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The idea of investor relations in the modern economy: a communication approach

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ABSTRACT

The main goal of this article is to present systematic deduction of the idea of Investor Relations (IR) in a communication perspective. I have made a several specific distinctions to introduce the current concept of IR and how it has changed over the years. Moreover, I try to identify the most important aims of IR, as well as differentiate between its obligatory and optional aspects. The article includes comments on different sorts of information that is conveyed by companies to the financial community. The article present the differences between various definitions of IR. Furthermore, the article describes in what way the concept of IR originated and how it has evolved over the course of time – what kind of factors led to the changes in the significance of IR. Moreover, the article also outlines the basic tasks of an IR department, explaining the difference between IR and public relations (PR) and determining what is more powerful when it comes to shaping the opinions of the financial community: non-financial factors or financial factors. Consequently, the article presents a new reputational approach to the idea of IR in the modern economy.

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1. Introduction

The main purpose of this article is to present systematic deduction of the idea of Investor Relations (IR) in a communication approach. To introduce the current concept of IR and how it has changed over the years it is worth defining this one of the most important term for especially the stock exchange companies. IR, as the name itself suggests, is all about the relationship between a company and its investors, especially its shareholders, who are in fact the co-owners of the company in which they own shares. However, this is not the only group that is interested in the general state of business. Apart from actual investors, the group also includes bidders of debt instruments, a group of potential investors and potential shareholders, analysts (who publish important analyses and recommendations concerning a company in opinion-forming economic periodicals), influential financial media, stockbrokers, financial/investment advisers cooperating with investors, and finally, various entities outside the market – creditors, lessors, contractors, etc. – who carefully

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Table 1. The influence of a company's reputation on stakeholders' decisions.

Stakeholders	The effect of a company's positive reputation
Workers	work seen as more attractive ► motivation to work harder ► higher efficiency
Clients	services and products of a company perceived as more attractive ► motivation to make purchasing decisions ► increase in company's turnover as well as its market share
Investors	company's shares perceived as an attractive form of investment ► motivation to make investments ► flow of capital to a company, lower cost of capital ('cost of the access of capital')
Media	positive perception of a company in the media ► greater number of more favourable reports about a company in a variety of media
Financial analysts	positive perception of a company by analysts ► more and better analyses and comments (favour and even a bias)
Suppliers	company perceived as a reliable business partner ► better payment and delivery conditions ► lower cost of trade credit
Creditors	company perceived as a trustworthy entity ► higher credit rating ► greater interest from creditors ► better access to extraneous capital ► lower cost of extraneous capital, lower collateral requirements/lower collateral provisions

Source: author's conclusions based on Łukasik, 2013, p.54.

monitor the general state of a company, mainly thanks to IR (See Table 1). We have to realise that the unrestricted access to information on a particular company plays a decisive role when it comes to the effectiveness of the investment process. According to the regulatory framework, all participants of the stock market should have equal access to the information regarding the general condition of stock-listed companies. Therefore, IR is not only a matter of corporate image, marketing strategy, or an ability to win over potential investors; it is also a matter of compliance with legal regulations and the underlying business principles. An investor's understanding of a company is also formed by speaking with the company's management, reading or consuming the available media information as well as reports, comparing companies with members of peer groups, and even by buying and consuming a company's products and services personally (Deephouse, 1997; Fombrun, 1996; Gabbioneta, Ravasi, & Mazzola, 2007; Hoffmann & Fieseler, 2012). Nevertheless, by providing the financial community with regular input into their sense-making efforts, the IR, at its core, is engaged in an image-building process.

2. The idea of Investor Relations

In numerous papers, we may come across different definitions of IR. Some of them present a narrower perspective, while others offer a wider view, taking into account such factors as finance, marketing, law, management, and also – as a separate category – general trust of the environment (entities related in some way to a company). Some definitions will put an emphasis on such aspects of IR as an increase in goodwill, access to capital, minimisation of the capital cost, etc., while others will focus on two-way communication between a company – especially its management and the board of directors – and numerous entities mentioned above that are interested in its condition. Richard R. Dolphin (as cited in Marston & Straker, 2001), noticed that IR means the communication of information concerning a company to the financial community, analysts, investors, and potential investors. Rao and Sivakumar (1999) proposed that a generally accepted definition of IR is that of a 'strategic corporate marketing activity,' which combines the disciplines of finance and communication (See differences between IR and PR - Table 2). The question is: can we fully agree with this point of view? Not entirely, it appears. Therefore, it is worth citing the most popular definition

Table 2. Type of distinctions between IR and PR.

