial information, investor relations cannot employ tricks, associated with the press agency model, or limited disclosure associated with the two-way asymmetrical model.

As was mentioned previously, one of the distinguishing features of investor relations is the knowledge and expertise it requires. This feature is examined in more depth in the following section.

2.6 Knowledge and expertise needed for investor relations

Grunig and Hunt (1984:349) contend that investor relations is a highly specialised field, which requires knowledge of corporate finance, law, economics and public relations. Baskin *et al.* share this perspective, but add that marketing communication skills are also necessary (1997:324). According to Petersen and Martin (1994:33) these requirements hold multiple implications for public relations education. Public relations students will have to be provided with a detailed understanding of finance and mass communication law, each requiring a separate course. Wilson (1980:11) maintains that large corporations often do have professionally trained investor relations specialists who are affiliated to organisations such as the National Investor Relations Institute (NIRI) and the Public Relations Society of America (PRSA).

In contrast, Marcus and Wallace (1997:311; 316) declare that investor relations is no longer the purview of public relations. A public relations practitioner with no financial background is not qualified for the investor relations function. They do however,

acknowledge that a financial executive with no communication training or experience is not qualified either. The investor relations professional should therefore have an understanding of corporate finance, accounting, investment banking and corporate structure. Other requirements include an intimate knowledge of how the capital markets work, communication and marketing skills, an understanding of the full scope of corporate activity, experience and knowledge of the financial media, and experience and skills in the writing of press releases, annual and interim reports and speeches (1997:319).

Marcus and Wallace add that investor relations professionals are not drawn from any single source that has prepared them educationally for the role. Currently, most investor relations executives are former analysts, or financial or legal executives (1997:315; 318). This leads to one of the major themes of this dissertation, namely the current approach to the organisation and management of financial communication.

2.7 Organisation and management of investor relations

The organisation and management of investor relations has been a subject of debate for many years. Approaches to the organisation and management of investor relations vary widely (Ferris & Newman, 1991:19; Hanrahan, 1997:149; Marston, 1996:483). Concerns about fragmentation and lack of co-ordination in investor relations have been expressed by Ferris and Newman (1991), Johnson (1990), Neilson (1990) and Petersen and Martin (1994;1996).

Previous research about the responsibility for investor relations has mainly concentrated on two areas:

- Which *department* takes responsibility for the execution of investor relations (organisation of investor relations)?
- To which *individual* (senior manager or Board member) does the department responsible for the execution of investor relations, report (management of investor relations)?

Although many authors do not explicitly make this distinction, it makes it easier to gain an overall perspective of the different approaches to investor relations.

2.7.1 Organisation of investor relations on the functional/departmental level

Hanrahan (1997:149) observes that investor relations can be the responsibility of many departments. White and Mazur (1996:219) and McGrath (1974:36) report that some companies place investor relations in the Financial Director's department, while others place it in the Communication, Public Relations or Public Affairs department.

Major public relations textbooks generally consider investor relations (also referred to as financial public relations or financial relations) as a component of public relations (Baskin *et al.*, 1997; Cutlip *et al.*, 2000; Grunig & Hunt, 1984; Seitel, 2001). Cutlip *et al.* (1994:19), for example, define investor relations as "the specialized part of corporate public relations that builds and maintains mutually beneficial relationships with shareholders and others in the financial community".

Dilenschneider (2000:33) comments that, because investor relations is about communication, it is still considered as part of a corporation's overall public relations. Petersen and Martin (1994:33) warn that, if this is the case, it is a very demanding task and holds implications for public relations education (see Section 2.6 above). Andrew (1990:185), however, considers investor relations as part of a company's overall communication, on equal footing with (and not part of) public relations.

According to Diamond (1997:29) there is a recent trend towards the isolation of investor relations from corporate communication or public relations. A reason for this is that public relations practitioners are criticised for their lack of understanding of the financial world. They are therefore not respected, or taken seriously by the investment community (Morrissey in Petersen & Martin, 1994:10). According to Marcus and Wallace (1997:2), investor relations in its early days was "a poor adaptation of the basic skills and promotional techniques of public relations", but is seen today as a separate, distinct

practice. Wilson (1980:11) and Morrissey (in Petersen & Martin, 1994:10) to the contrary, regard investor relations as an integral part of the financial management function.

