

INVESTOR RELATIONS: A NATIONAL STUDY OF THE PROFESSION

By

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To my son, Yasha Laskin

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INVESTOR RELATIONS: A NATIONAL STUDY OF THE PROFESSION

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Investor relations is one of the most important corporate communication functions – survival of an organization depends on how well current and potential investors as well as everybody else in the investment community understand the value of the company and its business model. As a result, investor relations occupies a respectable place at the top of the corporate agenda. At the same time, it also becomes important to develop academic theory-based research in investor relations. This dissertation proposes one possible approach to theory-building in investor relations.

This study assumes investor relations to be a specialization, or sub-function, of public relations. To support this assumption, practical and historical similarities of these two functions are analyzed. Then, a methodological approach to analyzing investor relations practice, Continua of Investor Relations, is proposed. The continua are based primarily on one of the dominant theoretical perspectives in public relations, Excellence theory. The Continua of Investor Relations model analyzes the practice of investor relations in five key areas: direction of communication, intended beneficiary, enacted role, nature of investor relations, and focus of investor relations.

The study also suggests, based on review of public relations and investor relations literature, that the practice of investor relations today is characterized by a shifting focus from mere disclosure of financial information to extensive two-way communication of both financial and non-financial information. As a result, the study analyzes the information communicated by corporations to the investment community.

The study conducts a primary data collection. A random sample of members of the National Investor Relations Institute was invited to participate in the Web-based survey. The study achieved a response rate of 33%. The study's findings indicate that investor relations practice can be best described as utilizing two-way communications, having both interests of management and shareholders in mind, focusing simultaneously on short-term and long-term objectives, and performing both managerial and technical tasks. However, according to the results of this study, the practice of investor relations is predominantly reactive rather than proactive. Investor relations practitioners are often trained in finance and lack strategic communication expertise. The function is often organized in a stand-alone department, but, nevertheless, most often reports to the CFO. As a result, the focus is still mainly on financial information, with non-financial information taking second place. Among various kinds of non-financial information, corporate strategy is the most important and most often communicated. However, there is not enough communication about the quality of corporate management.

Based on these findings, the study concludes by providing several recommendations for investor relations practice, research, and education. Among recommendations are the following: developing more communication expertise in investor relations, transitioning oversight of the function from the CFO to the CEO, improving quantity and quality of non-financial information, and relying on strategic planning in carrying out investor relations activities.

CHAPTER 1

INTRODUCTION

Investor Relations among Other Communication Functions

Investor relations is valued quite highly among all over communication functions in the corporate world. In fact, several salary surveys document investor relations as the highest paid specialization of public relations. 2006 salary survey sponsored by *PRWeek* and Korn Ferry identified investor relations as the highest paid of the eight specializations, or disciplines, measured (PRWeek, 2006). The median salary for practitioners specializing in “financial/IR” was \$165,620, followed by “crisis management” (\$150,000) and “reputation management” (\$143,000). Salaries for the remaining specializations ranged from \$98,500 for “public affairs” to \$59,910 for “community relations” (p. 19). Similarly, investor relations was the highest paid specialization among members of the Public Relations Society of America (PRSA) in the society’s salary survey (Tortorello & Wilhelm, 1993).

Yet, despite this high importance that the investor relations function occupies among other communication and public relations specializations in the corporate world, the academic world does not pay much attention to investor relations. In fact, it is almost impossible to find a public relations or strategic communication program that would list a course in investor relations as an elective. Even those programs that do list such a course rarely in fact offer it to students. For example, University of Houston has investor relations course in its program description, however, it did not teach this course in years (Heath, personal communications, 2007).

Academic research in investor relations is also insufficient and does not correlate with the high importance of the function in the corporate practice. For example, Sallot, Lyon, Acosta-Alzuru, and Jones’s (2003) content analysis of all articles published in *Public Relations Review*, *Journal of Public Relations Research*, and its predecessor, *Public Relations Research Annual*,

since their inceptions through 2000, reports only one investor relations article out of 748 total public relations articles analyzed. The search in *Communication Abstracts* with keyword *public relations* returns 1,316 articles. The search with keywords *investor relations* or *shareholder relations* produces only two hits.

This dissonance between the importance of investor relations for the practitioners, on one hand, and almost non-existent research and education in investor relations, on the other hand, is addressed in this dissertation.

Significance of Investor Relations Research

As mentioned above, investor relations did not receive much attention in academic settings. One of the reasons for this might be the fact that investor relations is a profession on the borderline of several disciplines including public relations, accounting, finance, marketing, and law. Thus, communication scholars need to have an expertise in some of these additional specializations or need to co-operate in their research with academics from other colleges and departments. The same is true for teaching investor relations courses where expertise of various academic specializations is required. Often, however, silo mentality in the academic community prevents such collaboration between colleges and departments. This leads to a situation when investor relations course is a rare find on university campuses, academic research about investor relations is almost non-existent, and practitioners of investor relations lack knowledge and skills of day-to-day investor relations operations.

Morrill (1995), discussing the establishment of investor relations profession, observes the fact that investor relations requires expertise of several academic disciplines:

If delegated to public relations the skills were not there. If delegated to outside public relations counsel, not only were skills lacking but the outsider had difficulty keeping well enough informed. If given to finance, the numbers were

there but the communication skills were lacking. Corporate secretaries were experienced in managing the shareholder list, but not the shareholders. Legal counsel saw everything as a potential court case. (chap. 1)

In the corporate world, such a unique position of investor relations has been recognized and the function today is commonly assigned to a separate organizational structure – an investor relations department, where practitioners with various experiences work together complementing each other skills (Laskin, 2006a). It is, however, more problematic to create such a symbiotic structure in the academic community on the university campuses.

This research, however, aims to advance investor relations as an academic field. The study claims investor relations as a public relations sub-function, or specialization. Investor relations shares similar functions, historical developments, and skills set with general public relations.

Today it is especially important for academic world to engage in more investor relations research and education because the importance of the function is expected to increase even more. Allen (2002) suggests that today “investor relations vaults to the top of the corporate agenda” (p. 206).

One of the reasons for the increased significance of investor relations is the chain of corporate scandals caused by senior management’s manipulation of information disclosed to investors, and, as a result, inability of investors, both private and corporate, to properly understand the company’s business and its value. In the chain of corporate scandals even the companies once believed to be among the leaders in their respective fields, such as Adelphia, Global Crossings, WorldComm, Tyco International, Kmart, Waste Management, experienced significant drops in their share prices and some even bankruptcies. Of course, 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 U.S. corporate history” (Allen, 2002, p. 206). Alan Towers calls Enron “the Watergate of business” and suggests that companies now have to rely on their investor relations to “inspire confidence” in their investors (as cited in Allen, 2002). To regain confidence investor relations must communicate faster, provide more information, make information more relevant to understanding the company’s business and its value, and use the appropriate communicative channels. Morgenson (2002) concludes that investor relations departments have to improve the quality and quantity information, exclaiming in the article title: “Information sooner, yes, but make it better, too” (p. 1).

After the corporate scandals caused shockwave throughout the U.S. economy, the legislature could not leave the changes up to corporations. In fact, Allen (2002) suggests that the legacy of Enron and “enronitis” was the fact that they served as catalysts “for wide-ranging reform” (p. 208). Such wide-ranging reform was drafted in an impressively expedited fashion and signed by President Bush on July 30, 2002. While signing the bill, President Bush declared that this legislature represents “the most far-reaching reforms of American business practices since the time of Franklin D. Roosevelt” (Bumiller, 2002, p. A1).

This new law, Public Company Accounting Reform and Investor Protection Act of 2002, is often referred to by the name of its sponsors Senator Paul Sarbanes (D-MD) and Representative Michael G. Oxley (R-OH), as Sarbanes-Oxley Act, or simply SOX. SOX became another important reason for increased importance of investor relations. Investor relations, previously guided by the Securities Act of 1933 and Securities Exchange Act of 1934, received long-needed reform in variety of areas, including disclosure procedures. SOX demanded enhanced disclosure of information to investor and introduced personal responsibility of senior management for

accuracy of the information disclosed to investors. This allowed Bloxham and Nash (2007) call SOX “a most welcome gift to shareholders” (p. 14) worth of expense of compliance with new requirements that SOX introduced.

The significance of investor relations research is also underscored by the changing nature of a corporate value chain. Today much of the corporate value is in intangibles. In fact, Lev (2004) explains that in modern economy intangible assets “generate most of corporate growth and shareholder value” and “account for well over half the market capitalization of public companies” (p. 109). This requires investor relations practitioners to adapt by expanding the disclosure from obligatory financial information to a variety of non-financial indicators. Various techniques of measuring and reporting intangibles, non-financials or balanced scorecard emerged. Investor relations practitioners must be able to relate this information to the investment community and explain the influence of these factors on the company. Seely (1980) observes that much of the company’s value depends on intangible products and exclaims, “This is shocking when one realizes what a very, very small margin of stock price in any way relates to how well the individual company is doing in conventional terms – earnings, sales, and so forth” (p. 2). In this situation, numbers alone cannot provide a sufficient picture of a modern corporation; thus, enhanced disclosure is required.

Investors themselves realize this need for extensive disclosure and constantly demand more and more information. The professional association of investor relations professionals, National Investor Relations Institute (NIRI), anticipates that investors are greatly expanding the scope of what they consider relevant information:

This could include your product marketing – think: poison (in/on toys, food and pet food); your human rights policies in distant land; your supply chain vulnerabilities; the company’s commitments and disclosure on climate change and global warming (we think this will be a huge issue for some companies); sales of military hardware to foreign

countries; and for pharmaceuticals companies, your pricing and distribution practices. (Boerner, 2008, p. 13).

The changes among investors themselves also add to the growing significance of the profession and academic research about investor relations. Today most of the stock is in the hands of large institutional investors. The Federal Reserve System Board of Governors reports that in 1950 only six percent of stock belonged to institutions. In 2003, however this number increased to almost 60% (Tonello, 2006). The rise in institutional ownership changed the practice of investor relations and raised the importance of the function for corporate success and survival. Institutional investors have great power in the boardroom and are quite capable of influencing the decision-making process of the top-management. Tonello (2006) suggests that what these institutional investors want to promote is “long-term growth and sustainable corporate performance” (p. 13). It is not a surprise that corporate governance initiatives were pioneered by large pension funds such as CalPERS and TIAA-CREF (Tonello, 2006). This new breed of relational investors and shareholder activists want to know about the company sometimes even more than senior managers know themselves. They are often interested in maximizing their investment in the company by sharing their knowledge and expertise with the company’s management or, in the case of shareholder activism, improving other aspects of corporate performance in environmental, social, ethical, or other areas. In any way, their need for information is much greater and cannot be satisfied by 10-K alone. They want to listen to the management, but they almost want to be heard. Tonello (2006) concludes, “Institutional investors are in the position to seek a constructive dialogue with management and communicate their desire that the business be truly run in the long-term interest of shareholders” (p. 13).

In addition, after suffering losses in Enron-like corporate scandals, investors want to know what stands behind the numbers on the income statement. They want to know how these

numbers were generated and thus require from investor relations officers information about intangibles assets and various non-financial metrics. Tuominen (1997) suggests that marketplace requires the companies to better explain how the value is being generated. This can only be achieved through “more frequent, extensive, proactive and diversified two-way interaction and communication” (p. 46).

Finally, the significance of investor relations is emphasized by the global nature of modern investor relations. New technologies of travel and communications made investing a truly international phenomenon. A corporation now competes for investment capital on a global scale in a 24/7 framework. Yoshikawa and Gedajlovic (2002) report that foreign ownership in Japanese corporations is positively associated with improved investor relations practice. New technologies make the information available globally, instantly and to a wide range of publics – consumers, investors, suppliers, and so on. Silver (2003) suggests that perhaps this should lead to merging of various communications functions, such as public relations and investor relations, into one unified function in charge of all corporate communication efforts.

All these factors described above underscore the importance of investor relations research. The significance of this dissertation lies in the fact that it tries to offer a theoretical framework for measuring the investor relations practice and the framework for analyzing communications of information to the investment community. This dissertation also seeks to stimulate the academic research in the area of investor relations by providing a theoretical foundation for future studies. This research can also be significant for the practice of investor relations as the study analyzes the issues investor relations professionals deal with on a day-by-day basis.

Outline of the Study

To achieve this goal, this study develops a framework for analyzing investor relations activities – Continua of Investor Relations. Each continuum is developed based on public

relations theoretical propositions, including models of public relations (J. E. Grunig, 1984), dimensions of public relations (L. A. Grunig et al., 2002), public relations roles (Broom & Dozier, 1986), and relationship theory (Hon & J. E. Grunig, 1999). The continua are derived from analytical review of theories and are empirically tested with a sample of investor relations officers to see whether these continua can be used to describe the investor relations practice.

In addition, the dissertation advances the claim that nowadays investor relations is experiencing a shift to a greater focus on non-financial indicators of corporate performance as investment community is increasingly demanding the information about intangibles assets. Yet, the corporate reality today is that investor relations personnel is most often located in accounting, finance, or treasurer offices in modern companies (Petersen & Martin, 1996; Laskin, 2006a). Thus, it seems that investors are trying to get information about non-financial indicators from people whose job is to produce financial indicators. This situation can be detrimental to the performance of investor relations. There has been, however, no research about how much attention investor relations officers, both in communication or treasurer departments, pay to intangibles and non-financial indicators in their communications to investors. The dissertation will conduct an empirical investigation of financial and non-financial information in investor relations communications and the importance that investor relations officers assign to such information. Different kinds of non-financial information will be analyzed. In addition, the study will measure different tactics used by the investor relations officers to communicate financial and non-financial information to the investment community.

The sample for the study is based on members of the National Investor Relations Institute, a professional association of the investor relations officers. Investor relations professionals are a target population for this research. Although reliance on members of the professional

organization excludes investor relations officers who do not belong to the professional organization or belong to other professional organization, there is no readily available of the study population other than NIRI's members. In addition, NIRI is the largest professional organization of the investor relations professionals and thus reliance on its members seems reasonable.

CHAPTER 2

INVESTOR RELATIONS AS A SPECIALIZATION OF PUBLIC RELATIONS

Today the profession of investor relations is commonly defined 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” (NIRI Board, 2003). This definition was adopted by the Board of Directors of NIRI in March 2003. Although the statement defines the purpose of investor relations activities - “achieving fair valuation” - it does not specify what exactly investor relations officers do to attain this goal. The actual set of procedures and activities of investor relations officers remains undefined. In fact, Laskin (2006a) in his survey of investor relations officers at Fortune 500 companies uncovers that depending upon what department manages investor relations (i.e., treasury/finance vs. communication/public relations) investor relations officers’ job description may differ significantly. Investor relations officers’ educational backgrounds and their beliefs about importance of various target publics can also shape their day-to-day job activities in quite different ways. Thus, what exactly investor relations is varies from corporation to corporation.

As a result, it becomes important to measure and evaluate different ways in which the investor relations function may be performed. Such evaluation must be grounded in established theoretical framework to avoid being a simple description of day-to-day activities of investor relations officers (IROs). This demand, however, creates a serious problem in investor relations studies – the field lacks a solid theoretical framework and in general attracts little attention from communication scholars. Rosenstein, Kelly, and Laskin (2007) claim that “investor relations represents one of public relations’ most unfortunate paradoxes. Investor relations practice has

grown in importance and received increased attention in corporate America. Yet, it commands little attention in public relations scholarship, even though the discipline claims investor relations as one of its specializations, or sub-functions” (p. 1).

Sallot, Lyon, Acosta-Alzuru, and Jones (2003) conducted a content analysis of all articles published in *Public Relations Review*, *Journal of Public Relations Research*, and its predecessor, *Public Relations Research Annual*, since their inceptions through 2000. Out of all 748 articles, only one was dedicated to investor relations: Petersen and Martin’s (1996) “CEO perceptions of investor relations as a public relations function: An exploratory study”. Four additional articles dealt with annual reports (Heath & Phelps, 1984; Hoskins, 1984; Newsom, 1984; Hutchins, 1994), and one article featured a study that used investor relations messages to test the situational theory of publics (Cameron, 1992). Sallot et al. (2003) also found that 148 of all articles analyzed (19.8%) had contributed to theory development in public relations. Investor relations, however, did not produce any theory-development articles.

The search in *Communication Abstracts* with keyword *public relations* returns 1,316 articles. The search with keywords *investor relations* or *shareholder relations* produces only two hits. Both of these publications are mentioned in the previous paragraph: Petersen and Martin (1996) and Cameron (1992). Even if the keyword *relations* is dropped from the combination and search is performed for the keyword *shareholder* only four hits are returned. The search for *investor* returns eight publications.

Such a low volume of scholarly articles about investor relations makes Marston and Straker (2001) conclude that “although there has been some academic research into IR carried out within the USA and UK, there have not been many studies to date” (p. 82). Other scholars

suggest that academic journals mostly ignore studies of investor relations (Farragher, Kleiman, & Bazaz, 1994; Brennan & Kelly, 2000).

In this situation of a lack of theory-building in the field of investor relations itself, theory-building research can be grounded in theories of a parent field – public relations. In fact, the practices of investor relations and public relations are closely tied. Petersen and Martin (1996) observe, “Conventional wisdom among public relations scholars and practitioners considers the two functions bound together under the organizational umbrella of communication management” (p. 173). The Body of Knowledge Task Force of PRSA (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. Kelly (1992) found that 88% of educators representing accredited journalism and mass communication units that offer public relations programs agreed that investor relations is a specialization of public relations.

As a result, this study relies on the theory development efforts in the field of public relations to advance the theory building in the investor relations research. It attempts to identify the most prevalent theoretical framework in public relations to adapt it to the study of investor relations.

Models of Public Relations

Public relations models – and the Excellence theory in general – are often considered the most dominant theoretical perspective in public relations. Sallot et al. (2003) note that Excellence theory has “the largest share” of theory-building articles in public relations and suggest that it is “arguably the closest public relations comes at this time to having a paradigm” (p. 51). Botan (1993) claims that it is simply impossible to even discuss paradigms in public relations without referring to the “symmetrical model” (p. 109). Finally, Botan and Hazleton (2006) conclude, “Over the last 20 years, a leading body of work has developed around

Symmetry/Excellence Theory, which has probably done more to develop public relations theory and scholarship than any other single school of thought” (p. 6).

The roots of the models can probably be traced back to 1976 publication, *Organizations and public relations: Testing a communication theory*, by James Grunig, who analyzed the use of

different tactics by public relations practitioners. The total of 16 of such tactics was classified into two large groups. The groups representing synchronic and diachronic communications were developed following Thayer (1968) book, *Communication and communication systems*.

Synchronic communications have their purpose in synchronizing the publics with the needs of the organization, while diachronic communications create a dialogue in search of a solution that could benefit both organization and its publics. One might argue that this synchronic/diachronic dichotomy later was transformed into asymmetrical/symmetrical dimension. Yet, although the research program started with dimensions, they were quickly dropped to be replaced with models. As L. A. Grunig, J. E. Grunig, and Dozier (2002) would later explain, the typology represented by the models is “a useful way to begin the development of a theory” (p. 348). In fact, in subsequent publication it is uncommon to even find references to this early 1976 publication and synchronic/diachronic dimension.

Indeed, the authors of the models themselves indicate only 1980s as the starting point for their models (L. A. Grunig et al., 2002, p. 307). They point to the following two publications: J. E. Grunig (1984) and J. E. Grunig and Hunt (1984).

J. E. Grunig and Hunt (1984) make an important conclusion to defining what public relations is and what it is not – they define public relations as “management of communication between an organization and its publics” (p. 6). This becomes the foundation for building the

models of public relations. These models are created by analyzing the historical developments of public relations and identifying four major steps in the public relations evolution.

Although J. E. Grunig and Hunt (1984) discuss some of the ancient activities resembling public relations, such as, for example, the farm bulletin in Iraq in 1800 BC, Pompeii election agitation, Caesar reports, and others, the first development stage of modern public relations is dated by the authors from 1850 to 1900: “The press agent/publicity model came first, in the period from 1850 to 1900, immediately following the historical examples that we described as public relations-like activities” (p. 25). This historic milestone is associated with the name of Phineas T. Barnum – “the great showman who formed the Barnum & Bailey Circus” (p. 28). He, and many other press agents, saw the goal of the public relations work in creating and publishing stories “of great interest that were largely fabrications with little news value” (p. 28).

The beginning of the second evolutionary step is marked at 1900 – the public information model. This milestone is associated with the name of Ivy Ledbetter Lee, who brought a new kind of public relations tactics to the big businesses: telling the truth. His declaration of principles states: “In brief, our plan is, frankly and openly, on behalf of the business concerns and public institutions, to supply to the press and public of the United States prompt and accurate information concerning subjects which it is of value and interest to the public to know about” (J. E. Grunig & Hunt, 1984, p. 33).

The two-way asymmetric model dates back to 1920s. World War I influenced many spheres of life, including public relations. This period is associated with names of George Creel, who oversaw the U.S. propaganda efforts as the head of the Committee on Public Information, and Edward Bernays, who viewed public relations as a scientific endeavor and introduced persuasion and other social science concepts into the practice of public relations.

Finally, “the two-way symmetric model came much later, in the 1960s and 1970s, and even today practitioners are only beginning to adopt it” (J. E. Grunig & Hunt, 1984, p. 25). The authors recognize that it is difficult to provide a historical figure that could serve as an illustration for this evolutionary step: “The historic origins of the two-way symmetrical model are much more difficult to trace to any individual practitioners than are the origins of the other models. In large part this is because practitioners only now are beginning to practice this model” (p. 42). Yet, the authors mention David Finn, of Rudder Finn, and Harold Burson, of Burson-Marsteller, who advocated the counseling function of public relations.

Table 2-1. Historical models of public relations and their characteristics.

Characteristic	Press Agentry/ Publicity	Public Information	Two-way Asymmetric	Two-way Symmetric
Purpose	Propaganda	Dissemination of information	Scientific persuasion	Mutual understanding
Nature of Communication	One-way; complete truth not essential	One-way; truth important	Two-way; imbalanced effects	Two-way; balanced effects
Nature of Research	Little; “counting house”	Little; readability readership	Formative; evaluative of attitudes	Formative; evaluative of understanding
Leading Historical Figures	P. T. Barnum	Ivy Lee	Edward L. Bernays	Bernays; educators; professional leaders
Where Practiced Today	Sports; theater, product promotion	Government, nonprofit associations, business	Competitive business; agencies	Regulated business; agencies
Estimate Percentage of Organizations Practicing Today	15%	50%	20%	15%

Adopted from J. E. Grunig and Hunt, 1984, p. 22

Based on these historic steps, J. E. Grunig (1984) and J. E. Grunig and Hunt (1984) propose four models of public relations practiced nowadays (see Table 2-1). Press agentry/publicity is based on one-way communicative practices, where truth is of no importance,

and public relations is equated with promotions and publicity. The examples can be found among celebrities publicists. The second model is public information. It is also based on a one-way communication stream from organization to its publics. J. E. Grunig and Hunt (1984) provide a description: “The public relation person functions essentially as a journalist in residence, whose job it is to report objectively information about his organization to the public” (p. 22).

The other two models employ two-way communication – in other words, “communication flows both to and from publics” (J. E. Grunig & Hunt, 1984, p. 23) and public relations practitioners are both talking and listening. Two-way asymmetrical model of public relations has scientific persuasion as its goal: “They [public relations practitioners] use what is known from social science theory and research about attitudes and behavior to persuade publics to accept the organization’s point of view and to behave in a way that supports the organization” (p. 22). Two-way symmetrical model, in contrast, has its goal in a mutual understanding between organization and its publics. This model relies on open dialogue between the parties and “ideally, both management and publics will change somewhat after a public relations effort” (p. 23). The end result is often viewed as a compromise, a solution that would benefit both the organization and its publics.

These models were extensively tested through various research projects (e.g., J. E. Grunig, 1984; Turk, 1985; McMillan, 1987; Kelly, 1991; J. E. Grunig et al., 1995; and others). But the biggest test was the Excellence project, which became known as “the most comprehensive research project done in the field of public relations” (Toth, 2007, p. ix). The International Association of Business Communicators Research Foundation (IABC Foundation) issued a request for proposal in the summer of 1984 to learn “how, why, and what extent communication affects the achievement of organizational objectives” (L. A. Grunig et al., 2002,

p. ix). James Grunig became the project director. Other team members were Larissa Grunig, David Dozier, William Ehling, Jon White, and Fred Repper. IABC Foundation provided \$400,000 grant toward the project.

The first step of the project included an extensive literature review about public relations: *Excellence in public relations and communication management*, edited by J. E. Grunig (1992). Among other topics, the book included a chapter dedicated to public relations models and provided a meta-analysis of various studies conducted with the models. Some of the findings were unexpected even for the authors of the models themselves. For example, J. E. Grunig and Hunt (1984) expected public information model to be the dominant model of modern public relations (see Table 2-1) with 50% of organizations practicing this model. In reality, however, authors observed that studies from various samples of organizations “consistently show press agency to be the most common form of public relations” (J. E. Grunig & L. A. Grunig, 1992, p. 305). Public information model, on the contrary, was typically “the lowest” (p. 305). The only type of organizations where public information dominated was government agencies. Another important finding was the fact that “two-way symmetrical and two-way asymmetrical models did not show up as the dominant form of public relations in any of the studies” (p. 305) no matter what type of organization it was. Despite this finding, however, J. E. Grunig and L. A. Grunig (1992) restated that the two-way symmetrical model “is a major component of excellence in public relations and communication management” (p. 320).

The next step of the Excellence project was primary data collection. The team conducted a mail survey targeting 300 organizations in the United States, Canada, and the United Kingdom and ranging from corporations and association to not-for-profits and government agencies. In total, 327 organizations participated in the survey. The researchers collected data on several

levels within each organization: from 4,631 employees in 281 organizations, 407 top-communication officers in 316 organizations, and 292 CEOs. Then, qualitative interviews were conducted with 25 organizations selected to represent the most and the least excellent based on the previously completed quantitative survey (L. A. Grunig, et al., 2002).

The results of the research were first presented in *Managers guide to excellence in public relations and communication management* (Dozier, L. A. Grunig, J. E. Grunig, 1995) – a rather short version of the report, targeted at public relations practitioners. The full report with extensive analysis of data and careful overview of methodological procedures came in 2002, *Excellent public relations and effective organizations* by L. A. Grunig, J. E. Grunig, and Dozier.

The Excellence project was not exclusively about models of public relations; it would be a mistake to equate the models with the Excellence project. Dozier et al. (1995) explain that excellence consists of “three spheres, one inside the other” (p. 10): knowledge, shared expectations, and participative culture. Knowledge is the core of excellence – public relations practitioners must be aware of what it takes to be excellent and must have knowledge and skills to carry out this mission. It is not sufficient to be a great technician capable of writing great news releases; it is important to be able to manage two-way communication, conduct research, and understand social science behind communications. All these capabilities, however, can fail to materialize without the support from senior management. Thus, the second sphere is shared expectations between senior management and public relations practitioners about what public relations is. If the only thing senior management values in public relations is crafting news releases, the public relations professionals may never realize their potential. Finally, the outer sphere, participative culture, can “provide a superior setting for excellent communication” (p. 17). In fact, organizations with participative cultures “that value teamwork, widely involve

employees in decisions making, and are open to ideas from outside the organization are more likely to have excellent programs” (p. 17).

Based on these three spheres, the research team developed several indicators of measuring Excellence in public relations. One of such indicators was the value of communication as perceived by CEOs. Another was public relations’ contribution to the strategic planning and to the overall strategies of the organization.

The role that public relations practitioners play was yet another variable. In fact, roles became the best predictor of communication excellence among all the variables used in the Excellence project: “Of all the measures made of participating organizations, one set does the best job of measuring communication excellence. That set measures knowledge of those individuals in the communication department to play the role of communication manager” (Dozier et al., 1995, p. 23). This concept became another important contribution of the Excellence project and received widespread acceptance and continued attention in the academic community.

Similar to the research on models of public relations, the research on roles in public relations developed before the Excellence project (Broom & Smith, 1978; 1979). However, the Excellence project provided a significant dataset to analyze and refine the concept of roles. Dozier and Broom (2006) define the concept of roles: “Organizational roles are abstractions, conceptual maps that summarize the most salient features of day-to-day behaviors of organizational members” (p. 137). The researchers sharply distinguished between technician roles, focused on writing tasks, and managerial roles, focused on counseling and being a communication liaison.

Other variables in the Excellence project included potential of the communication unit, activist pressure on the organization, status of women, and others. The models of public relations were also one of the variables. However, despite being just one of the variables in the Excellence project, the researchers recognized the crucial role of the models in the project: “The four models of public relations … occupy a critical place in the theory of excellence” (L. A. Grunig et al., 2002, p. 59). In fact, the models of public relations were so essential to the concept of excellence that many scholars “essentially have equated the entire Excellence theory with the two-way symmetrical model” (p. 307). Indeed, Botan and Hazleton (2006), introducing their new book on public relations theory, referred to the body of research headed by James Grunig as “Symmetry/Excellence Theory” (p. 6).

Having analyzed the data collected, the authors of the Excellence project concluded that two-way symmetrical model “appears to be a normative model for public relations practice” (L. A. Grunig et al., 2002, p. 377). At the same time, the team also suggested that the models could serve also as a positive theory: “We did find that the four models still provide an accurate and useful tool to describe public relations practice and worldview” (p. 377).

This extensive test of the models, however, revealed some of their weaknesses as well. For example, the two-way asymmetrical model proved difficult to measure because the model relied on the variables measuring research in public relations. J. E. Grunig (1984) conceptualized that social science research will be used by organization to asymmetrically persuade publics and thus it is reasonable to measure asymmetrical intent through the use of research. In reality, however, practitioners did not divide research on asymmetrical and symmetrical; rather they saw research as a general activity. In fact, research as an activity can be used with any purpose – it is not research itself as a process, but rather the research findings that can be used to both enhance

persuasion efforts as in asymmetrical model or to find a mutually beneficial solution as in symmetrical model.

The reliability of the models was also quite low. Leichty and Springston (1993) point out that reliability of the models “fall well below the minimum recommended reliability levels” (p. 329). They also point out the issues with the criterion-related validity and the lack of differentiation between asymmetrical and symmetrical models.

In view of measurement and theoretical problems with the models as well as strong criticism of the concept from academics and professionals, L. A. Grunig et al. (2002) proposed that models fulfilled their functions, but it was time to progress away from them:

The analyses of the models we have reported thus far from the Excellence study suggest, however, that it is time to move on from the four, or more, models of public relations to develop a more comprehensive theory that goes beyond the typology represented by the four models. Typologies are a useful way to begin the development of a theory, but for science and scholarship to progress we need to move beyond typologies to conceptualize and to measure the theoretical dimensions that underline a typology. (p. 348)

And so the authors continued by proposing several dimensions that could become a replacement for the concept of models of public relations, a concept that was one of the most researched in the public relations scholarship (Sallot et al., 2003).

Dimensions of Public Relations

As alluded earlier, one might consider the turn from models to dimensions to really be just a return to the beginnings. In fact, the 1976 article by J. E. Grunig classified 16 public relations tactics on a dimension of synchronic and diachronic communications. The synchronic and diachronic dimension was later transformed into asymmetrical and symmetrical dimension. J. E. Grunig and L. A. Grunig (1989) explain: “By 1984, J. Grunig considered the concepts of ‘asymmetrical’ and ‘symmetrical’ to be more precise than ‘synchronic’ and ‘diachronic’” (p. 30). Even more, the models were always believed to be based on at least two dichotomous

dimensions: “The models are produced from the combinations of two dichotomous dimensions: Direction (one-way vs. two-way) and balance of intended effects (asymmetrical vs. symmetrical)” (p. 30).

Much credit for resurrection of dimensions should perhaps go to J. E. Grunig’s and L. A. Grunig’s graduate students, namely: Huang, Rhee and Sha. Huang’s (1997) doctoral dissertation re-conceptualized models into five dimensions:

- direction of communication,
- symmetrical/ethical,
- mediated,
- interpersonal, and
- social activities.

Thus, Huang’s (1997) dissertation used two of the original dichotomous dimensions proposed by J. E. Grunig and L. A. Grunig (1989) as the foundation for the models: direction of communications and balance of intended effects. In this case, however, Huang added ethical layer to the balance of intended effects. This, nevertheless, is still quite in line with J. E. Grunig’s line of thought as he equated two-way symmetrical model with ethical public relations (J. E. Grunig & L. A. Grunig, 1989; 1996; J. E. Grunig & White, 1992). In fact, L. A. Grunig et al. (2002) conclude that “symmetrical model is inherently ethical” (p. 349). Huang, however, added three new dimensions. Two of them, mediated and interpersonal communications, were presented as two separate dimensions, rather than once continuous dimension from mediated to interpersonal communications. Finally, the last dimension, social activities, was discovered during research in Asia where such activities as gift-giving and social meetings were isolated into a separate dimension (Huang, 1997; 2004). However, one might argue that this is just a particular case of interpersonal activities. One might also argue that none of these new dimensions are truly dimensions because they do not have a continuous dichotomous scale.

Other University of Maryland's graduate students continued the research. Rhee (1999) master's thesis included the following dimensions: direction of communication, symmetrical, ethical, mediated, and interpersonal. Thus, she also had five dimensions, but slightly different than Huang (1997). Rhee (1999) dropped social activities dimensions altogether, but isolated ethical as a separate dimensions split from the symmetrical dimension. Direction of communication dimension was a continuous dimensions ranging from one-way communication to two-way communication, however, the dimensions of intended benefits became separated into two independent dimensions: purpose-symmetrical and purpose-asymmetrical (Rhee, 2002).

Sha (1999) used similar set of dimensions for her dissertation as well. Sha (2004; 2007) also proposed additional dimension of conservation. Sha (2006) explains that this dimension grew out of asymmetrical model of communication and means that "organization refuses to change; that is, they conserve their own fundamental agendas" (p. 8). In other words, dimension of conservation is similar to the concept of asymmetrical communication in L. A. Grunig et al. (2002) interpretation or to advocacy in Cancel et al. (1997) interpretation.

The Excellence team endorsed the dimensions and claimed that research on dimensions will move the scholarship in public relations forward and that dimensions can serve as predictors of excellence in public relations. In addition, the authors observe that dimensions had equal or even higher reliabilities than models themselves. Thus, the Excellence team concluded: "The results strongly support our revised conceptualization of the dimensions of public relations behavior and their role in communication Excellence" (L. A. Grunig et al., 2002, p. 355).

The Excellence project proposed seven separate scales (not continuous):

- one-way
- two-way
- asymmetrical
- symmetrical

- interpersonal
- mediated
- ethical

In other words, the previous conceptualizations of dimensions (Huang, 1997; Rhee, 1999; Sha, 1999) largely saw dimensions as continuous from one-way to two-way and from asymmetrical to symmetrical, but L. A. Grunig et al. (2002) decided to split each of these dimensions into two separate independent measures. This was a big shift because it virtually indicated the reversal from the continuous dichotomous dimensions back to the models, or clusters of activities.

Interpersonal and mediated dimensions, originally proposed as a continuum (Hallahan, 2001), were also converted into two separate dimensions. L. A. Grunig et al. (2002) explained that these two techniques are not necessarily mutually exclusive. L. A. Grunig et al. (2002) also built a link from these dimensions back to the original models: “We also have observed that participants in our research projects sometimes have equated the two-way models – especially the two-way symmetrical model – with interpersonal communication and the one-way models with mediated communication” (p. 349). One should note, however, that as early as Huang (1997), interpersonal and mediated communications were used as separate dimensions rather than a single continuum.

The last dimension, ethical, is simply “the extent to which public relations practice is ethical” (L. A. Grunig et al., 2002, p. 349). The Excellence project did not collect any data about the ethical dimension, so it was not tested as part of the project.

Despite the endorsement of dimensions by the Excellence project authors, who proposed focusing on dimensions in order “to develop this more comprehensive theory” (L. A. Grunig et al., 2002, p. 348), dimensions of public relations has yet to generate much scholarship. The dimensions did not receive widespread adoption the models had earlier. Problems with the

dimensions, conceptual and methodological, discussed in detail in the next section, perhaps limited research about dimensions mainly to the original developers of the idea (L. A. Grunig et al., 2002; Rhee, 2002; Huang, 2004; Sha, 2004; Sha & Huang, 2004).

Criticism of Models/Dimensions of Public Relations

Being a dominant paradigm, the models and dimensions of public relations draw their share of criticism. The authors of the Excellence project themselves recognize this fact: “The four models of public relations, and especially the two-way symmetrical model, have been the most controversial and the most debated component of the Excellence theory since our theory book was published” (L. A. Grunig, J. E. Grunig, & Dozier, 2002, p. 307).

Some of the criticism stems from the fact that scholars are not able to conclude that two-way symmetrical model of public relations is in fact the one predominately practiced in the public relations industry. In other words, the model that the Excellence project calls the ‘normative ideal’ (p. 310) as it “could almost always increase the contribution of public relations to organizational effectiveness (p. 309) is not the one that the industry was engaged in. The practitioners might resent the fact that scholars de-facto label their practice as inferior and ineffective.

Some conclude that the Excellence theory and models of public relations are a normative theory rather than a positive description of the industry – the way in which practitioners perhaps would like to do public relations, but in no way can actually do it in the real life. Leitch and Neilson (2001) conclude that “despite their efforts to create a descriptive theory, J. E. Grunig and L. A. Grunig reluctantly acknowledged that the symmetrical model was primarily a normative theory” (p. 129). Although, L. A. Grunig et al. (2002) disagree with this conclusion and, in fact, pick this quote to argue for both the positive and normative nature of the symmetrical model,

many others express their doubts about the attainability of two-way symmetrical model in the day-to-day public relations practice.