Type of distinction	Investor Relations	Public Relations
Philosophy	IR experts treated financial instruments of public companies as their own assets for which they were responsible and thus, they were perceived as the sellers of these financial instruments	PR experts feel responsible mainly for image of the company. They don't perceive themselves as the sellers of products/services or even brand of the company
Main reason	IR departments at public companies are designed to help public companies fulfil the commitments of two-way communication.	PR departments are designed (or hired) to maintain/build a possible best image of the company
Main objective	IR departments are encouraging individual and institutional investors to buy shares, at the same time convincing analysts to issue favourable recommendations	PR departments mostly care about the best corporate's image in the public space to achieve the best possible publicity (buzz)
Practical dimensions of work	Participating (consulting) in the public trading in securities, and guaranteeing an active, two-way communication of the company with shareholder and potential shareholder	Participating (consulting) in creation of the image, rather passive than active (depends on position of PR experts in company), mostly one-way communication of the company with stakeholders
Function of IR/PR - legal	IR experts maintain the status of a public company, help to avoid penalties and negative rating, taking care of the legal reputation	PR experts mostly maintain a good relations between company and wide define business environment (except legal aspects)
Function of IR/PR - economic	IR experts (their work) help to increase business value; achieve reliability in business valuation; provide access to the capital and diversifying capital sources; reduce financial costs; achieve reliability in financial instrument valuation; reducing volatility; maintaining stability of funding; maintaining control over shareholding structure and manage risk; prevent hostile takeovers; support mergers and acquisitions	PR experts mostly maintain a good relations between company and wide define business environment – creating/managing image of the company (except strictly economic aspects)
Function of IR/PR - communication	IR experts (their work) help to providing reliable information; build trust; conduct two-way communication; maintaining loyalty; build brand awareness; promoting business in the financial market and monitoring analysts and the media; create a desired image (business positioning) and maintain interest in a company among shareholders and potential shareholders; upgrade the quality of information and communication (an adequate response to unforeseen events); reach direct IR recipients, e.g., by business stakeholders; increase the attractiveness of a company in the eyes of employees (especially the key ones)	In this aspect – function of PR (communication) – PR and IR experts' work is the most similar – goals and effects. However, the difference is connected with the place – area – sphere of working. IR experts mainly interact with markets environment, mostly with shareholders and potential shareholders, mostly B2B, in turn PR experts work with wide defining business environment, including mainly B2C relations, media (mainstream and social media). What must to be pointed out is fact that IR – in most cases – are treated as a part of PR. That's why introduced differences don't have to be strictly disjoint. The relation between PR and IR can be compared to the relationship between the two figures - a square and a rectangle. Namely, each rectangle (PR) is a square (IR). But not every square (IR) is a rectangle (PR). The same is true in the case of differences between the IR and PR experts. Each IR expert is able to perform tasks dedicated to departments of PR, but not every PR expert is able to perform tasks foreseen for the IR department. In addition, it is worth remembering that companies primarily have PR departments, while listed companies must in modern times also have IR departments.

Source: author's conclusions based on Działego, 2011, pp. 29–31; Łukasik, 2013, pp. 16–20.

of IR, adopted by the National Investor Relations Institute in March 2003, which brings together IR professionals in the US:

... [i]nvestor relations is 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.

The definition seems to embrace the key aspects of the activities carried out by IR professionals. However, it is important to differentiate between the conditions in which IR can function – compulsory (legal) and optional (self-regulatory). Thus, the scope of activities carried out by IR professionals may differ and involve: (1) the basic/obligatory scope of activities; and (2) the self-regulatory/optional scope of activities. The first – the basic, minimum level – means complying with legal requirements and fulfilling the duty of at least one-way communication with shareholders. The second – the non-obligatory, optional level – concerns the bilateral communication that is of a financial and economic nature between a company and its investment community, especially the potential shareholders.

