The Value of Investor Relations: A Delphi Panel Investigation

by

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INTRODUCTION

Investor relations officers (IROs) say that one of the biggest challenges of their work is proving to management that investor relations contributes value to their organization (Laskin, 2005). Indeed, one might consider it obvious that good investor relations is good for an organization; however, quantifying such "goodness" can be a demanding task for an IRO or for an investor relations scholar. This study provides an initial step in evaluating investor relations' contribution to an organization's bottom line.

The appearance of the first shareholder can be traced back to the XVII century's Dutch East India company (Britannica, 2006) or sometimes even to the XIII century's Stora Kopparberg mining company (Wikipedia, 2006). In the United States, the first public company is believed to be the Boston Manufacturing Company, founded in 1814 (Allen, 2004). When the owner of this company needed to expand the business, he sold the stock in the company to his associates. Nonetheless, the issue of communicating with investors and shareholders did not catch the attention of executives until one hundred and fifty years later (National Investor Relations Institute, 1985; 1989). David Silver (2004) elucidates that "investor relations emerged into its own in the 1960s, often associated…with the so-called dog and pony shows for sell-side analysts and retail investors, usually held at the offices of securities brokerages" (p. 70).

The academic research in the area of investor relations is still emerging today. Marson and Straker (2001) observe 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). Several scholars conclude that academic journals mostly ignore studies of investor relations (Farragher, Kleiman, & Bazaz, 1994; Brennan & Kelly, 2000). Barbara Petersen and Hugh Martin (1996) claim that "theory building studies of investor relations as a function of corporate public relations are rare in the communications scholarly literature" (p. 173).

Even with this lack of research, investor relations as a profession has been able to achieve a rather prominent status and recognition at the majority of the largest U.S. corporations (Laskin, 2006). Stephen Schultz sees the growing demand in the investor relations services: "IR as a discipline is beginning to escalate within public companies" (as cited in McCartney, 2003). Professionals and scholars have concluded that investor relations is capable of delivering a competitive advantage to corporations. "In the post-Enron era, investor relations vaults to the top of the corporate agenda, as companies must begin to rebuild investor confidence," Allen says (2002, p. 206). In fact, today "trust will no longer be assumed" and thus, investor relations is recognized as an activity capable of creating "a competitive advantage" (Allen, 2002, p. 206-207) and enabling companies to compete for capital in an open market (Conger, 2004).

In fact, the slogan itself of the investor relations profession is "Enhancing corporate value through effective communication" (National Investor Relations Institute, 2004, p. 1). However, this slogan does not explain how effective investor relations contributes to the corporate value of the organization. This slogan also does not specify how big that contribution is and if investor relation is worth doing. Thus, this study first provides a theoretical overview of suggestions in the literature of the contribution of investor relations to the organizational bottom line. Secondly, this theoretical overview serves as a starting point for an empirical investigation organized as a Delphi panel. Investor relations officers from both corporations and from investor relations agencies were recruited to participate in the panel and share their practical insights in response to the theoretically identified indicators of investor relations value. In sum, this study first identifies what academic research considers the contribution of investor relations and, secondly, evaluates these academic ideas by experienced investor relations practitioners. The evaluations by individual practitioners are merged into one consensus answer, which becomes a snapshot of today's view of both academics and IROs on how investor relations contributes to the organizational bottom line. These consensus indicators of investor relations' contributions might also be used as a foundation for further research.

THEORETICAL OVERVIEW

A search of academic databases found little previous research in the area of investor relations. *Communication Abstracts* has references to only two academic publications on investor relations or shareholder relations. The search for academic publications in two of the EBSCO host research databases (Academic Search Premiere and Communication & Mass Media Complete) returns the same two publications plus two additional ones for a total of just four peer-reviewed articles on investor relations from the communication standpoint. These four articles were published in 2003, 2002, 1996, and 1992. The two most recent articles are concerned with investor relations in Great Britain (Dolphin, 2003) and in Eastern Europe (Dragneva, 2002).

Of the two articles mentioning investor relations in the United States, one "Memory for investor relations messages: an information-processing study of Grunig's situational theory" by Glen Cameron published in the *Journal of Public Relations Research* in 1992 is not really concerned with the practices of the investor relations in the industry. The article tests the situational theory on undergraduate students in college settings. However, the other article, however, "CEO perceptions of investor relations as a public relations function: an exploratory study," by Barbara Petersen and Hugh J. Martin, published also in the *Journal of Public Relations Research* in 1996, is relevant to this study. The authors surveyed chief executive officers (CEOs) in non-banking public companies in Florida to learn whether senior managers of the organizations perceive investor relations as a public relations function at all, and what departments and employees are involved in the investor relations functions.

The authors observe, “Conventional wisdom among public relations scholars and practitioners considers the two functions bound together under the organizational umbrella of communication management. However, corporate reality is that the investor relations function only infrequently reports to public relations executives” (Petersen & Martin, 1996, p. 173). The study concludes that the investor relations function is seldom managed by public relations practitioners not because the activities are essentially different, but because CEOs of the companies “do not perceive investor relations to be part of the public relations function” (Petersen & Martin, 1996, p. 173).