Kunczik (1994), Pieczka (1995), and L'Etang (1995) suggest that two-way symmetrical model is a utopian ideal. "No large and powerful organization ever does or would use" such way of practicing public relations (L. A. Grunig et al., 2002, p. 310). Dover (1995) also concludes that the two-way symmetrical model does not have a place in real practice of public relations but is rather a purely academic concept.

Some critical scholars go even further proclaiming that a symmetrical public relations model might in reality become "a strategy for hegemony" (Roper, 2005, p. 69). Stauber and Rampton (1995) point to the fact stakeholders and corporations are seldom in equal positions and their inequality allows corporations to advance their own interests by taking advantage of their powers. In other words, even if communications seem symmetrical, the end result is still likely to be asymmetrical, favoring the side with the most power, in other words, the corporation. Leitch and Nelson (2001) conclude:

It is simply absurd to suggest that an interaction between, for example, a transnational corporation and a public consisting of unskilled workers in a developing country can be symmetrical just because the interaction is symmetrical in form. It is even more absurd to suggest the reverse – that the interaction between this worker public and the corporation can be symmetrical if the workers adopt the correct attitude and are willing to compromise. In practice, in cases where access to resources is so unequal, attempting to practice symmetrical public relations might constitute a self-destructive discourse strategy for the least powerful participant. (p. 129)

The two-way symmetrical model, thus, is being engaged when asymmetrical communications fail and it helps the company "to dilute the negotiating power of those [critical] stakeholders" (p. 83) by making compromises that in the long run are still in the interests of organization rather than society or critical stakeholders.

Post-modern scholars, argue that two-way model equates with consensus, which in turn, represents the end of discourse as argued by Lyotard (1992). Holtzhausen (2000) explains:

Consensus does violence to the heterogeneity of language games, and he [Lyotard, 1992] associates consensus with the end of thinking. Inventions and novel ways of thinking are always born out of dissensus. Whereas consensus is a means of arresting the flow of events (a philosophy of Being), the search for dissensus extends thinking (a philosophy of becoming; Docherty, 1993). (p. 107)

Creedon (1993) talks about a concept of dissymmetry, which is not necessarily a lack of symmetry but rather symmetry in different directions. This makes public relations a boundary-spanning function tasked with making both sides “aware of the depth of their conflict” (Holtzhausen, 2000, p. 108) and allowing people “to disagree in situations they believe are unjust instead of compromising for a false consensus” (p. 111).

As a result, critical and post-modern scholars do not necessarily see symmetry as the ideal end result for public relations practice and do not always view two-way symmetrical model as creating truly equal participation of all the parties and leading to benefit of all the parties involved. J. E. Grunig and L. A. Grunig (1989) themselves observe, “We have found consistently that organizations do not practice the kind of public relations that our theories argue, logically, would be best in their environments. Thus, we have had to conclude that our first attempts at developing a positive theory instead produced a normative theory” (p. 29). Yet, the models are being criticized as a normative theory as well: often scholars doubt that two-way symmetrical communications can exist in the real world. Pieczka (1996) concludes that imposing a two-way symmetrical model as a normative theory of public relations is “reminiscent of Victorian missionaries explaining savages’ habits of walking naked or praying for rain by their lack of civilization. It is not a bad explanation; but it is good only from a particular point of view” (p.

154). In other words, the two-way symmetrical model is questioned as both positive and normative theory.

The models, and later dimensions, also fail to recognize a relationship-building aspect of public relations. The focus on relationship rather than on organizations or techniques has long been advocated in the public relations scholarship. Ferguson (1984) proclaims, “The unit of study should not be the organization, nor the public, nor the communication process. Rather the unit of study should be the relationships between organizations and their publics” (p. ii). The Excellence study recognized the importance of relationship-building in the literature review: “Public relations contributes to effectiveness by building quality, long-term relationships with strategic constituencies” (L. A. Grunig, J. E. Grunig, Ehling, 1992, p. 86). They, however, did not incorporate the measurements of such relationship-building into the models or dimensions of public relations.

Today, however, relationships become an increasingly important concept as “scholarship concerning the management of organization-public relationships has increased dramatically” (Ledingham, 2003, p. 184). In fact, Sallot et al. (2003) identify the relational perspective as one of the most researched perspectives in public relations, second only to the Excellence theory, despite the fact that the term “relationship” does not have a clear and commonly-accepted definition in public relations. In fact, Broom, Casey and Ritchey (1997) conclude that scholars do not agree on what exactly can be called relationship and what does one have to do to build these relationships.

Another wave of criticism of models and dimensions of public relations was caused by their methodological and measurement problems. J. E. Grunig and L. A. Grunig (1989) suggested that “the models are produced from the combination of two dichotomous dimensions:

direction (one-way vs. two-way) and balance of intended effects (asymmetrical vs. symmetrical)" (p. 30). This assumption, however, caused confusion in the subsequent applications of the models. Murphy (1989; 1991) applied the game theory approach to analyzing public relations practice and public relations models. She suggested that the dimensions of the balance of intended effects can be viewed as a dimension that has zero-sum games on one side and non-zero-sum games on the other side. In this case, symmetrical communications equate with the games of pure cooperation and asymmetrical communications with the zero-sum games. The continuum, then, is from cooperation to conflict and organizations try to balance on this continuum. "This balance is often an uneasy and precarious one, arrived at by a kind of bargaining dialogue between an organization and its constituent publics" (Murphy, 1991, p. 125). This became known as a mixed-motives model.

L. A. Grunig et al. (2002) disagreed with such view on the models:

She [Murphy] equated the symmetrical model with games of pure cooperation, in which one side always tries to accommodate the interests of the other. In a mixed-motive model, by contrast, organizations try to satisfy their own interests while simultaneously trying to help a public satisfy its interests. We never have viewed the two-way symmetrical model as advocating pure cooperation or of total accommodation of a public's interest. Therefore, Murphy's mixed-motive model accurately describes the two-way symmetrical model as we originally conceptualized it. (p. 309)

In other words, L. A. Grunig et al. (2002) argued that the mixed-motive model is not a point somewhere on the dimensions of the balance of intended effects, but rather one side of this continuum with asymmetrical effects being the opposite side.

This of course led to even more confusion. If asymmetrical effects are organization's own interests and represent one side of the continuum, then on the other side of the continuum it is logical to expect the opposite – the interests of the publics. But instead, L. A. Grunig et al. (2002) place on the opposite side the interests of both organization and publics. As a result, on

one side we have purely the interests of the organization and on the other side the interests of both organization and publics. In this case, the dimensions cannot be called dichotomous because symmetrical effects, if equated with mixed-motive model, seem to incorporate the opposite end of the spectrum as well – both ends of the continuum have the interests of the organization, and only one side has the interests of the publics.

As a result, the idea of dimensions did not receive such a widespread adoption as models had earlier. In fact, some argued that the attempt to translate the models into dimensions is misleading. Cancel et al. (1997) elaborate, “The attempt to place four models at the two poles of two continua results in unnecessary complications and confusion. We suggest that the models serve well as clusters of activities, techniques and strategies, but not as poles of continua” (p. 35). As an alternative, they offer a modified dimension of the balance of intended effects, where instead of asymmetrical and symmetrical poles, the extremes are represented by *advocacy* and *accommodation*: “Between the two extremes of pure advocacy and pure accommodation are a wide range of discrete operational stances and public relation strategies that entail different degrees of advocacy and accommodation” (p. 37).

Advocacy side of the dimension can be equated with the asymmetrical model of public relations. In fact, back in 1920s, Bernays (1928) defined public relations practitioners “as special pleaders who seek to create public acceptance for a particular idea or commodity” (p. 47), in other words, effectively being an advocate for such an issue or commodity. Similar views were expressed by Smith (1972), Barney and Black (1994), Bivins (1987), Cutlip (1994), Cutlip and Center (1952), and Cutlip, Center and Broom (2000). In fact, it corresponds well with the description J. E. Grunig and Hunt (1984) and J. E. Grunig (1984) provided for asymmetrical model of public relations: creating support for the organizational interests. J. E. Grunig and L. A.

Grunig (1990) confirm this assumption: “Many, if not most, practitioners consider themselves to be advocates for or defenders of their organizations and cite the advocacy system in law as an analogy” (p. 32). Edgett (2002) after reviewing public relation literature concludes that “advocacy is a central function of public relations” (p. 1).

The other side of the dimension is represented by accommodation. Cancel et al. (1997) view accommodation as building “trust with external publics” (p. 36). In the later explication of the model, Cancel, Mitrook, and Cameron (1999) explain that accommodation rests on such tactics as “dialogue, compromise, collaboration, and cooperation” (p. 173). In other words, they suggest that accommodation is equated with the symmetrical model. The scholars referred to this approach as the contingency theory of accommodation as it tries to analyze what causes the organization to shift along this continuum between pure accommodation and pure advocacy.

L. A. Grunig et al. (2002), however, did not agree with Cancel et al.’s (1997; 1999) criticism:

The symmetrical model, as we have conceptualized it, cannot be equated with accommodation. We never have defined the symmetrical model as the accommodation of a public’s interest at the expense of the organization’s self-interest. In fact, the concept of symmetry directly implies a balance of the organization’s and the public’s interest. Total accommodations of the public’s interest would be as asymmetrical as unbridled advocacy of the organization’s interests. (p. 314)

In other words, L. A. Grunig et al. (2002) argued that accommodation does not represent symmetry, explaining that symmetry is taking into account the interests of both organization and its publics. This of course did not help with resolving the confusion around the dimensions.

As described earlier, L. A. Grunig et al. (2002) later agreed to move away from the models altogether and to focus on dimensions. But dimensions were an even more problematic conceptualization and highlighted this problem even brighter. As also explained earlier, L. Grunig et al. (2002) first viewed “the original models as points on four continuous variables” (p.

349), or four dimensions. Yet, again a symmetry and asymmetry scale was dropped by the researchers as a continuous scale and instead was replaced with two separate scales: one for symmetrical and one for asymmetrical communication. In effect, that meant a return back to the models as these were not really continuous dichotomous dimensions. The authors explained that they had to substitute the continuous dimensions with two separate dimensions because “the reliabilities for the separate . . . scales were higher than for the combined scales” (p. 350).

There might have been another important reason for dropping the continuous dichotomous scales that the authors do not mention. This reason lies in the fact that the continuous dimensions were flawed in the way they were created. As explained above, symmetrical is not really the opposite of asymmetrical and thus they cannot be used as opposing poles for the continuous dichotomous dimension. This caught out Murphy (1989; 1991) and Cancel et al. (1997; 1999), who had to create accommodation as the opposite end to asymmetrical effects, or advocacy. L. A. Grunig et al. (2002) might have recognized this fact, although they never admitted it directly. However, the following passage suggests that perhaps it was part of their considerations: “Because mediated and interpersonal communications never seemed to be mutually exclusive, we tested only separate scales for these two forms of communication” (p. 350). In other words, one might extrapolate that symmetry/asymmetry was initially considered as mutually exclusive, but later was reconsidered as not mutually exclusive categories, thus leading L. A. Grunig et al. (2002) to measure them in two separate (rather than dichotomous) dimensions.

Everything that was said about symmetry/asymmetry can be equally applied to one-way/two-way communication dimension. Although neither Murphy or Cancel et al. - nor anybody else - took issue with this dichotomy, it suffers from the same methodological flaw:

they cannot be opposing poles on the same continuous dimension. Two-way communication is in no way the direct opposite of one-way communication. In fact, two-way communication includes one-way communication in itself – only it includes it twice: one-way from the organization to the public and one-way from the public to the organization.

Thus, the direction of communication dimension as proposed by J. E. Grunig cannot be a truly dichotomous dimension. On one pole of this dimension is the communications from the organization to its publics (one-way pole) and on the other pole is once again communication from the organization to its publics with the addition of the communication from publics back to the organizations (two-way). So, similar to the symmetry/asymmetry dimensions, the organization's communications are included twice on both poles of the dimension.

Once again, similar to symmetry/asymmetry dimension, L. A. Grunig et al. (2002) had to drop direction of communication as one continuous dimension and instead present two separate dimensions measured independently: one-way communication and two-way communication. Needless to say, these are not continuous dichotomous dimensions and arguably are not dimensions at all, but rather another form of typology. The communications are characterized as having or not having a certain type of activity, the same way as models were in fact clusters of specific activities.

New additional dimensions proposed by the Grunigs and their graduate students also suffered from problems. Hallahan (2001) proposed a mass communication-interpersonal continuum – a dichotomous dimension. However, L. A. Grunig et al. (2002) and their students (Huang, 1997; Rhee, 1999; Sha, 1999) rejected the notion of the continuum and modified the idea as two separate dimensions – interpersonal dimension and mediated dimension. This once again led to creating a typology.

To make matters worse, the questionnaire used for dimension was the same as the one for models – the items were simply reshuffled to support the concepts of dimensions. In fact, in this case, asymmetrical dimension is the cluster of research activities, the same way as two-way asymmetrical model was. One-way communication dimension is the cluster of publicity and public information activities the same way as one-way models were. Other dimensions suffered from the same problems.

All these issues discussed above might be the reasons why the field of public relations never really transitioned from public relations models to public relations dimensions. Today, the once dominant concept of public relations models itself is losing its leading place without creating a notable alternative. The methodological fallacies in building dimensions limited the research on dimensions almost exclusively to the publications of the Grunigs' graduate students who were among the co-authors of the idea (Rhee, 2002; Huang, 2004; Sha, 2004; Sha & Huang, 2004).

However, the concept of dimensions is a viable measurement tool for public relations activities. The focus on relationship-building in modern public relations scholarship is an important vein of research, but it in no way fully describes the breadth of the public relations profession. Thus, this study proposes reviewing the failed attempt to modify the public relations models and to translate them into dimensions: dichotomous and measurable.

This revision of dimensions, however, requires taking into account the criticism that models/dimensions received. Specifically, using models as the foundation for building dimensions seems unacceptable from conceptual and methodological standpoints. As Cancel et al. (1997) conclude, using models as end-points on the dimensions cannot be successful. Cancel et al. (1997) and Murphy (1991) propose modifications of one of the possible dimensions, the

intended effects, where the end-points become truly dichotomous and the dimension becomes continuous with a wide range of possible measurements between the two opposing points.

However, other dimensions must be re-evaluated in similar fashion.

Additional dimensions can also be introduced based on further empirical research. It is essential to test and refine various dimensions and combinations of dimensions to evaluate which ones have better explanatory and predictive powers and can help advance the understanding of the practice of public relations. The direction of communication dimension, ethical dimension, dimension of the tactics used and other dimensions can be proposed. A dimension incorporating the relationship focus can also be proposed and developed. It is essential to rely on the previously tested concepts and measurements for building new dimensions. This should help enhance validity of the proposed dimensions. For example, manager/technician roles can be translated into a dichotomous and continuous dimension.

Thus, this study proposes reviewing the failed attempt to modify the public relations models and to translate them into dimensions: dichotomous and measurable. To avoid any confusion with the previous dimensions, this research will label them the Continua of Public Relations. In addition, this study develops each continuum to reflect the practice of the specific sub-function of public relations – investor relations; the study also uses these continua with the sample of the investor relations officers. As such, the continua developed for this study are best referred to as the Continua of Investor Relations.

Re-evaluation of Models/Dimensions and the Continua of Public Relations

Dimensions of public relations could have, in fact, contributed to further development of public relations scholarship in the 21st century. However, problems with the proposed dimensions led to lack of research and apparent abandonment of the concept. As a result, this study proposes constructing truly continuous and dichotomous dimensions of public relations

that would be able to measure concepts of direction of communication and balance of intended effects that were the foundation for the models of public relations. In addition, such continua will be able to measure the relationship-building orientation of public relations, organizational roles of public relations practitioners, and proactive or reactive nature of communication. Such approach allows integrating the leading scholarship in public relations: symmetrical concept, concept of organizational roles, and relationship-building.

Direction of Communication Continuum

Since early conceptualizations of models of public relations, direction of communication was an important variable in understanding public relations activities (J. E. Grunig, 1984; J. E. Grunig & Hunt, 1984). In fact, direction of communications is one of two dimensions that serve as foundations for the models of public relations (J. E. Grunig & L. A. Grunig, 1989; L. A. Grunig et al., 2002). However, when transitioning from models to dimensions, L. A. Grunig et al. (2002) failed to conceptualize this dimensions in a dichotomous and logical manner that would provide variance for measurability. The dimensions was conceptualized as ranging from one-way to two-way, in other words, having communications from organizations to the publics on one pole of the dimensions, and having communications from the organization to the publics again on the pole, only now paired with the communications from the publics back to the organizations.

However, a more solid dimension would have communications from the organizations to the public as one pole of the scale, while communications from the public to the organization would be the opposite pole. Thus, two-way communications will be “mixed-motives” or, more precisely, “mixed-directions” – positioned somewhere in the middle on the continuum of the direction of communication between two opposite poles, and would represent the situation in which the communication stream flows both ways. Positioning each specific public relations

department on such continuum would allow comparing and contrasting relative levels of communication flows in each direction as indicated on Figure 2-1.

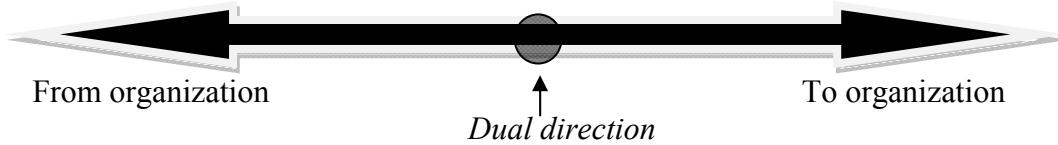


Figure 2-1. Direction of communication continuum.

Intended Beneficiary Continuum

The second dimension underlying the models is the balance of intended effects – symmetry versus asymmetry. This dimension even pre-dates the models themselves (Grunig, 1976). When, however, re-created later into dimensions, it suffered from the same problem as dimension of direction of communication. The opposite poles of the proposed dichotomous dimensions were not really dichotomous to each other. Thus, the same as with the direction of communication, the continuous dimensions subsequently disappeared from the scholarship. The original conceptualization had asymmetrical intent as one pole of the dimension where organization intended to benefit itself only, and symmetrical intent was the opposite pole. Here organizations intended to benefit itself once again but also intended to benefit its publics as well.

Instead this study proposes the dimension of intended effects as having the intended benefit of the organization as one pole, and the intended benefit of the public as the opposite pole. The resultant continuum would have symmetrical model, or mixed-motives model, somewhere in between the opposing poles. Once again different public relations activities could be compared between each other for a relative share of activities targeted at one or another intended beneficiaries. The graphical representation is depicted on Figure 2-2.

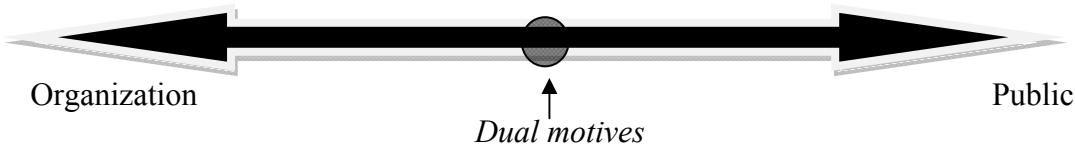


Figure 2-2. Intended beneficiary continuum.

Enacted Role Continuum

The Excellence project concluded that the best indicator of excellent public relations was knowledge to practice the manager's role (Dozier et al., 1995); yet the models and dimensions did not take this variable into account. This study seeks to incorporate the research on organizational roles of public relations practitioners as a continuum of role of communicator. The research initially suggested four separate roles: technician, expert prescriber, process facilitator, and communication facilitator. However, much of organizational role research in public relations concluded that three out of four roles, expert prescriber, process facilitator, and communication facilitator, can be combined into one role, communication manager (Broom, 1982; Dozier, 1983; 1984). Dozier and Broom (2006) explain that role analysis using manager-technician dichotomy "has proved very stable over numerous studies of different practitioner populations" (p. 141). The importance of the practitioner roles to analyzing and understanding public relations practice is underscored by the fact that organizational role is one of the most studied area in academic research (Pasadeos, Renfo, & Hanily, 1999). Dozier and Broom's (2006) conclude that public relations roles is a concept central to "a wide range of professional and organizational antecedents and outcomes" (2006, p. 137).

As a result, this study proposes to add the role of communicator continuum to the previously described ones. This merges the symmetrical communication body of knowledge with the organizational roles body of knowledge that were often treated independently from each other by scholars other than the authors of the Excellence project themselves, who saw both of these concepts to be interrelated. In this created continuum, one pole will be represented by the

technician role and the opposite pole by the manager role. Once again, practitioners are expected to be conducting a mix of both types of activities and thus will be located somewhere on the continuum, with different relative weights of each type of activity in their work. The graphical representation is depicted on Figure 2-3.

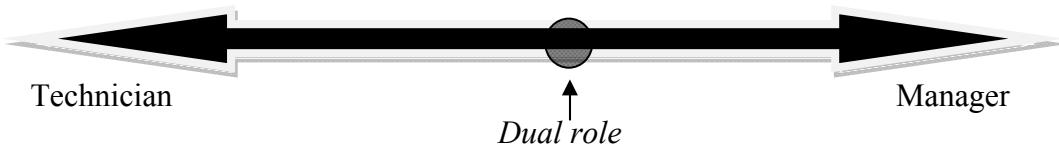


Figure 2-3. Enacted role continuum.

Nature of Public Relations Continuum

Another variable important for the measurement of public relations activities relates to the cause of such activities, meaning whether such activities were proactive or reactive in nature. One of the key determinants of excellent public relations is being able “to recognize problems before they happen” (Heath & Coombs, 2006. p. 166). The Excellence project measured several variables related to the proactive nature of public relations. The models of public relations included several questions about research in public relations. However, the scholars did not organize these variables into one model or dimension.

In fact, research variables were part of the two-way asymmetrical communication model, while strategic management was part of the contribution to the strategic organizational functions or part of the manager role (L. A. Grunig et al., 2002). J. E. Grunig (1984) suggested that social science research will be used by organization to asymmetrically persuade publics and thus it is reasonable to measure asymmetrical intent through the use of research. In reality, however, practitioners did not divide research on asymmetrical and symmetrical, rather they saw research as a process, results of which could be used to both enhance persuasion efforts as in asymmetrical model or to find a mutually beneficial solution as in symmetrical model. Since early conceptualization of models and dimensions, research proved to be independent of

symmetry/asymmetry or synchronic/diachronic dichotomies. J. E. Grunig (1976) observed that research did not exhibit tendency to load concurrently with asymmetrical activities. This allowed J. E. Grunig to conclude: “In short, organizations appear either to do research or not to do it” (p. 36). So, it is really unclear why later J. E. Grunig (1984; 2001) again insisted on using research variables to measure asymmetrical communication intent.

This study proposes the strategic and research-based activities to be isolated into a special dichotomous dimension – nature of public relations. This continuum will have proactive activities, based on research, as one pole, and reactive activities as the opposing pole. Public relations programs will be likely to engage in both proactive and reactive practices and thus will be positioned along the continuum of nature of public relations. As with previous continua, one should be able to measure the relative weights of either type of activities and as a result compare different public relations programs with each other. The graphical representation is depicted on Figure 2-4.

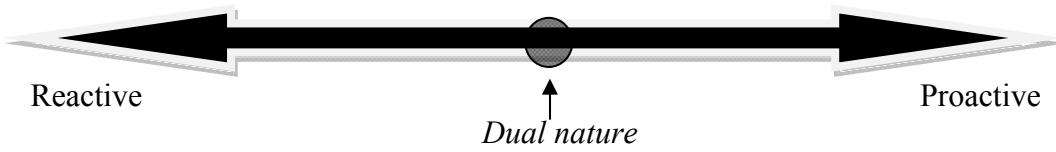


Figure 2-4. Nature of public relations continuum.

Focus of Public Relations Continuum

Finally, the relationship-building continuum relies on the extensive body of knowledge of the public-organization relationship perspective of public relations. Various measurements of types, strategies, or outcomes of relationships were developed in the public relations scholarship (Hon & J. E. Grunig, 1999; J. E. Grunig & Huang, 2000; Ledingham, 2003). This continuum is in no way offered as a substitute for them. Rather, it serves as an attempt to integrate the measurement of relationship-building by public relations programs with the measures inspired by the models of public relations and organizational roles of public relations practitioners.

As such, this continuum is not measuring the relationship itself, its type or the outcome of this relationship. Instead it focuses as all other continua on the practitioner of public relations (or investor relations) and their activities. The continuum, then, measures the relationship-building attitude of public relations practitioner as expressed in the long-term focus or short-term focus of such public relations practitioners and their practices. Indeed, scholars often equated relationships with long-term focus (i.e., J. E. Grunig and Hon, 1999). Even a compromise achieved through symmetrical communications does not necessarily lead to long-term relationship because such compromise can also be achieved with purely short-term focus. Thus, it is important to differentiate a separate dimension that would measure the long-term versus short-term focus of public relations.

Similar to the previously described measures, this measure will be continuous and dichotomous, where one pole will be represented by the public relations practices focused on long-term collaboration, while the opposing pole will be represented by the short-term practices. As such, public relation practitioners will likely combine both approaches and thus could be positioned somewhere along the continuum and compared between each other based on relative share of long-term and short-term practices. The graphical representation is depicted on Figure 2-5.

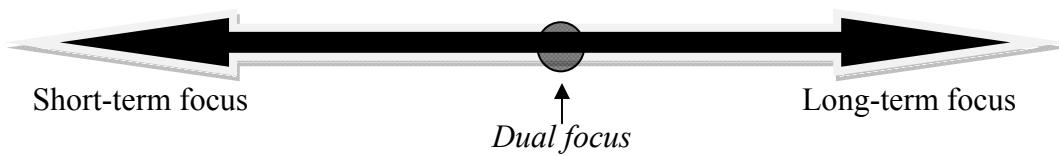


Figure 2-5. Focus of public relations continuum.

Summary

The proposed continua of public relations will be able to measure key aspects of public relations activities. Each continuum measures an important aspect of public relations practice on a dichotomous continuous line, thus enabling to place each unit of measurement on such

continuum and compare the units between each other. For example, the last continuum from the previous chapter looked at the focus of public relations practice – whether the focus is on short-term gains or on building long-term relationships. To measure such dimension, questions about short-term focus and questions about long-term focus are asked. These data can be plotted on the continuum, where short-term focus and the long-term focus will be opposing poles of this continuum. Long-term focus questions are combined and coded positively. Short-term focus questions, then, are negatively coded. Measured on a scale from 0 to 10, the continuum will look like the one depicted on Figure 2-6.

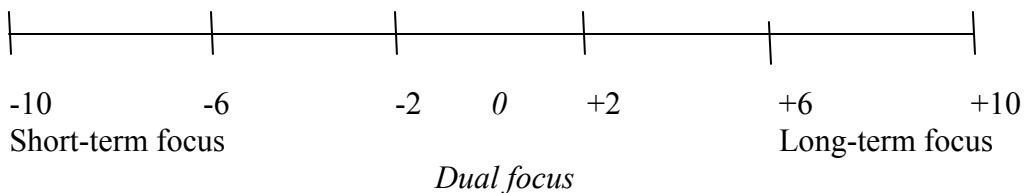


Figure 2-6. Measurement of public relations continua.

Since one of the poles is coded negatively and the other is coded positively, the result around the zero mark, from -2 to +2, will indicate dual focus – in other words, the activities will be equally targeted at long-term relational building as well as on short-term gains. The result from +2 to +6 will indicate the preference of long-term relationship-building, while results from +6 to +10 will mean the dominance of long-term focus in the public relations practice. The results from -10 to -6 will mean the opposite, almost exclusive focus on the short-term gains with disregard for long-term relationship building. The result from -6 to -2 will mean that the short-term focus prevails in comparison with the long-term focus more often than not.

When all these continua are measured together, they can present a comprehensive picture of public relations practice. Such measurements can be taken at individual, campaign, program, department, or organizational levels depending upon the needs of the research. In addition, one should be able to add extra continua to better capture the peculiarities of the specific campaign or

organization. In other cases, some continua can be dropped in specific situations. Taking a measure of these continua allows creating a certain snapshot of public relations practice. Such measures could also be combined into a public relations matrix that reflects public relations activities of an organization or an individual.

This can help compare and analyze public relations activities between different programs and organizations. As such, it can be used by the academic community in research of various sub-functions of public relations and practitioners and consultants to analyze the communication efforts of organizations. Various measurement levels are possible from individual to organizational. This dissertation will use this approach to analyze a specific sub-function of public relations – investor relations. Thus, the next chapter will review literature pertaining to investor relations – its history, function and place among other communication functions. Specifically, the dissertation will focus on information investor relations communicate to the investment community: financial and non-financial information. The role of intangibles and non-financials has been argued to be substantial, if not dominant, in the ability of a corporation to produce the above-average returns. Yet, disclosure and investor communications have been traditionally focused on tangible assets and financial indicators. Thus, the next chapter will also include a literature review about the state of research about non-financial indicators and intangible assets and their role in investor communications.

CHAPTER 3

THE HISTORY OF INVESTOR RELATIONS

The first company that could be called publicly traded is believed to be the Dutch East India Company, dating back to the 17th century (Britannica, 2006). Some sources point to an even earlier company: Stora Kopparberg mining company, dating back to the 13th century, that issued its first share in 1288 (Wikipedia, 2008). In the United States, the first public company was the Boston Manufacturing Company, founded in 1814 (Allen, 2004). When the owner of this company needed to expand the business, he sold stock in the company to his associates. Nonetheless, the shareholders were small in number and the issue of communicating with investors did not command much attention of executives until another 150 years later (NIRI, 1985; 1989).

Communication Era

Although J. Grunig and Hunt (1984) identify press agentry/publicity and public information as two separate eras in the development of the public relations profession, in investor relations both press agentry/publicity and public information developed in the same time period and represent the same era. This era was characterized by the domination of public relations or other communication professionals in performing the duties of investor relations officers. Thus, this era is labeled the *Communication era*.

The earliest mention of the investor relations function is traced back to Ralh Cordiner, a chairman of General Electric, who in 1953 created a department in charge of all shareholder communications (Morrill, 1995). In the late 1950s and 1960s, investor relations departments started appearing at a number of large companies and the consulting agencies first began offering investor relations services. Most of the investor relations work, however, focused on putting the word about organizations out and on attracting attention of financial publics to the stock. Silver

(2004) recalls 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).

These developments did not happen in a vacuum but rather were a response to the changing economic and socio-political environments. The economic boom of the 1950s generated wealth for private Americans and at the same time encouraged business growth to satisfy the constantly growing needs of consumers. The corporations needed money to grow and develop; people needed a way to invest surplus income. In this situation, the meeting of the two worlds was inevitable. Morrill (1995) reminisces,

The public, for the first time, began to get into the market. True, individuals had played the market in the 1920s, but nothing to match the numbers and trading volume of the 1950s and 1960s. Where the markets of pre-Depression era were financed largely by credit (no margin requirements!), sad memories and new laws governing securities markets stirred post-WWII investors to favor cash. It is not surprising that this confluence of forces found expression in rising stock prices. Corporate earnings rose strongly – but price-earning multiples expanded even more. The circumstances were made-to-order for successful investing, no matter how speculative it was inherently. The rising tide was lifting all boats. (chap. 1)

At the beginning of the "stock" era, in 1950, only six million Americans owned stock. Since then, the number has grown exponentially. In 1997, this number became 160 million (Marcus & Wallace, 1997). The new kind of player on the financial market – a private shareholder – caused some changes in boardrooms across the country. The consumer-product corporations realized that these new shareholders were fruitful targets for marketing efforts (Morrill, 1995). The first corporations to strategically target private shareholders-consumers were car companies, such as Ford, GM, and Chrysler. Indeed, shareholders were likely to purchase a car made by the company in which they owned stock, rather than made by its competitor. Increasing the demand for stock became an important part of the corporate agenda:

"Occupants of the executive suites were quick to see, that all of this demand for stock was helping to push prices up and up. This helped immensely to finance growth, enhance empires" (Morrill, 1995, chap. 1). The companies accustomed to competing on the product market brought similar to their competition on the financial market.

In fact, shareholder's capital is a finite pool and the companies have to compete for this resource. Marcus and Wallace (1997) quote James J. Needham, a former chairman of the New York Stock Exchange, who suggested that "even if the equities markets are called upon to supply no more than 10 to 15 percent of the total, we will be asking American investors to pony up an amount roughly equivalent to the entire present federal debt to keep U.S. business moving forward during the next 10 years" (p. 7). Thus, the investor relations function was charged with the task of grabbing investors' attention and selling them the company in a fierce competition with other corporations.

This was, however, a new experience for many corporations, a competition they were not prepared for. And, thus, most corporations looked outside for help. Unfortunately for them, investor relations agencies did not exist yet. In this vacuum of investor relations expertise, someone had to fill this niche. Morrill (1995) explains that in this situation management turned to the recognized experts in communication – public relations. As discussed in previous chapters, common knowledge today places investor relations in the public relations domain; the same was also true in the 1950s – investor relations was viewed as an extension of the public relations function.

In the 1950s, however, public relations was not a well-established practice. Only the largest companies had internal public relations staff and the functions and roles of public relations were quite limited. Cutlip (1994) suggests that in the first half of the twentieth century

many viewed public relations as a simple adjunct to advertising to stimulate better sales. In addition, the end of World War II and the booming economy left little time for public relations, which was sliding to the bottom on the priority list. Morrill (1995) recalls that "many companies were undergoing radical change, often in the form of mergers and acquisitions, with new businesses and new executive personnel appearing on the scene. In these fluid situations, public relations often fell to the person nearest at hand – an administrative officer, a personnel chief, the senior lawyer or corporate secretary" (chap. 1). In other words, when corporations turned to public relations to manage investor relations, public relations was not yet ready to take on this challenge.

At that time public relations was still struggling for the right to strategically manage itself as it was often a purely technical function of media relations. Public relations education and research were not fully developed. Lack of a systematized body of knowledge and qualified educated personnel made it difficult for public relations to provide quality service in the investor relations field. Although pioneers of public relations, having acquired tremendous experience during World War II, started offering strategic counseling, for many public relations was still mere press agency. *Fortune* magazine reports that press agency was a dominant tool in the public relations arsenal on the eve of the 1950s (Business, 1949). Robinson (1966) notes, "The practitioners in the field, along with the whole discipline of public relations itself, just 'grew like Topsy' without a common body of knowledge or without evolving any theory to guide their problem-solving efforts" (p. 40).

Although professional books in public relations existed, the first public relations textbook was published only in 1952. The authors of the book, Cutlip and Center (1952), in the preface to the first edition, recognize that there was no "single book, fundamental in its approach and yet

comprehensive in its coverage of the practice" (p. v). Public relations courses at colleges were quite rare despite the fact that the very first course in public relations was taught by Edward Bernays at New York University in 1923 (J. E. Grunig & Hunt, 1984). J. E. Grunig and Hunt note that the majority of practitioners did not have a formal education in public relations. In fact, public relations education "took off" only in the 1980s (p. 78). The first public relations scholarly journal appeared only in 1975 (Wright, 2007).

As a result, the new and not-well-established public relations function was suddenly charged with the additional duties of investor relations job – a job for which most practitioners on the corporate or agency sides were not qualified. So, they approached this new task in the same way they approached other public relations tasks – relying on press agentry and publicity. Morrill (1995) reminisces, "In concrete terms, shareholder relations became transformed into publicity, promotion and pageants" (chap. 1). He provides several examples from the fifties era:

- The annual reports suddenly blossomed as a 48-page, glossy sales brochure for the company's products. The financial were there, mandatorily, but the sell was in the sizzle, not the steak.
- The annual meeting became a huge, gala free-for-all. A large eastern railroad put together a special train for stockholders and carried them first class to a company-owned hotel in the southern Appalachians for the meeting.
- An international telecommunications company held a large gathering under two large tents in central New Jersey. A bountiful lunch was served, and there were several open bars. Members of the press were delivered in limousines from New York and returned the same way. Products were richly displayed. The chairman, himself a noted gourmet and bon vivant, addressed the gathering. Reactions were enthusiastic – but absolutely nothing of substance was done.
- Companies made gifts or gift boxes of products available to shareholders, sometimes free. Liquor companies also provided their products under advantageous purchase agreements. (chap. 1)

Investor relations was largely practiced at that time as financial press agentry and publicity. It followed in the footstep of P.T. Barnum with his circus and Tom Thumb. It learned from Steve Hannagan who is credited with making Miami Beach, Florida, into a popular tourist destination

and popularizing the Memorial Day Indy-500 race. It borrowed from Carl Byoir, the creator of the March of Dimes. And, of course, investor relations learned from many others press agents and publicist, including Edward Bernays, the father of modern public relations, famous for extravagant special events:

Bernays took a rapt audience on a dance through his 80-year career as press agent, publicist, and public relations counselor, reciting his accomplishments in getting Americans to eat bananas, American women to smoke, children to like to wash with Ivory soap, humanizing President Calvin Coolidge, persuading William Paley to make news a strong feature of his infant Columbia Broadcasting System, celebrating Thomas A. Edison's invention of light bulb, and other public relations coups. (Cutlip, 1994, p. 159)

The variety of new private shareholders was also quite a new experience for many corporations in the 1950s and created another incentive (along with the need to compete for capital) for the formation of investor relations departments. Indeed, before World War II there were just a few wealthy stockholders who did not pay much attention to the company's management, did not attend annual meetings, and never complained. The new owners, however, were quite different. First of all, there were a lot of them and they were constantly growing in numbers. They owned very small amount of stocks. And the sense of ownership among new shareholders was causing some problems for the management, too. Morrill (1995) explains, "The new shareholders saw themselves as owners and wanted to be heard. Though many were quite unsophisticated about business and stocks, they actually attended annual meetings and asked questions (often ridiculous ones in the eyes of management). The gadflies had been born under management's nose!" (chap. 1). All these new shareholders constantly demanded more information and attention from the corporations. They wanted a steady stream of information from the company.