The obligatory scope of IR activities is defined by the rules laid down in various regulations. In this case, the range of flexibility and freedom of a company listed on the stock exchange is strictly limited when it comes to communication with shareholders, both in terms of form, date, method, system, scope, content, and tools that are being used. However, such a company, pursuant to applicable laws, does not have to respond to the feedback signals from investors and other IR recipients. In this situation, in accordance with the law, the transmission of information from a company to its financial community, especially its shareholders, may be one-sided – any possible reactions of investors are simply ignored. Of course, the one-way communication is usually used by smaller companies or those whose actions are not entirely transparent. Large companies cannot afford such a dismissive attitude towards its business community. In other words, the obligatory scope of IR activities is not enough in their case, especially in the case of companies that depend on ongoing capital raising and, therefore, want to maintain good relations with their shareholders and potential investors.

To sum up the obligatory scope of IR activities, let us enumerate its basic features:

- One-way communication – recipient: the financial community;
- Communication limited to basic financial and economic information (in most cases);
- Information obligations limited to minimum only to maintain the status of a public company.

When it comes to the non-obligatory activities, the board of a public company sees IR as one of the most important tools, for instance, in gaining capital advantage over the competition. In this case, it is not only a matter of being a public company (maintaining the status, like in the case of smaller companies). Here, IR is based on two-way communication that has several goals. Of course, we must bear in mind that even the most effective IR will not guarantee the fulfilment of all the goals set by the management of a company. For instance, here we are thinking here about increasing the company's value, which is directly connected with gaining investor confidence and maintaining the profitability of a business (especially at the operational level, that is, a gradual increase in revenues over costs and, consequently, a successful increase in the net profit). However, IR can facilitate the fulfilment of these goals greatly. Therefore, we do not talk here only about 'IR goals,' but the goals of a whole

business enterprise which are included in the IR goals. Seen from this perspective, IR seems to be a mechanism for a smooth and efficient execution of tasks and objectives being set by company's management.

To recapitulate, what needs to be emphasised is the fact that the company's communication to the stock market may have a significant influence on its share price and the form and timing of this communication may sometimes be more important than the mere content of the message being communicated (Nielsen & Bukh, 2011).

It is worth remembering that IR is an important element of the so-called 'strategic management' and, by definition, should be shaped by the board of directors and top executives. Unfortunately, this is not a task that can be directly delegated to other people or an external entity. It should be emphasised that even the best attempts in the field of IR without the involvement of the board of directors will be perceived by the market at best as satisfactory. However, it can often be regarded as a kind of 'triumph of form over substance' and be the opposite of the desired result (share price depreciation, capital flight, etc.). According to various analyses, CEOs spend about 25% and directors even 35% of their time on cooperation with the capital markets in different areas. We must remember that the amount of time cannot have a negative impact on other responsibilities of the board of management and directors directly related with conducting the core business of a company (Young, 2006, p. 24; see Martson, 2004, p. 43). Nevertheless, all the participants of the stock market agree that IR should be the subject to evaluation in terms of its effectiveness. If a company generates certain IR costs, it must also specify the sources of certain results (quid pro quo – as in a transaction). As we can see, the relationship between the IR costs and the results of IR activities is quite problematic. Therefore, an attempt to measure the effectiveness of IR is really an attempt to measure the return on investment for IR or, to put it in other words, the return on investor relations (ROIR) (Porak, 2005, p. 187; Theilen, 2008, pp. 160–167).

3. Investor Relations: the origins and essence

From the very start, IR was connected – for the majority of authors and experts (Silver, 2004, pp. 68–69) – with public relations (PR)/corporate relations (CR). It was at the beginning of the twentieth century that the first companies started offering specific services, consisting of defending the reputation of a given company in the press. It is worth remembering that the term 'public relations' was used for the first time in 1787 by Thomas Jefferson. However, it is Ivy Ledbetter Lee who is considered by many to be the father of modern PR as he was the first owner of the information agency that was to provide reliable information to the society on behalf of companies and financial institutions.

What needs to be emphasised is the fact that at that time companies had a policy of non-commenting the press reports that pertained to them. However, the influence of the press on the public opinion was increasing and the non-commenting policy of companies generated anxiety and decreased the confidence of the investors. Therefore, companies started to pay journalists and treated them as an intermediate party that was to present them in a good light.