The results of these searches indicate that communication research to date generally ignores investor relations. As a result, an additional search was conducted in a business subject database. The search in ProQuest[1] returned fifty academic peer-reviewed articles published in scholarly journals after January 2000 where investor relations is mentioned either in the title or in the abstract and another forty articles published before 2000. While the business literature has in fact more studies on investor relations, it is still far from being a well-researched area.

These communication and business academic publications along with publications of the National Investor Relations Institute, Investor Relations Society, and the Institute for Public Relations become the basis for identifying the potential ways investor relations contributes to the organizational bottom line. Four major contributions are identified:

- Securities Valuation;
- Trading Volume;
- Analysts coverage; and
- Relationship with the investment community.

Securities Valuation

Several studies link the effective investor relations and expanded informative disclosure with increased demands for the corporation's shares and lower risk premium, thus, the lower cost of capital, or improved securities valuation (Gelb, 2000; Fishman & Hagerty, 1989; 2003; Benston, 1986).

Gelb (2000) suggests "that more informative disclosures, by allowing investors to monitor managers more effectively and efficiently, increase demand for the firm's securities and ultimately lower its cost of capital" (p. 171). Common logic suggests that the most effective way to accomplish this is to be as transparent to investors as possible. Financial results, as well as managerial discussions, future plans, and other information may be made available to shareholders. Jeffery Erber proclaims, "Transparency builds credibility" (as cited in McCartney, 2003). Fishman and Hagerty (1989) also suggest that "firms have the incentive to disclose too much information" (p. 643) because it leads to more efficient market valuation of such firm's securities. Gelb (2000) summarizes that the more informative the disclosures, the better it is for the company. Pekka Tuominen (1997), studying investor relations practices in the Finnish stock market, claims that "success in investor relations requires the companies to extend the scope of investor relations from a mere publication of obligatory annual and interim reports to more frequent , extensive, proactive and diversified two-way interaction and communication" (p. 46).

Extensive disclosure can improve the financial standings of the company. The Investor Relations Society (n.d.) suggests that "investor relations can have positive impact on a company's market value and cost of capital relative to its industry sector and the overall economic climate" (p. 1). Similarly, research commissioned by the Institute for Public Relations suggests that "the one bottom line measurement for the investor relations executive is achieving a fair market value for the stock" (Michaelson & Gilfeather, 2003, p. 10). The

[1] ProQuest is a database that contains business publications and combines content from ABI/INFORM Global,

authors suggest using the Price/Earnings ratio in comparison with peer companies as an indicator of fair market value.

Mahoney (2001) suggests that “more volatile and risky stocks will not command as high a valuation as ‘safer stocks’… So information that helps create a fair value is a powerful weapon in reducing the cost of capital” (pp. 16-17). Starkman and Klingbail (2004) argue that the traditional belief in letting market forces establish a fair price is unsubstantiated because “the capital market speaks its mind all the time” (par. 3) by pricing the securities of the companies it does not trust lower than the securities of peer firms. Pricing firms' securities is among the major indicators of the success of public companies; “the ability to raise funds on the slightest margin above the government interest rate, or to show profits on a share – these are the name of the game,” Starkman and Klingbail conclude(2004, par. 4).

Trading Volume

Another benefit of an effective investor relations program is increased trading volume of securities. Although extremely high or low trading volume is a negative sign, creating the liquidity for a firm’s stock is an important goal of an investor relations department. Lack of liquidity prevents investors who look for a quick turn-around of their investments from purchasing the stock (Sinnett, 2002). Several authors (Michaelson & Gilfeather, 2003; Conger, 2004; Gelb, 2000) also mention increased trading volume and liquidity of securities among the benefits of an investor relations program.

Analyst Coverage

An essentially different approach is suggested by Michaelson and Gilfeather (2003), who, in addition to stock value, trading volume, and similar indicators labeled “outcomes,” suggest looking at indicators they label “outputs” (pp. 9-11). According to Michaelson and Gilfeather (2003), outputs are the direct “results of communication program” (p. 9). Among

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ABI/INFORM Trade & Industry, ABI/INFORM Dateline and the ABI/INFORM Archive.

such outputs, the authors mention analyst coverage of the company. Indeed, other authors (Conger, 2004; Mahoney, 2001) also mention analyst coverage as a basis for the evaluation of investor relations. Analysts' recommendations also provide an easily accessible database for evaluating investor relations program.

It is possible to review analyst coverage in different ways. One might look at the amount of coverage--how many analysts cover the company. One might also look at the actual recommendations issued by the analysts or the accuracy of analysts' coverage. These approaches provide valid and valuable perspectives for an empirical investigation.

The company needs to maintain a constant dialogue with the investment community to ensure the accuracy of its perception among analysts and other securities market professionals. 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). 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, 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). Allen (2002) concludes, “Investor relations officers should heed marketplace rumblings about earnings measurers and understand exactly what analysts and investors of the company want, but may not be getting, from financial disclosures” (p. 210).

Relationships

Investor relations may contribute to company's bottom line by building relationships with the company’s publics, and particularly with investors. The investor relations’ goal becomes not about providing up-to-date information but about relationship building. The scope of investor relations activities is constantly growing and becoming more than "answering and administering to the needs of shareholders" (Ainsberg, 2004). Laskin (2005) goes further: "investor relations is not about numbers any more, today's investor relations is about building and maintaining relationships" (p. 11). Minow (2002), editor and co-founder of *Corporate Library*, summarizes, "markets do not run on the money; they run on trust." Furthermore, "creating stronger relationships with analysts, portfolio managers, brokers and individuals" is a task NASDAQ proposes for modern practitioners of the investor relations field (Mahoney, 2001, p.1).