It is evident that, theoretically speaking, there is no single approach to the organisation of investor relations. Furthermore, it is possible to make a distinction between how large and small companies organise investor relations. Neilson (1990:26) remarks that, while there tend to be turf wars between investor relations and other public relations functions in large companies, small companies usually have only one Communication Officer who is responsible for public relations as well as investor relations. This is usually the case as a result of budgetary constraints (Savage 1970:123). An advantage of this scenario is that it is easier to ensure that the company “speaks with one voice”.

According to Oliver and Rodriguez (2003), the Investor Relations Officer (IRO) of a small company might also be the company’s Treasurer or Corporate Secretary. Neilson also reports that it is not unusual for the Chief Executive Officer (CEO) and/or Chief Financial Officer (CFO) to take personal responsibility for communication with the financial community (1990:26).

Various empirical studies have been undertaken to investigate the organisation of investor relations. The findings of the most important studies relevant to this study are summarised in Table 2.1. The findings are broadly classified in terms of department responsible for investor relations, person responsible for investor relations and the reporting structure (the senior manager to whom the person responsible for investor relations reports).

Table 2.1 Summary of results of previous studies about the organisation and management of investor relations

STUDY	SAMPLE	DEPARTMENT RESPONSIBLE FOR IR	PERSON RESPONSIBLE FOR IR	REPORTING STRUCTURE
1967 Conference Board (See McGrath 1974)	196 companies (not specified)	Not investigated	Financial executive: 39% IRO: 2 %	Not investigated
McGrath 1974	119 "leading-edge" companies who had organised and recognised IR programmes	Not investigated, although it is stated that IR has become a recognised and separate function.	IR executive (47 of 119 of respondents had an IR executive) 39,5%	38 IROs reported through financial channels 10 IROs reported to PR
Marston 1991 (See Marston 1996)	Top 500 UK companies	Separate IR Dept: 8,9% IR as section of PR: 19,9% IR carried out by Fin. Director's Dept.: 35,9%	No designated IRO: 48% IR as part of responsibilities: 32% IR main responsibility: 20% (IROs in most cases directors and specifically the FD)	Majority of IROs reported to Financial Director or CEO
Petersen and Martin 1994 (Also see Petersen and Martin, 1996)	Top 250 non-banking listed companies in Florida, USA	Financial department: 48 of 76 respondents IR department: 27 of 76 respondents PR department: 9 of 76 respondents CEO: 17 of 76 respondents (Multiple responses allowed)	Not investigated	Chief Financial Officer: 43 of 76 respondents Chief Executive Officer: 43 of 76 respondents Chief PR Officer: 10 of 76 respondents Chief IR Officer: 2 of 76 respondents (Multiple responses allowed)
Marston and Straker 1998 (See Marston & Straker 2001)	Top 80 European companies (excluding UK-based companies)	Have IR department: 96% No IR department: 4 % Separate IR department: 54% Within Fin. Director's department: 31% Section of PR department: 5 %	Employ an IRO: 87% No IRO: 13%	Not investigated

During 1991, Marston conducted a survey amongst the Top 500 UK companies and found that 35.9% of the respondents placed investor relations under the Finance Director's department. 19.9% of the respondents indicated that the Public Relations department carried out investor relations (1996:482; 484). During 1994, Petersen and Martin (1994:ii) investigated how the CEOs of the 250 top non-banking listed companies in Florida (USA) perceived the investor relations function. The results revealed that CEOs did not view investor relations as a public relations function, but preferred that Financial departments conduct investor relations.

During 1998, Marston and Straker investigated the approach to investor relations followed by the top 80 European companies (excluding UK-based companies). The study focused on the existence of an investor relations function, its position within the organisation, the employment of an Investor Relations Officer and basic investor relations functions. The results revealed, amongst other things, that 31% of the respondents stated that investor relations was conducted within the Finance Director's department. Only five percent of respondents indicated that investor relations was part of the Public Relations department (2001:87).

Wilson (1980:11) notes that large companies usually have entire departments dedicated to the investor relations function. In the 1998 survey conducted by Marston and Straker, it was found that 96% of respondents had a separate Investor Relations department (2001:85). In contrast, the results of a 1991 study conducted by Marston amongst the top 500 UK companies, indicated that only 8,9% of respondents had a separate Investor Relations department (1996:484). Although these studies were carried out in different countries, the results suggest the increasing importance of investor relations. Marston, for example, remarks that if a company views investor relations as important, it is more likely to make formal arrangements (1996:482).