It is important to remember that the United States Securities and Exchange Commission was established as late as the years of the Great Depression in the 1930s. Before that, no information obligations existed. The Securities Act (and the Act on Trading in Securities) was enacted in the US, also relatively late, in 1933. This was an attempt to protect the public

from frauds in the issuance and trading of securities and to reduce the ‘information gap’ between different types of investors (not everyone had the same access to information at that time). Simultaneously, the companies started to restore the confidence of investors. They began to use the services of credit ratings agencies on a large scale. The credit ratings agencies dealt with estimating the level of risk associated with investing in debt instruments. In this way, they could help companies to reduce the investment risk and gain more investors. Once again, this proves that companies managed to find a spokesperson in the form of a third, independent party – this time, however, not journalists, but credit ratings agencies. Today, some experts claim that the market experiences the dictatorship of credit ratings agencies, especially the so-called ‘Big Three’ – Standard & Poor’s, Moody’s, and Fitch. Therefore, in a relatively short time, companies came to the conclusion that they should be able to communicate independently with their stakeholders and financial community in general about such aspects as the overall state of a company, its business model, and further perspectives for development. They began to establish new cells within the already existing structures, which were to be responsible for what we call today ‘investor relations.’

The term itself, ‘investor relations,’ was coined by General Electric (GE), one of the biggest American companies, in 1953. That year, GE started a programme that aimed at attracting individual investors to invest in the company’s shares thanks to a specific communication strategy. The programme was named ‘Investor Relations.’

IR began to be perceived as an autonomous area during the 1960s. However, it had negative connotations for a long time. In other words, IR was often considered a ‘dog and pony show,’ in which ‘dog’ and ‘pony’ pertained to sell-side analysts and small individual investors respectively. When it came to big investors, brokerage houses, and wealthy individual investors, they were called ‘big books’ or simply ‘sharks.’ In the language of the stock market, there are still such terms as ‘inside traders’ which means people who possess numerous resources and therefore are better informed than others (not always in accordance with the law, as shown in the movie *Wall Street*). Another term which is worth mentioning is the ‘investor connivance’ which is a cooperative formed by some large investors in order to manipulate the exchange rate (also an illegal practice). Small investors with little experience are called today ‘barefoot pilgrims.’ All these terms show how fast and easily the stock market developed its own terminology and the so-called unwritten laws of investing. We must remember that IR experts treated financial instruments of public companies as their own assets for which they were responsible and thus they were perceived as the sellers of these financial instruments. As a result, IR departments were encouraging individual and institutional investors to buy shares, at the same time convincing analysts to issue some favourable recommendations. This role of a seller being responsible for selling financial instruments, and, de facto, acquiring the capital, meant that the European version of American IR did not take off and thus the IR was introduced in Europe as late as the end of the twentieth century, already in its modern form.

These two distinct perspectives result from the specific characters of the financial markets in the US and Europe. We should note that in Europe, companies were mainly acquiring capital from the banking sector in order to expand their business which was why there was no need to create professional ‘sellers of securities’ that could acquire such capital from anyone who had free resources, as was the case in the US.

In Europe, more precisely in Germany, the first IR department was established as late as in 1988 in BASF AG, one of the biggest chemical companies in the world. The newly

established agency was to facilitate communication with institutional investors. However, it should be noted that the development of IR in Germany was initiated by the privatisation of state-owned enterprises through the stock exchange. According to McGrath (1974), it was mostly financial executives to whom practitioners reported IR affairs. The surveys conducted by NIRI in 1985 and 1989 showed that more than 65% of IR executives reported IR-related issues to top executives or top financial officers (Rao and Sivakumar, 1999). Similarly, the responsibilities for IR weigh mainly on finance directors (Ryder and Regester, 1989) and fall under the department of financial affairs (Marston, 1996; Petersen & Martin, 1996). According to Petersen and Martin (1996, p. 250), chief executive officers not only disapproved of identifying IR as a realm of PR but they also did not regard IR management as a responsibility of the department of PR. Youngshin and Eyun-Jung's study showed to what extent top executives from companies disagree with the scholars of PR when it comes to IR.