Relationships, although difficult to measure, nevertheless, provide a clear advantage to the company. Starkman and Klingbail (2004) explain that a company that builds relationships with its shareholders is often rewarded for these investments. These shareholders do not sell off the stock as soon as it goes down or the company faces challenges. Mahoney (2001) explains,

> 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).

Building relationships with shareholders increases investors' confidence and trust in the company; information about the company is interpreted through these relationship lenses. Peter Imlay elucidates, "Wall Street has so many information sources, but all of those numbers don't mean much if you don't trust those who are running the company. The only way to establish that trust: build relationships and consistently communicate clearly" (as cited in Cogner, 2004, p. 3).

Knowing investors and their needs results in better relationships between investors and a company, and hence higher stock prices. "Investors approving of certain corporate strategies and actions are likely to respond by buying shares, causing stock prices to rise" (Mahoney, 2001, p. 9). Altogether, the role of building a relationship with shareholders might be the cornerstone of investor relations; "the chief ingredient in all investor relations activities" (Chatlos, 1984, p. 85). Through relationship building, organizations and their publics, including investors, attempt to "co-create, co-manage, and co-define" meaning (Heath, 2001, p. 35).

Mahoney (2001) suggests that companies might develop a brand for their securities the same way as they do with their products and services. He writes, "in tailoring communications to different groups, companies can use their knowledge of investor behavior and appeal to individuals through brand awareness, local loyalty, good corporate citizenship, and consistent financial performance" (p. 16). Thus, relationship-building activities can provide value to the bottom line of the organization as substantial as operational activities. Yet, the measurement of relational contributions to the bottom line may prove difficult.

Having reviewed the literature on the contribution of investor relations to a company's bottom line, this study identifies four areas of such contribution: share valuation, liquidity, analysts' recommendations, and relationships with investment community. However, it remains unclear how investor relations professionals would evaluate these academic findings. The following empirical investigation strives to answer this question.

DELPHI METHODOLOGY

This study further explores how theoretical statements about the investor relations' contribution to the organizational bottom line are evaluated by experienced IROs. This bridges the gap between theory and practice, as well as paves a better way for future development of investor relations science and practice. One methodology that seems appropriate for this task is a Delphi panel. "Delphi is the name of a set of procedures for eliciting and refining the opinions of a group of people," Dalkey states (1967, p. 1). He continues, "In practice, the procedures would be used with a group of experts or especially knowledgeable individuals." The Delphi technique originated in the late 1940s at the Rand Corporation. Many Delphi studies have been conducted since that time by both government and private sectors in many countries (Sackman, 1974).

Delphi initially was exclusively used as a technological forecasting tool to see how technology will evolve, especially in the context of the Cold War between the United States and the Soviet Union. Later, it was expanded to social science phenomena such as, for example, the evaluation of services of the Jewish Community Federation (Reisman, Mantel, Dean, & Eisenberg, 1969), quality of life (Dalkey, Rourke, Lewis, & Snyder, 1972), and Internet usage by corporations (Weber, 2004). Turoff (1972) suggests that Delphi can be a general purpose vehicle for human communication, consensus building, and group problem-solving. Sackman (1974) concludes, "Applications have expanded until they are virtually indistinguishable from the questionnaire technique, broadly considered (p. 3).

The distinctions, however, exist. One of the key aspects of Delphi is the selection of respondents. Although survey research often (although not always!) strives for the ability to generalize results through probability sampling, Delphi uses purposive sampling. Respondents are deliberately selected as experts in their industry. It is not uncommon for the Delphi methodology to make use of snowball sampling, when recruited experts recommend other experts in their profession who also can be recruited for the study.

Another key difference is the presence of feedback. When using a survey, researchers typically analyze the results themselves and provide their conclusions on their own; in Delphi methodology the researchers share their conclusions with the respondents and ask for additional feedback (this process is called Delphi rounds). Thus, respondents have a chance to correct and clarify their positions, which can add validity to the results (Dalkey, 1969). A Delphi study might have as many or as few rounds as necessary for participants to reach consensus and agree on the one summative answer; the number of rounds can also be limited based on other considerations such as time or budget constraints.

Delphi is a useful tool for inquires into new areas or an area that did not have much prior research done. A Delphi panel can serve as an exploratory investigation that provides a springboard into additional research projects. Sackman (1974) concludes, Delphi can present "an observed expert concurrence in a given application area where none existed previously" (p. 4). Delphi thus becomes "a meeting of the minds, consensus among the experts" (p. 45) achieved through "controlled and rational exchange of iterated opinions" (pp. 6-7).

The Delphi methodology, however, has a variety of potential drawbacks. Among them is the potential influence of the researcher on the group's opinion, the "groupthink effect" that makes respondents change their minds rather than actually re-evaluate their opinions. There is also a possible recruitment bias as to who can be considered an expert.[2]

As discussed above, not much research has been done about investor relations. The research on the investor relations' contribution to the bottom line of organizations is virtually non-existent. This suggests that the Delphi methodology may be an appropriate tool to conduct an initial inquiry.