These were different types of publics Wall Street had to get used to. Morrill (1995) paints a picture of this new crowd:

At the outset of the Bull market, a large chunk of the new money going into stocks came from those WWII-time savers who had little to spend their war industry wages on. These were not youth fresh from the field of the battle, but many who had suffered through the Depression and the cataclysmic closing of the banks in 1932. They were determined to keep a close eye on the funds they had entrusted to management and the stock markets, neither of which they really trusted. (chap. 1)

These new shareholders craved for information, yet because of their large numbers, it was difficult to communicate with all of them directly. The financial intermediaries who transmit large amounts of financial information today were not well developed in the 1950s – most shares were owned directly by private shareholders: "A 1954 study by the National Bureau of Economic Research showed that in 1949 these financial intermediaries held 23.6 percent of the total amount of shares outstanding. This was a sizeable increase from 14.2 percent before the Crash of 1929, and 7.9 percent in 1900. But it pales to insignificance against the massive holdings of institutions today" (Morrill, 1995, chap. 1).

Thus, it was a private shareholder who caused changes in the way corporations were managed; it was the same private shareholder who was the target of early investor relations communications. Morrill (1995) recalls, "The small size and relative inactivity of institutional investors in the period 1950-1970 stands up in sharp contrast to the rapid growth and rising activism of individual owners" (chap. 1).

These shareholders actively demanded communications and the management needed to communicate with this group. At the same time, the management did not take the private shareholders seriously. First of all, managers were used to be the ones who ran the show – and they were not intending to change that. There were other ways of acquiring capital such as banks and insurance companies. Thus, Morrill (1995) concludes, "They [the management] were not at all sure the small shareholder needed to be taken seriously" (chap. 1). At the same time, managers felt a certain threat to the status-quo, as these new shareholders were "challenging

managements' authority, not to mention threatening its perks" (chap. 1). So, managers were looking for a way to communicate with these shareholders from a distance, to give them information without meeting with them in person, preferable without any chance for shareholders to respond or ask questions. In addition, these communications should not have required many efforts or resources. Here enters public relations again!

Benjamin Graham in the 1951 issue of *Security Analysis* explained, "For this purpose [to communicate with shareholders], many have engaged public relations counsel, or similarly styled agencies who issue press releases . . . and advise on the preparation of annual reports and proxy materials" (as cited in Morrill, 1995, chap. 1). Today, hardly anyone would equate investor relations with media relations. Laskin (2006a) claims that media relations is among the lowest priority tasks for today's investor relations officers. In the 1950s, however, great attention of investor relations practitioners and agencies "was focused on the press" (Morrill, 1995, chap. 1).

All these caused problems for investor relations – shareholders invested their own money and wanted attention from the corporation: they needed to discuss the company's prospects for future growth instead of receiving gift baskets. Shareholders were interested in meeting with the CEO or CFO of the company – people who know the strategy and the operations of company – and instead had to communicate through a newspaper. The role of financial analysts was simply ignored. Finally, people in charge of public relations and suddenly in charge of investor relations "had little or no understanding of finance or of financial markets" (Morrill, 1995, chap. 1). Public relations was set up to fail in investor relations – it just came too early. The new investor relations profession was looking for people who could understand the financials and at the same

could produce required communication tactics, but such people were rare exceptions. The public relations practitioners were not trained to handle the financial markets. Morrill (1995) recalls,

Punctilious attention to financial details was not one of their strong units. The story was. They were skilled in using the media, and the brokerage community, to propagate stories about their clients best calculated to arouse investor attention. Often they did not really understand more than the bare rudiments of what they were trying to sell. . . . The trend to producing, peddling and promoting half-truths and untruths, even if cloaked in hedged language, was increasing at an accelerating rate – a sort of monkey see, monkey do syndrome. (chap. 1)

In addition, the corporations did not have any interest in listening to their shareholders – the focus was on a one-way stream of information from the company to the financial publics. Chatlos (1984), the founder and former President of NIRI, notes, "The trickle of information sponsored by corporations became a torrent" (p. 85). No feedback was received and analyzed.

Publicity and public information eras of public relations contributed substantially to development of many negative connotations that the term *public relations* has even today. This was probably also the cause for investor relations trying to actively distinguish itself from public relations and disassociate from public relations education, professional association, and consulting agencies. Cutlip, Center, and Broom (2000) observe, "As press agents grew in number and their exploits became more outrageous – albeit successful, more often than not – it was natural that they would arouse the hostility and suspicion of editors and inevitable that the practice and its practitioners would become tainted. This stigma remains as part of the heritage of public relations" (p. 107).

The same stigma tainted public relations in the financial world. Morrill (1995) presented numerous examples of the reporters being duped and investors being defrauded: "The word public relations became increasingly a pejorative in Wall Street" (chap. 1). Financial publics lost credibility in public relations practitioners, their ethics,

integrity, or simply capabilities of handling investor relations. Investor relations engaged in significant efforts to distinguish itself from any public relations background. If initially joining PRSA was considered, in the 1960s investor relations practitioners began talks about the need to create own professional organization where the public relations "chaff" would not be allowed (Morrill, 1995).

The investor relations practitioners cited several problems in joining PRSA such as differences regarding the name of the specialization, ethical standards and enforcement, and professional development in special skills. Focusing on the first obstacle, according to Morrill (1995), PRSA preferred to call the specialization *financial public relations* or *financial relations*, whereas practitioners seeking affiliation preferred *investor relations*. The issue of terminology was significant. In the minds of those active in early efforts to organize the field of investor relations, public relations was synonymous with publicists, who promoted rather than informed and relied on persuasion, manipulation, and deception. "In the investor relations view, financial public relations was a glaring oxymoron" (Morrill, 1995, chap. 2).

The association of investor relations practitioners, Investor Relations Association (IRA), came about only in 1967. The association, which later became the National Investor Relations Institute (NIRI), kept its promise and made every effort to differentiate its members from public relations practitioners. One director stated in the institute's first progress report, "Our aim is to separate ourselves from the so-called financial public relations consultants, who operate on the fringe of stock touting, and who are fouling the nest" (Morrill, 1995, chap. 2). Morrill continues, "It was desired to leave no doubt in anyone's mind that the members of IRA [NIRI] were not publicists but had the integrity and confidence of their management to represent the company

directly to the financial community" (chap. 2). The association adopted a practice to conduct background checks on applicants for membership "to keep the chaff out" (chap. 2).

As a result of this history, investor relations profession in its early years was heavily dominated by communication and public relations expertise. However, it did not take much time to realize that successful investor relations requires the expertise in both communication and financial matters. The pendulum, however, was swinging the other way too fast – much of this communication expertise was voluntarily cut off and disregarded as unnecessary in favor of financial and accounting expertise.

Financial Era

Changes in the economy once again brought changes to the profession of investor relations. The 1970s saw the shift from individual retail investors to institutional investors. On one side, the enormous growth of investment activities in the '50s and '60s put pressure on the financial markets infrastructure. As mentioned earlier the growth in individual investments was exponential in the years after World War II. Morrill (1995) claims that "the number of individual shareholders was multiplying furiously" (chap. 1). The number of individual shareholders increased from 4.5 million in 1952 to over 20 million in 1965, which represents every sixth adult in the United States. Chatlos (1984) reminisces:

As the trading and brokerage system creaked and strained under the increasing load of activity imposed on it, Wall Street's response was less than prudent. Profitable success after success as "the only game in town" proved to be a harsh taskmaster to the system. When problems emerged because sale activities were extended beyond the back offices' ability to handle the resulting volume, the immediate response was arrogant quick fixes rather than anticipatory long-term business planning. (p. 87)

When it became painfully obvious that the system could not handle any more transactions – the response was a monopolistic one. Banks stopped taking on any new clients. Brokers

became peculiar in choosing who to work with or whom to drop from the client list. The processing times were long and the services were not friendly.

Another problem was the track record. The market was growing in leaps and bounds after World War II and shareholders (especially individual shareholders) expected it to continue like this forever. Morrill (1984) paints a colorful picture:

It was an era of tips. You could get advice from the taxi driver, the waiter, the barber, the shoe shine man who came through the office to keep the gloss intact. Cocktail parties, subway trains and airport clubs all sported a lively conversation about the market. People on a wide scale had reached the point where they believed that all trees grow to the sky, and the market will always go up. (chap. 1)

The expectations became too high for the reality to deliver. In other words, "success bred a level of expectations that could not be fulfilled" (Chatlos, 1984, p. 87). The system was destroying itself: the system built on volume of transactions could not handle that volume any more and the customers were ready to quit. Chatlos (1984) recalls:

Customers were less than happy and did what might have been expected. They walked away. They did not sell their shares. They just walked away. For a system geared to the retail trade – and in many respects it remains so today – it was a devastating blow. The system was geared to volume, couldn't plan for high volume, and suddenly had very little volume. Again, as could have been expected, broker failures and bankruptcy-avoiding mergers followed. It was a grim sight and the individual shareholder moved further away from the system. (p. 87)

Investor relations previously geared toward private retail shareholder was becoming less and less relevant. Communications through mass media to reach that crowd of retail shareholders or conducting majestic special events to put the company's name out there were not appropriate tools of the trade anymore. The target audience of investor relations was changing and the profession was not sure how to handle it. Instead of less than knowledgeable private shareholders, overqualified stock analysts and institutional investors became the main contacts for the investor relations.

Higgins (2000) explains that the U.S. stock market was becoming institutionalized: "Because of the legal fiduciary responsibilities to their clients, these institutions have demanded detailed and timely strategic and financial information" (p. 24). They could not be satisfied by gift baskets or tours of company headquarters – they demanded detailed information on the company's performance.

Financial analysts, however, were not valued highly in the corporate world; in fact, they were often regarded as "pests or worse" (Morrill, 1995, chap. 1). Yet, educated and knowledgeable, analysts demanded different kind of information than private shareholders did. Analysts were not satisfied by glossy annual reports and delicious food at the annual meetings – they needed information on the company strategy, sales, and research and development. Investor relations practitioners at the time, however, were not capable of providing such information and speaking the same language of numbers as the analysts did.

In addition, financial analysts themselves were not accustomed of dealing with investor relations people. In fact, analysts were around before the 1970s. In 1945 the New York Analysts Society already had 700 members and the number was growing fast (Morrill, 1995). Investor relations officers, however, did not communicate with the analysts before the 1970s as they were mostly occupied with the retail shareholders, the dominant market force of the time. Morrill suggests that the job of communicating with analysts often "fell to a financial person" (chap. 1). As a result, when the 1970s brought the shift from retail to institutional ownership, many of institutional analysts already had their pre-established contacts at the organization – most often in the finance department. Even more, many of analysts were not even aware that they needed to communicate with the investor relations people instead. They tended to go to the same source they used to go to earlier – a person in the treasury or finance department.

The role of mass mediated communications in investor relations suddenly lost its importance. Public relations practitioners were losing the grip on investor relations, while the financial departments were engaging in talks with analysts and institutional investors more and more often.

In addition, a typical CEO was actively trying to avoid the financial gurus of Wall Street as much as it had been trying to avoid private shareholders earlier. Managers were used to be the ones running the show and they did not plan on sharing their powers with either poorly educated private shareholders or overeducated financial analysts. However, private shareholders were easy to deal with and could be kept at bay by using mass media and giving them occasional hand-outs. As Morrill (1995) puts it, management succeeded in creating "a nice warm feeling" in shareholders and keeping them "happy and calm" by avoiding "telling them anything that wasn't legally required" (chap. 1). In this context, Morrill recalls, the way companies treated their private shareholders resembled more "entertaining a blind date [rather] than developing a relationship" (chap. 1). The financial analysts, however, were far more difficult to please.

Financial analysts were not satisfied by the little amount of substantial information the companies were disclosing. They asked questions, sometimes questions "that management had not asked itself, or for various reasons did not want to answer" (Morrill, 1995, chap. 1). Even more, they had power over the companies they owned stock in and perhaps even more power over the companies they did not invest in. Large institutional player could sweep all the company's shares off the market pushing the price up just to unload them all off several days later plummeting the stock. Chatlos (1984) recalls, "The new institutions had so much money to invest that there literally was not enough time to observe the prudent ground rules. The new method was to dump the shares when a sell decision was made and to buy as quickly as possible

when that decision was made. This had a severe impact on market price volatility" (p. 88). If earlier private shareholders at least smoothed out this volatility, in the 1970s with individuals off market the price was in the hands of the financial analysts. A single word investor relations person said might have changed the price of stock enormously. The management decided they would rather avoid meeting with analysts altogether for the fear of saying something wrong.

As a result, the investor relations profession in the 1970s experienced a notable change. Investor relations moved away from public relations of the 1950s and 1960s. First, there was no need any more for mass mediated communications to myriad of private shareholders who moved off the market. Second, institutional investors demanded other communication channels than mass media. In addition, earlier public-relations-based investor relations practice left a bad taste in the mouth of Wall Street professional, and financial analysts rarely wanted to communicate with such investor relations breed. Morrill (1995) explains, "The principal significance is that financial communications was receiving a very bad name at the hands of what purported to be the public relations business" (chap. 1). Institutional investors and analysts tried to talk with managers of the company directly, with the CEO, CFO, or COO. The management, however, avoided any direct contact, choosing instead to communicate through the corporate secretaries or forward the calls to the treasury departments.

In response to these changing demands, press agency/publicity and public information types of the communication era of investor relations, was being substitute by new types of investor relations professionals, coming to investor relations from financial or accounting positions. Management often saw a former financial analysts to be ideal investor relations officers because they were expected to easily find a common language with the company's financial analysts and professional investors.

Wall Street-based firms started offering investor relations services, too. These firms were often an outgrowth of investment banks and thus had strong connections with and deep understanding of the financial markets. One of such firms was Georgeson & Co that distinguished itself from public relations firms by moving away from the traditional investor relations activities of the 1950s based on publicity and public information. Instead Georgeson & Co. "initiated an advisory service on shareholder relations" (Morrill, 1995, chap. 1).

These Wall Street firms were ready to move investor relations into more strategic managerial roles, but in the 1950s the corporate world was not ready for that yet. Morrill (1995) reminisces,

The public relations functions based in Wall Street firms generally knew the mind-set of the Street, how information flowed and how sensitive it could be. This was not generally true of agencies that devoted most of their public relations effort to general subjects. Managements, however, seldom saw or knew of the subtle distinctions and tended in their minds to house all public relations under one tent. (chap. 1)

The changes of the 1970s described in the previous section, however, changed the functions and goals of the investor relations profession. Powerful and knowledgeable institutional investors evaluated every action the company took and were not afraid to ask questions and criticize if they did not believe the action was in the best interests of shareholders.

Higgins (2000) describes the new institutional investors:

They have successfully sought an activist role in corporate governance, focusing their institutional power on company's performance, the proper role of the board of directors, and executive compensation.... The overall impact of the institutionalization of U.S. equity markets has been to make the job of the investor relations executive infinitely more challenging and complex. (pp. 24-25)

From provider of information investor relations professionals had to turn into defenders of managers' decisions – if investors had critique for company actions, investor relations were expected to provide counter-arguments to explain and protect the company actions. Proactive

investor relations practices called for anticipating shareholders' reactions and getting prepared to respond to them in advance. Shareholder research became a necessity. Other investor relations officers simply did not allow negative questions to be asked at conferences and annual meetings, tightly controlling the communication channels.

The focus was on persuasion and making the sell. Marcus and Wallace (1997) explain, that investor relations was "the process by which we inform and persuade investors of the value inherent in the securities we offer as means to capitalize business" (p. xi). Ryan and Jacobs (2005), financial analysts turned investor relations consultants, suggest the investor relations contribution is helping the management to "to package their story for institutional buyers or sell-side analysts" (p. 69).

This financial era of investor relations history was focused on professional investors and financial analysts. For the tasks of defending corporation in front of them, CEOs were hiring former financial analysts and professional investors who became the new investor relations professionals. They lacked the public relations knowledge and skills, but they understood the numbers and knew the rules of Wall Street. CEOs decided that it was good enough and they were quite happy to have these new employees between themselves and the professional investment community.

Synergy Era

The future of investor relations, however, seems to suggest more changes in the role and scope of investor relations activities. Protecting the company and its management through persuasion and advocacy may give way to dialogue and development of long-term understanding. This shift indicates a certain return of communication expertise back into the investor relations profession. In fact, this era requires expertise in both areas – communication and finance – to be present and co-exist in investor relations programs. Such investor relations

practice will finally be what Morrill (1995) envisioned when he explained that both communication and finance must merge to create sophisticated and successful investor relations programs. Investor relations officers will need to gain proficiency in both areas as well through dual degrees, graduate degrees, or professional training.

Savage (1973), in a *Harvard Business Review* article, observed the need for this new era of synergy:

Aside from those companies that assign to the investor relations function whoever happens to be available (one major corporation, for example, gave investor relations duties to a retired chemist), many organizations make one of two common errors:

1. Some companies will decide that investor relations are properly a part of public relations. They are unaware that many security analysts feel uncomfortable when talking with public relations people because, rightly or wrongly, analysts are generally suspicious of being “snowed.”

2. Other companies assume that the best candidate for the investor relations function is found in the treasurer’s or controller’s department. Security analysts, the reason, are figure-happy, and who is better qualified to throw around statistics than the man who has lived with them? Such reasoning is unsound, and if it accomplishes nothing else, it serves to demonstrate that the chief executive of the company has not got the message of what investor relations is all about. A moment’s reflection will reveal that knowledge of the figure does not, per se, establish ability to communicate that knowledge effectively.

The solution to be found lies somewhere between these two extremes. The best candidate for the investor relations post will have had experience in both public relations and the financial phases of a company’s operations. (pp. 126-127)

The synergy era requires investor relations officers to be experts in both communications and finance, as well as to have knowledge about securities laws. The new investor relations professionals are not mere advocates of management – they listen to investors and analysts and bring the feedback back to the company. The shareholder research and collection of feedback from the financial community becomes of vital importance. Chatlos (1974) suggests that the goal of investor relations is “reaching and hearing from a diverse audience” (p. 3). Investor relations professionals are responsible for the important task of researching “who the shareholders were,

what they perceived their needs to be and how best to communicate with them -- and for them to communicate with management" (Morrill, 1995, chap. 1).

In today's investment market, responsibilities of investor relations officers to the investment community at large are growing. "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," Allen writes (2002, p. 210). Investor relations today is based on a dialogue rather than monologue – two-way communications become a key strategy in communicating with investors.

This feedback serves both the management of the company and the shareholders. Shareholders are as likely to persuade management to adopt the shareholders' propositions as they are likely to persuade the shareholders to follow the management recommendations. Similarly to the two-way symmetrical communication model (J. E. Grunig, 1984) or mixed-motive model (Murphy, 1991), IROs become loyal both to their employers and to the target publics. The goal of the investor relations is to have the interests of shareholders and managements aligned. Indeed, serving investors is the exact work that corporations' management requires from the IROs. Lou Thompson, the president of the National Investor Relations Institute, 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. (as cited in Allen, 2002, p. 209)

In other words, the more IROs serve the public, the investment community, the better it is for the organization because it decreases investor's risk and thus decreases the cost of capital for the

company. Two-way communications appear to be at the very heart of the investor relations profession.

Rosenstein, Kelly, and Laskin (2007) applied the models of public relations to the investor relations practice. They discovered that although most of the studies in public relations found press agency/publicity to be the dominant model of the practice, “investor relations officers and their publicly owned corporations predominantly practice two-way symmetrical public relations with investor publics” (p. 17). This result, however, was expected by L. A. Grunig et al. (2002), who suggested that investor relations are likely to practice the two-way symmetrical model because the investors are influential publics with significant power over organizations.

The previous era saw IROs as technicians following directions or responding to shareholders’ requests. Rao and Sivakumar (1999) observed that IROs were mostly consumed by technical rather than strategic activities: “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). Investor relations today is becoming a management responsibility with certain autonomy and decision-making power within the corporate structure. IROs are engaged in more proactive communications than before through conference calls, roadshows, conference participations and similar (Laskin, 2006).

As with the previous eras, the shift to the synergy era was caused by changes in the economy. The shocking corporate failures of the early 21st century including the collapse of dotcoms and accounting scandals at the largest companies put the whole model of the corporate America to the test. Allen (2002) explains, “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).

Laskin (2007) suggests that collapse of Enron was the wake-up call for investor relations practice that now has to assume more responsibilities than ever before. Suddenly, the unprecedented growth in the stock market was replaced by recession. The competing for capital became more intense. Investor relations became one of the key activities that could make or break a corporation; CEOs saw that investor relations is not one of the auxiliary functions, but an activity that can create “a competitive advantage” (Allen, 2002, p. 207).

The scandals led to stiffer regulations from the SEC and Congress, with passage of the Sarbanes-Oxley Act in 2002, aimed at improving corporate governance and making managers and boards of directors more accountable. The Act expanded the scope of required disclosures and changed the disclosure procedures. But despite the expanded disclosure, investor relations has to go beyond publications of obligatory disclosure documents. Investor relations is not about the amount of information provided. Rather, it is about understanding. Investor relations’ task is to help investors understand the company and its business model. The goal is not as higher valuation as possible but rather a fair value of the stock price. Finding the right investors, building trust and relationships with them and developing long-term ownership patterns to combat volatility are the new goals for the professionals.

Investors themselves are changing. They are not satisfied with information in the obligatory disclosure filings despite the increased amount of such information. They want to understand the company, its strategy, its vision, and its role in the society. Paul Favaro (2001) explains that today communications targeted at investors “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).

The long-known equation, Return on Equity (ROE) is being transformed into Return on Expectations and managing these expectations becomes an important part of investor relations programs. Budd (1993) anticipated this shift 15 years ago:

Prevailing wisdom is that inasmuch as it [investor relations] deals largely with financial data it is best left in the Financial Department and, perhaps, staffed by ex-security analysts, lawyers or other comfortable with numbers. (...) This may be yesterday's rationale. The ROE analysts are really interested in Return on Expectations. We submit that too often missing from the "quants" communications is any sense of corporate vision; or long range strategic rationale; or corporate competence; or leadership – all subjective values better left to broad-gauged PR [public relations] people to communicate. (pp. 44-45)

Although it is doubtful that public relations professionals will be much better at investor relations than ex-financial analysts, the importance of communicating both "quants" and "quals" can not be doubted. Thus, perhaps, instead of arguing that investor relations is better left to communication specialists as was the case in the earliest era of investor relations history or that investor relations is better left to financial specialists as was the case in the second era, the profession can start working on integrating both areas of expertise. And as such enter the third, synergy, era of investor relations development.

Today's investor relations cannot suffice with only financial disclosure – investors are not interested in seeing the 10K. Rather, investors are interested in understanding the company, its business model, and its value generation capabilities. If it involves reading a 10K, investors will read it. But typically it requires more than that and this is where investor relations can earn its mark by helping investors understand the company. Allen (2002) concludes, "The communication skills of the IR specialists will be more important than ever" (p. 211). It becomes important for investor relations officers not only to be able to know the words of the investor relations language (financial terms) but also to know the grammar of this language and the

proper ways to use these words (strategic communication). In other words, both areas of expertise, business and communication, are essential to the modern practice of investor relations.

The changes in the media landscape and communication technologies also brought changes to investor relations. Today one can hardly isolate messages intended for shareholders from messages intended for consumers – access to media channels and instantaneous widespread communication technologies make information a commodity. From information age, when information was the most treasured asset, we are now in the post-information age, when information is widely available to everybody and in fact commoditized. Communication professionals can hardly limit their messages to a specific geographic region, demographic group, or type of public. Employees, investors, consumers, suppliers, and others can easily gain access to the messages intended for other types of publics.

As a result, investor relations officers might take into the account the impact of investor relations messages not just on investors, but also on employees, consumers and others. Favaro (2001) points out that today investor relations practitioners must “possess extraordinary public relations skills and understand 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). In this environment Marston (1996) proposes integration of all communication streams under one umbrella through a unified strategic approach to communication management. 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).

As a result, the synergy era of investor relations was caused by many changes in the economy, technology, regulations, increased shareholders’ attention to the role of corporations in

the society, and many other factors. These changes placed new demands on the investor relations professionals and required investor relations function to adapt. Martin (2007) summarizes, “The methods of investor relations are continuing to undergo changes in the wake of scandals, revised government regulations and legislation, increased knowledge levels of investment community, new technology, the global investment marketplace, and overall societal desires for transparency and ethical business operation” (p. 191). To respond to these challenges, investor relations has to combine the expertise of both communication and finance to devise sophisticated two-way symmetrical programs to facilitate dialogue between company’s management and the financial community with the purpose of enhancing mutual understanding: “Loss of investor confidence resulting from scandals, newly imposed regulatory requirements, and shareholder activism – as well as other conditions – can best be addressed by use of the two-way symmetrical model, which is the most effective and socially responsible model” (Rosenstein et al., 2007, p. 21).

Tuominen (1997) concludes, “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). *CBS MarketWatch* suggests, “Markets do not run on money; they run on trust” (Minow, 2002). Investor relations is not about numbers any more, today’s investor relations is about building and maintaining relationships. IROs must become proficient communicators with knowledge and skills of both public relations practitioner and financial analyst. Thus, the synergy era calls for integration of communication and financial components of investor relations. Investor relations officers in the synergy era have expertise in both finance and communication. Investor relations activities in the synergy era focus on long-term relationship building activities. Investor relations becomes a managerial proactive activity based on research

to anticipate the relevant issue rather than a technical reactive function. Such investor relations is based on two-way symmetrical communications between the company and the financial community.

Summary

Thus, investor relations as a sub-function of public relations had certain similarities with general public relations in its historic development. However, it also had certain differences in its timeline, specific periods and the characteristics of these periods. In general, the historic development can be categorized into three large eras, similar to four periods J. E. Grunig and Hunt (1984) described for the historic development of general public relations.

Table 3-1. Historical eras of investor relations and their characteristics.

<i>Characteristic</i>	<i>Communication era</i>	<i>Financial era</i>	<i>Synergy era</i>
Dates	1945-1975 Press	1975-2005	2005-now
Comparison with Public Relations Models Purpose	Agentry/Publicity and Public Information Promotion, Dissemination of Information	Two-way Asymmetrical High valuation	Two-way Symmetrical Fair valuation
Direction of Communication	From the company	Two-way	Two-way
Intended beneficiary	Organization	Organization	Both organization and investors
Practitioner's role	Communication Technician Reactive	Accounting Technician Reactive	Manager
Nature of communications			Proactive
Focus	Short-term	Short-term	Long-term and short-term
Structural Location	Public relations/Corporate communications	Finance/Treasury	Stand-alone investor relations department
Background of Practitioners	Communication, Journalism	Finance, Accounting	Dual degree, Graduate degree

The earliest communication era was characterized by the lack of financial expertise among investor relations practitioners. Investor relations tasks were assigned to publicists who were largely press agents and technician and focused their job on putting the company's name into mass media. Investor relations in this period lacked strategic and managerial activities. The organizations did not conduct research to understand their shareholding patterns. The feedback from shareholders was not collected. The stream of information was one-way: from organization to the publics, mostly through the mass media channels.

The second era, financial era, saw the shift of investor relations responsibilities from communication specialists to accountants and financial professionals. Under the supervision of CFOs, investor relations activities became focused on providing financial disclosure to investors. The focus from mass media changed to one-on-one meetings with institutional shareholders and financial analysts. This changing nature of communications enabled two-way information streams. Feedback was gathered. It was, however, rarely used to modify the activities of corporations. Rather, it was used to craft more persuasive messages to "sell" the organization. The "selling" approach positioned the goal of investor relations in increasing the share price. Ryan and Jacobs (2005) propose that the goal of investor relations is to maximize the equity value. The higher the stock price is the better. This might be one of the reasons for the "creative accounting" at Enron and other corporations.

Currently, investor relations enters the third era, the synergy era. Both communication and finance skill-sets are valued equally high for their contribution to the investor relations. The goal of the function is the improved understanding of the company among investors and analysts. IROs are looking for a fair value rather than high value – overvaluation is perhaps as bad as undervaluation. The communication is two-way with information travelling from organization to

investors and back from investors and organizations. Feedback from investors is actively sought and shareholder research is conducted. The National Investor Relations Institute recommends, “The company’s investor relations officer … should be required to meet with an independent committee of the board … to report feedback from investors and analysts” (Thompson, 2002, p. 1).

The feedback is analyzed at the highest level of the organizational hierarchy and is used in the decision-making and strategic planning. CEOs expect their IROs to be actively engaged in the corporate decision-making and supply the information from shareholders and about shareholders to the management team. Indeed, it is vital for the management of the company to know who the organizations’ investors are as such knowledge enables the company to serve investors better. Kevin Rollins, former president of Dell Inc. explains, “We’ve also charged our investor relations team with sharing and interpreting feedback from the investment community for us … ultimately, my job and Michael’s [CEO Michael Dell] job is to lead Dell in a way that drives sustainable, dependable shareholder value over time” (as cited in Cogner, 2004, p. 3).

As noted above, this focus of the synergy era on the improved understanding of the company, requires investor relations to provide both positive and negative information. The goal is not high value of stock, but fair value of stock. Overvaluation can be as negative as undervaluation because it leads to sudden drop in price and increased price and volume volatility, when additional information becomes available.

To create this better understanding of the corporate business value, companies have to expand their communications with shareholders from obligatory financial disclosure to include the information beyond US GAAP, the information “that supplements and complements a firm’s financial statements” (Wiesel, Skiera, & Villanueva, 2008, p. 1). More and more, the focus of

investor meetings shifts to intangible and non-financial aspects of business (Favaro, 2001). 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). Intangibles and non-financials, however, are themselves new phenomena. Thus, it is essential to provide an overview and define the concept of intangibles to better understand their role in investor relations and investors’ valuations of companies.

CHAPTER 4

INTANGIBLES AND NON-FINANCIAL INDICATORS

Role of Non-Financial Information in Investor Relations

Importance of Non-Financial Information

Investor relations today experiences many changes caused by the changes in the economy, regulations, and the role of corporation in society. But one of the main factors fueling these changes is the shift to intangibles. Steve Wallman (2003), a former SEC Commissioner, claims: "When historians look back at the turn of the century, they will note one of the most profound economic shifts of the era: The rise of Intangible Economy" (p. v).

Hand and Lev (2003) elaborate on the increasing role of intangible assets for present-day corporations:

Wealth and growth in modern economies are driven primarily by intangible assets, defined as claims to future benefits that do not have a physical or financial form. Patents, bioengineering drugs, brands, strategic alliances, customer lists, a proprietary cost-reducing Internet-based supply chain – these are all examples of intangibles assets. The more traditional physical and financial assets are rapidly becoming commodities, since they are equally accessible to competitors, and consequently yield at best a competitive return on investment. Dominant market positions, abnormal profits, and even temporary monopolistic advantage are today most effectively achieved by the sound deployment of intangible assets. (p. 1)

In other words, not only is the role of intangibles increasing, but the role of tangible assets is simultaneously diminishing as they become less and less capable of creating a competitive advantage and, thus, providing above-average returns.

This role of intangibles makes them an important contributor to understanding a value of a company. Lev (2004) claims that intangible assets "account for well over half the market capitalization of public companies" (p. 109). In fact, the market value of many corporations today significantly exceeds their "hard" assets even taking into account the difference between current market price of assets and the historical cost-based accounting. In total, the market value

of all U.S. publicly traded companies is about "five times larger than their balance sheet value, which reflects primarily the net worth of physical and financial assets" (Lev, 2005, p. 299). For internet-related companies the market price can exceed their "hard" assets value 100 times or more.

The importance of intangible assets and non-financial indicators of corporate performance is not escaping managers who readily recognize "that intangible assets are crucial to their company's success" (Lev, 2004, p. 110). Financial analysts and professional investors also realize the importance of non-financial information for proper evaluation of a company. Ernst & Young (1997) conducted a series of surveys and experiments with financial analysts to discover that non-financial information has a significant influence in stock analysis and its importance is high. Marcus & Wallace (1997) explain:

The greatest part of the analysis is based upon intangibles and unmeasurable factors, such as management and the company's ability to plan and meet its objectives. The more precisely and clearly the elements that define these intangibles are projected, the more readily the company's ability to appreciate the invested dollar will be understood. The more readily this ability is understood, the more likely the acceptance – and the investment – by a financial community that discounts for the unknown – the risk. (p. 14)

Hand and Lev (2003) similarly conclude that intangibles should take the central role in "valuation calculus preformed by investors" (p. 1).

No doubt that traditional financial disclosure is still important. However, investors want to also understand what stands behind the numbers. Intangibles are the cause of the revenue stream and thus create a better and deeper understanding of the company's business model. Tim Koller (2007) of McKinsey & Company described the role of intangibles at NIRI's Conference by quoting Michael Starbird: "A 1,200 page calculus book consists of two ideas and 1,198 pages of examples and applications." Intangibles become these ideas – they are the foundation of the

company's business model, underlying reason for its success or failure. Financial statements, then, become the applications – how well the business idea is being managed and implemented.

Investors realize this importance of intangibles and non-financial factors. Light (1998) reports, "Investors give nonfinancial measures, on average, one-third of the weight when making a decision to buy or sell any given stock" (p. 17). Thus, to better educate investors and shareholders about the company and to create a true understanding of the company, investor relations officers must be proficient at communicating intangibles to the financial publics.

Two accounting professors, Ittner and Larcker, in an article in *Financial Times* argue that intangibles and non-financial measures can be better predictors of financial performance of companies than financial indicators themselves are, if taken in the long term. Ittner and Larcker (2000) explain:

Even when the ultimate goal is maximizing financial performance, current financial measures may not capture long-term benefits from decisions made now. Consider, for example, investments in research and development or customer satisfaction programs. Under U.S. accounting rules, research and development expenditures and marketing costs must be charged for in the period they are incurred, so reducing profits. But successful research improves future profits if it can be brought to market. Similarly, investments in customer satisfaction can improve subsequent economic performance by increasing revenues and loyalty of existing customers, attracting new customers and reducing transaction costs. Non-financial data can provide the missing link between these beneficial activities and financial results by providing forward-looking information on accounting or stock performance. (p. 2)

In other words, investors and analysts, trying to predict the future financial performance of companies, have a better chance of getting it right if they take into account various non-financial indicators.

Lack of Non-Financial Disclosure

Yet, surprisingly, despite the recognized importance, neither managers nor investors can manage, communicate, or evaluate intangibles as well as they can manage, communicate, and evaluate tangible assets. Several research projects conducted by Lev and his colleagues indicated

that "investors systematically misprice the shares of intangibles-intensive enterprises" (Lev, 2004, p. 109). The question, however, arises as to why this mispricing occurs? Who or what is responsible for that? Lev wonders, "Underpricing securities and misallocating corporate resources mean that both companies and investors are leaving substantial value on the table. Why would rational people give up large potential gains from optimal investments in intangibles?" (p. 111).

The answer might lie in inability of investors, essentially outsiders of the company, to fully grasp the value of complex intangible profit-making capabilities. Or in time constraints of financial analysts who have to cover many corporations and digest large amounts of information to present their recommendations to the investors and thus often resort to simplified financial models that do not take into account much of intangibles value. Often the answer lies also in the lack of disclosure about intangibles assets and their value-creating contribution to the organizational business processes in the information that IROs provide to the financial markets. Such shortage of information can no doubt harm investors' understanding and subsequently evaluation of intangibles. Lev (2004) argues, "But look carefully beneath the shiny veneer of intangibles and you will find a knotty and unattractive reality, one in which information deficiencies both at companies and in the capital markets feed negatively on one another" (p. 110).

The lack of information about the company's intangible assets is an important contributor to the problem. Amir, Lev, and Sougiannis (2003) conclude, "It is widely agreed that corporate financial reports provide deficient information about intangible assets" (p. 1). However, it is unlikely to be the only reason. Another issue is the complexity and difficulty of evaluating these assets. One might argue that the burst of the dot-com bubble was partially caused by the inability

of financial analysts and investor to correctly evaluate business models built on intangible assets.

Hand and Lev (2003) explain:

Although managers and financial analysts intuitively perceive the importance of intangibles to business success, they currently lack knowledge about the systematic findings of research into the economic attributes of intangibles, particularly regarding measurement and evaluation. As a result, the management of intangibles and the investment valuation of intangible-intensive companies tend to be haphazard. For example, there are no widely accepted tools available with which a manager might assess the return on investments in intangibles (R&D, brands, employee training). Similarly, investor valuations of intangible-intensive firms are inadequate, leading to a systematic mispricing of securities and excessive stock price volatility. (p. 2)

In addition to the lack of informative disclosures and lack of measurement matrix, intangibles are suffering from the inability to be evaluated by comparison. In fact, there are hardly ever comparables for intangible assets. Indeed, with tangible assets investors can often rely on the market prices of such assets because there is a market for land, office space, cars, oil, tools, and other means of production. This helps to evaluate and compare the companies. When intangibles are involved, however, it is rare to find comparable intangibles traded on an open market. Even more, often such intangibles are unique to a specific firm and cannot be transferred to another corporation – like a unique organizational structure, or historical ties with a supplier.