Although it is not possible to compare the findings of these studies, as they were conducted in different countries at different times, it becomes clear that no single approach to the organisation of investor relations has crystallised over the years. Note the time span

of more than 30 years between the first 1967 Conference Board study and the most recent one in 1998 by Marston and Straker (2001) (see Table 2.1). It is apparent, however, that Financial departments take responsibility for investor relations much more often than Public Relations departments.

Furthermore, the results of these studies contradict the public relations literature, as well as the conventional wisdom of practitioners, that investor relations is part of corporate public relations (Petersen & Martin, 1996:173; 205). Grunig and Hunt's (1984:352) definition of investor relations as a "hybrid of public relations and corporate finance" seems to portray corporate reality more accurately. However, Petersen and Martin (1994:3) remark that this definition could lead one to believe that these disciplines are equal contributors to investor relations. The aforementioned research results clearly indicate that this is not the case.

It is not possible to provide a complete picture of current approaches to investor relations by only looking at organisation at the functional or departmental level. It is also necessary to explore the different reporting relationships employed in investor relations (in other words, the management of investor relations).

2.7.2 Reporting relationships in investor relations

According to Marston (1996:481), company personnel of varying degrees of seniority can take responsibility for the management of investor relations. At the lower end of the reporting structure, one usually finds an Investor Relations Officer (IRO). In 1998, Marston and Straker (2001:86) found that 87% of the companies they surveyed had an Investor Relations Officer. In her 1991 study, Marston (1996:482) found that 52% of respondents had an Investor Relations Officer. In most of these cases, investor relations was only part of the duties of the person responsible. Furthermore, in 30,2% of the cases the Investor Relations Officer was a Board member (usually the Finance Director). In the rest of the cases the IROs were managers with varying degrees of seniority. These managers reported to members of the Board (notably the CEO or Finance Director).

Marcus and Wallace (1997:316) and Wilson (1980:10) contend that to be effective, the Investor Relations Officer must have ready access to Top Management. The person must also have the ear and the respect of the CEO or CFO; otherwise he or she is merely a clerk. This means that he or she must be fully informed with regards to top-level policy and planning (Savage, 1970:127).

Arfin (1994:49) introduces a broader perspective by stating that the investor relations function can report to two people, namely the Corporate Affairs Manager and the Financial Director. However, most of the investor relations literature, as well as the findings of several empirical studies, tend to favour the Financial Director (also referred to as the Chief Financial Officer). For example, White and Mazur (1996:219) report that in many cases, investor relations is the responsibility of the Financial Director, with the Head of Public Relations playing a strong role in presentation (which can be interpreted as being a supporting role). In other instances, investor relations is seen as part of public relations, but the Financial Director still assumes final responsibility.

Wilson (1980:11) also indicates that the financial executive is usually in charge of investor relations. Marcus and Wallace (1997:53), on the other hand, point out that in large corporations, the Chief Financial Officer is responsible for many functions, including the investor relations function. Therefore, investor relations is usually delegated to an Investor Relations Officer.

Perhaps the most important role player is the Chairman and/or Chief Executive Officer. Smith (1989:15) is of the opinion that investor relations should report directly to the Chairman and/or Chief Executive Officer, no matter where the function is placed in a company. Wilson (1980:11) suggests that, while the Financial Director is usually in charge of investor relations, he or she reports directly to the President of the corporation.

It is important to note that the CEO does not only assume final responsibility for investor relations. According to Gummer (in Marston, 1996:478), the CEO is responsible for the investor relations policy. It is the prerogative of the CEO to determine how investor

relations is organised and conducted in its entirety. According to Marcus and Wallace (1997:52), the role of the CEO is to keep the company's earnings and value of its equity at a high or increasing level. It is therefore important that the CEO must set down clear guidelines of what he or she believes investor relations can and must achieve for the company. This should be done in consultation with the Company Secretary, the Finance Director and Public Relations Officer (Gummer 1995:50). Neilson (1990:26) points out that problems arise when the CEO takes personal responsibility for communication with the financial community, without informing the Public Relations Officer of what is being done.

In an attempt to explain why the public relations theory and the practice of investor relations differ, Petersen and Martin (1996:180) refer to the role of the CEO. They assert that this phenomenon can partly be ascribed to encroachment, either directed or allowed by the CEO. Encroachment is interpreted as the assignment of persons who do not have any training or expertise in public relations, to manage the public relations function in an organisation. The rationale behind this, at least in terms of investor relations, is that communication with financial stakeholders must adhere to strict statutory requirements. It is therefore not strange that CEOs would rather select executives who understand and can cope with the complexity of these requirements (Petersen & Martin 1996:174).