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[2] For a detailed discussion of Delphi methodology, see a critical assessment of Delphi methodology commissioned by Rand Corporation itself that almost completely prohibited researchers from using Delphi for a couple of decades: Sackman (1974). Delphi assessment: Expert opinion, forecasting, and group process.

The recruitment of experts-participants was conducted through the author's personal contacts in the investor relations profession, National Investor Relations Institute, and Financial Communications section of the Public Relations Society of America. The questionnaire included four questions, which correspond to four potential contributions of investor relations to the organizational bottom line as identified through the literature review. The participants were instructed to provide full and detailed answers without any specific maximum or minimum length required. The participants were asked to rely on their knowledge and expertise. In addition, in the first round, the respondents were asked to provide some background information as well as their opinion of the biggest challenge in measuring investor relations' contributions to the organizational bottom line.

The research was conducted in two rounds, the respondents having reached consensus in the second round. In addition, the budget and time considerations also limited the research to two rounds.

RESULTS

This Delphi panel consists of twelve participants. All participants are practitioners in the area of investor relations. The participants are recruited from corporations (nine participants) and from investor relations agencies (three participants). The experience of corporate IROs ranges from three to over 20 years, with 11 being the average number of years in investor relations. On the agency side, the experience ranges from two to over 10 years, with a six years average. Nine of 12 participants were male and three female. The majority of participants hold a title of vice-president or director of investor relations (n = 8); however, there is a corporate communications specialist (n = 1) and assistant treasurer (n = 1). The educational background of the participants is divided among business disciplines such as accounting, finance, and management (n = 4) and communication related disciplines such as public relations, journalism, communication, or mass communication (n = 7). The average age of the corporate investor relations officer is 40, while practitioners at agencies are on average under 30 years old.

Equity Evaluation

The first question focuses on equity valuation as the ultimate contribution of investor relations to the organizational bottom line. The question for the first round is:

> *Investor relations activities are sometimes believed to increase securities valuations, all other variables held equal. What is your response to the following statement: "Investor relations provides informative and timely disclosure that leads to decreased risk and thus increased price for the firm's shares and ultimately lowers the firm's cost of capital."*

The majority of the investor relations professionals agree with the statement: "I believe that IR does facilitate the flow of information externally… Improved availability and quality of information externally should result in a more efficient market for the firm's stock."

Practitioners, however, caution that "this is not a black-and-white statement" because investor relations does not change valuation by itself. Investor relations activities are one of many factors that influence share price. One respondent elucidates, "I do not believe that investor relations activities alone can move the stock price. It is what is being communicated and the effectiveness of that communication that can move the stock price…ultimately, the performance and prospects of the company drive stock price." Another respondent adds, "In order to support an increased share price – and lower the cost of capital--the company must perform and create value. If the company does not create sufficient value, IR will not have a meaningful impact on share price."

Professionals also caution against the implied causality in the question. One respondent explains that a road from "a well executed investor relations program" to a lower cost of capital "represents a very long series of interrelationships that makes causation a difficult hypothesis to prove." Another respondent goes even further: "The impact that investor relations has on a share valuation is very, very minimal. Other metrics, such as earnings growth, profitability, management credibility, and others drive 99.9999% of the stock price". Another professional advises that "not all investors look at news in the same manner…What some investors may perceive as 'good news' versus another can hinge on an investor's investment style and thus impact what is considered decreased or raised risk, good news or bad news." Finally, another respondent elaborates, "I agree with the statement that investor relations leads to decreased risk, but that decreased risk does not automatically correlate to increased price for the firm's shares…If the company is not doing well, they won't buy the stock, no matter how transparent and helpful the investor relations person might be."

Another respondent summarizes that there are many other influences on the stock price in addition to investor relations communications, but "the important takeaway is for consistent, timely and thorough practice of IR to ensure that its role and influence, which varies from stock to stock, has the optimum chance to impact the cost of capital and the risk factor in a security."

Based on these responses, a consensus statement is constructed to integrate the respondents' positions. The original question, along with this consensus answer, is sent back to the participants to check if it provides an accurate summary of their positions and that it can serve as a consensus answer. Thus, the first question and answer pair of the second round of Delphi inquiry look like this:

> *Investor relations activities are sometimes believed to increase securities valuations, all other variables held equal. What is your response to the following statement: "Investor relations provides informative and timely disclosure that leads to decreased*

risk and thus increased price for the firm's shares and ultimately lowers the firm's cost of capital."

ANSWER: This is not a black-and-white topic because IR does not have this kind of singular power to move the stock. Other metrics, such as earnings growth, profitability, and others mostly drive the stock price. The company must perform and create value. IR, however, can improve availability and quality of information to enhance the ability of the investors to understand the drivers of the company's performance and strategic vision and thus lead to a more efficient market for the firm's stock.

The respondents were then asked if they agree or disagree with this consensus answer to the question and are also asked to provide additional comments. All of the respondents agree with the statement presented in the second round as an accurate representation of their opinions. No additional rounds are, therefore, necessary.

Some participants also provided additional comments. For example, some explain that investor relations enhances investors' understanding of "the company's business drivers" and provides a basis for the company's valuation. Another comment focuses on the way investor relations must be practiced to be successful--such as being proactive and targeted on specific audiences. Finally, another respondent adds an important observation that investor relations "has both a qualitative and a quantitative role in the process and has grown increasingly important over the years as the discipline has matured."