We should bear in mind that most probably – according to Youngshin and Eyun-Jung (2007, p. 201) – the fact that IR affairs were primarily under the department of finance was due to the existing requirements which were closely related to the business areas. Petersen and Martin (1996) stated that IR is one of the most demanding provinces for PR practitioners because few of them have been trained or have had experience in dealing with corporate finance, law, and management, which are required from IR specialists. Dark (1988) observed that the core of IR activities shifted mainly from journalism to corporate finance in the UK. Among almost 4600 members of NIRI nearly 45% of affiliates have a background in finance with about 20% in PR. The other 35% are from corporate communications (CC). Placing such a great emphasis on finance among all the other qualifications has been an obstacle for promoting PR practitioners as suitable IR officers.

In conclusion, before the crisis in 2001, it seemed that IR was primarily aimed at selling company's financial instruments in the market and reporting the results in accordance with the requirements imposed by the law on public trading in securities. The established regulations related to, in particular:

- Minimum range of information
- Deadlines for providing information to the public (the so-called 'disclosure of information')
- The mode of notification.

So far, these tasks had been entrusted to the departments dealing with CC and PR or simply to the spokesmen of a given company. There were also cases when external companies were hired to deal with investor communications. What is important, however, is the fact that companies published only obligatory information to the minimum extent required by the law.

Most often, people involved in IR were simply working in CC or PR sections and they were answerable to people holding lower positions. This shows that companies used to downplay the importance of IR in the past.

The importance of IR increased explicitly during the crisis of the early twenty-first century. Then, public companies had to face stricter rules – new disclosure obligations were imposed and, perhaps above all, tightened sanctions for the improper fulfilment of these obligations were introduced. All these extra obligations and sanctions were preceded by the legendary case of Enron, which fabricated financial data on a large scale, and a wave of bankruptcies in 2001–2003 that affected mainly American companies. The reason why

Enron's bankruptcy was so unexpected was that the company sent no disturbing signals. On the contrary, its financial statements showed high profits, and the value of its assets was measured in billions of dollars, which also influenced the company's share price that grew at an impressive rate.

The Enron case was widely publicised because of the size of the company, which was the seventh largest enterprise in the US, with assets reaching US\$80 billion, favourable recommendations of analysts, investor confidence, and thousands of employees around the world. It is worth remembering that till the moment of announcing its bankruptcy in December 2001, Enron was receiving very good recommendations from analysts (buy or even strong buy). In 2001, Enron's share price decreased from US\$90 to US\$0.1. The market knew then that the company was conveying false information all the time, trying to conceal the fact that the information was incomplete. What is more, the fabricated financial statements did not put the company in a good light and it lost its credibility. What is perhaps even more important is the fact that Enron's case was not an exception. In 2001, bankruptcy requests in the US were made by 257 public companies that were found in debt for a total amount of US\$259 billion (Fox, 2003, p. 288). The market plunged into a real chaos. The year 2002 was even worse as it brought another famous bankruptcy case, that of WorldCom, which was described in detail in a book by a well-known mathematician, Professor John Allen Paulos, who was also fooled into believing in the enormous shares of this Internet giant with feet of clay (Paulos, 2003). It was the largest bankruptcy in the history of the world. The assets amounted to US\$107 billion and the debt was US\$32 billion.

As a result of these bankruptcies, investors started to voice their demands even more loudly requiring public companies to communicate with them in a different way. This worrying activity also forced changes in the departments responsible for IR. It should be noted that the infamous case of Enron cannot be regarded as a direct cause of those changes, but it certainly accelerated them.

Changes were necessary. The market wanted to forget about the 'aggressive accounting' and 'enronitis' (as the media at that time described the case, thus comparing it to a disease that affected some public companies; the term is used also today to attribute a decline in the stock price to poor or improper accounting methods) as soon as possible. The changes were to ensure a proper execution of duties in accordance with the law on public trading in securities, and guarantee active, two-way communication with stakeholders. These actions have partially calmed the market and stabilised its activity. The process of shifting from one-way communication to two-way communication represents a new stage in dealing with public companies and a new way of thinking about them. One could say that it has opened a new era of IR. Public companies began to use new communication tools in order to enhance their interaction with shareholders. The companies that introduced these changes could count on bonuses from the market and a lower market price of risk. As a result, the above-mentioned standards of IR forced company directors to introduce real changes not only in the way they conduct their businesses but, above all, in the way they convey information about their activities, plans, and the current state of a company to stakeholders. Thanks to these changes, the status of the Investor Relations Officer (IRO) has undoubtedly been raised.