Besides investigating the organisational structure of investor relations, many of the studies referred to in Section 2.7.1 also investigated the reporting structures used in investor relations (see Table 2.1). The Conference Board, one of America's leading business research organisations, conducted several surveys in this regard. In a 1974 study, McGrath found that most investor relations executives reported through financial channels, rather than public relations or communication channels (1974:42). Furthermore, McGrath (1976:51) found in another study that Chief Executive Officers assume direct responsibility for certain investor relations activities, for example meeting with important institutional investors and groups of key analysts, leading the annual general meeting and dealing with inquiries from major stockholders. The results of a 1987 Conference Board study on the organisation of corporate external relations and communications departments revealed

that in 70% of the firms surveyed, investor relations programmes reported to company executives *other* than Public Affairs executives (Lusterman 1987:5).

Rao and Sivakumar (1999) report that the National Investor Relations Institute in America (NIRI) conducted surveys amongst investor relations executives in 1985 and 1989 and found that two-thirds of the respondents reported either to their company's Chief Financial Officer, Chief Executive Officer or Chairman. Dilenschneider (2000:33) reports that a 1995 NIRI survey yielded similar results. 35% of investor relations staff members reported to CEOs and 52% to CFOs.

During 1991 Marston (1996) found that various directors, including the CEO and the Financial Director, took responsibility for the management and execution of investor relations. In the 1994 study conducted by Petersen and Martin, CEOs preferred that Financial Affairs executives supervise investor relations (1994:ii).

At this stage, it is important to note that there is not necessarily a direct correlation between the departmental organisation of investor relations and the reporting structure used. In other words, even if investor relations is organised as a separate department, and even if an Investor Relations Officer is appointed, in most instances the Financial Director or Chief Executive still assumes final responsibility. In 1998 Marston and Straker (2001:92) found that, although 96% of their respondents had a separate Investor Relations department, in some cases it was still connected to the Finance Director's office.

2.7.3 Senior management involvement in investor relations

There is also evidence in the literature that, notwithstanding the reporting relationships described previously, senior management *involvement* in investor relations is crucial. Marston (1996:481) maintains that it is desirable for the Board of Directors to be involved in managing as well as executing investor relations programmes. Wilson (1980:10) concurs by stating that investor relations is a Top Management responsibility. Active Top Management support is necessary to increase the visibility of a company in a highly competitive financial market (McBride & McBride, 2001). Andrew (1990:23) notes that the

active involvement of Board members is what distinguishes investor relations from other types of public relations activities.

According to Smith (1989:15), the Chairman, CEO and Finance Director - not the investor relations function - must act as the face and voice of the company. It is important that what they say supports the company's communication objectives and corporate strategies and co-ordination is therefore essential (Andrew 1990:23; Smith, 1989:13). Open communication between a company's Board of Directors and the investment community is at the heart of a good investor relations programme (Anon., 2000).

2.7.4 The role of consultants/agencies in investor relations

The role of investor relations consultants is not the main focus of this study. Because investor relations is such a specialised practice, they do however play an important role. According to Marston (1996:478), there should be an in-house team responsible for investor relations, supported by outside help. McBride and McBride (2001) note that investor relations consultants usually have years of experience in the financial and investment markets and can therefore provide Management with strategic counsel.

Coyle (1990) suggests that a company should use investor relations counsel as it uses lawyers, accountants and management consultants: utilise their breadth of industry knowledge, unbiased position and specialised expertise. Ferris and Newman (1991:19) maintain that investor relations consultants serve as a conduit for information exchange between senior management and members of the investment community.

Services provided by investor relations consultants vary. Coyle (1990) identifies three integrated but distinct areas where investor relations counsel can be of assistance, namely corporate disclosure documents, investment community contact and financial media relations. In terms of corporate disclosure documents, McBride and McBride (2001) suggest that investor relations consultants co-operate closely with the client to ensure that all necessary information is included to comply with statutory requirements.

McBride and McBride (2001) add that IR consultants can also assist in developing mailings lists of analysts and existing and potential investors, issue financial press releases and prepare other written materials such as investor fact sheets, presentations to analysts, articles for industry publications and management speeches. Consultants also offer invaluable support in issues and crisis management, such as communication during buy-outs, mergers and takeovers (Hanrahan, 1997:149).

From the above it is clear that investor relations agencies can provide services that range from strategic thinking to technical execution. However, the investor relations picture is still incomplete. Besides the role players that have been identified in this section (public relations, accounting/finance and investor relations specialists/consultants), another contender has entered the turf war surrounding investor relations: marketing.