Stock Liquidity

The second question is focused on the increased liquidity of the stock as a contribution of investor relations:

Sometimes investor relations is believed to increase the liquidity of the stock. What is your response to the following statement: "Investor relations programs increase trading volume and liquidity of securities."

The respondents agree with this statement with certain reservations. One panelist explains that although IROs need to put their management team in front of proper investors, it is the management who makes the final sale: "Like the old adage, you can lead a horse to water, but you can't make him drink. The IRO's job is to make sure the horse is led to the right lake, e.g. don't bring a growth company trading at an all time high premium to a value investor…Assuming that management does their part in telling the story, then yes, the response should be an increase in trading volume and increased liquidity."

Several respondents mention the importance of a targeted outreach program that "a proactive investor relations program" must encompass to increase "the breadth and depth of institutional shareholders." As a result, such investor relations outreach "can drive demand for stock." Another respondent adds that expanded sell-side coverage will also drive trading volume.

Other respondents question the idea of evaluating investor relations through the liquidity of stock. One of the respondents explains, "I am not sure one can conclude that increased demand necessarily leads to increased volume however, as supply may not increase." Even more, sometimes an investor relations program simply "does not want to increase liquidity," as another panelist elucidates. An IRO explains, "We have been successful in building relationships with them [shareholders] and thus they have chosen to hold onto the bulk of their shares." Another respondent suggests, "Increasing volume and liquidity may denote more hedge fund activity, which may not be desired but cannot be controlled."

For the second round of the Delphi panel, these answers are summarized and presented back to the panelists for approval. The second round's question and answer are below:

> *Sometimes investor relations is believed to increase the liquidity of the stock. What is your response to the following statement: "Investor relations programs increase trading volume and liquidity of securities."*
>
> *ANSWER: IR can positively influence trading volume and liquidity; however, not all investor relations programs have it as a goal. In addition, to the extent this positively or negatively impacts volatility and the stock's beta, one has to question the blind concept that it is always good. Good IR might lead investors to hold onto their shares leaving less available for purchase. Some programs, however, drive demand for the stock with an ongoing institutional outreach / targeting effort with the goal of increasing the breadth and depth of institutional shareholders and increase the number of analysts who follow a company. Ultimately, that comes down to the investors who are trying to determine if it is appropriate to invest in a stock. Therefore, once again, IR can tell the company's story to a wide range of investors; then many other factors would come into play like the fundamentals and investment merits of the story.*

All the respondents agree with this summary in the second round, and thus no additional rounds are required. Some also suggest additional comments. One respondent explicates, "The answer above is well articulated. IR is properly concerned with helping to foster a fair, efficient and accessible market for equities (and bonds) through effective communication and transparency." Several others argue that there might be too many limitations expressed in the consensus answer. One of the panelists explains, "I agree, except for sentences two and three. There is always stock available for purchase, it just depends on the price. If good IR helps increase awareness and ultimately demand, the price will go up and this is in the interest of shareholders and the company." Another panelist adds, "No stock is a one size fits all – near term or over the longer term – it will be an appropriate investment for some but not for others. This supports the need for constant outreach." Yet, another IRO also emphasizes the need for constant outreach as it helps companies in "diversifying the shareholder base."

Analyst's Coverage

The third question probes the hypothesis that the contribution of investor relations to the organizational bottom line resides in expansive and accurate analysts' coverage. The question is:

> *Sometimes the contribution of investor relations is believed to be generating analysts' coverage of the company. What is your response to the following statement: "Investor relations' purpose is ensuring that the company receives extensive and accurate coverage by financial analysts."*

The respondents again in general agreed with this statement. One respondent clarifies, "There is a marketing aspect to the IR job to identify appropriate firms who may end up following your company. I agree with both points in this statement that part of IR's role is to (1) increase the number of analysts covering the company, and (2) to improve their understanding of the company."

Another respondent, however, argues that not all the companies look to expand their coverage, "I have worked with companies who have 30 plus analysts covering them and they simply do not have the time to deal with all of them, especially the lower-tier firms." Several respondents also suggest that the focus should be on the quality of coverage rather than on the quantity. One panelist states, "Quality should trump quantity…There is a point of diminishing returns on sell-side coverage. In today's world of declining value of the sell-side model, investor relations' primary time and thrust must be spent with the buy-side, not attracting analysts' coverage on the sell-side." Another panelist agrees and adds, "It is important, however, that the coverage that does exist is as accurate as possible, and that is achieved when practitioners communicate in a timely manner with analysts." Another respondent, however, calls attention specifically to the sell-side coverage, "Although 'independent' research is still trying to catch hold, it is still a critical element for investor relations to maintain / expand sell-side analysts coverage. That published research is then leveraged to reach a wider pool of potential institutional, and to a declining degree, retail investors."

Finally, some of the respondents argue if analysts' coverage can be used for evaluation of investor relations because it is not a goal unto itself but rather a means to achieving increased valuation. One panelist explains, "It is more of a means to an end. Financial analysts are one of the main communication channels that company can utilize to help communicate the company's message in an effort to ensure the market in a company's stock is efficient." Another respondent explains that analysts' coverage "is just one function of a larger investor relations plan…To say this is the only function is to narrow the scope of the investor relations role." Another respondent summarizes, "One of the many responsibilities of investor relations is to develop sell-side coverage. I wouldn't characterize it as the 'purpose' of investor relations. Once coverage is established, it is a responsibility of the function to work with the financial analysts to promote the factual accuracy of their reporting. As for 'extensive', I think each company has an optimal number of analysts. For a small company it may only be a few. For … [company name is omitted here], a mid-size S&P 500 company, 10-15 is a good number. Microsoft or other larger firms are going to have even more."