Lev (2004) elucidates,

Prices are aggregators of information: Oil prices enable investors to predict the performance of energy companies; commodities futures tell investors about the performance of agribusinesses. But there are no markets generating visible prices for intellectual capital, brands, or human capital to assist investors in correctly valuing intangibles-intensive companies. (p. 112)

Lack of timely, extensive, and accurate disclosure of non-financial indicators, inability to measure their value, and non-existence of market prices and comparables can lead to systematic undervaluation of intangibles causing the companies to suffer by harming their cost of capital and limiting their growth potential. Lev, Nissim, and Thomas (2002) analyzed a sample of R&D

intensive companies from 1983 to 2000 and discovered that this under-pricing of firms with heavy contribution of intangible assets to the corporate bottom line is, in fact, not random. Research and development, one of the intangible activities, can potentially generate a substantial value for a company and, subsequently, its investors. But can investors recognize that?

Lev assumes that if investors are capable of evaluating R&D activities fairly then return on R&D intensive stocks should not differ significantly from returns on the market; in other words, the stock market should fully reflect the future potential of such stocks. Yet, the "findings indicate just so; R&D-intensive companies were systematically underpriced by the market, as evidenced by the protracted large and positive returns over several years following portfolio formation" (Lev, 2004, p. 110).

Non-Financial Information and US GAAP

Another reason for the lack of understanding and misvaluation of intangibles is the serious deficiencies and inadequacies in US GAAP accounting standard when it comes to intangibles. Modern accounting standards do not include non-financial indicators of corporate performance and do not require the companies to disclose much information on intangibles. In this situation, a complete GAAP revision might be required:

But generally accepted accounting principles perpetuate the information deficiency. GAAP treats practically all internally generated intangibles not as investments but as costs that must be immediately expensed, thereby seriously distorting enterprise profitability and asset value. Furthermore, GAAP does not require firms to disclose any meaningful information about intangibles investments, except for aggregate R&D expenditures, lumping the rest of them in with general expenses. This keeps investors in the dark about, for example, how companies allocate R&D budgets to basic research, product development, and process improvements – not to mention the amounts being invested in a host of other intangibles, including software development and acquisitions, brand enhancement, and employee training. The financial reports likewise provide no information on revenue generated by these investments, such as patent-licensing fees or the share of revenues coming specifically from new products. No wonder, then, that investors, trapped in their forced ignorance about intangibles, apply an excessive uncertainty discount to the shares of intangibles-intensive enterprises. In capital markets, no news is bad news. (Lev, 2004, p. 112)

In other words, investors have to estimate the value of intangibles without having any information about them – an impossible task. The companies are not required to disclose non-financial indicators to help investors in their efforts to understand corporate business models, earnings potential, or long-term vision.

Although not included in GAAP, intangibles can be a significant contributor to the value and thus omitting such contribution can render the whole financial reporting irrelevant. Gelb and Siegel (2000) observe this paradox: “Internally developed intangible assets … are generally not permitted by generally accepted accounting standards (GAAP) to be recognized in the financial statements, but instead are immediately expensed. These assets, such as patents, technology and brand names, are often of significant value to a company” (p. 307). As a result, they conclude that one can “question the usefulness and relevance of accounting reports” (p. 302).

Various non-GAAP and internal performance measures also often suffer from similar fallacies – almost exclusive focus on the financial results: “too much emphasis on financial measures such as earnings and accounting returns and little emphasis on drivers of value such as customer and employee satisfaction, innovation and quality” (Ittner & Larcker, 2000, p. 1). Such over-reliance on financial measures versus drivers of value contributes to the investment perception that is short-term and narrow-focused. Indeed, Enron showed investors that it is possible to manipulate the numbers in the short-term when managers are pressured to meet the monthly, quarterly, or annual targets. Focusing on the numbers limits the scope of the company activities and does not explain how these numbers were created. Pangarkar and Kirkwood (2006) claim, “Numbers are not the most complete or appropriate measure to demonstrate organizational performance.... Financial measures also can be manipulated to meet the outcomes desired by the party reporting them” (p. 2).

Kaplan and Norton (1996) suggest that perhaps over-reliance on the financial indicators is the remnant of not-so-distant past, the industrial era:

Executives also understand that traditional financial accounting measures like return on investment and earnings per share can give misleading signals for continuous improvement and innovation – activities today's competitive environment demands. The traditional financial performance measures worked well for the industrial era, but they are out of step with the skills and competencies companies are trying to master today. (p. 71)

As a result, if the investor relations function aims at building an improved understanding of the company and its business model, this becomes a job of the investor relations officers to present, explain, and educate investors on the value of intangibles the company has and is developing, as well as these intangibles' contribution to the overall business model and value of the corporation. Indeed, Pangarkar and Kirkwood (2006) conclude:

Many non-financial factors have demonstrated that they contribute to and have a lasting impact on a company's market value. Since these non-financial measures are more forward-looking and are linked to operational activities, they help to focus a manager's efforts and better evaluate employee performance.... Managers can no longer afford to hang on to preconceived notions of financial measures as the holy grail of organizational accountability. Integrating non-financial measures regarding the strategic performance of the organization will help to communicate objectives, assist in the effective implementation of strategic plans and provide incentive for management to address long-term strategy. (p. 2)

The authors insist on managers paying more attention to intangibles and non-financial measures to evaluate performance. The same claim can be extended to investors – who also must rely on intangibles to evaluate the performance of corporations. Investors, however, do not have such an easy access to the data about intangibles and non-financial measures – they are in a certain information vacuum. "Such an uninformative environment naturally calls for enhanced public disclosure about the amounts of and, insofar as possible, outcomes produced by investments in intangibles," suggests Lev (2004, p. 112). The non-financial indicators that carry information on the companies' corporate strategy, management, organizational capital,

employees, research and development, market position, quality of products and services, and corporate social responsibility can satisfy this informational void and help investors value the company fairly.

Investor Relationship

Laskin (2006a) reports that among the problems investor relations executives consider most important for the future of the investor relations profession, one of the most important is the short-term fixation of shareholders. Short-termism of investors can harm companies. Wolff-Reid explains, "In recent years, Wall Street's obsession with beating quarterly numbers has been a destructive force, pushing companies to focus on short-term results down to penny" (as cited in Plitch, 2006, p. 1). Thus, it becomes an investor relations' responsibility to extend the horizon of the investors, or, as Bill Nielsen (2007), a former Johnson & Johnson's vice president, phrased it: "Turning stock-holders into stock-owners" (personal communications). Communicating information beyond the US GAAP requirements helps to achieve this goal by building a deeper understanding of the company's future and thus building relationship between investors and a company. One of the anonymous investor relations practitioner in Laskin's (2007) study elaborates: "Since we have invested the time and effort in building relationships ... we are given the opportunity to explain our results and strategies more fully, and have a better chance to be given the benefit of the doubt in situations where investors and analysts are being asked to trust your word than if we didn't establish the relationship"(p. 23).

Increasing the holding period and amount of ownership in the company can help stabilize the share price volatility and thus is a part of investor relations job. Such holding pattern is sometimes referred to as *relational investing* (Ayres & Cramton, 1994). Mahoney (2001) elucidates:

The rewards of this relationship can be significant. Value gaps tend to diminish because investors believe management can accomplish what it says. Positive events and development earn higher stock gain rewards. A flat or down quarter isn't an automatic sell signal. Investors look for explanations and, when convinced that fundamentals are still strong and growing, are more likely to hold their shares or even increase their positions. Patience is more likely to be accorded. (pp. 9-10)

Bhagat, Black, and Blair (2004) analyze relational investing and note that although the term becomes quite common, there is no precise definition for this phenomenon: "The proponents of relational investing do not define who counts as relational investor, beyond the vague requirement that the investor hold a large block for a substantial time and actively monitor the firm's performance, nor do they specify how quickly the results of the investor's monitoring should show up in a firm's performance" (p. 8). The development of such relational approach parallels similar approach in marketing, where eighties and nineties brought a shift from transaction-oriented marketing to relationship-oriented marketing (Eyuboglu & Buja, 2007; Wathne & Heide, 2006; Levitt, 1981; 1983)

Dobrzynsky (1993) uses a similar term, *relationship investing*, and defines it the following way: "Simply put, whenever there's an established, committed link between a company and one or more shareholders, that's relationship investing" (p. 68). Relationship investing, thus, becomes synonymous to relational investing. They both mean long-term investing, investing in a large share of a company's stock, and finally active monitoring of the corporate actions.

This can create several benefits for the company in the long run. Dobrzynski (1993) observes: "First, it helps solve a problem executives have complained about for years: short-term investing. By creating a class of enlightened investors who give companies patient capital, relationship investing should free management to focus on the long term" (p. 68). This long-term

focus should enable the company to invest in such activities as, for example, research and development, thus improving the firm's competitiveness in the long run.

Dobrzynski (1993) adds, "Second, the very existence of a new breed of active capitalists fixes another failing of U.S. corporations: the imperial CEO, unchecked by a pliant board of directors.... Investors who actively monitor their holdings would introduce a badly needed measure of management accountability" (p. 68). He analyzed several cases of investors getting closely involved with the companies, e.g. Avon, Kodak, Sears, Lockheed, and all these cases improved their corporate performance after active involvement of shareholders in company's activities. Bhagat et al. (2004) conclude that there is "a variety of evidence, some systematic and some anecdotal" that can support the claim that long-term investing can lead to improvements in corporate performance (p. 5).

So, relational investors instead of "trading stock like pork bellies," in the words of Ira Millsten (as cited in Dobrzynski, 1993), exhibit a real long-term interest in the company, its management, the way it is run, and the way the company communicates with them. Relational investors are the ones who want to influence the company's management and provide advice on how the company should be run. They are also often the ones who have the power to assert such an influence. Relational investing requires the presence of a strong, competent, and influential shareholder (Roe, 1994). As a result, relational investing is an underlying reason behind shareholder's activism, a sign of shareholders' involvement in the company's future. The presence of a strong shareholder that can and want to influence the company's decision-making process might cause panic for some managers (Burke, 2005). On the other hand, companies that pay attention to the expertise and knowledge of such shareholders are often rewarded "with long-

term, sustainable financial success" (Walker & Marr, 2001). In simple terms, relational investors provide patient capital in exchange for increased accountability.

The terms relational investing and relationship investing, however, both look at the issue from the standpoint of the investment community. This research project, however, analyzes the same issue but from the standpoint of a corporation and its investor relations practitioners. Thus, this study proposes a term that would define this issue from the standpoint of a corporation – *investor relationship*. Laskin (2007) explains, "Building connections between the company's management and the company's shareholders seems to be an important aspect of IRO's work and contribution" (p. 30). Thus, the term *investor relationship* builds on the traditional corporate function of *investor relations* but places an emphasis on the importance of developing relationships with shareholders, helping them to become *relational investors* or engaging them in *relationship investing*.

The benefits of relational investing are not limited to just corporations and investment community. In fact, relational investing has a potential of solving the common problem of investors' *rational apathy* – a situation in which investors prefer to withdraw from the company (selling the stock) if faced with a problem, bad corporate practices, or unethical behavior (Black, 1990). The group of experts on corporate law charged by the European Commission with the task of researching corporate practices in Europe concludes:

From the viewpoint of a single shareholder, it may frequently seem appropriate to sell his shares if he is dissatisfied with - or lacks confidence in – incumbent management, rather than try to change things within the company. However, this “rational apathy” may prove very disadvantageous if adopted as a general attitude among shareholders. (The high level group, 2002, p. 48)

Relational investors, however, do not sell the stock in a similar situation. Rather, they try to communicate their dissatisfaction to management and persuade the company to change its

policies. In other words, instead of fleeing from the problem, relational investors work on solving it. These investors provide their skills, knowledge, and expertise to the company and thus can potentially lead to improvements on the company's side. Such investors strive to get above-average returns from their investment in *the company*, not from their investment in *the market*.

Investor relationships, however, heavily relies on the extensive disclosure that goes beyond minimum US GAAP requirements. Strategic investors need to understand the company as well as managers do and as a result want additional information. Thus, disclosure of non-financial information is an essential part of investor relationship.

Future of Non-Financial Information

This importance of intangibles and, subsequently, the need for disclosing non-financial indicators, is only going to increase with time as commodization of physical assets will diminish their contribution to the corporations' value-generation potential and bring the competition into the intangibles sphere. Lev concludes, "In an era when physical assets have essentially become commodities, the benefits intangible investments yield – increased productivity, improved margins, and, most important, innovative products and processes – are the only means companies can use to escape intensifying competition" (Lev, 2004, p. 116).

Intangibles are not limited to so-called "new technology" companies, but rather become a foundation for value-creating in every industry from retail to mining. Hand and Lev (2003) argue, "The importance of intangible assets is magnified by the fact that they are not restricted to the high technology sector, but are instead dominant in every well-run enterprise.... In today's economy, intangible assets are pervasive across virtually all business sectors and in every major industrial country" (pp. 1-2). Therefore, intangibles become an important part of investor communications for publicly traded companies in every industry. Intangibles are creating competitive advantages for companies and as a result intangibles are the foundation of

companies' business models. Intangibles underlie the financial results and thus understanding a company requires understanding its intangibles. Intangibles allow IROs to better explain the financial results and company's prospects for the future growth. Intangibles also focus attention on long-term performance and are better aligned with long-term organizational strategies and objectives instead of short-term financial results. Finally, intangibles help cultivate long-term relationship with the investors and shareholders. Consequently, it becomes important to define what intangibles and non-financials mean in regards to investor relations and communicating to financial publics.

Defining Non-financial Information

Pangarkar and Kirkwood (2006) and Ittner and Larcker (2000) both argue for the increased role of intangibles and non-financial indicators in evaluating the corporate performance. They both also observe a problem with these measures: lack of consistency. Variety of aspects that can be measured, different scales of measurement, different timeframes, and other issues cause confusion instead of improved understanding of the company's business. Thus, it becomes essential to analyze and classify what exactly is meant by intangibles.

Following Ittner and Larcker (2000), two common terms, intangibles and non-financial indicators, are often used interchangeably. In fact, indicators that measure intangibles are often called non-financial indicators. This study also uses the terms intangibles and non-financial indicators interchangeably. It is important to note, however, that quite often it is a convention rather than fact. Indeed, many intangibles can be expressed in financial terms. Brand, for instance, is an intangible factor, yet Interbrand (2007; 2006; 2005) successfully measures the value of such intangible factor in financial terms and over time. For example, the value of Coca-Cola brand, the most expensive brand according to the latest 2007 study, stands on \$65,324 million, followed by Microsoft (\$58,709 million), and IBM (\$57,091 million). Research and

development, another intangible factor, is also measured in financial terms by various organizations with variable success (Lev & Sougiannis, 2003). Intangibles in general can be expressed in the financial terms. For example, Nakamura (2003) estimates all capital stock of intangibles in the United States to exceed \$5 trillion dollars, while annual investment in intangible to exceed \$1 trillion.

Baruch Lev

One of the most advanced programs of research on the subject of intangible assets was launched by Baruch Lev, who today is sometimes referred to as “the guru of intangibles” (Bushell, 2004). Lev conducted numerous research projects to better understand the phenomenon of intangibles: from general studies on defining intangibles (Lev, 2001), measuring intangibles (Lev, 2005), and analyzing value-generation capabilities of intangibles (Lev, 2004), to specific aspects of intangibles such as research and development (Lev & Sougiannis, 1996; Deng, Lev, & Narin, 2003), role of innovations in business (Aboody & Lev, 2000), and the role of intangibles in the collapse of Enron (Lev, 2002).

Lev (2001) provides the following definition for intangible assets: “An intangible asset is a claim to future benefits that does not have a physical or financial (a stock or a bond) embodiment. A patent, a brand, and a unique organizational structure (for example, an Internet-based supply chain) that generates cost savings are intangible assets” (p. 5). Lev uses the terms *intangible assets*, *knowledge assets*, and *intellectual capital* interchangeably. Allan Greenspan (2002) pioneered another term, *conceptual assets*, which also can be used synonymously with intangibles assets.

Lev (2001) identified three types of intangibles:

- Innovation-related intangibles
- Human resource intangibles

- Organizational intangibles.

Lev (2005) modified this list to create four categories of intangibles:

- Products/services
- Customer relations
- Human resources
- Organizational capital.

The organizational capital category deals with all the business processes and corporate designs that help companies achieve above-average returns by increasing revenues or decreasing costs. Among examples of this category of intangibles are Walmart's supply chain management, Dell's inventory and built-to-order computers, and Citibank's internet banking. Lev (2005) continues, "Unique information processes, such as those of the Italian apparel manufacturer Benetton, relaying real-time information about product colors from stores to production facilities, provide another example of the intangible – organizational capital" (p. 300). The commodification of physical assets makes access to them available for everybody and thus the only way for corporation to outperform the competition is to built unique links of the organizational structure between these assets, in other words to add the intangible component, the organizational capital.

Human resources category is also capable of generating above-average returns. Lev (2005) explains, "Unique human resources policies and practices, such as employee incentive and compensation system, or on-the-job training programs, which consistently enhance labor productivity and reduce employee turnover, create intangible assets" (p. 300). For example, Lazear (2000) observes that when a firm transitioned from an hourly rate to compensation based on the number of units completed, employee productivity increased 41 percent. As a result, without any changes in the number of employees or facilities of any other tangible assets, the company increased its productivity through intangible asset, human resources.

Customer relations category is closely related with such concepts as brand, product image, advertising, and public relations. Lev (2005) elaborates, “When a loyalty of customers to a product (e.g., Bayer aspirin) or a company enables a business enterprise to charge higher prices than its competitors charge or to secure a large market share (e.g., the investment bank Goldman Sachs) customer-related intangibles are present.

Finally, product/services category of intangibles directly relates to company’s outputs. Lev (2005) explains that this category “includes software products, financial and health services, and leisure and entertainment, to name a few intangible products” (p. 300). An important caveat is that the line between tangible and intangible products is often blurry. Software, for example, can be physically located on a CD, and thus have a tangible component. However, in this case, it is clear that the value for the customer lies in the intangible product, not in the tangible disk itself. In other instances it may not be clear cut. For example, a computer, a refrigerator, or an automobile are combinations of tangible and intangible products that cannot be separated from each other. Lev (2001) notes, “Intangibles are frequently embedded in physical assets (for example, the technology and knowledge contained in an airplane) and in labor (the tacit knowledge of employees), leading to considerable interaction between tangible and intangible assets in creation of value” (p. 7).

These four categories of intangibles developed by Lev try to encompass all the variety of intangible assets to create a model for analyzing and evaluating them. This model, however, is not the only one developed for understanding intangibles. Another approach that received much attention in the professional community was developed and popularized by Robert Kaplan and David Norton.

Kaplan and Norton

Kaplan and Norton (1992) similarly to Lev (1992) observed that financial measures alone are insufficient to understand and to manage the corporation. Thus, Kaplan and Norton (1992) analyzed twelve companies known for their outstanding approaches to measurement and management of corporate value to determine if there is a common explanation for their success. The research resulted in creating the concept of the *Balanced Scorecard*, a measurement approach that takes into account both financial measures and other non-financial measures. Their idea of the balanced scorecard was accepted quite well. Calabro (2001) claimed that the balanced scorecard was one of the most influential ideas of the twentieth century. Ittner and Larcker (1998) considered balanced scorecard to be the major innovation in the performance measurement. The American Accounting Association gave it an award for the best theoretical contribution to the profession (Norreklit, 2003).

Kaplan and Norton, meanwhile, continued developing their idea. From a measurement tool (1992; 1993), balanced scorecard evolved into the management tool (1996a; 1996b) that can allow managers to translate their strategies into actions of their employees. Later, balanced scorecard became management and control system (2000; 2001; 2004; 2006) – an approach of mapping the assets and evaluating the performance based on financial and non-financial indicators to align the corporate actions with corporate strategy. The industry accepted the idea – Callabro (2001) reported that half of the *Global 1000* companies were using a balanced scorecard in one way or another by the year 2000. Finally, Hendricks, Menor, and Wiedman (2004) conclude that “a recent Bain & Company survey of more than 708 companies on five continents found that the BSC [balance scorecard] was used by 62% of responding organizations, a higher adoption rate than some other well-known management tools like Total Quality Management, Supply Chain Integration or Activity Based Management” (p. 1).

The roots of the balanced scorecard, however, can be traced back long before 1992.

Bessire and Backer (2005) observe that similar management tool pioneered in France in 1930s under the name *tableau de board*, or *dashboard*. This dashboard allowed managers to monitor various aspects of performance of different units in addition to financial aspects. Bontis, Dragonetti, Jacobsen, and Roos (1999) note that the dashboard concept received much attention both in the industry and academic research in France, and is in fact used even today by French corporations. They suggest that perhaps the language barrier was the main reason in preventing the dashboard concept from entering the U.S. professional and academic literature. In the United States, however, there were precursors to the balanced scorecard as well. Hendricks, Menor, and Wiedman (2004) describe the system similar to balanced scorecard that was developed by General Electric back in 1950s.

The balanced scorecard today is an opportunity to look beyond just financial results. In fact, it can show how organizational mission and strategy are being carried out by organizational actions. Indeed, it is impossible to measure the success of a business enterprise based on financial results alone as these can be a result of outside events or non-sustainable business practices, for example. Kaplan and Norton (1992) provide the following illustration:

Think of the balanced scorecard as the dials and indicators in an airplane cockpit. For the complex task of navigating and flying a plane, pilots need detailed information about many aspects of the flight. They need information on fuel, airspeed, altitude, bearing, destination, and other indicators that summarize the current and predicted environment. Reliance on one instrument can be fatal. Similarly, the complexity of managing an organization today requires that managers be able to view performance in several areas at once. (p. 73)

Thus, the balanced scorecard suggested expanding the scope of managerial attention from financial indicators to a variety of other performance measures. Kaplan and Norton (1992) identified four main categories of indicators in the balanced scorecard:

- Financial perspective

- Internal business perspective
- Customer perspective
- Innovation and learning perspective.

Financial perspective is the traditional measures of corporate performance: profitability, growth, shareholder value, and similar measures. Some of the common indicators are revenues, cash flow, sales growth, ROE, and so on. Internal business perspective describes “processes, decisions, and actions occurring throughout organizations” (Kaplan & Norton, 1992, p, 75). Some of the indicators for the internal business perspective include cycle time, unit costs, and efficiency. Customer perspective translates the corporate performance into customer-oriented measures, such as time-to-market of new products, defect level, on-time delivery, customer service, and so on. Kaplan and Norton (1992) suggest that good measures of customer perspective for the airline industry might be on-time arrivals and lost baggage, for example. The final perspective is innovation and learning perspective. Kaplan and Norton (1992) define this perspective: “Intense global competition requires that companies make continual improvements to their existing products and processes and have the ability to introduce entirely new products with expanded capabilities. A company’s ability to innovate, improve, and learn ties directly to the company’s value” (p. 76). The measures of product and process innovations can be time-to-develop, sales from new products, cycle time, and time-to-maturity.

In general, the balance scorecard should provide a balanced view of the business enterprise and allow managers and investors to correctly evaluate its success or failure and understand the reasons for such success or failure. Kaplan and Norton (1996) conclude, “The name [balance scorecard] reflected the balance between short- and long-term objectives, between financial and non-financial measures, between lagging and leading indicators, and between external and internal performance perspectives” (p. viii.).

It is important to note that there are significant parallels between Lev's research on intangibles and Kaplan and Norton's research on the non-financial indicators of the balanced scorecard. Kaplan and Norton's innovation and learning perspective is very similar to Lev's innovation-related intangibles. Lev's customer relations intangibles are similar to customer perspective of Kaplan and Norton. Kaplan and Norton's internal business perspective combines two types of intangibles from Lev's classification: organizational capital and human resources. In fact, the American Accounting Association (n.d.) that awards Wildman Medal award for the best fundamental research contribution to the accounting profession, recognized both Lev and Kaplan with this medal in 2000 and 2001, respectively.

One of the many important contributions of Kaplan and Norton's work, however, is the recognition of the fact that both financial and non-financial indicators are closely related and that reliance on either one of them is erroneous. Kaplan and Norton (1996) claim that "managers should not have to choose between financial and operational measures" and instead argue for "a balanced presentation of both financial and operational measures" (p. 71). Tangible and intangible assets, financial and non-financial indicators are equally important for understanding of the corporate performance and the corporate value.

Ernst & Young

Lev's analysis and Kaplan and Norton's body of research are not the only examples of classifications of intangibles. Auditing companies invested efforts into analyzing and categorizing intangible measures of corporate performance as well. One of the most sophisticated examples of such studies is Ernst & Young's *Measures That Matter* project. Introducing the project, Ernst & Young (1997) explains why the auditing company dedicates resources to a study of non-financial measures:

Savvy corporate leaders seeking to meet the key management challenges of the future realize there is a dangerous disconnect between the bottom line and long-term goals. Sharing knowledge, wooing customers, and honing the products that will reinvent their industries represent investments for the long-term – usually at odds with short-term reporting practices. At the heart of this new thinking is a growing body of evidence revealing that reliance on financial measures alone will critically undermine the strategies leading-edge companies *must* [emphasis in the original] pursue to survive and thrive long term. (p. 1)

Ernst & Young's study often refers to Baruch Lev's ideas, sometimes quoting his words; yet, they refer to their approach as balanced scorecard, similar to the Kaplan and Norton's terminology. Ernst & Young however extends the number of categories from four to eight:

- Quality of management
- Effectiveness of executive compensation policies
- Strength of corporate culture
- Level of customer satisfaction
- Strength of market position
- Quality of products and services
- Effectiveness of new product development
- Quality of investor communications.

These eight groups, however, do not really add many new dimensions to Lev's or Kaplan and Norton's classifications, but rather provide more details and specificity. Indeed, the first three categories, quality of management, executive compensation, and corporate culture, could all be summarized in Kaplan and Norton's internal business perspective or Lev's human resources type of intangibles. Kaplan and Norton's customer perspective probably would include Ernst & Young's customer satisfaction, market position, and partially quality of products and services. All these categories are also similar to Lev's customer relations.

Ernst & Young, however, added a clearly new category, quality of investor communications. This category was not covered by Lev or by Kaplan and Norton as the only external communication streams they looked at were targeted at customers, not at shareholders or any other publics for that matter. Indeed, the relations with shareholders, government regulatory

organizations, activist groups, and local community organizations can also have a strong and lasting impact on the corporate future and as a result should be accounted for.

Another advancement of the Ernst & Young research lies in the fact that they tested these non-financial measures with investors and financial analysts. The study analyzed over 300 sell-side investment reports to see how non-financial data were used, if used at all. Ernst & Young (1998) concludes, “The findings are compelling. We learned that analysts do, in fact, rely strongly on a broad range of non-financial indicators” (p. 6). The analysts relied mostly on the indicators related to customers and products, followed by indicators of quality of employees and other internal processes as well as factors of innovations. Ernst & Young also studied the usage of non-financial indicators by the buy-side through a survey of 275 portfolio managers. Once again, the results indicated the importance of intangibles for investors: “As with the sell-side study, we found that institutional investors not only pay attention to non-financial factors, but that they also apply the knowledge when making investment decisions” (p. 8). The report continues: “Well over 60% of survey respondents said that non-financial data drove between 20% and 50% of their investment decision” (p. 9).

Finally, Ernst & Young (1998) went another step further and ranked different non-financial indicators between each other to find out which ones are the most important for investors and which ones are less important. As mentioned above, Ernst & Young study had eight categories, comprised of 39 non-financial indicators overall, three to seven indicators per category. The most important for investors were: strategy execution, management credibility, quality of strategy, innovativeness, and ability to attract talented people. All of these are long-term focused indicators, dealing with ability the company to meet its long-term goals as specified in the corporate strategy. The least important were: compensation ratios, use of employee teams, and

process quality awards – in other words, the indicators that are less strategic and more current or even focused in the past. The authors of the study also conducted an experiment, asking investors to analyze the companies based on several scenarios: in all scenarios non-financial information was the same but the financial results changes. The findings showed that “the more non-financial measures analysts use, the more accurate are their earnings forecasts” (p. 13).

So, the Ernst & Young’s (1998) research had an important contribution to the study of intangibles. It showed that investors care about the non-financial information, they actively use that information in their analysis of companies, and that information helps them make the correct predictions. The most important of these non-financial are the ones related to top-management and long-term strategy of the corporation as it has the potential to affect the value of the company the most. The study observes, “Sell-side and buy-side investors alike make their own inferences about non-financial performance and then act upon these inferences, whether companies strategically manage and disclose non-financial factors or not” (p. 13). Thus, investor relations departments should manage this information as much as they manage financial disclosure in order “to gain or sustain a competitive edge” (p. 14).

PriceWaterhouseCoopers

Another auditing company that should be mentioned in regard to intangible research is PriceWaterhouseCoopers. In partnership with Nyenrode Business University and The Center for Corporate Citizenship of the Boston College, PriceWaterhouseCoopers (2005) conducted a research on the importance of so-called “extra-financial information” – another term for intangibles or non-financials. The study was an extension of 1997 research project on integration of financial and non-financial performance matrixes (PriceWaterhouseCoopers, 1997). The 2005 study conducted interviews with sell-side and buy-side in Europe and in the United States. The report concludes, “Research has shown that mainstream financial analysts do value information

on issues like quality of management, the strategy of a company, a company's potential to innovate, or the retention of qualified personnel, although these issues are not immediately quantifiable in financial terms" (PriceWaterhouseCoopers, 2005, p. 4).

Important difference of this research project is the fact that the authors added so-called ethical, social, and environmental issues into the mix of non-financial indicators. The study, however, did not find that many of the analysts' reports include information about these issues and even when analysts do mention these issues, "it is usually no more than a cursory mention" (PriceWaterhouseCoopers, 2005, p. 33). On other hand, the study reports:

Analysts are familiar with major social, environmental, and ethical issues relevant to the sectors they are studying. They know which companies have gone through a crisis, like Shell, Wal-Mart, Exxon, Unilever, McDonalds, and so on. Analysts also know the best practices in their sectors dealing with, among other issues, human rights violations, child labor, corruption, environmental pollution, or obesity. (p. 23)

In other words, these social, ethical, and environmental issues are taken into account for the analysis but not as the main factors influencing the corporate value. Rather these factors are viewed as a context in which corporation exists and operates. These factors are not explicitly discussed in the reports unless there is a major problem in one of these areas. In this case, they might transition from the background to the forefront of the company's valuation.

PriceWaterhouseCoopers (2005) proposed 13 categories of indicators: four were financial, six – extra-financial, and three – social, ethical and environmental. Financial section included:

- Balance sheet information
- Profit and loss statement
- Cash flow information
- Stock information and ratios.

Extra-financial information consisted of:

- Quality of management
- Strength of market position
- Strength of corporate culture

- Quality of products and services
- Level of customer satisfaction
- Governance.

Finally, social, ethical, and environmental information category consisted of three indicators:

- Ethical information
- Social information
- Environmental information.

Once again, one can notice similarities with previous classifications by Lev, Kaplan, and Norton, and Ernst & Young. The key difference as mentioned above is the addition of the social, ethical, and environmental information, which, however, was not valued by investors and financial analysts much according to their research.

It is important to note that despite the fact that findings indicated little attention to social measures from financial analysts and investors, such measures are proliferating in recent years. Chatterji and Levine (2005) observe: “In the shadow of recent corporate scandals, measures of the social performance of businesses have become increasingly popular. These measures cover everything from environmental performance and the treatment of workers, to corporate governance and charitable giving” (p. 2). Dow Jones produces Dow Jones Sustainability Index and *Financial Times* in partnership with London Stock Exchange produces FTSE4Good. But the most comprehensive approach was probably developed by Global Reporting Initiative. In partnership with variety of stakeholders, Global Reporting Initiative (2007) developed a reporting framework that provides guidance on how organizations can disclose their sustainability performance. In addition, there are numerous other frameworks specific to certain industries or even to certain issues. For example, Chatterji and Levine (2005) provide an example of the apparel industry that has the following codes:

- FLA (no prison labor)

- WRC (must pay a living wage)
- WRAP (must have independent monitors)
- SA 8000 (guaranteed right to organize)
- ETI (monitors should make announced visits)
- Fair Wear Foundation (factory reports are made public)
- Wal-Mart's Code of Conduct (certify only facilities not brands)

Review of these social performance metrics, however, is beyond the scope of this study.

OECD

As for intangibles, themselves, one should note that several other approaches to classifying intangibles also exist, although they did not receive much attention. One that is worth mentioning is proposed by the Organization for Economic Co-operation and Development (OECD). It identifies the following five categories (Young, 1998):

- Information system infrastructure
- Production and technology
- Human resources
- Organization and administration
- Procurement, distribution, customer linkage.

Although the categories are once again quite similar with previously described research projects, this project deserves a special mention because the classification was based on investments in each of these categories. In other words, it was a financial approach to intangibles – rather than measuring them with non-financial indicators, Young (1998) suggested using financial matrix for measuring the intangibles. This approach expressed intangible assets in the same terms as tangible assets and allowed for comparisons between them. Young explains, “One of the main reasons for compiling data on intangible investment is to make comparisons with the amount of tangible or physical investment. This means presenting intangible investment data, as

far as possible, in the same way as the tangibles statistics and thus applying concepts and categories designed for the latter to the former” (p. 5).

Hill & Knowlton

Another study was conducted by Hill & Knowlton with the help of MORI Research. Hill & Knowlton (2006) specifically focused on one particular kind of intangibles, reputation: “For listed companies, reputation has an even more direct impact on performance through the financial community that grades, rates and invests in them” (p. 1). In fact, the study suggests that reputation can be valued as much as profit and performance. The survey of 282 sell-side and buy-side analysts confirmed that reputation is one of the key intangible assets of the company – with over 90 percent of analysts stating that they believe that “if a company fails to look after reputation aspects of its performance it will ultimately suffer financially too” (p. 2).

Hill & Knowlton identified three major building blocks of reputation as an intangible asset: execution of company’s strategy, clear and consistent communications with shareholders, and transparent disclosure and strong governance. The research concluded that quality of management and the reputation of top managers are among the key non-financial indicators valued by the investment community. This finding was similar to the findings of Ernst & Young (1997) and PriceWaterhouseCoopers (2005). Similar importance was also assigned to the company’s strategy – another intangible asset valued highly in almost all of the studies discussed above.

Summary

The variety of different categorizations and approaches to analyzing intangibles and non-financials calls for summarizing and comparing these approaches. Before one can proceed to suggesting a new categorization of intangibles a summary of the previously described

categorizations is required. Such a summary of various classifications of intangibles assets is presented in Table 4-1.

Table 4-1. Summary of various classifications of intangibles.

<i>Lev</i>	<i>Kaplan & Norton</i>	<i>Ernst & Young</i>	<i>PWC</i>	<i>OECD</i>	<i>Hill & Knowlton</i>
Products/ Services	Financial perspective	Quality of management	Financial	Information system	Execution of strategy
Customer relations	Internal business perspective	Executive compensation	Quality of management	Production and technology	Communications with shareholders
Human resources	Customer perspective	Corporate culture	Market position	Human resources	Disclosure and governance
Organizational capital	Innovation and learning perspective	Customer satisfaction	Corporate culture	Organization and administration	
		Market position	Products and services	Procurement, distribution, customer linkage	
		Products and services	Customer satisfaction		
		New product development	Governance		
		Investor communications	Social, ethical, and environmental		
			al		

Note. Lev's classification is adopted from Lev (2005).

Kaplan & Norton's classification is adopted from Kaplan & Norton (1992).

Ernst & Young's classification is adopted from Ernst & Young (1997).

PriceWaterhouseCooper's classification is adopted from PriceWasserhouseCoopers (2005).

The financial category is comprised of four indicators: balance sheet information; profit & loss information; cash flow information; and stock information and ratios (not shown in the table). Social, ethical, and environmental category is comprised of three indicators: social information; ethical information; and environmental information (not shown in the table).

OECD's classification is adopted from Young (1998).

Hill & Knowlton's classification is adopted from Hill & Knowlton (2006). It is designed to measure reputation only.

It is a difficult task to decide which classification is better overall. In fact, each one of them adds a valuable perspective to the overall view of intangible assets. Kaplan and Norton as

well as PriceWaterhouseCoopers add financial category to non-financial categories because no matter how much importance the intangibles have, financial measures are still going to play an important role in investor communications. Hill & Knowlton focus only on one aspect of intangible assets, reputation, yet this aspect was found to be among the most important by both Ernst & Young and PriceWaterhouseCoopers and so it warrants extra attention to this type of intangibles. OECD argues for measuring intangible assets with the same yardstick as the tangible assets are measured and thus allows easy comparison between them.

Thus, for the purpose of this research, it becomes a challenge to summarize all these codes of intangibles into one. In creating the unified classification special attention is paid to the purpose of such categorization – research of investor communications. Despite the fact that no research was conducted to measure investor relations officers' perception of various non-financial measures, the perspective of investor relations officers becomes an important factor in crafting the classification of non-financial indicators for this study. Table 4-2 presents the resultant classification and identifies how each of the newly proposed categories correlates with the categories of intangibles and non-financials from the classifications generated by earlier research.

Table 4-2. Laskin's classification of intangibles and its relation to existing classifications.