2.8 The marketing approach to investor relations

There is a growing body of literature that suggests that investor relations is a marketing function. Although the emphasis of this study is only on the role of public relations and accounting, for the sake of completeness, the marketing approach to investor relations is briefly related.

Petersen and Martin (1996:177) report that the National Investor Relations Institute in America (NIRI) define investor relations as a “corporate marketing activity combining the disciplines of communication and finance...” Dilenschneider (2000:33) and Jameson (1996:185) concur. In other words, the roles of communication and finance are still acknowledged. However, Johnson (1990:28) remarks that investor relations and other forms of public relations are all forms of marketing.

Johnson (1990:28) uses an analogy to explain why investor relations is a marketing function: the company is the product and the annual report, quarterly reports and news releases are the packaging. The product is distributed by means of analyst meetings, annual general meetings, advertising and the financial media, and the customers are individuals, brokers, institutions, analysts and the communities in which the company

operates. Jameson (1996:186) refers to the importance of targeting certain market segments, as a company's shares are not appropriate for all investors or portfolios. Breakstone (2001) and McBride and McBride (2001) are even more direct, by asserting that investor relations sells a company's shares in much the same way as its products are sold. These views portray investor relations as a marketing function in a very narrow sense.

There are broader views as well. The second part of the NIRI definition of investor relations refers to the provision of information to present and potential investors in order to accurately portray a company's performance and prospects (Petersen & Martin, 1996:177). Responsibilities of investor relations, according to Jameson (1996:185), include ensuring that a company's message addresses the information needs of investors and that it is presented in an understandable format. In other words, the focus is not entirely on selling a company's shares. Jameson adds that the product that investor relations sells - information - is intangible (1996:188).

A last important aspect of the marketing approach is that investor relations is considered to have strategic importance. The most recent NIRI definition of investor relations states that it is a strategic management responsibility (NIRI, 2003). Marcus and Wallace (1997:2) remark that a new role for investor relations is emerging - strategic planning. Although these authors state that investor relations is now driven by marketing and its disciplines, they add that it is a science and an art form beyond the *craft* of marketing.

2.9 Shortcomings of the investor relations approach to financial communication

The most important shortfall that immediately comes to mind, is the lack of co-ordination and integration in investor relations, as referred to by Ferris and Newman (1991), Johnson (1990), Neilson (1990) and Petersen and Martin (1994;1996). Empirical research results suggest the same (Lusterman, 1987; Marston, 1996; Marston & Straker, 2001; McGrath, 1974; McGrath, 1976). What complicates the matter, is that there are discrepancies

between what the public relations literature says about the organisation and management of investor relations, and what these research results reveal.

Several authors call for a more integrated approach to financial communication. Ferris and Newman (1991:18) and McMullen (1990:31) report a growing need for interdependence between investor relations and other corporate communication professionals. According to Johnson (1990:26) there are numerous advantages related to increased co-operation between investor relations and other public relations. Unfortunately, companies often only realise the importance of a unified effort when it is too late. Smith (1989:13) emphasises that when a number of people, including directors, are involved in the investor relations effort, co-ordination is essential.

A second shortfall of the investor relations approach is that most definitions of investor relations only refer to communication with the financial community. Although it is not denied that communication with the financial community is vitally important, it will be argued in Chapter 4 that financial communication should involve a wider spectrum of publics or stakeholders. This argument will be supported by highlighting new trends and developments in public relations and general management theory.

2.10 Conclusion

The term “investor relations” is not an unfamiliar one. In fact, one comes across the term in literally thousands of short articles published in trade and business publications. What has become apparent in this chapter though, is that there is not consensus on what the term means, what the function entails, or how it should be organised and managed.

The objectives of investor relations, as stated in the literature, are varied. Some of these objectives also contribute to the uniqueness of investor relations, as compared to other forms of public relations. One distinguishing factor is the knowledge and expertise needed for investor relations. It is evident that a strong financial (accounting as well as financial management) as well as a public relations (or corporate communication in the broader sense) background is needed.

One theme that emerges from the discussion of the organisation and management of investor relations, is the domination by the Financial department and its executive (the Chief Financial Officer or Financial Director). In Chapter 5 it is argued that financial communication should be an integrated process, where both accounting and public relations play an important role. In order to support this argument, it is necessary to explore financial communication from an accounting (and accountant's) perspective and identify the shortcomings of this approach. This is done in Chapter 3, where financial communication is explicated from an accounting perspective.