For the second round, all of these responses are summarized into a consensus answer and presented back to the respondents. The question and answer are:

Sometimes the contribution of investor relations is believed to be generating analysts' coverage of the company. What is your response to the following statement: "Investor relations' purpose is ensuring that the company receives extensive and accurate coverage by financial analysts."

ANSWER: This is an important part of investor relations, but not the primary one. In addition, quality should trump quantity and there is a point of diminishing returns on sell-side coverage. It is more important that the coverage that does exist is as accurate as possible and that it is achieved when practitioners communicate in a timely manner with analysts. IR should work to ensure the company is receiving accurate coverage and that the covering analysts have their facts straight, which can be done by educating analysts about company's operations. To an extent, IRO manages expectations and provides timely and accurate information to the investment community.

The respondents generally agree with this summary, so no additional rounds are necessary. Other limitations might also exist, however. For example, one respondent explains, "I agree to a point. In general, it is the job of the IR department to increase coverage. However, a number of internal and external factors can impact this goal, as I have seen first hand. In such instances where a company does not have a defined peer group, it may be difficult to find an appropriate analyst to cover a company, seeing that Wall Street itself is organized by sectors." Several respondents also caution in light of new regulations (probably referring to Sarbanes-Oxley Act) "not to get too close to the analyst forecasts so they do not become 'your own'."

Another respondent proposes cutting out "to an extent" in the last sentence, "Definitely agree with the last sentence. In fact, I would cut the "To an extent" beginning--that is a large part of the role of investor relations." Several respondents, at the same time caution, that perhaps there should be two separate answers for buy-side and for sell-side coverage because their approach to each would significantly differ.

One panelist replies that although the statement is accurate for the sell-side, "Buy-side dialogue continues to increase in importance due to a reduction in the number and quality of sell-side analysts and because more buy-side firms are doing more of their own research." Another respondent expands this idea, "IR more and more is spending time and effort targeting the buy-side directly, especially as the role, value and sustainability of the sell-side model is becoming more suspect and its future is an evolving one that may or may not lead to more or less influence. With limited time and resources, marketing directly to one's customers is more important, especially with the rapid increase in the flow of communications in today's electronic world."

Finally, another respondent merges both of the groups of analysts and explains that it is now even more important for IROs to work with both buy-side and sell-side, "The quality of the sell-side research has been questioned by many on the buy side in recent years. Many buy-siders don't use sell-side research and instead rely on their own in-house work. As a result, those sell-side analysts who follow the company must understand it or their value to the buy-side will be further diminished and questioned."

Relationship Building

The last question of the Delphi panel investigates the relationship building aspect of investor relations. The question is:

> *Sometimes investor relations' goal is described as building relationships with investors and analysts. What is your response to the following statement: "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."

The respondents overwhelmingly agree with this statement. One respondent claims, "This is profoundly true. Building personal relationships with analysts (buy & sell-side), portfolio managers, and credit rating agency personnel is vitally important. Personal credibility can go a very long way to minimizing the down-side of inevitable bumps in the road. This creates the "benefit of the doubt" that only comes with consistent performance over time." Another respondent adds, "This gets to the 'qualitative' aspects of IR and suggests why ROI for IR is difficult to measure in that it is such a major relationship function or business. The statement is accurate to the extent that IR is properly focused on building the correct and optimum relationships with investors and analysts. This gets to the issue of targeting and where one spends his/her time in IR, including the use of senior management." Another respondent suggests, "If investors and analysts feel they have a relationship, not only with senior management but with a department and/or specific person devoted to helping meet their needs, they will be confident they are dealing with an accountable and transparent company."

Several respondents point out the importance of the management team's perception by the investment community and other intangibles. One panelist explicates, "Surveys of the buy-side indicate that more than half of investment 'criteria' are intangibles and regard for a company's management is one of the top criteria. Giving investors a chance to form an opinion about a company's leadership team does create some understanding and confidence during a period of below expectations results." The respondent persists, "This has been my experience. It also helps build a 'floor' on the stock price with investors who like the company, but are waiting for a lower entry point."

Another respondent adds, "I partially agree in that evaluation of the management team is critical to many firms' decision-making process. IR can help ensure that investors have appropriate access to management to make this determination." The respondent continues, "Investors with a longer-term time horizon may be willing to hold through temporary blips in performance if they have a strong appreciation for and belief in the management team (accompanied by proper explanations of causes and action plans)." Others provide examples from their own companies, "I agree with this statement. Since we have invested the time and effort in building relationships built on full, open, honest, and proactive communication, 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."