<i>Laskin</i>	<i>Lev</i>	<i>Kaplan & Norton</i>	<i>Ernst & Young</i>	<i>PWC</i>	<i>OECD</i>	<i>Hill & Knowlton</i>
Financial Strategy		Financial perspective		Financial		
Management			Quality of management; Executive compensation	Quality of management	Organization and administration	Execution of strategy Execution of strategy
Employees	Human resources	Internal business perspective	Corporate culture	Corporate culture	Human resources	
Organizational capital	Organizational capital	Internal business perspective	Corporate culture	Corporate culture	Information system	
Research & Development	Products/Services	Innovation and learning perspective	New product development		Production and technology	
Products & Services	Products/Services	Customer perspective	Products and services	Products and services		
Competitive market position	Customer relations	Customer perspective	Market position; Customer satisfaction	Market position; Customer satisfaction	Procurement, distribution, customer linkage	
Corporate Responsibility			Corporate culture	Social, ethical, and environmental		
Communications			Investor communications	Governance		Shareholders communications; Disclosure and governance

Note. Lev's classification is adopted from Lev (2005).
Kaplan & Norton's classification is adopted from Kaplan & Norton (1992).
Ernst & Young's classification is adopted from Ernst & Young (1997).
PriceWaterhouseCooper's classification is adopted from PriceWaterhouseCoopers (2005).
The financial category is comprised of four indicators: balance sheet information; profit & loss information; cash flow information; and stock information and ratios (not shown in the table). Social, ethical, and environmental category is comprised of three indicators: social information; ethical information; and environmental information (not shown in the table).
OECD's classification is adopted from Young (1998).
Hill & Knowlton's classification is adopted from Hill & Knowlton (2006). It is designed to measure reputation only.

As a result, this study proposes the classification of intangibles and non-financial indicators comprised of nine categories. The categories are designed based on the analysis of the existing classifications. The goal of the modified classification is to take into account the investor relations perspective as investor relations officers will be the target audience for this research. In addition, there is the tenth category – financial. It includes traditional measures of corporate performance, such as revenues, EBITDA, operating profits, cash flow, assets and liabilities, return on equity, and similar. It is similar to Kaplan & Norton's financial perspective and PricewaterhouseCoopers' financial information.

Corporate strategy is the category that was isolated in the separated category only in Hill & Knowlton's study. It is somewhat surprising because researchers found that strategy is among the most important indicators for the investors and analysts. For example, in Ernst & Young's (1997) study indicators related to strategy were ranked by their importance as number one and number three. Hill & Knowlton's (2006) study discovered that for financial analysts and investors clear path or strategy is the single most important indicator, followed by achieving milestones or success against strategy. The report concludes that "for analysts what is most important is the strategic direction" (p. 7). Thus, it is warranted to have a separate category of

corporate strategy. It is comprised of indicators like quality of the strategy, long-term vision for the company and the market, and execution of the strategy.

The third category is quality of the management. Management team was also indicated as one of the most important category in almost all of the studies. Ernst & Young's (1997) study placed management credibility at number two and management experience at number seven. Hill & Knowlton (2006) confirms, "For the investment community, responsibility lies in the hands of those at the top. Other than financial performance the perceived quality of management is the single most crucial factor for an analyst's rating, prioritized even above market position, strategy, past performance and corporate governance" (p. 1). This category includes indicators of managerial experience, quality of leadership, management's credibility, and executive compensation.

Next category deals with the quality of employees at the organization. Almost all of the classifications discuss employee quality in one way or another. Lev (2005) and OECD (Young, 1998) isolate human resources into a separate category. Ernst & Young (1997) also has a separate category but calls it corporate culture. PriceWaterhouseCoopers (2006) has quality of employees split into two separate categories. One category is called corporate culture and deals with quality of workforce and ability to attract talent. Second category is called social policies and deals with education and training, employee health and safety, turnover, working conditions, and diversity. Kaplan and Norton (1992) merge human resources into internal business perspective category with technological and other resources. The importance of information about employees is not rated highly by the investors and analysts. In the Ernst & Young's (1997) study, quality of the workforce was rated as number 18 (out of 39). However, the ability to attract and retain talented people was rated at number five. Lev (2005) explains, "Unique human

resource policies and practices, such as employee incentive and compensation systems, or on the-job training programs, which consistently enhance labor productivity and reduce employee turnover, create intangible asset” (p. 300). As a result, this category includes indicators of the workforce quality, employee policies, compensation policies, training and education, and turnover.

The organizational capital category is similar to organizational capital categories of Lev (2005) and internal business perspective of Kaplan and Norton (1992). This category’s indicators are unique business designs, business processes, information technology, supply chain management, and distribution systems. OECD (Young, 1998) has two separate categories that encompass the indicators of organizational capital: information system category and procurement, distribution, and customer linkage category. Ernst & Young (1997) and PriceWaterhouseCooper (2005) include some of these indicators in the corporate culture category.

Research and development category is dedicated to the ability of a corporation to perform product and process innovations. Lev (2001) had a separate category dedicated to innovations, however, in later conceptualization (2003) he included innovations capabilities into products and services category. Similar to his approach, PriceWaterhouseCoopers includes innovations in quality of products and services category. Kaplan and Norton (1992) and Ernst & Young (1996) have separate categories for research and development variables – innovation and learning perspective in Kaplan and Norton’s case and effectiveness of new product development in Ernst & Young case. Research and development, however, is best positioned in a separate category as innovations are not limited to products only, process innovation can create value in corporate culture, internal business processes and other categories. Ability to innovate is also of great

importance to shareholders and financial analysts – in Ernst & Young's study (1997), analysts ranked innovativeness at number four (out of 39 indicators). This warrants having research and development as a separate category.

The products and services category focuses on the main business activity of corporation – what it is that the company sells. It includes the issues of product life cycle, product features, quality of products, and similar. It is similar to products and services category by Lev (2003), Ernst & Young (1997), and PriceWaterhouseCoopers (2005).

Competitive market position is the extension of the products and services category. It, however, is separated into its own category because instead of looking at the product itself, it looks at the industry and the company's customers. As such, it includes variables like market share, competition, threat of product substitution, customer satisfaction with the product, repeat sales, and so on. It is similar to market position and customer satisfaction categories in Ernst and Young (1998) and PriceWaterhouseCoopers (2005). It is also similar to customer perspective (Kaplan and Norton, 1992) and customer relations (Lev, 2003).

The corporate responsibility category is comprised of the issues of social, environmental and ethical information – three separate categories from the PriceWaterhouseCoopers study (2005). Ernst & Young (1997) had environmental and social policies indicator as part of the corporate culture category.

The final category is quality of communications. It includes advertising, marketing, and public relations campaigns. It also includes investor relations and corporate governance. Hill & Knowlton (2006) has these separated into two categories: clear and consistent communications with shareholders and transparent disclosure and strong governance. It does not include, however, communications with publics other than shareholders. Ernst & Young (1996) also has a

category dedicated specifically to investor communications. PriceWaterhouseCoopers (2006) has a category focused exclusively on corporate governance. However, today communication efforts become integrated and communications to one public often spills over to other publics. Thus, it is important to have a separate category that integrates all the communication activities of a corporation.

As a result, there are 10 categories of information investor relations practitioners may be providing to shareholders and financial analysts about the corporation. These 10 categories include one category of financial information and nine categories of various non-financial indicators. The research will measure which ones investor relations officers consider more and less important and which ones they actually communicate to investors more or less frequently.

CHAPTER 5

RESEARCH QUESTIONS AND METHODOLOGY

The study protocol was approved by the University of Florida Institutional Review Board on May 7, 2007. The protocol is registered as #2007-U-046. The study relies on a quantitative survey as its main methodology. In addition, the study uses a qualitative pre-test to validate the survey questionnaire and gain additional feedback from investor relations practitioners.

Population and Sampling

The population for the study is comprised of investor relations officers of publicly traded corporations. As there is no readily available list of such officers, this research relies on the professional organization of investor relations practitioners, the National Investor Relations Institute.

NIRI, founded in 1969, is the largest professional organization of investor relations practitioners with over 4,300 members (NIRI, n.d.). However, based on personal communications with Colleen Knight (2007), NIRI's Director for Professional Advancement, the updated NIRI membership is estimated at 4,500 members.

Furthermore, not all members of NIRI are investor relations officers. The membership also includes investor relations consultants, vendors, and academics. NIRI (n.d.) estimates that investor relations officers represent 75% of all its members. As a result, the total population for this study based on NIRI's membership is 3,375 practitioners.

As the objective of this research is the ability to extrapolate its findings to the overall population under study, a representative sample for the research is needed. Thus, the study relies on probability sampling procedures. The target is set at achieving 5% confidence interval at 99% confidence level. With a total population size of 3,375 people, it required a sample size of 560

respondents. Using random numbers function, 560 investor relations officers were selected from the total NIRI membership.

Quantitative Survey

Survey methodology is one of the leading methods of inquiry in social sciences. It relies on nomothetic explanation – instead of looking for what is unique it tries to find what is common, to find generalizations and describe the whole population under study (Babbie, 2004). 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, large amount of data, no geographic constraints, and reasonable costs.

The unit of study is the individual. How the individual investor relations officer conducts investor relations activities and what his or her views are on the investor relations profession. The survey instrument is constructed in accordance with the purposes and methods of the current research. The survey mostly relies on Likert-type scale measures. The traditional scale, however, was expanded to range from 0 (meaning “not at all” or “completely disagree”) to 10 (meaning “yes, always” or “absolutely agree”) in order to increase the instrument's sensitivity to variations.

The survey questionnaire consists of three parts and a total of 48 items/questions. The first part focuses on the use of financial and non-financial indicators in communications with investors. It contains 16 items designed to answer three research questions and one hypothesis:

RQ1.1: What information is being communicated by the investor relations officers to the investment community and what is the frequency of these communications?

RQ1.2: What information is perceived as the most important for understanding and valuing the company, according to the investor relations officers?

H1.1: Perceived importance of information for understanding and valuing the company is positively related to the frequency of communication of such information to the investment community.

The questionnaire will include nine categories of non-financial indicators and one category of financial information identified in the literature review:

- Financial information
- Corporate strategy
- Management team
- Employees and HR policies
- Organizational capital and resources
- Research and development
- Products and services
- Market position (customers & competitors)
- Corporate social responsibility
- Corporate communications (PR, IR, advertising)

Each of these 10 indicators is measured twice: its usage by respondents in communications with their investors and importance of each indicator for investors' understanding of the company's business and its value as perceived by investor relations officers. The survey instrument is attached in the Appendix.

The study also seeks to investigate what tactics investor relations officers use to communicate financial and non-financial information to the investment community. Specifically, the study is interested if investor relations officers predominantly rely on tactics focused on mass audiences or on limited audiences. In addition, the research investigates if there are any significant difference in tactics used based on the informational content of such communications, namely if it is financial or non-financial information. The study proposes the following research question:

RQ1.3: What tactics do investor relations officers use to communicate financial and non-financial information to the investment community?

Following Hallahan (2001), this study investigates differences between usage of interpersonal versus mass communications tactics. This is a step away from the Excellence project, who looked at interpersonal versus mediated communications (L. A. Grunig et al., 2002). Defining mediated communication might prove a challenging task and distinguishing it from interpersonal might prove impossible. One might argue that a phone conversation is an interpersonal communication, but yet it is mediated. Similar situations can occur when analyzing emailing, instant messaging or even teleconferencing. In addition, such distinction, although important for some fields (psychology, for example), is probably less relevant for public relations practice.

Hallahan (2001), on the other hand, presents an “integrated public relations media model” (p. 464), in which different kinds of media are placed along one continuum: public media, interactive media, controlled media, events/group communication, and one-on-one communication. The weakness of this approach is lack of consistency in the classification – some of the items are identified based on the size of the audience (one-on-one communications), some based on degree of control (controlled media), and some based on the degree of interactivity (interactive media). In fact, one-on-one communication is usually interactive, so how can one distinguish between these two categories? Or interactive media can be controlled by the company (as the blog on the company’s Web site or controlled by the mass media organization as the discussion forum on *The New York Times* Web site), thus making categorization difficult, if not useless.

A better approach was presented by Kelly (1998), who suggested three types of public relations techniques based on levels of communication: interpersonal, controlled media, and

mass media. Kelly (1998) included both one-on-one and small group communications in the interpersonal category. Still, this approach has similar problems as Hallahan's.

As a result, although the questionnaire is developed based on Hallahan (2001) and Kelly (1998), the categories were modified. Instead of Hallahan's (2001) five categories or Kelly's (1998) three categories, this study relies on two: communications to limited audiences and communications to unlimited audiences. The specific sub-categories were also modified to suit the investor relations practice. The resultant classification is measured with six questions. The first three items measure limited-audiences communications, the last three mass communications. The classification is based on one dimension – the size of the audience. Following Kelly (1998), small-group communications and personal communications are included in the same group. The same group also has special events as Hallahan (2001) proposed. Thus, the limited-audience communications category includes one-on-one communications, small group communications, and special events, such as roadshows or analysts events.

The other category, communications to unlimited-size audiences, includes both controlled media, such as a company's Web site or newsletter, and uncontrolled media, such as mass media. In addition, this category included Securities and Exchange Commission filings – an important category for investor relations, but not included in Hallahan's (2001) classification targeted primarily on general public relations activities or Kelly's (1998) classifications targeted primarily on fund-raising.

The study also seeks to investigate the influence of demographic and company variables, which are included in the third part of the questionnaire, on the frequency of communication and perceived importance of financial and non-financial information.

RQ1.4: What is the difference in communicating financial and non-financial information across industries?

RQ1.5: What is the difference in communicating financial and non-financial information based on company's market capitalization?

RQ1.6: What is the difference in communicating financial and non-financial information across departments?

RQ1.7: What is the difference in communicating financial and non-financial information based on investor relations officer's reporting relationship?

RQ1.8: What is the difference in communicating financial and non-financial information based on investor relations officer's title?

RQ1.9: What is the difference in communicating financial and non-financial information based on investor relations officer's demographic variables: age, gender, education, and years of experience?

The second part of the questionnaire consists of a battery of 20 items and evaluates investor relations activities in which respondents are engaged based on the five dichotomous continua conceptualized in the literature review. This part seeks to answer the following research questions:

RQ2.1: What is the general description of the investor relations practice based on Continua of Investor Relations?

The specific questionnaire items are created based on the previous research in public relations, mainly research on the models of public relations (J. E. Grunig, 1984; Rosenstein et al., 2007), dimensions of public relations (L. A. Grunig et al., 2002; Huang, 2007; Rosenstein et al., 2007), roles of public relations practitioners (Dozier et al., 1995; Dozier & Broom, 2006), and

relationship management (Hon & J. E. Grunig, 1999). This study, however, developed Continua of Public Relations, measured based on dichotomous scales and adopted them to the practice of investor relations, thus creating the Continua of Investor Relations. Each continuum is based on four questions – two questions measuring in the direction toward one pole on the continuum and two reverse questions, measuring in the direction of the opposite pole. The respondents are asked to respond to these four questions for each continuum and the results then can be plotted on the continuum.

H2.1: Investor relations is characterized by two-way communication.

To measure direction of communication four questions are used. The first two measure the travel of information from the company to the investment community and the second two measure the travel of information from the investment community to the company. The questions are developed based on J. E. Grunig (1984) models of public relations as well as Dozier and Broom (1995) research on roles. Although these previous studies were analyzed while constructing the items, new items had to be developed to take into account the specifics of investor relations profession (Laskin, 2006a; 2007) and the fact that the previous studies did not measure the communication from the publics to the company using instead the two-way communication as the opposite to communications from the company to publics.

H2.2: Investor relations is characterized by the dual motives.

To measure intended beneficiary of communication, four questions are used: the first two measuring a company as the intended beneficiary, and the last two measuring publics as intended beneficiary. Once again, the questions are developed based on J. E. Grunig's (1984) models of public relations, as well as L. A. Grunig et al.'s (2002) dimensions of public relations. Again, although these previous studies were analyzed while constructing the items, new items had to be

developed to take into account the specifics of investor relations profession (Laskin, 2006a; 2007) and the fact that the previous studies did not measure publics as the intended beneficiary, using instead the symmetrical benefits as the opposite to benefiting just the company.

H2.3: Investor relations is characterized by enacting primarily the managerial role.

To measure the roles of investor relations officers four questions are used – the first two measuring the managerial role and the second two measuring the technician role. This dichotomy was developed through Broom and Dozier's research (i.e., Broom, 1982; Broom & Dozier, 1986; Dozier & Broom, 1995). However, the items had to be modified to fit the investor relations job descriptions. In addition, the number of items was reduced to four questions from the original 24 to match with all other continua used in this study.

H2.4: Investor relations is characterized by the proactive communications.

To measure the reactive/proactive nature of communication four questions are used – two of them measuring proactive and two reactive natures of communications. The items are developed based on L. A. Grunig et al. (2002) items focusing on research in public relations and based on Dozier and Broom (1995) items focusing on process facilitator role. Thus, the first two questions ask about conducting research and strategic planning. The second two items measure reactive communications in response to the public's actions.

H2.5: Investor relations is characterized by using primarily long-term focus on relationship building.

To measure the sixth continuum, the focus of investor relations, four questions measure long-term versus short-term focus of the investor relations practice. The items rely on the research by J. E. Grunig and Hon (1989), however, new items are developed as the previous

research did not look at the long-term versus short-term focus specifically. Thus, the first two items ask about long-term focus, and the second two ask about short-term focus.

The study proposed that investor relations professionals who practice investor relations differently will rely on the usage of non-financial information differently as well. In fact, the analysis of history of investor relations and non-financial information suggests that there is a correlation between the practice of investor relations, measured by continua of investor relations, and reliance on non-financial information. Thus, the study proposes the following research question:

RQ2.2: What is the relation between the investor relations practices and the frequency of usage of non-financial information in communications with the investment community?

Using the demographic and company's variables from the third part of the questionnaire the study seeks to understand the differences in practicing investor relations across companies and respondents.

RQ2.3: What is the difference in the investor relations practices across various industries?

RQ2.4: What is the difference in the investor relations practices based on company's market capitalization?

RQ2.5: What is the difference in investor relations practices across various departments?

RQ2.6: What is the difference in investor relations practices based on investor relations officer's reporting relationship?

RQ2.7: What is the difference in the investor relations practices based on investor relations officer's title?

RQ2.8: What is the difference in the investor relations practices based on investor relations officer's demographic variables: age, gender, education, and years of experience?

The final third part of the questionnaire collects general information about the companies and demographic data about the respondents. It consists of 12 items. These variables are used to answer research questions 1.4, 1.5, 1.6, 1.7, 1.8, 1.9 and 2.3, 2.4, 2.5, 2.6, 2.7, 2.8 presented earlier.

The survey was constructed and posted on the World Wide Web at a special Web site constructed specifically for this research: <http://www.IRresearch.org>. The randomly-selected sample of investor relations officers received a hyperlink to access the survey via email. The professional activities of investor relations officers require them to be computer-literate and be able to use and to access email and the World Wide Web. Thus, limiting the study's population only to computer-literate sample is not expected to cause any sampling errors. Internet is considered to be an appropriate environment for conducting this research.

The invitation to participate was delivered via email. In addition, several measures were taken to increase the response rate including offering the respondents access to the final report and sending a reminder two weeks after the initial email.

Qualitative Pre-Test

The research also used the qualitative component used as a pre-test for the full-scale survey. Qualitative methods based on idiographic explanation of reality, strive to provide and explain the phenomenon in details, describe context, understand the nuances (Babbie, 2004). The dissertation relies on qualitative method of intensive interviews. Wimmer and Dominick (2003) define intensive interview as a type of on-on-one interviews that use smaller samples, allow for observations of respondents' nonverbal responses, are customized to individual respondents, and depend on rapport established between the interviewer and the respondent. Most importantly, however, in-depth interviews (synonymous to intensive interviews) allow to "provide detailed background about the reasons why respondents give specific answers. Elaborate data concerning

respondents' opinions, values, motivations, recollections, experiences, and feelings are obtained" (p. 127).

Based on this description of intensive interview method, in-depth interviews were conducted. The sample for the interview included 10 respondents. The interviews were conducted with a purposive sample with the goal to recruit the members who were knowledgeable and experienced in investor relations. The interview was structured around the survey questionnaire in order to present the items and discuss their wording and how they could be improved. The interviewer, however, allowed deviations from the survey questions, if necessary. Each survey item was discussed in details with the respondents to ensure that practitioners understood the items the way they were worded. If necessary, changes were made to the questionnaire.

Validity and Reliability

Validity, the accuracy with which the instrument measures the concept it is intended to measure, and reliability, the ability to of the instrument to yield repeatable findings, are among the key issues for any data driven project. This study is not an exception. Thus, the concepts of validity and reliability play an important role in designing the research instrument.

Babbie (2004) recognizes four major types of validity: face validity, criterion-related validity, construct validity, and content validity. Face validity means that the concept is probably true on the face of it. The concept is somewhat of a common knowledge and almost everybody agree on it. After all, if everyone calls a tree a tree, then it must be really a tree. There is danger however because things are not always what they seem and people can make mistakes. So, relying purely on face validity is not always the best option.

Criterion-related validity is a validity related to some outside criterion. There are two major types of criterion-related validity: concurrent and predictive. Concurrent validity allows

comparing the concept with criterion that is happening simultaneously, while predictive tries to predict a certain future outcome. This is an important type of validity, especially for applied research, because it allows prediction or validating instrument with outside criteria.

Construct validity is a validity based on a theory. A solid theoretical framework derived from an extensive literature review provides a validation of measurement use and suggests way in which observation can be connected with the concept. Content validity is a validity that measures how well our measurement covers all the instances of the concept we study. For example, if we study TV influence on children we cannot focus only on aggressive TV shows and aggressive behavior, TV influences children in many different ways.

As a result of this discussion, to validate the instrument the study relies mostly on construct and content validity. The instrument is constructed based on the theoretical frameworks in the field of public relations, namely the Excellence project, and analysis of previous categorizations of intangibles. Thus, the study uses construct validity. The instrument is developed based on the literature review of the studies and theories relevant to the current investigation. The previous research informs the study and enables the survey to measure what it really intends to measure. The study covers variety of instances of intangibles ad investor relations practices in order to cover all the possible aspects of the phenomenon. This creates a content validity. In addition, when possible the study uses previously validate questionnaires with certain modifications, which improves both validity and reliability of the instrument.

The reliability is also improved by adding a qualitative component to the quantitative research. The qualitative component served as a pre-test before the full-scale survey was launched.

CHAPTER 6

RESULTS

Description of Survey Respondents

The online survey was administered to a sample of investor relations professionals, members of NIRI in February 2008. Out of 560 e-mails, 22 e-mails were returned as undeliverable. Every attempt was made to locate the correct contact information for these investor relations officers. After additional investigation, 13 of these e-mails were delivered to the recipients; however, nine e-mails remained undeliverable. As a result, the study sample was decreased to 551 investor relations officers. The online survey was closed on March 1, 2008. The survey resulted in 182 completed responses for a response rate of 33%.

This study's respondents appear similar to the general NIRI's membership, which will be discussed later in this chapter. Fifty-four percent of the respondents were male ($N = 92$) and 46% were female ($N = 77$). Most of the respondents were between 40 and 49 years old ($N = 71$; 39%), followed by respondents in their thirties ($N = 50$; 28%) and respondents in their fifties ($N = 49$; 27%). The results are presented in Table 6-1.

Table 6-1. Respondents' age.

Demographics	<i>N</i>	%	Cumulative %
Below 30	1	1%	1%
30 – 39	50	28%	28%
40 – 49	71	39%	68%
50 – 59	49	27%	95%
60 and above	9	5%	100%
Total	180	100%	

* Percentages may not add up to exactly 100% due to rounding.

The respondents had on average 10 years of experience in investor relations ($M = 10.11$). In addition, the study asked how long they worked at their present company. The respondents had, on average, nine years of experience at their companies ($M = 9.16$). The results are presented in Table 6-2.

Table 6-2. Respondents' years of experience.

Experience	Mean	Median	N	SES	SEK
In investor relations	10.11	9.00	180	.181	.360
At company	9.16	7.00	179	.182	.361

Most of the respondents held a title of a vice president or senior vice president ($N = 79$; 44%), followed by respondents with titles of director or senior director ($N = 58$; 33%) and managers or senior managers ($N = 22$; 12%). The results are presented in Table 6-3.

Table 6-3. Respondents' titles.

Titles	N	%	Cumulative %
CEO	1	1%	1%
CFO	5	3%	3%
VP/Senior VP	79	44%	48%
Director/Senior director	58	33%	80%
Manager/Senior manager	22	12%	93%
Specialist/Coordinator	5	3%	96%
Associate	4	2%	98%
Other	4	2%	100%
Total	178	100%	

* Percentages may not add up to exactly 100% due to rounding.

The companies had on average two and a half people with investor relations responsibilities. The amount of investor relations personnel ranged from just one person with investor relations responsibilities for smaller companies to 15 people for one of the biggest companies. Most of the companies had one investor relations officer ($N = 56$; 32%), two ($N = 54$; 30%), or three ($N = 33$; 19%). Another 10% of the companies had four people with the investor relations responsibilities ($N = 17$).

Most investor relations officers were structured in stand-alone investor relations departments ($N = 100$; 56%). Other investor relations officers were located in finance/treasury departments ($N = 50$; 28%) and in communication/public relations departments ($N = 16$; 9%). Thirteen respondents selected a response option “other,” when asked about their departmental affiliation. The analysis of these responses revealed one respondent from legal department and

one from corporate development. The majority of these respondents ($N = 11$; 6%), however, worked in the integrated communication departments that combined investor relations, corporate communications, public affairs, external affairs, and sometimes marketing. The results are presented in Table 6-4.

Table 6-4. Respondents' departmental affiliation.

Department	<i>N</i>	%	Cumulative %
Investor relations	100	56%	56%
Communication/Public relations	16	9%	65%
Finance/Treasury	50	28%	93%
Other	13	7%	100%
Total	179	100%	

* Percentages may not add up to exactly 100% due to rounding.

Despite the fact that majority of respondents worked in standalone investor relations departments, rather than in finance departments, most of investor relations officers still reported to chief financial officers ($N = 111$; 62%). Only 38 respondents (21%) reported directly to the chief executive officer or president of their respective companies. Sixteen respondents selected “other” as their response option. Most of these respondents ($N = 14$; 8%) reported to the vice president of investor relations. They were employees in some of the larger investor relations departments that had more than one person. Among the last two respondents who selected “other” as their response option, one investor relations officer reported to the chief legal counsel and one reported to the chief administrative officer. The results are presented in Table 6-5.

Table 6-5. Respondents' reporting relationship.

Report to	<i>N</i>	%	Cumulative %
Chief executive officer	38	21%	21%
Chief financial officer	111	62%	83%
Chief operating officer	1	1%	84%
Chief communication officer	13	7%	91%
Other	16	9%	100%
Total	179	100%	

* Percentages may not add up to exactly 100% due to rounding.

The majority of the investor relations officers, responding to this survey, had some kind of a graduate degree ($N = 124$; 69%). Fifty-three respondents (30%) reported having a bachelor's degree. Only two respondents attended college but did not graduate (1%). Among the survey respondents, there was nobody who never attended college. Results are presented in Table 6-6.

Table 6-6. Respondents' education level.

Education	<i>N</i>	%	Cumulative %
High school	0	-	-
Some college	2	1%	1%
Undergraduate degree	53	30%	31%
Graduate degree	124	69%	100%
Total	179	100%	

* Percentages may not add up to exactly 100% due to rounding.

The respondents were also asked what would better describe their formal educational background: communication disciplines or business disciplines. The majority of the investor relations officers ($N = 130$; 73%) reported some kind of business degree, such as finance, accounting, or similar. Only 13 respondents (7%) reported a communication major, including public relations, journalism, etc. Ten respondents (6%) said that their educational background was best described as both communication and business. The results are presented in Table 6-7.

Table 6-7. Respondents' educational major.

Major	<i>N</i>	%	Cumulative %
Business	130	73%	73%
Communication	13	7%	80%
Both business and communication	10	6%	86%
Other	26	15%	100%
Total	179	100%	

* Percentages may not add up to exactly 100% due to rounding.

Additionally, 26 respondents (15%) selected “other” response option. Most of them had a professional degree ($N = 10$; 6%) such as engineering, chemistry, aeronautics, medicine, and similar – perhaps, they transitioned to investor relations from operations of their respective

corporations. Among others were also respondents with law degree ($N = 2$; 1%), liberal arts ($N = 32$; 1%), English ($N = 2$; 1%), psychology ($N = 2$; 1%), and political science ($N = 1$; 1%).

The study also asked about the market capitalization of the corporation investor relations officers worked for. Most of the respondents ($N = 62$; 35%) reported working for mid-cap companies, with market capitalization at the time of the survey between \$2 and \$10 billion. Small-cap companies with market capitalization between \$250 million and \$2 billion employed 54 respondents (30%), followed by large-cap companies with market capitalization between \$10 billion and \$200 billion ($N = 38$; 21%). Only four respondents (2%) worked for mega-cap companies with market capitalization exceeding \$200 billion. The remaining respondents ($N = 20$; 11%) worked for micro-cap companies with market capitalization below \$250 million. The results are presented in Table 6-8.

Table 6-8. Market capitalization of respondents' companies.

Market capitalization	<i>N</i>	%	Cumulative %
Micro-cap	20	11%	11%
Small-cap	54	30%	42%
Mid-cap	62	35%	76%
Large-cap	38	21%	98%
Mega-cap	4	2%	100%
Total	178	100%	

* Percentages may not add up to exactly 100% due to rounding.

The companies that respondents worked for were also classified based on the industry in which they primarily conducted their business. The study relied on the SIC classification of industries. Most of the respondents ($N = 54$; 32%) reported working for companies in Division D, manufacturing. The second most common response was chosen by 20% of the study's respondents ($N = 33$) who worked in Division E, transportation, communication, electric, gas, and sanitary services. Division H, finance, insurance, and real estate, had the third highest results with 19% ($N = 32$) of respondents. Eleven percent of respondents ($N = 19$) were employed by

companies in Division I, services, and eight percent by companies in Division G, retail trade ($N = 14$). Division B, mining, oil, and gas, recorded eight respondents (5%). Division A, agriculture, forestry, and fishing, and Division F, wholesale trade, recorded three respondents each (2%).

Finally, only one respondent (1%) reported working for a company whose business was classified in Division C, construction. The results of the industry categorization are presented in Table 6-9.

Table 6-9. SIC classification of industries of respondents' companies.

Titles	<i>N</i>	%	Cumulative %
Division A	3	2%	2%
Division B	8	5%	7%
Division C	1	1%	7%
Division D	54	32%	40%
Division E	33	20%	59%
Division F	3	2%	61%
Division G	14	8%	70%
Division H	32	19%	89%
Division I	19	11%	100%
Total	167	100%	

* Percentages may not add up to exactly 100% due to rounding.

Comparison of NIRI's Membership with Survey Respondents

The results of two NIRI's membership surveys, NIRI (2005a) and NIRI (2005b), were used to compare this study's respondents with NIRI's members. These NIRI's surveys were the most recent among the surveys available to the researcher. However, in addition, data from NIRI's membership surveys conducted in 1999, 2001 and 2003 were also used.

NIRI (2005b) in a membership survey of responsibilities and compensation of investor relations officers reported that its average member had about nine years of experience in investor relations. NIRI (2005a) in a survey of members' needs reported the average amount of experience to be about 10 years. This study's respondents also had, on average, 10 years of

experience; the median, however, was nine years. Thus, the respondents of this survey were similar to NIRI's estimation of its membership based on years of experience.

NIRI (2005a) reported that 38% of all corporate investor relations officers had over 10 years of experience in investor relations. This was a significant increase from previous years. NIRI (2003) reported that only 30% of corporate investor relations officers in NIRI's membership had over 10 years of experience, NIRI (2001) – 25%, and NIRI (1999) – 19%. This study had 44% of its respondents with over 10 years of experience in investor relations. This corresponded well with NIRI's most recent results and continued the increasing trend of average years of experience among NIRI's corporate members.

NIRI (2005b) reported that most common titles for their corporate members were vice president (37%) and directors (42%). This study attracted more senior members with 44% of respondents reporting the title of vice president and 33% of director. However, once again these two categories were the most common. NIRI (2005b) stated that title of manager was typically held by 12%. Twelve percent of this study's respondents were also managers. Less senior title in this study were reported by 5% of the respondents. NIRI (2005b) estimated less senior titles to represent 6% of membership. Thus, the titles of respondents in this online survey were similar to NIRI's own estimates with one exception: this study had more vice presidents than director among its senior respondents.

Most of the respondents in this study (35%) worked for mid-cap companies with market capitalization between \$2 billion and \$10 billion. Although, NIRI in its survey did not use the standard categories of capitalization, NIRI membership surveys produced similar results. NIRI (2005a) reported that most of their respondents (38%) worked for companies with capitalization from \$1.5 billion to \$10 billion. This was an increase from 27% in 2003 (NIRI, 2003); and from

24% in 2001 (NIRI, 2001), but a decrease from 33% in 1999 (NIRI, 1999). The second most popular category in this study was small-cap companies (30%), with market capitalization between \$250 million and \$2 billion. NIRI's (2005a) membership survey reported that the category from \$500 million to \$1.49 billion employed 23% of its respondents, a decrease from 25% reported in 2003 and from 27% reported in 2001. As for companies with market capitalization over \$10 billion, this study had 23% of respondents working for such companies, while NIRI (2005a) had 15%. Thus, this study seemed to have more respondents from the largest companies than NIRI's membership surveys.

NIRI's (2005b) survey reported that a typical investor relations department was staffed by two people. In this study the average department's mean was two and half; the median, however, was also two – indicating that the average department according to this study was also staffed by two people. Investor relations practitioners in this study most often reported to the CFO (62%). NIRI's (2005b) survey also found the CFO as the dominant authority over the investor relations function (69%). Both studies found the CEO as the second most common option - with this study having slightly more respondents reporting to CEO (21%) than NIRI's (2005b) study (17%).

NIRI (1999) found that 57% of corporate investor relations officers were female. NIRI (2001) reported a small decrease (56%), followed by another decrease to 55% reported by NIRI (2003). The most recent membership survey in 2005 showed that half of corporate investor relations officers were female and half were male (NIRI, 2005a). This study found 46% of its respondents to be female. This number is similar to the most recent NIRI's result and perhaps reflects the trend of decreasing amount of females in corporate investor relations.

Thus, the respondents of this study were similar to the general description of NIRI membership as reported in several NIRI's membership surveys (1999; 2001; 2003; 2005a;

2005b). Therefore, the results of this study can be used to generalize to the whole NIRI membership, but with two important caveats. First, the respondents of this study were somewhat more senior based on their titles than an average NIRI member. Second, there were somewhat more respondents working for large companies in this study than in NIRI previous studies; however, this comparison was more questionable because of the different categories used in this study and in NIRI's membership surveys.

Re-categorization of Select Results

As the descriptive results above indicate, some of the response categories did not produce a sufficient number of cases for statistical analysis. In general, for this study, response categories with fewer than five responses were combined with other relevant categories. This re-categorization is described below.

The respondents were asked to rate market the capitalization of the company for which they worked: mega-cap (above \$200 billion), large-cap (between \$10 and \$200 billion), mid-cap (between \$2 billion and \$10 billion), small cap (between \$250 million and \$2 billion), and finally micro-cap (below \$250 million). However, only four cases were recorded in the mega-cap companies category. Thus, for most statistical tests mega-cap and large-cap companies were combined into one category ($N = 42$).

Similarly, the respondents were asked to specify the SIC industry their company was classified into. The responses for Division A, Agriculture, forestry, and fishing, ($N = 3$), Division C, Construction, ($N = 1$), and Division F, Wholesale Trade ($N = 3$) were combined into one category ($N = 7$).

As for responses about the respondent title, there were only a few investor relations officers in the lower ranks such as associate ($N = 4$) and specialist/coordinator ($N = 5$). These results were also combined into one category ($N = 9$). The same was true for the highest

organizational ranks: CEO/president ($N = 1$) and CFO/treasurer ($N = 5$). These two categories were also combined ($N = 6$).

For the respondent level of education, no one reported only a high school as the highest level of education and only two respondents reported just some college education. Thus, these two categories were excluded from the subsequent analysis. Finally, only one respondent was under 30 years of age. Thus, this response category was merged with 30-39 years old ($N = 50$) to create a category, below 40 years old ($N = 51$).

Non-Financial and Financial Information

Research Question 1.1. Frequency of Communication of Financial and Non-Financial Information

The first research question asked about types of information being communicated to investors and the frequency of these communications. To answer this question the respondents were asked to rate nine types of non-financial indicators on a scale from 0 to 10, where 0 meant that investor relations officers did not communicate this type of information at all and 10 meant that they communicated this information all the time. In addition, the study asked the respondents to rate the frequency of communication of financial information using the same scale from 0 to 10. This enabled the study to compare communication of various types of non-financial indicators with communication of financial information.

The study found that financial indicators ($M = 8.73; N = 182$) were being communicated more frequently in comparison with non-financial indicators ($M = 5.48; N = 179$). The combined category of non-financial indicators was a collection of all nine individual indicators of non-financial information. This resultant scale had a Cronbach's alpha for reliability score of .78. Although there is no universally accepted standard for scale reliability, Carmines and Zeller (1979) argue that acceptable level of alphas is .80 for widely used scales. For other scales,

Bowers and Courtright (1984) suggest that alpha measures can be as low as .60. As a result, this scale's reliability ($\alpha = .78$) is sufficient. This scale was newly created for this research. However, it was based on the review of several previously used scales of non-financial indicators. The results are presented in Table 6-10.