One respondent, however, cautions not to overestimate the power of relationship building versus the actual track record, "I would argue that value gaps diminish because analysts and investors have been properly educated about a company's near-term and long-term growth prospects, but also because management teams have a track record of execution." The respondent explains, "If management consistently underperforms expectations, then it doesn't matter what the IRO says, no one will believe him/her or what management is trying to sell this time around." Another respondent suggests that maybe the relationship building might result in some benefits for the company, there is no certainty if and how it will work in each specific situation, "Investors who feel comfortable with management and the company's strategy are naturally more likely to stick with a company's shares when events are accurately and credibly communicated, but there is no guarantee."

To summarize these points, the consensus answer is constructed and presented back to the participants in the second round of the Delphi panel as:

Sometimes investor relations' goal is described as building relationships with investors and analysts. What is your response to the following statement: "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."

ANSWER: This statement is generally true. This gets to the "qualitative" aspects of IR; for example, surveys of the buy-side indicate that more than half of investment "criteria" are intangibles and regard for a company's management is one of the top criteria. Giving investors a chance to form an opinion about a company's leadership team does create some understanding and confidence during a period of below expectations results. Not only must we build relationships, but we must help to manage analysts' perception of the company as accountable and transparent and provide appropriate access to management to make this determination. Investors with a longer-term time horizon may be willing to hold through temporary blips in performance if they have a strong appreciation for and belief in the management team (accompanied by proper explanations of causes and action plans). Personal credibility and track record can go a very long way to minimize the down-side of inevitable bumps in the road. This creates the "benefit of the doubt" that only comes with consistent performance over time.

The respondents agree with this consensus answer and no additional rounds are required. In fact, the majority of respondents claimed that they agree completely and "have nothing to add" to this summary. Others, however, provided some additional comments. Most of the comments suggest that relationship importance is so obvious, there is no need in clarifying statements and references to the team's track record. One respondent explains that it is possible to delete the last three sentences because, "I believe the first part of the paragraph is the correct answer, while the part in orange [the respondent highlighted the last three sentences in orange color] is a bit redundant and drifts away from the role of investor relations and into the role of a credible/well performing management team." Another respondent also argues with the necessity of the track record addendum, “Benefit of the doubt comes with consistent performance but I’ve also seen it even when that’s not the case. If the investors truly believe in management, they might be willing to stick it out through longer periods of results below expectation."

Another respondent says, "I continually hear about the importance of management credibility from investors. Consistently growing the company, creating value and building relationships with investors along the way helps create ‘buy-in’ when an event occurs that the Street does not understand or does not like.” The respondent offers an example, “For example, investors who know the company understand its strategy and view management as credible may be more willing to support the company’s acquisition of a competitor even if the valuation is considered higher than other industry transactions."

A word of caution comes from a respondent who suggests distinguishing among various types of investors as it is not necessarily equally beneficial to build relationships with all investors: "I agree. I would only add that there are certain types of investors (short sellers, arbitrage investors) where they buy a stock with a certain preconceived notion/expectation, and no matter how much time an IRO spends trying to educate and convince the investor to look at the company from a different perspective, their approach will not change."

MEASURING INVESTOR RELATIONS' CONTRIBUTION

As was explained in the methodology section, respondents were also asked about what they consider to be among the biggest challenges in measuring the contribution of investor relations. The responses split evenly between those who do not believe there is a need in measuring such a contribution and those who ask for better methodologies in such measurements.

The first group does not believe it is fair to investor relations to quantify its financial contribution. One respondent explains, "Getting people off focusing on the bottom line impact of investor relations is the biggest challenge." Another respondent adds that investor relations cannot be directly linked to bottom line results because "results can be intangible." Yet, another panelist adds that “the biggest challenge for most investor relations professionals would be convincing their senior management that investor relations will not always be able to quantify how they contribute to the bottom line."

The other group of respondents, while acknowledging the difficulties of measuring investor relations' contribution, insist on the importance of such measurements and point out the need to find better and reliable methodologies for such measurements. One respondent claims, "The single most important item we face…[is] showing our value … the challenge is to develop methodologies to better measure and quantify the impact of IR to the organization than merely showing the number of meetings/conferences attended, number of sell-side analysts and other 'score-keeping' items." Many others agree, while one respondent complains, "We have not found any objective way to correlate the effectiveness of our [IR] efforts to bottom line impacts.”

DISCUSSION

This study first conducted a theoretical inquiry into the contribution of investor relations to the organizational bottom line, and then subjected these theoretical propositions to scrutiny by expert practitioners in the investor relations industry. As a result, this research identified points of intersection between the theory and the practice of investor relations. The outcome suggests that theory and practice of measuring investor relations contribution are closely related. Practitioners generally agree with the theoretical propositions derived from the literature, and are not alien to the issues raised in academia. This is a positive sign for further developing the investor relations body of knowledge, and building stronger relationships between academics and investor relations practitioners.

The theoretical statements seem to lean toward oversimplification when many nuances of the practices are not fully taken into account or simply ignored. Practitioners felt the need to clarify statement suggested and provide examples of various events that restrict and limit theoretical statements from being a true reflection of the investor relations practice. This might be a result of the general lack of research in the area of investor relations. When just a few scholars work in an area, they do not have a chance to dwell deeply into the issues as they draw the boundaries of the field. With additional scholarly interest in the area and more research, there is no doubt more nuances will be studied and research will go deeper into investor relations issues.