Table 6-10. Frequency of communication of financial and non-financial information.

Indicators	<i>M</i>	σ	<i>N</i>	<i>SES</i>	<i>SEK</i>
Financial	8.73	2.06	182	.180	.358
Non-Financial*	5.48	1.54	179	.182	.361
including:					
Strategy	8.39	1.99	181	.181	.359
P & S	7.34	2.54	181	.181	.359
Market	7.21	2.50	181	.181	.359
Org Capital	6.65	2.74	179	.182	.361
Management	5.92	2.30	181	.181	.359
Corp Comm	4.37	3.21	181	.181	.359
R & D	4.25	3.13	181	.181	.359
Employees	2.66	2.15	181	.181	.359
CSR	2.43	2.45	181	.181	.359

* Non-financial category is a scale that combines all nine non-financial indicators ($\alpha = .78$).

In addition, no individual type of non-financial information was rated higher than financial information. This suggests that most often investor communications are focused on financial information. Among non-financial indicators, the most frequently communicated information was corporate strategy ($M = 8.39; N = 181$), followed by information about the company's products and services ($M = 7.34; N = 181$), and information about the company's market position ($M = 7.21; N = 181$). The least frequently communicated indicators were corporate social responsibility ($M = 2.43; N = 181$) and quality of employees ($M = 2.66; N = 181$).

The differences between frequency of communication of financial information and non-financial indicators were statistically significant in every case ($p \leq .001$) with one exception: indicator of corporate strategy did not produce a statistically significant difference with financial

information. This suggested that frequency of communication of information about corporate strategy was similar to the frequency of communication of financial information. In every other case, however, the frequency of communication of financial information was notably higher than frequency of communication of non-financial information and the difference was statistically significant. The results of the paired samples t-tests between frequency of communication of financial and non-financial information are presented in Table 6-11.

Table 6-11. Paired t-tests of frequency of communication of financial information versus non-financial information.

Indicators	Mean Difference	σ	t	df	p
Non-Financial including:	3.29	2.15	20.43*	178	.000
Strategy	.37	2.43	2.02	180	.050
P & S	1.41	3.05	6.24*	180	.000
Market	1.55	2.87	7.24*	180	.000
Org Capital	2.11	2.86	9.88*	178	.000
Management	2.84	2.57	14.86*	180	.000
R & D	4.50	3.72	16.28*	180	.000
Corp Comm	4.39	3.69	16.00*	180	.000
Employees	6.10	2.62	31.34*	180	.000
CSR	6.33	2.84	29.95*	180	.000

* significant if $p \leq .001$.

The study also conducted a factor analysis of this new scale to investigate its underlying dimensions. Kaiser-Meyer-Olkin measure of sampling adequacy ($KMO = .750$) and Bartlett's test of sphericity ($\chi^2(36) = 413.99; p = .000$) showed that this scale was appropriate for factor analysis. The principal component analysis with varimax rotation produced three factors with eigenvalues greater than one. Together these three factors explain 63% of total variance of the scale. The first factor (23% of total variance explained) combines indicators of corporate strategy, organizational capital, management, and employees. These four indicators, combined together, present a picture of a company's internal structure and its production processes – a *process dimension*. The second factor (22% of total variance explained) combines indicators of

products and services, market competitive position, and research and development. In other words, indicators closely related to the company's output and sales – a *product dimension*. The third factor (19% of total variance explained) combines indicators of quality of corporate communications and indicators of corporate social responsibility. Although, it is unclear what united these two indicators into one dimension; however, both of them scored the lowest among the investor relations officers and, thus, the study proposes to label this dimension as *other or support dimension*. The outcome of the factor analysis with communalities and three resultant factors is presented in Table 6-12.

Table 6-12. Factor analysis of combined non-financial information scale based on the frequency of communication data.

Indicators	Communalities	1	2	3
Strategy	.700	.761	.342	-.061
Org Capital	.543	.722	-.030	.147
Management	.609	.639	.329	.305
Employees	.521	.612	.108	.368
Market	.608	.274	.730	-.010
R & D	.600	-.056	.679	.368
P & S	.733	.192	.834	.008
Corp Comm	.643	.108	.144	.782
CSR	.734	.271	.004	.813
Eigenvalues		2.08	1.95	1.66
Variance Explained, %		23%	22%	19%
Cumulative %		23%	45%	63%

KMO = .750. Bartlett's test of sphericity: $\chi^2(36) = 413.99$; $p = .000$.

It is important to note that these dimensions are not necessarily representative of theoretical development in the field; rather they are underlying dimensions of the data collected in this research project. For instance, research and development is not necessarily limited to product innovations, as one might conclude by looking at its position in the product dimension. In fact, research and development can play an important role in process innovations as well (e.g., improving a company's organizational structure or even management). Research and development can also play an important role in communication functions, such as marketing or

public relations. And, of course, research and development can play a vital role in corporate social responsibility by reducing harm to the natural environment or to the labor force. Therefore, the labels for the dimensions are arguable and are not intended to make generalizations beyond this study. Rather, these dimensions are derived from the data collected from the investor relations officers and reflect the dimensions based on the investor relations officers' perceptions of communications with the financial constituencies of their respective corporations.

The results for these new dimensions are presented in Table 6-13, including means and percentage of variance explained by each dimension. Once again, financial information was the leader as it was communicated to the financial community most often ($M = 8.73$). Among the three dimensions of the non-financial indicators, the product dimension was communicated most frequently ($M = 6.27$; $N = 181$), followed closely by the process dimensions ($M = 5.91$; $N = 179$). The least frequently communicated dimension was the support dimension ($M = 3.40$; $N = 181$).

Table 6-13. Dimensions of non-financial information and frequency of their communication.

Indicators	<i>M</i>	<i>N</i>	Variance, %
Financial	8.73	182	
Non-Financial including:	5.48	179	100%
Process dimension	5.91	179	23%
Product dimension	6.27	181	22%
Support dimension	3.40	181	19%

Research Question 1.2. Perceived Importance of Financial and Non-Financial Information

The same 10 types of information – nine categories of non-financial information and one category of financial information - were used to measure the perceived importance of each type for understanding and valuing the company's business. Respondents were asked to rate nine types of non-financial indicators on a scale from 0 to 10, where 0 meant that this information was

not important at all and 10 meant very important. In addition, the study asked them to rate the importance of financial information using the same scale. This enabled the study to compare perceived importance of various types of non-financial indicators with perceived importance of financial information.

The study found that financial information ($M = 9.30; N = 182$) was perceived as the most important for understanding the company's business in comparison with non-financial indicators ($M = 5.95; N = 176$). No individual type of non-financial information was rated higher than financial information. In other words, investor relations officers believed financial indicators were of greater importance than any non-financial indicators for understanding and valuing their company. The results are presented in Table 6-14.

Table 6-14. Importance of financial and non-financial information.

Indicators	<i>M</i>	σ	<i>N</i>	SES	SEK
Financial	9.30	1.48	182	.180	.358
Non-Financial*	5.95	1.42	176	.183	.364
including:					
Strategy	9.27	1.22	182	.180	.358
Market	7.59	2.32	181	.181	.359
P & S	7.46	2.63	182	.180	.358
Management	7.16	2.12	182	.180	.358
Org Capital	6.89	2.61	180	.181	.360
R & D	4.76	3.28	182	.180	.358
Corp Comm	4.46	3.13	181	.181	.359
Employees	3.35	2.39	182	.180	.358
CSR	2.76	2.53	181	.181	.359

* Non-financial category is a scale that combines all nine non-financial categories ($\alpha = .74$).

However, not all non-financial indicators were rated equally low. The highest rated and, thus, the most important information was corporate strategy ($M = 9.27; N = 182$), followed by information about company's market position ($M = 7.59; N = 181$), products and services ($M = 7.46; N = 182$), and management ($M = 7.16; N = 182$). Investor relations officers believed the

least important indicators were corporate social responsibility ($M = 2.76$; $N = 181$) and quality of employees ($M = 3.35$; $N = 182$).

Paired sample t-tests were used to analyze the difference between financial and non-financial information. The differences between importance of financial information and the non-financial indicators were statistically significant in every case ($p \leq .001$) with one exception: indicators of corporate strategy did not produce a statistically significant difference. In every case, however, the importance of financial information was perceived higher than the importance of non-financial information. The results of the paired samples t-tests are presented in Table 6-15.

Table 6-15. Paired t-tests of importance of financial information versus non-financial information.

Indicators	Mean Difference	σ	t	df	p
Non-Financial including:	3.33	1.88	23.54*	175	.000
Strategy	.03	1.60	.23	181	.817
P & S	1.84	2.90	8.53*	181	.000
Market	1.71	2.59	8.85*	180	.000
Org Capital	2.40	2.74	11.75*	179	.000
Management	2.14	2.26	12.78*	181	.000
R & D	4.53	3.66	16.71*	181	.000
Corp Comm	4.26	3.61	15.83*	179	.000
Employees	5.95	2.62	30.67*	181	.000
CSR	6.54	2.73	32.24*	180	.000

* significant if $p \leq .001$.

Similar with the results of frequency of communications, the study also combined all nine non-financial categories results for importance into one combined scale of non-financial information. This scale had a Cronbach's alpha for reliability score of .74. The study also conducted a factor analysis of this new scale to investigate its underlying dimensions. Kaiser-Meyer-Olkin measure of sampling adequacy ($KMO = .728$) and Bartlett's test of sphericity ($\chi^2(36) = 316.68$; $p = .000$) showed that this scale was appropriate for factor analysis. The

principal component analysis with varimax rotation produced three factors with eigenvalues greater than one. The results are presented in Table 6-16.

Table 6-16. Factor analysis of combined non-financial information scale based on the perceived importance data.

Indicators	Communalities	1	2	3
Strategy	.600	.233	-.026	.738
Org Capital	.524	-.086	.228	.682
Management	.618	.226	.226	.718
Employees	.428	.143	.568	.292
Market	.681	.797	-.068	.203
R & D	.574	.668	.357	-.035
P & S	.747	.840	.116	.165
Corp Comm	.571	.089	.748	.059
CSR	.696	.048	.824	.123
Eigenvalues		1.93	1.81	1.70
Variance Explained, %		22%	20%	19%
Cumulative %		22%	42%	60%

$KMO = .728$. Bartlett's test: $\chi^2(36) = 316.68$; $p = .000$.

Together these three factors explain 60% of the total variance of the scale. The factors are quite similar to the factors produced from the analysis of the same indicators based on the frequency of communications. Once again, one factor represents *product dimension* (22% of total variance explained) and includes indicators of products and services, research and development, and competitive market position. Another factor represents *process dimension* (19% of total variance explained) and includes indicators of corporate strategy, organizational capital, and management. However, in the analysis based on the frequency of communications, this factor also included the quality of employees indicator, whereas in this factor analysis based on the perceived importance of information for understanding and valuing the company, quality of employees loaded on the third factor, the *support dimension*. The *support dimension* (20% of total variance explained) also includes corporate communications and corporate social responsibility.

The results of the dimensions are presented in Table 6-17. Once again, financial information was the leader as it was perceived as the most important for understanding and valuing the company. For the three dimensions of the non-financial indicators, the process dimension was the most important ($M = 7.77$; $N = 181$), followed by the product dimensions ($M = 6.60$; $N = 179$), and then finally by the support dimension ($M = 3.52$; $N = 181$).

Table 6-17. Dimensions of non-financial information and their perceived importance.

Indicators	<i>M</i>	<i>N</i>	Variance, %
Financial	9.30	182	
Non-Financial including:	5.95	179	100%
Process dimension	7.77	180	19%
Product dimension	6.60	180	22%
Support dimension	3.52	180	20%

Hypothesis 1.1. Perceived Importance of Information is Positively Related to the Frequency of Communication of Such Information

To investigate if a relationship exists between perceived importance of financial and non-financial indicators for understanding the company and the frequency of communicating such information to the investment community, Pearson's correlation coefficients were calculated.

Every correlation between perceived importance of information and frequency of communication of such information to investors and shareholders was positive and statistically significant ($p \leq .001$). All correlations for non-financial indicators were strong ($r > .600$). Research and development indicator had the strongest correlation ($r = .889$), followed by products and services ($r = .855$), organizational capital ($r = .852$), and corporate communications ($r = .822$). Financial information, in fact, had the weakest correlation ($r = .578$), although correlations above .500 are still considered strong (Losh, 2004) or large (Cohen, 1988). Results of the correlation analysis between importance and communication of financial and non-financial indicators are presented in Table 6-18.

Table 6-18. Correlations between perceived importance and frequency of communication of financial and non-financial information.

Indicators	N	r	p
Financial	182	.578*	.000
Non-Financial	175	.789*	.000
including:			
Strategy	181	.743*	.000
P & S	181	.855*	.000
Market	179	.791*	.000
Org Capital	178	.852*	.000
Management	180	.646*	.000
R & D	180	.889*	.000
Corp Comm	178	.822*	.000
Employees	180	.693*	.000
CSR	179	.680*	.000

* significant if $p \leq .001$.

Since strong positive correlations were found between importance and communication of financial and non-financial indicators, plotted data points were found to fit the regression line quite well and the line had a positive slope – increase in importance correlated with increase in frequency of communications.

These plotted data could also be placed on a four square diagram. The top right square represented indicators with high frequency of communication, but low importance. The bottom right corner included information with low importance and low frequency of communication. The right side, then, consisted of indicators with high importance: top part with high frequency of communication and bottom part with low communication. Data points positioned in the top left corner or bottom right corner would indicate a dissonance between perceived importance of information and frequency of communication of the same information. None of the financial or non-financial indicators loaded in these two corners. Thus, the data showed that the more important information is communicated more often and less important is communicated less often. The results are presented in Figure 6-1.

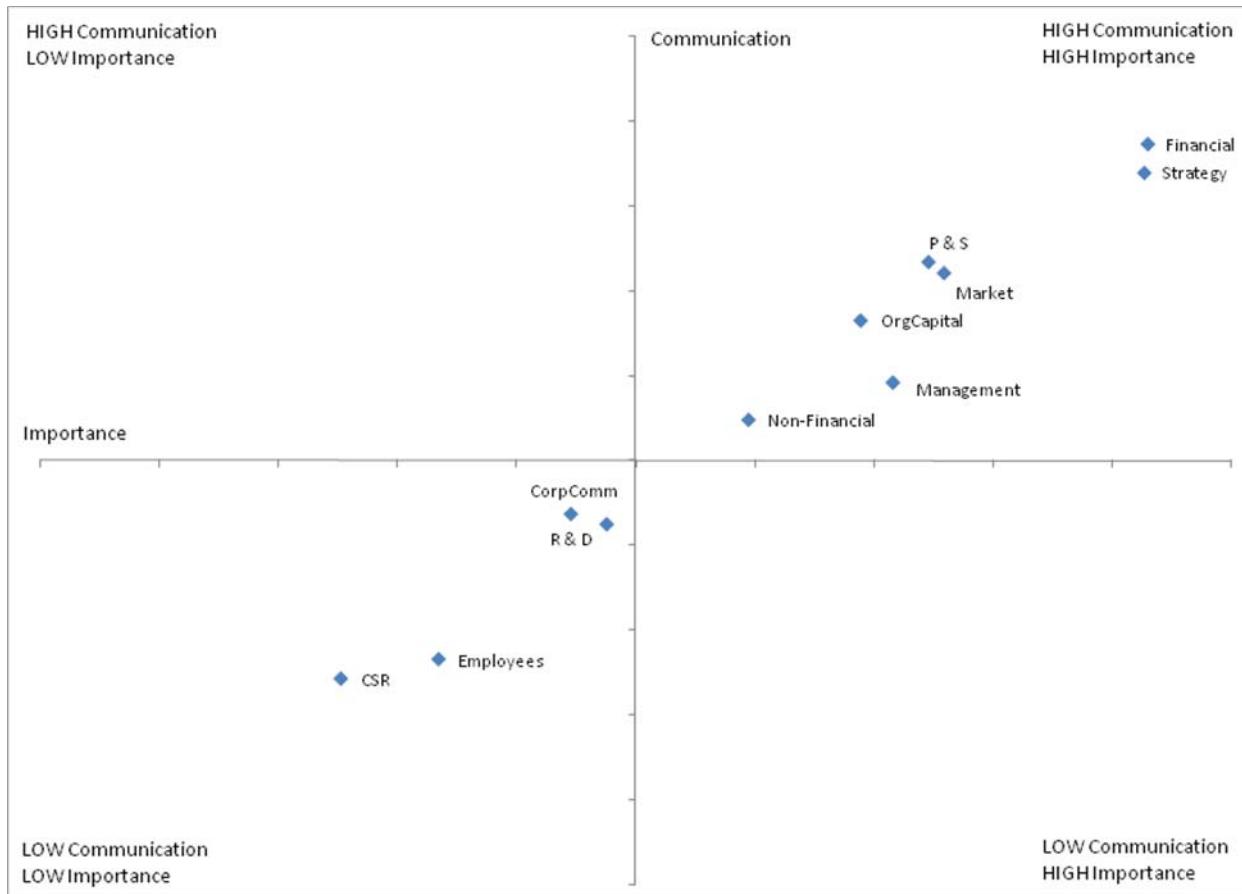


Figure 6-1. Relation between importance and frequency of communication of financial and non-financial information.

Investor relations officers believed that financial information was the most important for understanding and valuing their companies, and it was the information they communicated most frequently. Non-financial information combined was also positioned in the high importance/high communication quadrant; however, it was positioned much lower than financial information in both importance and frequency of communication. Among specific indicators of non-financial information, five loaded in the high importance/high communication quadrant: strategy, organizational capital, management, products and services, and market position. Four non-financial indicators loaded in the low importance/low communication quadrant: corporate communications, research and development, quality of employees, and corporate social

responsibility. In other words, indicators representing process and product dimensions were positioned primarily in the high communication/high importance quadrant, while indicators of the support dimension were in the low communication/low importance quadrant.

T-tests between perceived importance and frequency of communication of financial and non-financial information were also conducted. Although investor relations officers used the same scale when rating both perceived importance and frequency of communication, the perceived importance of the indicator was rated higher than frequency of communication of the same indicator in every case. These differences were statistically significant ($p \leq .001$) except for four indicators that did not produce statistically significant results at .001 level: organizational capital ($p \leq .05$), corporate social responsibility ($p \leq .05$), corporate communications ($p > .05$), and products and services ($p > .05$). The results are presented in Table 6-19.

Table 6-19. T-tests of frequency of communication versus perceived importance of financial and non-financial information.

Indicators	Communication, M	Importance, M	t	df	p
Financial	8.73	9.30	4.48*	181	.000
Non-Financial including:	5.48	5.95	6.67*	174	.000
Strategy	8.39	9.27	8.67*	180	.000
P & S	7.34	7.46	1.01	180	.313
Market	7.21	7.59	3.37*	179	.001
Org Capital	6.65	6.89	2.20	178	.029
Management	5.92	7.16	8.85*	180	.000
R & D	4.25	4.76	4.28*	180	.000
Corp Comm	4.37	4.46	.08	178	.937
Employees	2.66	3.35	5.11*	180	.000
CSR	2.43	2.53	2.21	179	.029

* significant if $p \leq .001$.

Finally, the study sought to answer which of the indicators of importance of non-financial information is the best predictor of frequency of communication of non-financial information to the investment community. In other words, the study made an assumption that perceiving non-financial information as important for understanding and valuing the company will cause the

investor relations officers to communicate such non-financial information to the investment community more frequently. To answer this question, regression analysis was employed. The index of frequency of communication of non-financial information, that combined all non-financial indicators, was the dependent variable, while scores of perceived importance of each non-financial indicator were used as independent variables. The results are presented in Table 6-20.

Table 6-20. Results of multiple regression analysis of frequency of communication.

Indicators	<i>B</i>	β	<i>t</i>	<i>p</i>
Constant	-.88		-1.59	.114
Strategy	.25	.20	3.78*	.000
Management	.08	.11	1.89	.060
Employees	.06	.10	1.82	.071
Org Capital	.13	.22	4.42*	.000
R & D	.10	.21	3.89*	.000
P & S	.05	.08	1.30	.196
Market	.11	.17	2.96*	.001
CSR	.04	.06	1.08	.283
Corp Comm	.14	.29	5.57*	.000

* significant if $p \leq .001$. $R = .81$; $R^2 = .65$. $F(9, 165) = 34.50$; $p \leq .001$; $N = 175$. Durbin-Watson test: $d = 1.78$.

High regression value recorded ($R = .81$) indicated strong correlation between the indicators of perceived importance and the actual frequency of communication of non-financial information. The regression model was statistically significant ($F(9, 165) = 34.50$; $p \leq .001$). Some of the independent variables were, however, better at predicting the outcome than others. The best predictor was the perceived importance of corporate communications for understanding and valuing the company ($\beta = .29$). Investor relations officers who understood the value of investor relations, public relations, marketing, or other communication activities in building the corporate value communicated non-financial indicators more often than other investor relations officers.

This finding is in contrast with the fact that corporate communication was rated among the least important for understanding the company's value and among the least frequently communicated. Nevertheless, the perceived importance of corporate communications was the best predictor of frequency of communications of non-financial information. The influence of corporate communication was followed by the indicators of importance of organizational capital ($\beta = .22$), research and development ($\beta = .21$), and corporate strategy ($\beta = .20$). Investor relations officers who perceived these factors as important for understanding and valuing their companies, tended to communicate non-financial information more frequently to the investment community.

Research Question 1.3. Differences in the Way Investor Relations Officers Communicate Financial and Non-Financial Information

To analyze techniques and tactics employed by investor relations officers to communicate financial and non-financial information to the investment community, respondents were presented with six pairs of items: three measuring limited audience communications and three measuring mass audience communications. Each pair measured the usage of tactics to communicate non-financial information and financial information. The results are presented in Table 6-21.

Table 6-21. Usage of different tactics for communicating financial information.

Tactics	<i>M</i>	σ	<i>N</i>	<i>SES</i>	<i>SEK</i>
One-on-one	8.49	2.29	182	.180	.358
Small group	6.52	2.92	182	.180	.358
Special events	6.96	2.71	182	.180	.358
Limited audience, combined Cronbach's α for reliability	7.32	2.17	182	.180	.358
Company media	.75				
SEC filings	7.58	2.76	182	.180	.358
Mass media	8.13	2.81	180	.181	.360
Mass audience, combined Cronbach's α for reliability	6.49	2.76	181	.181	.359
	7.39	2.12	179	.182	.361
	.64				

Results showed that one-on-one communication was the most common way to deliver financial information to the investment community ($M = 8.49$; $N = 182$), followed by SEC filings ($M = 8.13$; $N = 180$). The least used avenue to communicate financial information were mass media ($M = 6.49$; $N = 181$) and small group communications ($M = 6.52$; $N = 182$). The combined results for usage of limited audience communications for financial information ($M = 7.32$; $N = 182$) were very similar to the usage of mass audience tactics ($M = 7.39$; $N = 182$). The difference between both means was not statistically significant ($t = .39$; $p > .001$).

Similar to communicating financial information, investor relations officers use one-on-one communications most frequently to communicate non-financial information ($M = 8.54$; $N = 182$). The results are presented in the Table 6-22.

Table 6-22. Usage of different tactics for communicating non-financial indicators.

Tactics	<i>M</i>	σ	<i>N</i>	SES	SEK
One-on-one	8.54	2.30	182	.180	.358
Small group	6.64	2.84	181	.181	.359
Special events	7.10	2.69	182	.180	.358
Limited audience, combined	7.42	2.16	181	.181	.359
Cronbach's α for reliability	.77				
Company media	7.15	2.91	182	.180	.358
SEC filings	6.33	3.34	178	.182	.362
Mass media	6.92	2.65	182	.180	.358
Mass audience, combined	6.78	2.15	178	.182	.362
Cronbach's α for reliability	.54				

However, the second most used approach for communicating non-financial information was company's media, such as annual reports or corporate Web sites ($M = 7.15$; $N = 182$), followed by special events, such as roadshows or industry conferences ($M = 7.10$; $N = 182$), and mass media tactics, such as press releases or interviews ($M = 6.92$; $N = 182$). Investor relations officers rated SEC filings as the least frequently used avenue for communicating non-financial information to the investment community ($M = 6.33$; $N = 178$). The combined index of limited-

audience communications for non-financial information ($M = 7.42$; $N = 181$) was higher than the combined score for mass audience communications ($M = 6.78$; $N = 178$). The difference was statistically significant ($t = 3.46$; $p \leq .001$).

The study also sought to investigate whether the combined limited audience communications score would be higher than the combined mass audience communications score for investor communications in general: both financial and non-financial information. Thus, scores for financial and non-financial information were combined. The results are presented in the Table 6-23.

Table 6-23. Usage of limited audience and mass audience communications for both financial and non-financial indicators combined.

Tactics	<i>M</i>	σ	<i>N</i>	<i>SES</i>	<i>SEK</i>
One-on-one	8.51	1.95	182	.180	.358
Small group	6.59	2.62	181	.181	.359
Special events	7.03	2.40	182	.180	.358
Limited audience, combined	7.37	2.16	181	.181	.359
Cronbach's α for reliability	.77				
Company media	7.36	2.64	182	.180	.358
SEC filings	7.23	2.77	178	.182	.362
Mass media	6.71	2.46	181	.181	.359
Mass audience, combined	7.07	2.15	178	.182	.362
Cronbach's α for reliability	.81				

The combined scales had sufficient internal consistency: limited audience communications had a Cronbach $\alpha = .77$ and mass audience communications had a Cronbach $\alpha = .81$. The mean for limited audience communications ($M = 7.37$; $N = 181$) was higher than the mean for mass audience communications ($M = 7.07$; $N = 176$). However, this difference was not statistically significant ($t = 1.72$; $p > .001$), indicating that investor relations officers relied on both limited audience and mass audience communications in their interactions with the investment community. Among all the different kinds of communications, the most commonly used was one-on-one communication ($M = 8.51$; $N = 182$), which scored the highest for both

financial and non-financial information. The second most commonly used was the company's media ($M = 7.36$; $N = 182$), followed by SEC filings ($M = 7.23$; $N = 178$) and special events ($M = 7.03$; $N = 182$). Mass media ($M = 6.71$; $N = 181$) and small group communications ($M = 6.59$; $N = 181$) were the least commonly used.

Research Question 1.4. Differences in Communicating Financial and Non-Financial Information across Industries

To investigate differences in investor relations practices across industries, Analysis of Variance (ANOVA) tests were used to compare frequency of communicating financial and non-financial information, perceived importance of financial and non-financial information, and tactics used in communicating with the investment community.

The ANOVA results for frequency of communication of financial and non-financial information are presented in Table 6-24.

Table 6-24. ANOVA results for frequency of communication of financial and non-financial information across industries.

Indicators	SS	df	MS	F	p
Financial	11.25	6	1.87	.47	.831
Non-financial	26.07	6	4.35	1.90	.083
Strategy	24.06	6	4.01	.98	.440
Management	65.09	6	10.85	2.14	.052
Employees	47.90	6	7.98	1.73	.118
Org Capital	36.71	6	6.12	.79	.581
R & D	194.52	6	32.42	3.83**	.001
P & S	124.78	6	20.80	3.38*	.004
Market	48.18	6	8.03	1.26	.277
CSR	90.95	6	15.16	2.64*	.018
Corp Comm	140.45	6	23.41	2.42*	.029

** significant if $p \leq .001$; * significant if $p \leq .05$.

Results suggested that the influence of industry was limited only to information about research and development ($F(6, 159) = 3.83$; $p \leq .001$), products and services ($F(6, 159) = 3.38$; $p \leq .05$), corporate social responsibility ($F(6, 159) = 2.64$; $p \leq .05$), and corporate communications ($F(6, 159) = 2.42$; $p \leq .05$). At the same time, there was virtually no variability

in the frequency of communications about financial information based on industry ($F(6, 160) = .47; p > .05$).

Variability across industries of perceived importance of financial and non-financial indicators was quite similar. ANOVA results showed there was virtually no variability across industries for perceived importance of financial information ($F(6, 160) = 48; p > .05$), but there were statistically significant differences between industries for several types of non-financial information, such as research and development ($F(6, 160) = 5.42; p \leq .001$) and products and services ($F(6, 160) = 3.29; p \leq .05$). The ANOVA results are presented in Table 6-25.

Table 6-25. ANOVA results for perceived importance of financial and non-financial information across industries.

Indicators	SS	df	MS	F	p
Financial	4.56	6	.76	.48	.820
Non-financial	25.74	6	4.29	2.19*	.047
Strategy	13.38	6	2.23	1.48	.188
Management	39.03	6	6.50	1.46	.195
Employees	40.41	6	6.74	1.15	.337
Org Capital	41.71	6	6.95	1.00	.428
R & D	294.95	6	49.16	5.42**	.000
P & S	130.06	6	21.68	3.29*	.004
Market	54.07	6	9.01	1.67	.132
CSR	58.05	6	9.67	1.58	.156
Corp Comm	110.20	6	18.37	1.97	.073

** significant if $p \leq .001$; * significant if $p \leq .05$.

To better understand these variations across industries, post-hoc tests were performed. Results showed that companies in Division D (manufacturing) rated non-financial information about research and development higher than companies in any other industry for both importance of such information and frequency of communication. However, the Tukey test estimated that the difference was statistically significant in comparison with only two other industries – Division E, transportation, communications, electric, gas, and sanitary services, and Division H, finance, insurance, and real estate. The importance of information on research and development

for companies in Division D ($M = 6.13$; $N = 54$) was rated higher than for companies in Division H ($M = 3.09$; $N = 32$) and for companies in Division E ($M = 3.42$; $N = 33$). Both differences are statistically significant ($p \leq .001$). Division D also rated the frequency of communication of research and development ($M = 5.36$; $N = 53$) higher than Division H ($M = 4.26$; $N = 32$) and Division E ($M = 3.09$; $N = 53$). These differences, however, were statistically significant only at $p \leq .05$.

As for non-financial information about products and services, Division I, services, communicated this information more frequently ($M = 8.63$; $N = 19$) than companies in any other industry. The difference, however, was statistically significant ($p \leq .05$) as compared to only companies in Division E ($M = 6.27$; $N = 33$) and in Division H ($M = 6.38$; $N = 32$), based on the Tukey test. Division I companies also rated the importance of products and services information higher than companies in any other industry ($M = 8.42$; $N = 19$), but the difference was statistically significant ($p \leq .05$) only in comparison with Division E ($M = 6.03$; $N = 33$).

The ANOVA result across industries of usage of different communication tactics, such as limited audience communications or mass audience communications, did not produce any statistically significant results. This suggests that investor relations officers in various industries communicate financial and non-financial information to the investment community in similar ways.

Research Question 1.5. Differences in Communicating Financial and Non-Financial Information Based on Company's Market Capitalization

To investigate differences in the investor relations practices based on market capitalization, ANOVA tests were also used to compare frequency of communicating financial and non-financial information, perceived importance of financial and non-financial information, and tactics used in communications with the investment community.

The ANOVA results for frequency of communications of financial and non-financial information suggests that a company's market capitalization did not have much influence on the communications of financial and non-financial information. However, some of the individual indicators of non-financial information varied in frequency significantly depending on market capitalization. A company's market capitalization had the strongest influence on communicating corporate social responsibility information ($F(3, 173) = 7.49; p \leq .001$), followed by information about research and development ($F(3, 173) = 3.35; p \leq .05$). The ANOVA results are presented in Table 6-26.

Table 6-26. ANOVA results for frequency of communication of financial and non-financial information based on market capitalization.

Indicators	SS	df	MS	F	p
Financial	19.72	3	6.57	1.54	.206
Non-financial	15.28	3	5.09	2.23	.086
Strategy	17.09	3	5.70	1.43	.235
Management	21.96	3	7.32	1.41	.243
Employees	11.21	3	3.74	.814	.488
Org Capital	16.79	3	5.60	.732	.534
R & D	93.11	3	31.04	3.35*	.020
P & S	10.27	3	3.43	.521	.669
Market	13.65	3	4.55	.73	.538
CSR	121.50	3	40.50	7.49**	.000
Corp Comm	13.38	3	4.46	.44	.728

** significant if $p \leq .001$; * significant if $p \leq .05$.

Perceived importance of financial and non-financial indicators also showed statistically significant differences in variability of information about corporate social responsibility ($F(3, 173) = 3.03; p \leq .05$) and research and development ($F(3, 174) = 3.72; p \leq .05$). The ANOVA results are presented in Table 6-27.

Table 6-27. ANOVA results for perceived importance of financial and non-financial information based on market capitalization.

Indicators	SS	df	MS	F	p
Financial	16.56	3	5.52	2.56	.056
Non-financial	9.80	3	3.27	1.64	.183
Strategy	.387	3	.13	.09	.968
Management	8.60	3	2.87	.63	.599
Employees	10.60	3	3.53	.61	.611
Org Capital	7.94	3	2.65	.38	.766
R & D	114.65	3	38.22	3.72*	.013
P & S	11.48	3	3.83	.543	.654
Market	20.24	3	6.75	1.26	.291
CSR	55.30	3	18.43	3.03*	.031
Corp Comm	27.69	3	9.23	.95	.415

** significant if $p \leq .001$; * significant if $p \leq .05$.

Post-hoc tests were conducted to better understand the influence of market capitalization.

Large-cap and mega-cap companies communicated corporate social responsibility information more frequently than any other kind of companies ($M = 3.88$; $N = 42$). Their score was 1.82 points higher than mid-cap companies ($M = 2.07$; $N = 62$), 2.07 points higher than small-cap companies ($M = 1.81$; $N = 53$), and 1.93 points higher than micro-cap companies ($M = 1.95$; $N = 20$). All the differences were statistically significant ($p \leq .001$).

Even more, general pattern was discovered: The higher the market capitalization, the more frequent communications about corporate social responsibility are. Unfortunately, this research design could not establish the causality of this relationship. Thus, it might also be possible that communicating about corporate social responsibility (or simply being socially responsible) leads to growth in market capitalization. However, the reverse seems more plausible: it is the high market capitalization that causes companies to communicate more about their social responsibility. The research also found that investor relations officers of the largest companies believed more strongly that understanding social responsibility actions of their corporations was important for investors ($M = 3.56$; $N = 41$) than investor relations officers

employed by companies with smaller market capitalizations: mid-cap ($M = 2.08$; $N = 62$), small-cap ($M = 2.83$; $N = 54$), and micro-cap ($M = 2.85$; $N = 20$). The differences, however, were statistically significant only versus the mid-cap companies ($MD = 1.48$; $p \leq .05$) based on the Tukey test.

Further analysis revealed that the situation with research and development information was opposite to the situation with corporate social responsibility information – smaller in capitalization companies communicated the information about their research and development activities and valued the importance of such information for understanding their businesses the most. Micro-cap companies ($M = 6.30$; $N = 20$) rated importance of research and development 1.73 points higher than small-cap ($M = 4.57$; $N = 54$), 2.38 higher than mid-cap ($M = 3.92$; $N = 62$), and .82 points higher than large- and mega-cap ($M = 5.48$; $N = 42$). Micro-cap companies ($M = 5.70$; $N = 20$) rated frequency of communication of research and development 1.96 points higher than small-cap ($M = 3.74$; $N = 54$), 2.01 higher than mid-cap ($M = 3.69$; $N = 62$), and .80 points higher than large- and mega-cap ($M = 4.91$; $N = 42$). Thus, with research and development the relation did not seem to be linear but rather curvilinear – with the extremes on both sides (the smallest and the largest companies) valuing research and development's importance higher and communicating research and development information more frequently than companies in the middle of the spectrum (mid-cap and small-cap companies).

The ANOVA tests across companies with different market capitalizations of usage of different communication tactics, such as limited audience communications or mass audience communications, revealed that the use of limited audience communications varied significantly based on the company's market capitalization ($F(3, 173) = 3.35$; $p \leq .05$). The ANOVA results are presented in Table 6-28.

Table 6-28. ANOVA results for tactics based on market capitalization.

Indicators	<i>SS</i>	<i>df</i>	<i>MS</i>	<i>F</i>	<i>p</i>
Limited audience	34.30	3	11.43	3.35*	.020
	37.29	3	12.43	2.79*	.042
	35.75	3	11.92	2.63	.052
Mass audience	4.25	3	1.42	.36	.782
	10.18	3	3.39	.760	.518
	4.04	3	1.35	.29	.832

** significant if $p \leq .001$; * significant if $p \leq .05$.

The post-hoc tests revealed that companies with larger market capitalizations, mega-cap and large-cap, rely on limited audience communications, such as one-on-one communications, small group communications, or special events, ($M = 8.10; N = 42$) more than mid-cap ($M = 7.29; N = 62$), small-cap ($M = 7.14; N = 53$), and micro-cap companies ($M = 6.71; N = 20$). Once again, a general pattern was observed: The higher a company's market capitalization, the more it relied on limited audience communications, such as one-on-one communications, small group communications, or special events. However, only the difference between the largest and the smallest companies was found to be statistically significant ($p \leq .05$). The pattern discovered held for communicating both financial and non-financial information.

Research Question 1.6. Differences in Communicating Financial and Non-Financial Information across Departments

To investigate differences in investor relations practices among different departments managing investor relations responsibilities, ANOVA tests were also used to compare frequency of communicating financial and non-financial information, perceived importance of financial and non-financial information, and tactics used in communications with the investment community.