On the other hand, one of the goals of theoretical statements is a generalization, thus sacrificing nuances. Shoemaker, Tankard, and Lasorsa (2004), having looked at several definitions for theoretical models, conclude that in building a theoretical representation of reality we do not need to produce "a mirror image" (p. 110), but rather need to select just the key elements and ignore the non-essential nuances. They present an example of a model of a ship that is easily recognizable as a ship as it has all the key elements such as sails, deck, and hull, but would lack a working engine, rudder, or lines. Such theoretical representation would be more useful to us than simply a one-to-one copy of the original reality because it "helps us focus on some parts and connections among those parts while ignoring other parts and connections. It is this simplifying and focusing that makes models particularly valuable as theory-building tools" (p. 110). In other words, the sacrifice of certain nuances that practitioners notice may serve a purpose of clarifying the distinct ways of investor relations contribution and highlighting what is most important in such contributions.

As for the specific areas of the investor relations', the research in general confirmed all four of these contributions with certain remarks. The value of a company's stock primarily depends on the company's performance and its business model rather than on investor relations activities. However, investor relations is often the channel through which investors learn about the company's business model, its financial forecasts, and its management team. Thus, investor relations enhances investors' ability to understand and evaluate the company. In this sense, investor relations helps a share price to achieve a fair valuation and helps a company to tell a story about its future.

Credibility becomes an important issue as any company's forecast is only as good as the people who deliver the message. This is where the management and investor relations track record comes into play – how truthful they were before, how much we can trust them now. So as a result, in the grand scheme of events, the influence of investor relations on share price is minimal in comparison with earnings growth, profitability, and sales. Yet, since investors are often concerned not with past earnings but rather with future ones, the way the company communicates that information through earnings releases, conference calls, and road-shows might make or break a deal, and this gives investor relations a chance to contribute to a company's fair value.

The liquidity aspect of investor relations' contribution seems to be more concerned with establishing a broad institutional shareholder base rather than with actual day-to-day trading activities. A successful investor relations program tries to make investors believe in the future of the company and thus make them hold on to their stock. At the same time, investors are not likely to enter an inefficient market with low daily trading volume. A good investor relations program may push the demand for stock up and thus stimulate positive changes in the share price leading to more trading. At the same time, poor communications or consistently missing a company's own earnings forecasts may cause the liquidity to go up as well, with the share price going down due to trading on negative information. As a result, in describing investor relations' contribution it might be more appropriate to talk about the size and scope of the company's investor's base and the company's outreach program rather than daily trading liquidity. In addition, one might try to focus on the efficiency of the company's securities' market rather than on an actual liquidity; for example, instead of measuring the daily trading volume, one might focus on the spread between bid and ask prices.

As for the analysts' coverage being the measure of investor relations' success, there is no doubt that analyst coverage is a significant part of IRO's work – especially in terms of the accuracy of such coverage. Nevertheless, as public relations practitioners moved away from measuring the success of public relations based on the amount of clips a story generated in the media and to the measures of attitudes and behavior in the target publics, investor relations officers need to look beyond the analysts' coverage to the actual effects of their efforts with investors. Analysts are intermediaries to reaching investors the same way as journalists are intermediaries in public relations. Both analysts and journalists are of great importance, but evaluating one's success based solely on these measures does not answer the question of what the contribution to the bottom line is, because such contributions reside not in the intermediaries but in the target public--in investors for IROs. It is true that analysts' "buy" recommendation is more likely to generate demand for the company's stock than analysts' "sell" recommendation and that extensive and accurate coverage is more likely to attract the buy-side, an additional research is required to build a model of these co-influences.

The most intangible measure of investor relations, relationship-building, was at the same time the most supported by the panelists. Building connections between the company's management and the company's shareholders seems to be an important aspect of IRO's work and contribution. This aspect, however, is rather challenging to measure. While stock price, trading volume, and analyst recommendations are readily available, the indicators of relationships between IROs and investors are not. Relationship itself as a term is susceptible to different interpretations – various authors may define and operationalize what constitutes a relationship differently (Ferguson, 1984; L. Grunig, J. Grunig, & Ehling, 1992; Bruning & Ledingham, 1999; Huang, 2001). Therefore, additional research is desired into the area of *investor relationships*, the area valued highly by practitioners but largely ignored by academic community.

The measurement of the investor relations' contribution proves to be a difficult topic as respondents do not see a reliable way to link investor relations with the bottom line. One of the respondents writes that "to know whether the communication efforts led to the ownership position is impossible." At the same time, practitioners say that showing value is important both internally and externally. Management wants to see value added, whether in quantifiable form or not. And investors want to see the value in the communications with the IROs rather than seeking a contact directly with the CEO/CFO. Even showing investor relations' value to other organization's departments may be important for coordinating efforts with public relations, marketing, or to organize investor visits to the organization's production facilities.

This Delphi panel produced more questions that answers, yet it highlighted today's dominant views in the academic literature and in the professional community of the issue of measuring investor relations contribution to the bottom line and the ways in which such contribution can be operationalized. The contribution of investor relations can be categorized into four areas:

- Securities valuation;
- Trading volume/Liquidity
- Analyst coverage; and
- Relationships with the investment community

While these four categories were derived from the academic literature, practitioners generally agree with them. However, practitioners often impose caveats and limitations onto these general statements. This paper emphasizes the importance of bringing together practitioners and scholars in the area on investor relations to working together on the issues that the profession faces today. Such collaboration, although rare, can prove to be of a great importance.

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