The ANOVA tests did not find any statistically significant differences between investor relations programs managed by stand-alone investor relations departments, financial/treasury departments, or communication/public relations departments. For all of these departments, the frequency of communications of non-financial and financial information, importance assigned to

such information, and the tactics used to communicate the information to the investment community were virtually the same.

Research Question 1.7. Difference in Communicating Financial and Non-Financial Information Based on Investor Relations Officer's Reporting Relationship

To investigate differences in investor relations practices based on the investor relations officers reporting relationship, ANOVA tests were also used to compare frequency of communicating financial and non-financial information, perceived importance of financial and non-financial information, and tactics employed in communicating this information to the investment community.

ANOVA results for frequency of communications of financial and non-financial information showed no statistically significant differences in the way investor relations officers communicate financial and non-financial information based on their reporting relationship. Similarly, no matter to whom the investor relations officers reported, there were no differences in the tactics used to communicate this information. However, the perceived importance of various information varied significantly for the combined index of non-financial indicators ($F(2, 154) = 4.00; p \leq .05$) and especially for the individual indicator of organizational capital ($F(2, 157) = 3.18; p \leq .05$).

Post-hoc tests were conducted to better understand these differences. The results indicated that investor relations officers reporting directly to the CFO or other financial executive ($M = 5.72; N = 109$) perceived non-financial indicators less important than investor relations officers reporting directly to the CEO ($M = 6.34; N = 35$) or to the CCO or other communication executive ($M = 6.50; N = 13$). These reporting directly to the CFO also perceived information about organizational capital and resources ($M = 6.57; N = 109$) to be less important for understanding and valuing their companies than officers reporting directly to the

CEO ($M = 7.66$; $N = 38$) or to the CCO ($M = 7.62$; $N = 13$). The ANOVA results are presented in Table 6-29.

Table 6-29. ANOVA results for perceived importance of financial and non-financial information based on the reporting relationship.

Indicators	SS	df	MS	F	p
Financial	10.04	2	5.02	2.20	.114
Non-financial	15.02	2	7.51	4.00*	.020
Strategy	2.99	2	1.50	.95	.391
Management	21.47	2	10.73	2.47	.088
Employees	12.89	2	6.44	1.16	.316
Org Capital	40.41	2	20.21	3.18*	.044
R & D	40.69	2	20.34	1.97	.143
P & S	14.41	2	7.21	1.09	.337
Market	10.74	2	5.37	1.05	.351
CSR	17.58	2	8.80	1.43	.243
Corp Comm	28.30	2	14.15	1.48	.231

** significant if $p \leq .001$; * significant if $p \leq .05$.

ANOVA tests of usage of different communication tactics across reporting relationships did not find any statistically significant differences.

Research Question 1.8. Difference in Communicating Financial and Non-Financial Information Based on Investor Relations Officer's Title

To investigate differences in investor relations practices based on the corporate title of the practitioners, ANOVA tests were used to compare frequency of communicating financial and non-financial information, perceived importance of financial and non-financial information, and tactics used in communicating this information to the investment community.

ANOVA tests did not indicate any statistically significant differences in the frequency, importance, or tactics used for communicating financial and non-financial information based on respondents' titles. In other words, investor relations officers with different levels of seniority, from presidents/vice-presidents to specialists/coordinators, did not differ from each other in their practice of investor relations.

Research Question 1.9. Differences in Communicating Financial and Non-Financial Information Based on Investor Relations Officer's Demographic Variables: Age, Gender, Education, and Years of Experience

To investigate differences in investor relations practices based on demographic characteristics of the investor relations officers, ANOVA tests were used to compare frequency of communication of financial and non-financial information, perceived importance of financial and non-financial information, and tactics used in communicating this information to the investment community.

There were no statistically significant differences discovered in the frequency, importance, or tactics used for communicating financial and non-financial information based on the respondents' level of education, educational major, age, or gender.

Investor relations experience had a limited influence. Although, investor relations officers with 10 years of experience or more perceived non-financial indicators as having greater importance than investor relations officers with less experience, the difference was not statistically significant, with the exception of the importance of quality of management ($F(5, 174) = 2.77; p \leq .05$). Experience in investor relations was positively related to both perceived importance of non-financial information ($r = .151; p \leq .05$) and frequency of communication of non-financial information ($r = .182; p \leq .05$), but the correlations were weak ($r < .25$).

Some of the individual non-financial indicators also produced statistically significant correlations with the years of experience variable, such as corporate strategy (importance: $r = 183; p \leq .05$; communication: $r = 148; p \leq .05$), organizational capital (importance: $r = 237; p \leq .001$; communication: $r = 228; p \leq .001$), and products and services (importance: $r = 158; p \leq .05$; communication: $r = 174; p \leq .05$). However, once again, correlations were weak ($r < .25$).

Results of the correlation analysis are presented in Table 6-30.

Table 6-30. Correlations of years of experience with importance and frequency of communication of financial and non-financial information.

Indicators	Importance			Communication		
	r	p	N	r	p	N
Financial	-.075	.314	180	-.001	.988	180
Non-financial	.182*	.016	177	.151*	.047	174
Strategy	.183*	.014	180	.148*	.048	179
Management	.122	.103	180	.150*	.045	179
Employees	.026	.733	180	.019	.805	179
Org Capital	.237**	.001	178	.228**	.001	177
R & D	.050	.503	180	.133	.077	179
P & S	.158*	.034	180	.174*	.020	179
Market	.041	.587	179	.068	.365	179
CSR	.033	.657	179	.040	.595	179
Corp Comm	.047	.534	178	.034	.654	179

** significant if $p \leq .001$; * significant if $p \leq .05$.

The Practice of Investor Relations

Research Question 2.1. Description of Investor Relations Practice

To investigate the conceptual dimensions describing investor relations practice, the study developed the continua of public relations. The continua were developed based on review of the public relations literature and modifications of existing public relations concepts and measurement scales. Each continuum was measured by four items. Since the study proposed five continua, respondents were presented with a battery of 20 statements and were told that these statements may or may not describe their investor relations work. The respondents were, then, asked to rate such statements on a scale from 0 to 10, where 0 was “*Strongly Disagree*” and 10 was “*Strongly Agree*,” based on the degree to which the statement described their work. Mean scores were calculated. The 20 statements and their mean scores are presented in Table 6-31, ordered from the statement with the highest mean to the statement with the lowest mean.

Table 6-31. Mean scores of individual items of investor relations activities.

Activities	<i>M</i>	σ	<i>N</i>	SES	SEK
I explain my company to the investment community	9.73	.93	182	.180	.358
I answer requests from shareholders/investors, analysts, media, or senior management	9.40	1.38	182	.180	.358
I disclose information about my company	9.37	1.62	181	.181	.359
I deliver information from the investment community to senior management	9.35	1.36	182	.180	.358
I develop long-term relationships between investors/analysts and my company	9.25	1.42	182	.180	.358
I keep senior management knowledgeable about our shareholders and analysts	9.17	1.43	182	.180	.358
I keep up with the current stock price and volume fluctuations	8.93	1.84	181	.181	.359
I write and edit texts and prepare presentations/speeches	8.91	1.78	182	.180	.358
I am responsible for quickly finding information for somebody who needs it	8.81	1.64	182	.180	.358
I develop goals and objectives for my company's investor relations program	8.66	2.29	182	.180	.358
I manage all aspects of my company's investor relations program	8.51	2.72	182	.180	.358
I cultivate long-term focus in stock ownership	8.33	2.01	181	.181	.359
I handle technical aspects of my company's investor relations program	8.26	2.22	182	.180	.358
I make sure that management considers investors' opinions in its decision making	8.03	2.12	182	.180	.358
I protect the reputation of senior management in the eyes of the investment community	8.00	2.17	182	.180	.358
I defend my company's actions in the eyes of the investment community	7.84	2.20	182	.180	.358
I provide earning's guidance and current financial results	7.61	3.20	182	.180	.358
I conduct research to anticipate relevant issues	7.48	2.45	181	.181	.359
I make sure that management acts in the best interests of shareholders	7.12	2.50	182	.180	.358
I rely on planning and diagnosing needs/opportunities to do my work	6.76	2.50	181	.181	.359

The results indicate that investor relations officers rated “explaining” as the best descriptor of their work. The item “*I explain my company to the investment community*” was rated higher than any other single item ($M = 9.73; N = 182$). The second highest rated item was “*I answer requests from shareholders/investors, analysts, media, or senior management*” ($M = 9.40; N = 182$). Other items that scored highly (above 9 on a 10-point scale) were: “*I disclose*

information about my company" ($M = 9.37; N = 181$); "*I deliver information from the investment community to senior management*" ($M = 9.35; N = 182$); "*I develop long-term relationships between investors/analysts and my company*" ($M = 9.25; N = 1.42$); and "*I keep senior management knowledgeable about our shareholders and analysts*" ($M = 9.17; N = 182$).

As explained above, these 20 statements were developed to measure five continua of investor relations practice: direction of communication, intended beneficiary, enacted role, nature of investor relations, and focus of investor relations. Each continuum consists of two statements measuring activities on one pole of the continuum and two statements measuring activities on the opposite pole. Thus, the combined continuum score is calculated by subtracting two negatively coded items from two positively coded items. In this case, the result equaling zero would indicate a balance between two types of activities. A result skewed toward one or the other pole would indicate the dominance of certain types of activities in the investor relations practice.

Hypothesis 2.1. Investor Relations is Characterized by Two-Way Communication

The continuum of direction of communication measured if investor relations communications were targeted from the company to investors or from investors to the company. As explained in the methodology section, the continuum combined two items measuring communication in the direction from the organization to its publics (FO) with two items measuring communication from investors to the organization (TO). The result of 0 on such a scale would indicate a perfect balance between these two directions of communications; the results close to 0, from -2 to +2 would indicate a dual-direction, or two-way communication. If the results are skewed toward one of the poles, it would indicate a dominance of one way communications either from the company or toward the company in the investor relations practice. The study proposed a hypothesis that investor relations officers would rely on two-way

communication in their activities, thus communication will have a dual-direction. Results of the direction of communication analysis are presented in Table 6-32 and Figure 6-2.

Table 6-32. Direction of communication continuum.

Activities	<i>M</i>	σ	<i>N</i>	SES	SEK
I disclose information about my company (FO)	9.37	1.62	181	.181	.359
I explain my company to the investment community (FO)	9.73	.93	182	.180	.358
I deliver information from the investment community to senior management (TO)	9.35	1.36	182	.180	.358
I keep senior management knowledgeable about our shareholders and analysts (TO)	9.17	1.43	182	.180	.358
Direction of communication continuum (FO - TO)	.59	FC	2.82	181	.181
Cronbach's α for reliability	.70		181		

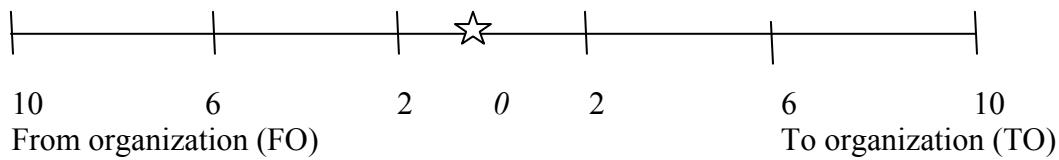


Figure 6-2. Direction of communication continuum.

The findings suggest that investor relations practice is best described as having dual direction, or, in other words, employing two-way communications. Investor relations officers described their work as communicating both from the company to investors as well as from investors to the company. The mean of direction of communication was close to the midpoint on the continuum of direction of communication ($M = 0.59; N = 181$). Although the mean for communication from the company is higher than the mean for communication to the company, the difference between the means is not statistically significant ($t = 2.79; p > .001$). As a result, Hypothesis 2.1 was supported.

The study also conducted the analysis of reliability of the scale. As mentioned above, the satisfactory reliability for this study was expected to be no less than $\alpha = .60$ based on Bowers and

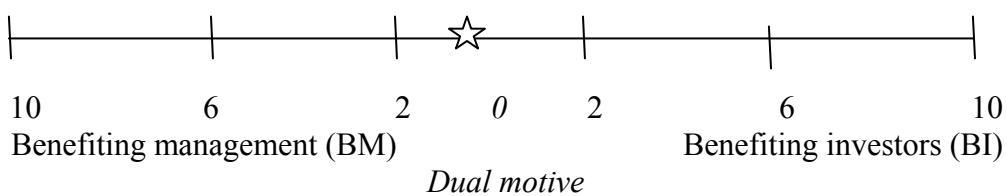
Courtright (1984) recommendations. The reliability of the direction of communication scale was sufficient ($\alpha = .70$).

Hypothesis 2.2. Investor Relations is Characterized by Balanced Effects

The continuum of intended beneficiary measured the extent to which investor relations work advanced the interests of the company or the interests of the company's shareholders. The continuum combined two items measuring investor relations officers working solely in the interests of the company's management (BM) and two items measuring investor relations activities benefiting the company's investors and shareholders (BI). The result close to 0 on this scale would indicate a balance between the two parties – balanced effects, or dual motives, or symmetrical investor relations. The study proposed a hypothesis that investor relations work has dual motives – advancing the interests of both management and investors. Results of the intended beneficiary continuum analysis are presented in Table 6-33 and Figure 6-3.

Table 6-33. Intended beneficiary continuum.

Activities	<i>M</i>	σ	<i>N</i>	SES	SEK
I protect the reputation of senior management in the eyes of the investment community (BM)	8.00	2.17	182	.180	.358
I defend my company's actions in the eyes of the investment community (BM)	7.84	2.20	182	.180	.358
I make sure that management acts in the best interests of shareholders (BI)	7.12	2.50	182	.180	.358
I make sure that management considers investors' opinions in its decision making (BI)	8.03	2.12	182	.180	.358
Intended beneficiary continuum (BM – BI)	.68	BM	4.59	182	.180
Cronbach's α for reliability	.73			182	



The findings suggest that investor relations practice is best described as having dual motives. Investor relations officers described their work as influencing the investment community in the interests of management, as well as influencing management in the interests of shareholders. The mean of intended beneficiary continuum was close to the midpoint ($M = 0.68$; $N = 182$): with management as a sole beneficiary of investor relations scoring slightly higher than investment community as a sole beneficiary. However, the difference between means for company and investors as intended beneficiaries was not statistically significant ($t = 2.00$; $p > .001$). As a result, Hypothesis 2.2 was supported. The study also conducted the analysis of reliability of the scale. The reliability of the intended beneficiary continuum was sufficient ($\alpha = .73$).

Hypothesis 2.3. Investor Relations is Characterized by Enacting Manager's Role

The continuum of roles of investor relations practitioners is bound at one end by a technician role and bound at the other end by a managerial role. Investor relations officers in their day-to-day work may take on both managerial responsibility while simultaneously conducting basic technical tasks of writing and editing. The continuum combines two questions measuring managerial activities (MR) with two questions measuring technician activities (TR). A score of 0 would indicate that both of these roles have equal weight in investor relations work. The study proposed a hypothesis that investor relations work would be primarily managerial, with management tasks rated higher than technician tasks.

The findings of this research suggest that investor relations practice is best described as dual role: being both managerial and technical. Investor relations officers rated the managerial aspects of their work as high as they rated the technician aspects. The mean placed exactly on the midpoint of the continuum of roles ($M = .00$; $N=182$). There was no difference between both means ($t = .00$; $p > .001$). As a result, Hypothesis 2.3 was not supported. The study also

conducted the analysis of reliability of the scale. The reliability of the roles scale was sufficient ($\alpha = .61$). The results of the continuum are presented in Table 6-34 and Figure 6-4.

Table 6-34. Enacted roles continuum.

Activities	<i>M</i>	σ	<i>N</i>	SES	SEK
I manage all aspects of my company's investor relations program (MR)	8.51	2.72	182	.180	.358
I develop goals and objectives for my company's investor relations program (MR)	8.66	2.29	182	.180	.358
I handle technical aspects of my company's investor relations program (TR)	8.26	2.22	182	.180	.358
I write and edit texts and prepare presentations/speeches (TR)	8.91	1.78	182	.180	.358
Enacted roles continuum (MR – TR)	.00	4.73	182	.180	.358
Cronbach's α for reliability	.61		182		

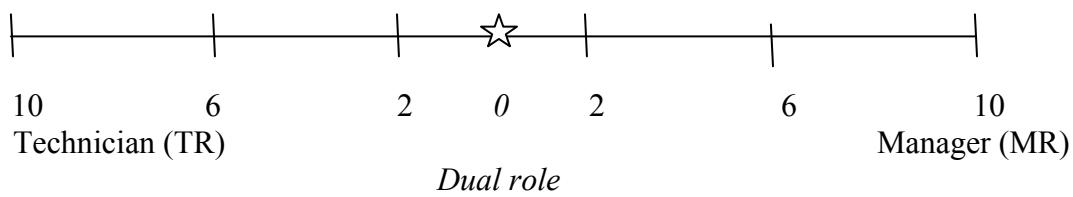


Figure 6-4. Enacted roles continuum.

Hypothesis 2.4. Investor Relations is Characterized by Proactive Communications

The continuum of the nature of investor relations practitioners is a measure of proactive and reactive tasks in the investor relations day-to-day operations. This is a continuum bound by proactive (PA) activities based on planning and anticipation of relevant issues on one side, and bound by passive and reactive activities (RA) performed largely in response to the requests from publics on the other side. The score of 0 would indicate that proactive and reactive tasks are equally important in investor relations work. The study, however, proposed a hypothesis that investor relations officers would perceive their work as being primarily proactive.

The findings suggest that investor relations practice is best described as being reactive in nature. Investor relations officers rated proactive work such as relying on planning and diagnosing and conducting research to anticipate relevant issues significantly lower than reactive

work such responding to requests from various constituencies. The resultant mean is skewed to the reactive side of the nature of work continuum ($M = 3.98$; $N = 180$). The difference between reactive communication mean and proactive communication mean is statistically significant ($t = 3.40$; $p \leq .001$). As a result, Hypothesis 2.4 was not supported. The study also conducted the analysis of reliability of the scale. The reliability of the nature of work scale was sufficient ($\alpha = .72$). Results of the nature of the investor relations work are presented in Table 6-35 and Figure 6-5.

Table 6-35. Nature of investor relations continuum.

Activities	<i>M</i>	σ	<i>N</i>	SES	SEK
I conduct research to anticipate relevant issues (PA)	7.48	2.45	181	.181	.359
I rely on planning and diagnosing needs/opportunities to do my work (PA)	6.76	2.50	181	.181	.359
I answer requests from shareholders/investors, analysts, media, or senior management (RA)	9.40	1.38	182	.180	.358
I am responsible for quickly finding information for somebody who needs it (RA)	8.81	1.64	182	.180	.358
Nature of investor relations continuum (PA – RA)	3.98	RA	4.19	181	.181
Cronbach's α for reliability		.72		181	

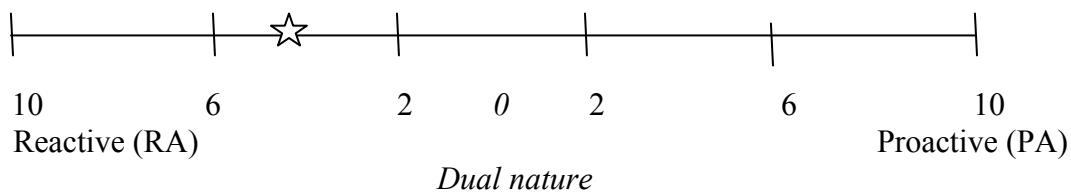


Figure 6-5. Nature of investor relations continuum.

Hypothesis 2.5. Investor Relations is Characterized by Long-Term Focus on Relationship Building

The continuum of the focus of the investor relations work is a certain measure of the perceived importance of the relationship-building activities in the investor relations practice. This is a continuum bound by a short-term focus (ST) on one side and a long-term focus (LT) of the investor relations professionals on the other side. The study proposed a hypothesis that investor relations officers would perceive their work as being long-term oriented.

The findings suggested that investor relations practice is best described as having a dual focus on long-term and short-term objectives with the resultant mean placing in the middle of the focus continuum ($M = 1.04$; $N = 181$). However, the mean for long-term was higher than the mean for the short-term focus and the difference of means was statistically significant ($t = 3.40$; $p \leq .001$). Results of the focus of the investor relations work are presented in Table 6-36 and Figure 6-6.

Table 6-36. Focus of investor relations continuum.

Activities	<i>M</i>	σ	<i>N</i>	SES	SEK
I develop long-term relationships between investors/analysts and my company (LT)	9.25	1.42	182	.180	.358
I cultivate long-term focus in stock ownership (LT)	8.33	2.01	181	.181	.359
I provide earning's guidance and current financial results (ST)	7.61	3.20	182	.180	.358
I keep up with the current stock price and volume fluctuations (ST)	8.93	1.84	181	.181	.359
Focus of investor relations continuum (LT – ST)	1.04	LT	4.11	181	.181
Cronbach's α for reliability	.70		181		

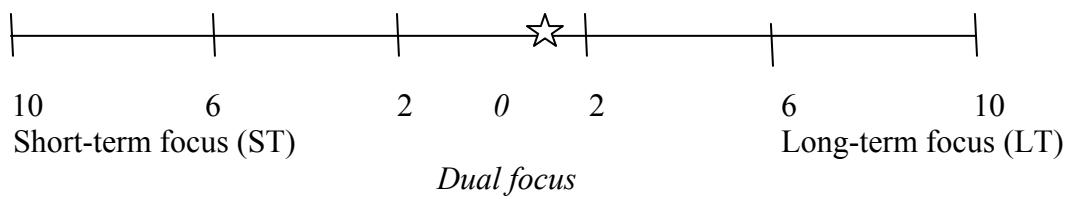


Figure 6-6. Focus of investor relations continuum.

Thus, the data analysis reports mixed results. On one hand, long-term objective mean is significantly higher than short-term objective in investor relations work. On the other hand, although the difference is statistically significant, it is not conceptually significant – the result within two points of the midpoint of the continua (from -2 to +2) is considered as dual focus. Thus, Hypothesis 2.5 result is inconclusive. The study also conducted the analysis of reliability of the scale. The reliability of the nature of work scale was sufficient ($\alpha = .70$).

Research Question 2.1 (Revised). Description of Investor Relations Practice Using Proposed Set of Continua of Investor Relations

The combined continua data can help better answer Research Question 2.1 about general description of investor relations work. These five continua, placed together in Table 6.37 and graphically in Figure 6-7, create a visual display of investor relations practice.

Table 6-37. Mean scores of continua of investor relations.

Activities	M	σ	N	SES	SEK
Direction of Communication Continuum	.59 FC	2.82	181	.181	.359
Intended Beneficiary Continuum	.68 BM	4.59	182	.180	.358
Enacted Role Continuum	.00	4.73	182	.180	.358
Nature of Investor Relations Continuum	3.98 RA	4.19	181	.181	.359
Focus of Investor Relations Continuum	1.04 LT	4.11	181	.181	.359

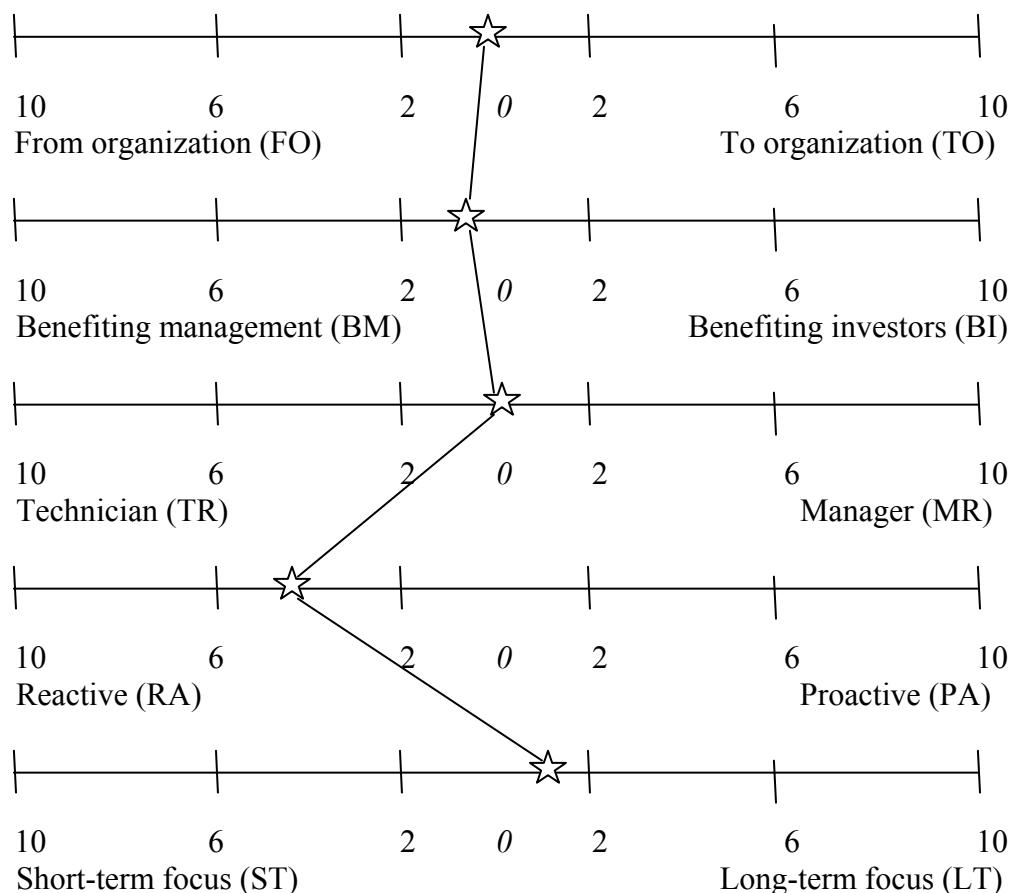


Figure 6-7. Investor relations continua: description of investor relations practice.

The results of the analysis of Continua of Investor Relations indicate that investor relations work is characterized by two-way communication and balanced (symmetrical) motives. Although the job is mostly reactive in nature rather than proactive, investor relations practitioners enact both managerial and technical roles and focus on both short-term objectives as well as long-term objectives in carrying out their responsibilities. Combined with the previously established finding that investor relations officers rely more on personal communications than on mass communications, this could serve as a general description of investor relations practice. In addition, this allows comparing the difference between various companies and industries in the way they practice investor relations. It allows measuring how respondents' educational backgrounds, departmental affiliation, and other variables influence the practice of investor relations.

In addition, the study conducted a cluster analysis of respondents based on their responses to the continua of public relations questions. This allowed combining the respondents into groups based on the way they practice investor relations so that respondents in each cluster would practice investor relations similarly to each other but as different as possible from respondents in other clusters. This internal homogeneity and external heterogeneity could help understand first, what aspects of investor relations practice distinguish practitioners from each other, and second, evaluate relationships between other variables that perhaps cause investor relations officers to perform their duties in one way or another.

The results indicated that investor relations officers could be placed into two groups based on the way they practice investor relations. The difference between groups was mainly based on two major characteristics: the role that investor relations officers enacted at their

respective organizations ($F = 182.19; p \leq .001$) and the intended beneficiary of their work ($F = 39.87; p \leq .001$). The results of the cluster analysis are presented in Table 6-38 and Figure 6-8.

Table 6-38. Cluster analysis of respondents based on continua of investor relations.

	Cluster Centers	Cluster	MS	df	MS	df	F	P
Direction	Cluster 1 - .85	Cluster 2 - .57	1.83	1	8.03	176	.23	.634
Beneficiary	- 5.33	- .01	649.89	1	16.30	176	39.87*	.000
Role	- 7.81	- 1.34	1921.47	1	10.55	176	182.19*	.000
Nature	- 2.70	- 4.23	53.02	1	17.57	176	3.02	.084
Focus	1.11	1.06	.06	1	17.02	176	.00	.952

* significant if $p \leq .001$. F-test cannot be used for inferential statistics. F-test is for descriptive purposes only because clusters were iterated to maximize the difference among cases for different clusters. Cluster membership: Cluster 1 (Technicians) = 27; Cluster 2 (Managers) = 151.

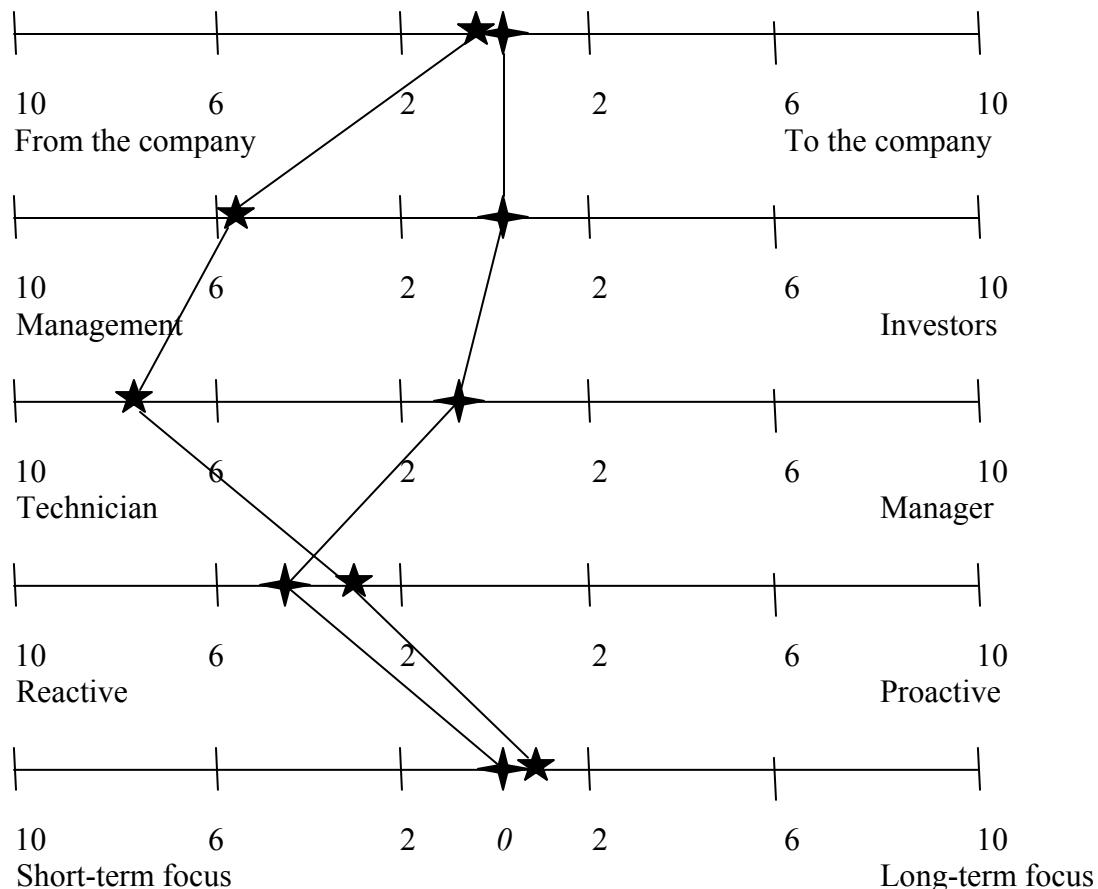


Figure 6-8. Differences between two types of investor relations officers: Managers and Technicians.

Comparison of the two groups of investor relations officers could also be plotted on the continua of public relations. This allows for visual comparison between these two clusters. Although all investor relations officers were found to be more engaged in technical rather than managerial tasks, one of the two groups was much more likely to perform the tasks of a technician ($M = -7.81$) than members of the second group ($M = -1.34$). Thus, the first group was labeled *Technicians* and the second group *Managers*. Members of the *Managers* group were also more likely to practice investor relations in the way that contributes equally to the benefit of the company's management as well as to the benefit of the shareholders of the company ($M = -.01$). Members of the *Technician* group, on the other hand, perceived their investor relations work to be benefiting mainly their company's management ($M = -5.33$). Results of other continua were virtually the same for both groups: they facilitate information to flow both ways from the company to organization and back from organization to its publics; both groups relied mostly on reactive strategies rather than proactive; and both groups were equally focused on long-term and short-term objectives.

It is important to provide external validation for cluster membership. In this case, more senior investor relations officers would be more likely to perform managerial tasks and more likely to see their work on a larger scope as benefiting not only the company but also the shareholders. In other words, the proposed split of respondents, based on cluster analysis of how they practice investor relations, into two groups, *managers* and *technicians*, could be compared with the actual variable of the respondents' titles. Thus, the cluster membership could be validated by analyzing the titles of the investor relations officers in each cluster.

The results of cross-tabulation between titles of the investor relations offices and their membership in clusters were found to be statistically significant ($\chi^2(4) = 26.43; p \leq .001$). The

assumption was supported: the respondents with senior titles, such as CEO/CFO and vice presidents, were more likely to be found in the second cluster, *managers*; while the first cluster, *technicians*, would consist primarily of respondents with lower ranks, such as managers and directors. The lowest rank, *specialist*, however, had similar share of respondents for both clusters. The results are presented in Table 6-39.

Table 6-39. Cross-tabulation between cluster membership and respondent's title.

	CEO/CFO	VP	Director	Manager	Specialist	TOTAL
Cluster 1 “Technicians”	0	4	8	10	1	23
	0%	17%	35%	44%	4%	100%
Cluster 2 “Managers”	6	73	49	11	8	147
	4%	50%	33%	8%	5%	100%

$$\chi^2 (4) = 26.43; p \leq .001.$$

Years of experience could serve as an additional validation: respondents in the second cluster, *managers*, had on average 3.16 more years of experience in investor relations ($M = 10.64$) than respondents in the first cluster, *technicians* ($M = 7.48$). This difference was also statistically significant ($t = 2.54; p \leq .05$).

Research Question 2.2. Relationship between Investor Relations Practices and Usage of Non-Financial Information in Communications with the Investment Community

Research question 2.2 asked if there is any relationship between the practice of investor relations and frequency of communication of non-financial information. To answer this question, the study conducted correlation analysis between investor relations activities and frequency of communications of non-financial information.

The results of the correlations tests indicated that a long-term focus in investor relations was positively correlated with the frequency of communication of non-financial information. In

other words, the more investor relations officers focused on long-term objectives, the more likely they were to communicate non-financial information to the investment community. The results are presented in Table 6-40.

Table 6-40. Pearson's correlation coefficients between investor relations work and frequency of communication of non-financial information to investors.

Activities	<i>r</i>	<i>p</i>
I disclose information about my company	.082	.289
I explain my company to the investment community	.206	.006
I deliver information from the investment community to senior management	.230*	.001
I keep senior management knowledgeable about our shareholders and analysts	.270*	.000
I protect the reputation of senior management in the eyes of the investment community	.212	.004
I defend my company's actions in the eyes of the investment community	.170	.023
I make sure that management acts in the best interests of shareholders	.253*	.001
I make sure that management considers investors' opinions in its decision making	.283*	.000
I manage all aspects of my company's investor relations program	.013	.860
I develop goals and objectives for my company's investor relations program	.081	.281
I handle technical aspects of my company's investor relations program	.058	.438
I write and edit texts and prepare presentations/speeches	.186	.012
I conduct research to anticipate relevant issues	.192	.010
I rely on planning and diagnosing needs/opportunities to do my work	.339*	.000
I answer requests from shareholders/investors, analysts, media, or senior management	.172	.021
I am responsible for quickly finding information for somebody who needs it	.177	.018
I develop long-term relationships between investors/analysts and my company	.236*	.001
I cultivate long-term focus in stock ownership	.230*	.001
I provide earning's guidance and current financial results	.001	.989
I keep up with the current stock price and volume fluctuations	.270*	.000

* significant if $p \leq .001$

Both of the items measuring long-term focus – *I develop long-term relationships between investors/analysts and my company*, and *I cultivate long-term focus in stock ownership* – had statistically significant positive correlations with the frequency of disclosure of non-financial information ($r = .236$ and $r = .230$, respectively; $p \leq .001$). However, although the results were

statistically significant, they were not necessarily meaningfully significant. The strength of correlations at .23-.24 level is considered “weak” (Losh, 2004), a “slight relationship” (Koenker, 1961), or a “small relationship” (Cohen, 1988). The disclosure of non-financial information was also positively correlated with both of items measuring direction of communications from investors to the company’s management and both of items measuring investment community as a beneficiary of investor relations work. Once again, however, correlations were not very strong: medium (Cohen, 1988) or moderate (Losh, 2004) for the following items: *I make sure that management considers investors' opinions in its decision making* ($r = .283; p \leq .001$), *I make sure that management acts in the best interests of shareholders* ($r = .253; p \leq .001$) and *I keep senior management knowledgeable about our shareholders and analysts* ($r = .270; p \leq .001$). The correlation was weak for *I deliver information from the investment community to senior management* ($r = .230; p \leq .001$).

The strongest relation was found, however, between frequency of communications of non-financial information and the proactive nature of investor relations. The item, *I rely on planning and diagnosing needs/opportunities to do my work*, had the strongest correlations with the frequency of communication of non-financial information ($r = .339; p \leq .001$). In other words, the more investor relations officers in their work relied on proactive communication based on research, the more they were likely to engage in communicating non-financial information to the investment community. Such correlation is considered “moderate” (Losh, 2004) or “medium” (Cohen, 1988).

In addition, one of the items measuring short-term focus of investor relations work, *I keep up with the current stock price and volume fluctuations*, showed medium positive correlation with the disclosure of non-financial information ($r = .270; p \leq .001$). In other words, the more

investor relations officers followed stock volatility, the more they were likely to communicate non-financial information.

Research Question 2.3. Differences in Investor Relations Practices across Industries

To investigate differences in the investor relations practices across industries, ANOVA test was used. The ANOVA table indicated that only one continuum had statistically significant differences across the industries: roles of the investor relations officers ($F(6, 160) = 2.74; p \leq .05$). Post-hoc tests indicated that investor relations officers in Division I, services, were more likely to engage in managerial tasks than officers from any other industry. However, only the difference between Division I ($M = 1.63; N = 19$) and a category where Divisions A (Agriculture), C (Construction), and F (Wholesale Trade) were combined ($M = -4.71; N = 7$) was statistically significant ($p \leq .05$) based on the Tukey test. This combined category had the lowest score of any industry. The ANOVA results are presented in Table 6-41.

Table 6-41. ANOVA results for the public relations continua across industries.

Indicators	SS	df	MS	F	p
Direction	45.06	6	7.51	.89	.503
Beneficiary	58.48	6	9.75	.45	.842
Roles	360.76	6	60.13	2.74*	.015
Nature	74.46	6	12.41	.68	.665
Focus	132.26	6	22.04	1.45	.199

** significant if $p \leq .001$; * significant if $p \leq .05$.

Research Question 2.4. Differences in Investor Relations Practices Based on Company's Market Capitalization

To investigate differences in the investor relations practices at companies with different market capitalizations, ANOVA test was used. The ANOVA indicated that there were no statistically significant differences depending upon the company's market capitalization in the way its investor relations officers practice investor relations.

Research Question 2.5. Difference in Investor Relations Practices across Departments

To investigate differences in the investor relations practices at different departments, ANOVA test was performed. The ANOVA test indicated that there were no statistically significant differences in the practice of investor relations depending upon what department manages the investor relations at the organization.

Research Question 2.6. Differences in Investor Relations Practices based on Investor Relations Officer's Reporting Relationship

To investigate differences in the investor relations practices depending upon the reporting relationship of the investor relations officers, ANOVA test was used. The ANOVA table indicated that only one continuum had statistically significant differences based on the investor relations officer's reporting relationship: enacted roles of the investor relations professionals ($F(2, 159) = 4.52; p \leq .05$). Post-hoc tests, indicated that investor relations officers reporting directly to CEO ($M = 1.45; N = 38$) were more likely to perform managerial tasks than investor relations officers reporting to the CFO ($M = .88; N = 111$) or the CCO ($M = -2.15; N = 13$). The ANOVA results are presented in Table 6-42.

Table 6-42. ANOVA results for the public relations continua across departments.

Indicators	SS	df	MS	F	p
Direction	36.72	2	18.36	2.54	.082
Beneficiary	69.49	2	34.74	1.71	.184
Roles	130.00	2	64.99	4.52*	.012
Nature	80.05	2	40.03	2.28	.106
Focus	16.35	2	8.17	.46	.632

** significant if $p \leq .001$; * significant if $p \leq .05$.

Research Question 2.7. Differences in Investor Relations Practices Based on Investor Relations Officer's Title

To investigate differences in the investor relations practices depending upon the title of the investor relations officers, ANOVA test was used. The ANOVA results were quite similar with the ANOVA based on the reporting relationship just discussed. The roles performed by the

investor relations officers once again had statistically significant differences ($F(4, 169) = 7.04; p \leq .001$). This was not surprising since the more senior the title was the more that person was expected to carry out managerial duties. The post-hoc tests confirmed that assumption. The respondents with the titles of vice president or senior vice president ($M = 1.17; N = 79$) played the managerial role more often than respondents with lower titles: director ($M = .50; N = 58$), manager ($M = -4.27; N = 58$), or specialist/coordinator/associate ($M = .11; N = 9$). The ANOVA results are presented in the Table 6-43.

Table 6-43. ANOVA results for the public relations continua across titles.

Indicators	SS	df	MS	F	p
Direction	58.74	4	14.69	2.24	.067
Beneficiary	113.53	4	28.38	1.43	.227
Roles	518.88	4	129.72	7.04**	.000
Nature	42.67	4	10.67	.591	.670
Focus	53.98	4	13.49	.800	.527

** significant if $p \leq .001$; * significant if $p \leq .05$.

Research Question 2.8. Differences in Investor Relations Practices Based on Investor Relations Officer's Demographic Variables: Age, Gender, Education, and Years of experience

To investigate differences in the investor relations practices based on the demographic characteristics of the investor relations officers, ANOVA tests were also used to compare the results on continua of public relations with demographic variables of the respondents.

There were no statistically significant differences discovered in the way the professionals practice investor relations based on the respondents' age or gender. On the other hand, the influence of experience and education was discovered.

The respondents' level of education did not have any influence on the way they practiced investor relations. The educational major, however, did ($F(2, 149) = 3.99; p \leq .05$). The respondents with dual education ($M = 4.50; N = 9$) that included both a business component, such as finance, accounting or management, and a communication component, such as public

relations, corporate communications, or strategic communications, rated the long-term focus in their job significantly higher than respondents with only business education ($M = .99$; $N = 129$) or with only communication education ($M = .15$; $N = 13$).

The influence of years of experience in investor relations was also discovered. Investor relations officers with over 10 years of experience rated long-term focus in their activities higher than investor relations officers with less experience ($F(5, 173) = 2.27; p \leq .05$) and they were also more likely to play the managerial rather than technician role ($F(5, 174) = 4.98; p \leq .001$). This, however, was expected because with more years of experience, respondents had a more senior title with an expanded scope of responsibilities.

CHAPTER 7

INTERPRETATION OF FINDINGS

Conclusions

This study analyzed the professional practice of investor relations in the United States. It focused on describing the activities investor relations officers perform on a daily basis. Using the public relations body of knowledge, the study proposed the methodological approach to measuring and evaluating investor relations practice. This approach was labeled *Continua of Public Relations*. However, to better reflect the peculiarities of the investor relations profession the items measuring public relations continua were modified. The modified model was labeled *Continua of Investor Relations*.

In addition, based on the review of the history of the investor relations in the United States, the study identified three eras of investor relations development. The first era, communication era, was characterized by the dominance of publicity and press agency in investor relations. The second era, financial era, marked the shift from communication to financial expertise in investor relations; former financial analysts and accountants became investor relations officers of that era. The study, then, proposed that today investor relations enters the third era in its historic development – a synergy era, when both communication and financial expertise are valued equally high. This era is also distinguished by the expanded scope of information investor relations officers communicate to the investment community.

Specifically, the study proposed that today investors and analysts more and more consider information about intangibles and non-financial indicators when making investment decisions. Furthermore, research shows that non-financial information is becoming more important in generating corporate value and thus lack of communications about non-financials to the investment community leads to undervaluation of the company and leaves much value on the

table. The study reviewed various approaches to categorization of non-financial information and analyzed the extent to which investor relations communicate and value such information.

The results of the study, however, reveal that investor relations is still largely a financial function both in terms of who carries out the work and what information is being communicated. Less than 10% of respondents characterize their educational experience as communication, reported to a chief communication officer, or worked in communication/public relations departments. This lack of communication expertise is a troubling factor, because communication expertise is precisely what corporations today require from their investor relations professionals. In fact, corporate CEOs indicate that the most valuable skills they expect from their investor relations staff are communication skills. Rivel and Peebles (2008a) elaborate:

It is not the ordinary and rather static “punch up the numbers,” financial modeling or knowledge of legal precedent which grabs the attention of the CEO. Rather, having a solid pedigree in communications effectiveness...is the key differentiating factor that CEOs most commonly say adds the greatest value in an investor relations officer....In no uncertain terms, CEOs indicated that they now more often value the IRO as a communications partner as opposed to an executive steeped in accounting, finance or compliance. (p. 18).

However, the study shows that CEOs are not getting what they want from their investor relations staff. Investor relations profession still lacks communication skills and expertise; communication professionals are a rare breed among corporate investor relations professionals. It would be incorrect to say that knowledge of finance and accounting is a negative skill for investor relations professionals; however, communication expertise is a skill that must complement that financial knowledge to help corporations in their investor relations efforts.

In addition, investor relations function is still predominately overseen by the chief financial officers – over 60% of respondents claimed reporting to CFO. Over 70% of investor relations officers have a business-related education. This is despite the fact that only 28% of investor relations officers actually work in finance/treasury departments. In other words,

although it is quite common nowadays to elevate the investor relations function to the level of an independent department – over half of respondents report working in a stand-alone department – the people hired to do the work are still mainly financially focused and the department still reports to the CFO, rather than to the CEO of the company. It seems that the importance of investor relations is recognized at organizations and thus it is structured as a standalone department. Yet, the CFOs continue to control the function. It is unclear if it is the CFOs who do not want to relinquish control of the function to the CEOs or if it is the CEOs who do not want to take on an extra responsibility, but investor relations responsibilities continue to be overseen by CFOs or other financial executives.

It does not come as much of a surprise, then, that investor relations officers mostly focus on communicating financial information to the investment community and also value financial information as the most important for understanding the company's business. It is unrealistic to expect people with financial background and financial responsibilities to pay much attention to communications of non-financial information.

This indicates that perhaps most of the companies can be best described as being still in the second era of investor relations, the financial era. The study suggested that the third era, the synergy era, would see investor relations relying on both communication and financial expertise, rather than on just one of these areas. At the same time, the synergy era is relatively new as the study estimated its beginning around the year 2005, after a series of corporate scandals and changes in regulations. Thus, it might be suggested that the investor relations function is still in transition at many of the companies. It is also possible that corporations in this time of transition rely on outside expertise in communication, utilizing the services of agencies to supplement their internal investor relations functions.

This assumption is somewhat supported by NIRI's membership data. In fact, similar to this study, NIRI (2003) reports that among corporate NIRI members background in finance/accounting dominates over background in corporate communications. However, the situation is opposite among consultants and investor relations agencies. Over half of all investor relations consultants report their experience as being primarily in corporate communication/public relations (NIRI, 2003). The present study, however, looked only at corporate investor relations officers and, as a result, large part of communication expertise, concentrated nowadays in investor relations agencies, perhaps was not accounted for.

However, the progress in investor relations is undeniable. In 1985, NIRI (1985) found that only 16% of the largest U. S. corporations had a stand-alone investor relations department. This study found 56% of respondents working in stand-alone departments and the study was not even limited to large corporations only. Thus, there was a significant increase in the amount of companies that consider investor relations worth creating a stand-alone department. This suggests the increased importance of the function and more attention paid to the issues of communicating with the investment community. This supports the literature review that estimated the importance of investor relations to be on all time high levels in the United States. In fact, NIRI's former CEO, Linda Kelleher (2007) notes that today senior management of corporations considers investors one of the most important publics, "second only to customers" (p. 2).

Most of these investor relations departments today, however, employ only one person. This puts significant pressure on investor relations officers who work in such departments. At the same time, larger companies report more than 10 employees with investor relations responsibilities. These disparities in the amount of investor relations staff can perhaps be

mitigated by using investor relations agencies and also by cooperation with other departments, such as, for example, corporate communications.

At the same time, integrated communication departments are quite rare. Less than 6% of respondents worked in integrated departments, which combined various communication functions together – investor relations, public relations, public affairs and similar. Silver's (2004) vision of merged investor relations and public relations departments has not been realized, at least for now. This might be perhaps attributed to a silo mentality that makes it easier for investor relations officers to engage an outside consultant with expertise in public relations rather than cooperate with an internal public relations expert, let alone merge investor relations and public relations departments.

When thinking about their work, investor relations officers describe their most common activity as *explanation*. Out of the battery of 20 items measuring the practice of investor relations, *I explain my company to the investment community*, was rated higher than any other item. As Laskin (2007) suggests, the practice of investor relations has experienced a change from just providing information about the company to explaining the company's business model. The purpose of investor relations becomes creating understanding of the company, not sharing numbers.

Based on the continua of investor relations, the investor relations practice can be described as utilizing two-way communications, having both interests of management and shareholders in mind, focusing simultaneously on the short-term and long-term objectives, and performing both managerial and technical tasks. However, according to the results of this study, the practice is predominantly reactive rather than proactive.

Allen (2004), founder of one of leading investor relations agencies, suggests that new investor relations must be a “proactive and strategic executive function” (p. 3). However, most of the companies do not rely on research and anticipating relevant issues in their investor relations practices. Rather, practitioners passively respond to the issues as they arise. The second most highly rated item in the battery of the investor relations practice questions was the following: *I answer requests from shareholders/investors, analysts, media, or senior management.* One of the items measuring proactive nature of investor relations, *I rely on planning and diagnosing needs/opportunities to do my work*, was the lowest rated item among all the items of investor relations activities. It is not clear why corporations’ investor relations practice is predominately reactive. Perhaps, too many responsibilities and lack of staff puts pressure on investor relations to at least cope with the routine. Stroud (2008), a chairman of NIRI, suggests that investor relations professionals “have less time and resources but more responsibilities surrounding investor relations” (p. 2).

Lack of proactive investor relations could also be explained by absence of required skills to develop proactive communications and conduct research. As discussed earlier, the majority of investor relations practitioners do not have a strategic communication education or experience.

No matter what the reason is, this situation puts investor relations at risk. Higgins (2000) explains that proactive strategic investor relations is a must for a company to build “a link between the company and the investment community, responding to the needs of both” (p. 26). Without research, investor relations lacks influence in management circles and could struggle to grow into a key function of managing shareholder value.

Another finding of this study is two-way symmetrical investor relations practice. Rosenstein et al. (2007) report that studies in public relations do not typically find two-way

symmetrical model as the predominant mode of practice of public relations. This study, however, found that investor relations practice is based on two-way communications, both to the company's management and to the company's publics, and also based on the balanced effects, both management and shareholders are intended beneficiaries of investor relations. L. A. Grunig et al. (2002), in fact, expect that investor relations might be one of the functions that call for symmetry and two-way communications because of the power that shareholders can exert over the company. Thus, Rosenstein et al.'s (2007) application of J. E. Grunig's models of public relations to the practice of investor relations confirms that investor relations is predominately practiced as two-way symmetrical communications. This dissertation uses different methodology to measure direction of communication and intended beneficiary; however, its conclusions are the same: the practice of investor relations is both two-way and symmetrical.

As for the role of the communicator and the focus of investor relation activities, practitioners seem to assume both technician and manager roles and focus on both short-term and long-term objectives. This perhaps indicates the shift from mere disclosure of quarterly results to educating the stock market on long-term corporate value. However, the study found that investor relations officers could be clustered into two groups – labeled managers and technicians. The technicians practiced investor relations differently from managers – technicians served to satisfy the management of the company only and predominately performed technical roles. However, even technicians paid equal attention to short-term and long-term objectives and two-way communications. Both of the groups exhibited lack of proactive actions in their investor relations practice.

The more experience investor relations officers had, the more likely they were to practice investor relations as managers. In general, the majority of investor relations officers played the

managerial role ($N = 151$), while technicians were in minority ($N = 27$). This can, perhaps, indicate that investor relations officers are more likely to act as managers, be part of the dominant coalition, and have more independent control over their functions than public relations practitioners in other functions.

Finally, the practice of investor relations is distinguished from the average public relations practice by the tactics used. Investor relations most often relies on one-on-one personal communications rather than on mass tactics. Even more, one-on-one communications is the dominant communicative tactic for both financial and non-financial information. So, although investor relations is a sub-function of public relations, it relies on different tactics and places different demands on the investor relations practitioners. This finding is also supported by Hanley & Associates research where “face-to-face meetings” between investors and companies are rated as the most important communication tactic (Boerner, 2008, p. 21). Hanley and Gedvila in an interview in *IR Update* explain that investors “increasingly focus more on wanting one-on-one interactions with corporate officers in an effort to gain a deeper, differentiated understanding of companies” (Boerner, 2008, p. 19).

As for the specific information communicated to investors, the most often communicated information is financial, as mentioned earlier. Financial information is also rated as the most important for understanding the company’s value. However, one type of non-financial information – information about corporate strategy – is rated almost as highly as the financial information in both frequency of communication and importance for understanding the company’s value. This correlates well with what investors and analysts actually want to hear from the company. Ernst & Young’s (1997) study reports that institutional investors and

financial analysts rate indicators of corporate strategy as the most important for evaluation of companies.

The investment community rates managers' credibility as the second most important issue in Ernst & Young's (1997) study. The respondents of Hill & Knowlton's (2006) study rate quality of management as the most important factor for the financial analysts. On the other hand, investor relations officers indicate that they do not communicate information about management as much as perhaps needed – frequency of communicating information about management is rated in the middle of the pack, behind such indicators as products and services, market position, and organizational capital. Perceived importance of information about management is also rated behind market position and product and services, but slightly higher than the importance of organizational capital.

In general, these findings indicate that investor relations officers are quite knowledgeable about the needs of the investment community and communicate information that is in fact relevant to analysts and investors and helps them make an informed decision about the stock. It is a good sign that information that the investment community rates as the most important is also rated as the most important by investor relations officers and is also the information most frequently communicated to investors and analysts.

At the same time, the findings indicate a dissonance regarding the information about management – investor relations officers undervalue this information in comparison with investors. Boerner (2008) explains that investors are actively seeking information about management and its commitment to corporate strategy; more so, they highly value access to the management. This dissonance should be addressed by the investor relations practitioners to better meet the needs of the financial community.

As for the least important information it is the same for the investor relations officers and for the financial community – corporate social responsibility and employee policies. This information is not viewed as integral to understanding the company's business and its value. Investor relations officers communicate this information the least frequently. It is a puzzling conclusion because much research has been recently devoted to corporate social responsibility. Perhaps, it is an area of growing importance and several years down the road both investors and investor relations officers will value this information more. On the other hand, it is unreasonable to expect investor relations officers to value the importance of such information highly and communicate it frequently, if the investment community does not need this information and does not see it as important for valuing the company.

The findings also support Lev's (2004) claim about the information deficiencies in corporate disclosures – such disclosures focus on financial indicators, while paying significantly less attention to information about intangibles. Lev concluded that this might be one of the reasons for stock under-valuation. The dominance of financial information in both frequency of communication and perceived importance of such information implies that investor relations officers focus most of their efforts on financial information. This situation can lead to a lack of understanding of the company's value among the investment community. Lack of understanding, in turn, can lead to stock under-valuation or increased volatility in the company's stock (Hatheway, 2008).

The majority of the buy side has a long-term outlook at their holdings. Rivel and Peebles of Rivel Research Group report that the typical holding period for the U.S. buy side is 24 months. At the same time, 14% report a holding period of over five years and additional 19% of investors report a holding period of three to five years. The researchers conclude that investors'

“perspective in dealing with common stocks is decisively more of a long-term as opposed to short-term orientation” (Rivel & Peebles, 2008c, p. 12). In this situation non-financial indicators become an important tool for communicating long-term value and growth potential versus quarterly accounting statements. In the long term, non-financial indicators combined with financial data are better predictors of a company’s value than financial data alone – non-financials provide “forward-looking information on accounting or stock performance” (Ittner & Larcker, 2000). As a result, the lack of non-financial information in the corporate disclosures makes it difficult for long-term investors to estimate future corporate value.

Another important finding is the role of corporate communication in communicating non-financial information. The regression analysis revealed that the best predictor of the company’s communicating of non-financial information is the value that investor relations officer places on the importance of corporate communications. In other words, those practitioners who perceive corporate communications as important for understanding the company’s value tend to communicate non-financial information more often than others. Other variables with strong predictive power are: importance of organizational capital, importance of research and development, and importance of corporate strategy.

Overall, investor relations officers see non-financial information as comprised of three main groups: product information – information about company’s products, research and development, and market position; process dimension – information about the company’s strategy, internal structure, and management; and support dimensions – information about corporate social responsibility and corporate communications. The products and process information is generally regarded as important, while support information is believed to be less relevant for understanding the company’s business and communicated less frequently.

As for the general description of the investor relations practitioners, this study once again confirmed that investor relations officers are generally well educated (almost 70% reported having a graduate degree) and hold senior positions in their organizations (44% reported a title of vice president or senior vice president). As mentioned earlier, they are most likely to have a business-related degree and to report to a CFO. They most often work in a stand-alone investor relations department and have about 10 years of professional experience in investor relations. The demographic variables, however, have a limited effect on the practice of investor relations. There were no statistical significant differences based on the respondents' age or gender.

Education, however, had a certain effect: respondents with both business and communication educational backgrounds rate the long-term focus in their work significantly higher than those with only communication or only business education. This supports the point of view that synergy era of investor relations that combines financial and communication expertise is more focused on long-term relationship-building activities rather than any of the previous two eras. As discussed above, long-term focus is essential in combating the stock market short-termism. Buy side holds the stock long-term and investor relations needs to plan long-term in dealing with institutional investors. Thus, it is important for an organization to have this mix of communication and financial skills. However, it can be achieved not necessarily by hiring a person with dual-degree, but having employees from both backgrounds on its investor relations staff.

Respondents with more years of experience also rate long-term focus higher. In addition, they rate the importance of non-financial indicators higher and communicate the non-financial information more often than practitioners with less experience. Despite the influence of experience, the title that respondent have does not have such an influence. Respondents with

more senior titles engage in managerial activities more often, but do not communicate non-financial information more or less often.

The influence of reporting relationship is also statistically significant. The respondents reporting to CFO do not see much importance in communicating non-financial information in comparison with officers reporting to CEO or CCO. It perhaps is not surprising because the CFO as the person primarily responsible for financial information can be expected to value financial information more than non-financial information.

Corporate social responsibility information seems to have a positive correlation with company's market capitalization – large companies communicate this information more often and rate this information more important than smaller companies. It is plausible that market places a higher burden on large companies to report the information about their environmental and social policies. Information about research and development is most important for the smaller companies. Perhaps these smaller companies have to rely on research and development information to communicate their future growth potential to the investment community because they often lack track record or tangible assets and much of their future value in fact resides in research activities.

Investor relations, however, is practiced similarly regardless of the function's structural location within the organization – investor relations, treasury, or communication departments perform investor relations activities similarly. The influence of the industry on the investor relations practice is also limited. Perhaps, similarities in the investor relations practices across various variables can be best explained by the strict regulatory environment in which investor communications occur. SEC, stock exchanges, and other agencies regulate what, when, and how

information needs to be communicated to investors. This limits potential variability of the practice across industries and departments.

However, companies in manufacturing are more likely to communicate research and development information and perceive this information as more important in comparison with companies from any other industry. Perhaps, the nature of business requires manufacturing companies to devote more attention to such information – after all, research and development is essential for future value generating capabilities of a manufacturing company. On the other hand, companies in service industries communicated information about their products and services more frequently and valued more highly than companies in any other industry. This is another example of the influence of the nature of business – service companies have to explain what exactly it is that they do and how they make money.

Finally, the link between the investor relations practice and the frequency of communicating information about intangibles was discovered. Those investor relations officers who rely on research and two-way communications, show symmetrical intent, and cultivate long-term relationship with their shareholders tend to communicate non-financial information more frequently than other investor relations officers. It is, however, expected for non-financial information to be positively correlated with the long-term focus and relationship-building, because non-financial indicators are better predictors of long-term value than short-term accounting statements. Also as Ernst & Young's (1997) research indicates, financial analysts and investors, in fact, require this non-financial information for the improved understanding of company's business. Thus, it is not a surprise that companies that conduct research and listen for feedback from their investors by utilizing two-way communications, provide the non-financial information more frequently to the investment community than other investor relations officers.

Implications for Practice

Based on the findings discussed above, several recommendations can be made for the investor relations practice. The study discovered that the investor relations officers focus predominately on the financial results in their communications to the investment community. As a result, concurrent with what Lev (2004) expected, companies suffer from undervaluation because they do not communicate the value of their non-financial assets, such as research and development or organizational structure. Financial analysts and institutional investors (Ernst & Young, 1997) note the importance of non-financial indicators for correct evaluation of the companies and complain about lack of disclosure of non-financial indicators. Thus, investor relations officers should consider paying more attention to the value hidden in the non-financials. They should consider increasing frequency and quality of communicating non-financial information to their investors and analysts, and to help them understand the value hidden in these intangibles.

CEOs expect from their investor relations officers “the ability to create and maintain relationships with important investors and analysts, as well as to delineate and explain management’s business strategy” (Rivel & Peebles, 2008a, p. 21). Today the investor relations profession perhaps can change its practice of hiring retired financial analysts or investment bankers; communication skills are becoming the main value-creating asset of investor relations. The communication-educated professionals should enter the industry; dual-degree professionals who combine the knowledge of communication and finance should take the lead.

This, however, is unlikely to materialize if the investor relations function is under the supervision of a CFO. Thus, the investor relations function works best if it is elevated to a standalone department and reports directly to a CEO. The CEO as the main strategic manager of a corporation is more likely to understand and appreciate the value of non-financial indicators

and importance of communicating these indicators to the investment community. The long-term horizon of the CEO is typically better suited to the long-term relationship-building activities of investor relations. This is also more compatible with the long-term holding period of the buy-side. An anonymous portfolio manager explained, “What I don’t really care about are quarterly numbers but what we do want to talk about is the long-term profitability goals and operating models that the company thinks it can achieve in its business” (Rivel & Peebles, 2008b, p. 19).

The management of the company is also more likely to appreciate investors with a long-term horizon rather than with short-term. As a result, investor relations officers should actively work to extend the holding periods of their stocks and look for investors who “consider themselves ‘owners of company,’ not simply ‘renters of stocks’” (Schoger & Iannarino, 2008, p. 11). Investor relations officers should consider changing their efforts, internally and externally, to “focus on developing the big picture strategic elements, staying away from aspects such as short-term changes in analyst earnings expectations” (Morgen, 2007, p. 21).

The investor relations function today is largely passive and reactive. Silver (2004), Allen (2004), and Laskin (2007) claim that investor relations profession is becoming a strategic and proactive activity. The results of this study, however, showed that investor relations most often passively reacts to pressures from the environments rather than trying to anticipate them. Investor relations should change into a proactive activity to become what NIRI calls “a strategic management responsibility” (NIRI, 2004). Investor relations practitioners should conduct research, develop goals and strategic plans, and anticipate relevant issues. Proactive management of shareholders, shareholder communications, and company’s value must become the top priority for the investor relations leaders.

Investor relations professionals report engaging in two-way symmetrical communications: listening to feedback from the financial community and, more importantly, acting on this feedback to mutual benefit of management and shareholders. Some of the investor relations professionals (for example, Bloxham, 2008), however, still see the function of investor relations to be just an “advocate” of management who defends the company’s actions in the eyes of shareholders. Yurow (2007) reports on a study that showed that many of large corporation do not even bother to respond to investor inquiries and do not have corporate policies about how such communications can reach management and board of directors. It is important to establish organizational systems that would enable investor relations practitioners to be not just the advocates of management, but also the advocates of shareholders in the eyes of management without a risk of employment termination. Investor relations should understand and appreciate their function as facilitator of symmetrical two-way communications. The policies should be enacted that would allow for two-way communication and the ability of shareholders to communicate to the CEO and other senior managers; investor relations should take the lead in establishing and managing such communications.

As for the specific types of information communicated, investor relations officers in general do a good job in communicating the information that investors need. However, there is one type of information that is under-communicated – information about the company’s management. Investors often rate this information as one of the most important. However, investor relations officers do not see it as important. This dissonance can harm the stock valuation and the way investors perceive the future of the company. Thus, investor relations officers should consider providing more information about the quality of management to the investment community and allow for face-to-face time between investors and management.

Linda Kelleher (2007), in her last letter as the CEO of NIRI, writes that investor relations officers must pay more attention to communicating information about management of the company, recognizing that information about management is “one of the most important metrics that investors consider in stock purchase decisions” (p. 22). She discusses the need to communicate more information about management compensation philosophy and performance evaluation, and concluded that more communications about management could be “a benefit for both public companies and their investors – an easy benefit that management should not pass up” (p. 22).

Implications for Education and Research

The study’s findings also suggest several implications for investor relations education. The investor relations practice combines at least two areas: finance and communications and both of these areas are required for the successful practice. Even more, investor relations officers that combine both finance and communication in their educational background tend to be more strategic in their work and focus on long-term objectives rather than on short-term ones. This strategic long-term focus is important for the investor relations practice and thus the dual-education is a valuable asset for the investor relations officer.

To achieve this dual-educational experience, nowadays, most of the investor relations professionals have to gain a second degree. Perhaps, it is a sign that there is no suitable educational program that combines financial and communication skills to prepare future investor relations officers. In fact, there is a lack of investor relations education. There are no investor relations majors or minors and only a few schools offer stand-alone investor relations courses. Building an investor relations educational program can be an important step for advancing the profession of investor relations. Such program must combine knowledge of finance and

accounting, strategic communications and public relations, marketing and research, and securities law compliance.

Rivel and Peebles (2008a) conclude that CEOs value communication skills of the investor relations staff as the most important: “they now more often value the IRO as a communications partner as opposed to an executive steeped in accounting, finance or compliance” (p. 18). Yet, currently the education of investor relations officers is most often in accounting and finance. Clearly, changes in education are needed to satisfy the need for investor relations professionals with solid communication training.

Investor relations education requires developing a comprehensive investor relation textbook, which would incorporate theoretical development in the field as well as practical case-studies. Investor relations textbook can be the first step to encourage development of the stand-alone courses in investor relations across the country and internationally. Such text-book and such course would have to incorporate knowledge from various areas of expertise, housed traditionally in different departments and colleges on a university campus. For example, investor relations course at a minimum should incorporate knowledge of strategic communication and basic accounting. It also should include financial analysis, legal aspects of investor relations, and marketing. The reliance on one-on-one and small group communications in investor relations requires expertise in public speaking, professional business writing, and communication technology.

More research is also needed in investor relations. This study provides a description of the profession and the information investor relations officers communicate, but it could not answer the question why, due to limitations in its methodology. Qualitative research projects, such as case studies, in-depth interviews, and observations, can help advance understanding of the

profession and investor relations professionals. Long-term longitudinal research projects, collecting data over time, can help see the influence of investor relations decisions and have a better chance of establishing causality.

Some of the issues raised in this research require additional investigation. For example, the study discovered a dissonance between the value that investment community assign to the information about management and the value that investor relations officers assign to such information. The investment community rates information about management as one of the most important, while investor relations officers do not see it as important and do not communicate such information frequently. Why does this dissonance exist? What is the influence of this dissonance? How does the lack of information about management influence the company's value? What is the importance of management involvement in the investor relations activities? Do companies that provide face-to-face time between the management and investors enjoy high value or less volatility than other companies?

Another important part of investor relations agenda is the value that the profession contributes to the corporate bottom-line. It is difficult, if not impossible, to establish a causal relation between investor relations activities and the stock value because many other factors can come into play, including company's performance, industry outlook or overall market conditions. Quast (2007) says that it is, in fact, difficult "to correlate stock performance to fundamentals and outreach" (p. 11). More research is needed to establish the metrics for evaluating investor relations performance. Some qualitative research about investor relations contribution to the organizational bottom line exists (for example, Laskin, 2007), but it needs to be continued with additional qualitative and quantitative studies.

Another limitation of this study was the fact that it focused on corporate investor relations officers only. Thus, the investor relations counselors who work in investor relations or public relations agencies were ignored. Their practice of investor relations might differ from the corporate professionals. They might have a strong influence on the profession in general. Thus, it is important to have research studies that would include the population of investor relations counselors. The same instrument can be used to analyze the practice of investor relations consultants. This will allow for an easier comparison between investor relations consultants and corporate investor relations officers.

Moreover, the study relied solely on members of NIRI. This could potentially introduce an error in the results because it excluded the practitioners who are not members of any professional organization or are members of other professional organizations, such as for example PRSA or IABC. Thus, future studies should include other population lists available to researchers.

Finally, this study had other limitations related to its external validity. The respondents who chose to participate in the study might be different from those who chose not to. With the response rate of only 33%, it might be possible that the majority of the investor relations officers practice investor relations differently and communicate different information to the investment community than investor relations officers who answered the survey for this study. Additional studies, using other sampling frames, other instruments and other methodological approaches, are needed to better understand the profession of investor relations. At the same time, the instrument developed in this study should also be validated in other studies and with other populations of investor relations officers.

However, the instrument developed in this study can also be expanded beyond investor relations. The instrument is developed based on general public relations research and, thus, is

applicable in other public relations contexts. The Continua of Public Relations can be used to measure and evaluate general public relations practice as well as other public relations specializations with appropriate modifications. It can be used to measure media relations, fundraising, public affairs, community relations, government relations, employee relations and others. This instrument's contribution to the body of knowledge lies in advancing previous research about models/dimensions of public relations through re-evaluation of models/dimensions themselves as well as their criticism. As a result, this research expands the public relations theory and methodology.

The instrument can also be used to measure investor relations and public relations practices in other countries and over time. The practice of public relations is quite established nationally, but investor relations is still establishing its international presence. Among recent news, investor relations professional organizations were established in the Russian Federation and the Middle East (Lewis, 2008). Thus, international adaptation of the instrument can provide a global picture of public relations and investor relations professions, while the studies over time can show the progress that these functions make in their evolution.

The repeated application of the instrument in various contexts will provide opportunities to evaluate the validity and reliability of the instrument, and introduce necessary modifications to the questionnaire as well as methodology. Additional studies can also expand the theory in investor relations and public relations – other continua can be added to the instrument to account for other variables.

APPENDIX
THE QUESTIONNAIRE

1. Using numbers from the drop-down menus, please rate HOW OFTEN you disclose or discuss the following types of information with the investment community (shareholders and investors, prospective shareholders, financial analysts, etc.) and also HOW IMPORTANT each of these types of information is for understanding your company's business and value. In the first column on disclose/discuss, 0 means "Never" and 10 means "All the Time." In the second column on importance, 0 means "Not Important" and 10 means "Very Important."
 - Financial information
 - Corporate strategy
 - Management team
 - Employees and HR policies
 - Organizational capital and resources
 - Research and development
 - Products and services
 - Market position (customers & competitors)
 - Corporate social responsibility
 - Corporate communications (PR, IR, advertising)
2. Please rate on a scale from 0 to 10, where 0 is "Never Use" and 10 is "Use All the Time," HOW OFTEN you use the following tactics to communicate financial information and non-financial information to the investment community.
 - One-on-one meetings/calls
 - Small-group meetings/communications
 - Special events/roadshows/conferences
 - Company media (Annual report/Web site)
 - SEC filings
 - Mass media (press releases/op-eds/interviews)
3. The following statements may or may not describe your investor relations work. Using a scale from 0 to 10, where 0 is "Strongly Disagree" and 10 is "Strongly Agree," please indicate the extent to which each statement describes your work.
 - I disclose information about my company.
 - I explain my company to the investment community.
 - I deliver information from the investment community to senior management.
 - I keep senior management knowledgeable about our shareholders and analysts.
 - I protect the reputation of senior management in the eyes of the investment community.
 - I defend my company's actions in the eyes of the investment community.
 - I make sure that management acts in the best interests of shareholders.
 - I make sure that management considers investors' opinions in its decision making.
 - I rely on one-on-one or small group communications to do my work.
 - I rely on personal contacts with investors and analysts to do my work.
 - I rely on mass media and other tactics targeted at large audiences to do my work.
 - I produce SEC filings.

- I manage all aspects of my company's investor relations program.
 - I develop goals and objectives for my company's investor relations program.
 - I handle technical aspects of my company's investor relations program.
 - I write and edit texts and prepare presentations/speeches.
 - I conduct research to anticipate relevant issues.
 - I rely on planning and diagnosing needs/opportunities to do my work.
 - I answer requests from shareholders/investors, analysts, media, or senior management.
 - I am responsible for quickly finding information for somebody who needs it.
 - I develop long-term relationships between investors/analysts and my company.
 - I cultivate long-term focus in stock ownership.
 - I provide earning's guidance and current financial results.
 - I keep up with the current stock price and volume fluctuations.
4. What is your company's market capitalization?
- Micro-cap (below \$250 million)
 - Small-cap (below \$2 billion)
 - Mid-cap (below \$10 billion)
 - Large-cap (below \$200 billion)
 - Mega-cap (\$200 billion and above)
5. What is your company's SIC industry classification?
- Division A: Agriculture, Forestry, and Fishing
 - Division B: Mining, Oil, and Gas
 - Division C: Construction
 - Division D: Manufacturing
 - Division E: Transportation, Communications, Electric, Gas, and Sanitary Services
 - Division F: Wholesale Trade
 - Division G: Retail Trade
 - Division H: Finance, Insurance, and Real Estate
 - Division I: Services
6. How many people are primarily employed in investor relations at your company? Please type number in the box below.
7. What is your departmental affiliation?
- Investor relations department
 - Communication/Public relations department
 - Finance/Treasury department
8. To whom do you report directly?
- Chief Executive Officer
 - Chief Financial Officer
 - Chief Operating Officer
 - Chief Communication Officer

9. What is your title?

- CEO/President
- CFO/Treasurer
- Vice-President/Senior Vice-President
- Director/Senior Director
- Manager/Senior Manager
- Specialist/Coordinator
- Associate

10. What is your highest level of education?

- High school
- Some college
- Undergraduate degree
- Graduate degree

11. Which of the responses provided best describes your formal educational background?

- Business degree (finance, accounting, etc.)
- Communication degree (PR, journalism, etc.)
- Both business and communication degrees

12. For the following items, please type the amount of full years (if none, enter 0).

- Years of experience in investor relations?
- Years at present company?

13. Your age?

- Below 30
- 30 – 39
- 40 – 49
- 50 – 59
- 60 and above

14. Your gender?

- Female
- Male

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BIOGRAPHICAL SKETCH

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