Another crisis occurred in 2007 when the media started announcing successive bankruptcies of entities connected with the real estate industry and financial sectors. Worrying news were coming out almost every day. The memory of the wave of bankruptcies from 2001–2003 was still fresh at that time, although for nearly two years there had been no

reports of bankruptcies or the acquisitions of bankrupt entities. In 2008, 25 banks in the US suddenly declared bankruptcy and were covered by the guarantee of the Federal Deposit Insurance. However, the biggest slump in the market happened in September 2008. It was also the biggest bankruptcy case in the economic history of the world. One of the world's leading banks, Lehman Brothers Holdings, collapsed. Its assets amounted to almost US\$640 billion and the equity was estimated at only US\$20 billion. It was the fourth largest investment bank in the US. These circumstances led to the introduction of even more rigid legal regulations concerning the capital markets. In general, it was decided that information about particular companies should be made available more quickly, more widely, and include more details. This combination of events has also led to the creation of independent IR departments within public companies designed to help public companies to fulfil the commitments of two-way communication.

4. Investor Relations: reputational approach

The decision-making process in the stock market, which lies in the hands of investors, is dependent on the management of a public company, namely the competence, experience, as well as the image of directors and top executives. Image-building is a great tool to win over unconvinced investors and intrigue those who have not heard of the company yet. This is another challenge that the department responsible for IR must face. We must bear in mind that the implementation of the promises made to investors depends precisely on the board of a company. That is why it is important to take care of the image of directors and top executives because effective IR activities relating to image-building boost the perception of reliability of a company as well as that of their owners. Investor confidence, however, is proportionally dependent on the ability to both raise capital in the financial market (now and in the future) and increase the stamina of a company in case of a crisis.

The management of a company that is considered credible has a greater freedom of action and a lower level of social control. The community of investors, characterised by a high confidence in the board of such a company, is more willing to justify decisions that may seem unfavourable in that short term as well as those that are simply not right. All these aspects directly affect the reputation of a company. Reputation, however, is a far broader term than image. Reputation is long-term and consists of several factors: different images of a company and its subsidiaries, corporate identity, corporate strength and financial reliability, innovation, quality of the products/services, ethical and environmental standards, and relations with market regulators. Reputation management is one of the most important tasks ahead of the departments responsible for IR. The effects of a positive reputation of a company in relation to stakeholders are shown in the table below.

It is worth mentioning that financial reputation, which is a part of the company's reputation, is considered as one of the intangible assets of a company and has a direct impact on its value – it helps to achieve better results, attract more valuable workers, obtain extraneous financing on better terms, or set higher prices for products and services. These direct benefits are the essence of IR activities in the field of brand image. Finally, it should be noted that financial reputation may be the subject to change, depending on the overall perception of a company, particularly with regard to:

- Assessment of management competence;
- Quality and repeatability of financial results;

- Development strategy and evaluation of effects after its implementation;
- Principles of corporate governance;
- Quality, transparency, and credibility of information provided – financial and supplementary data.

What should be also discussed here is that the term IR is often confused with PR or sometimes even with promotion and advertising. Although both these practices are used to spread information about a company, they operate on two different levels. PR activities are designed to communicate with a broader community, creating and maintaining its desired image. In the case of IR activities, communication serves only financial and economic purposes. However, it should be noted that IR has evolved from PR, hence we will find different opinions which assume that IR is simply a part of PR or even the so-called strategic marketing. This could be best seen in the so-called post-Enron era when the penalties for not following the capital market regulations were severe, which led to an increase in prominence of IR.

It is worth noting that employees who are responsible for IR are expected to possess extensive financial, economic, and legal knowledge, as well as organisational and coordination skills, for instance to prepare an AGM. In this respect, IR is similar to PR where the skills of a specialist in the field of communication, namely the ability to establish and maintain good relationships with the financial community and the ability to gain new and influential contacts, are also of utmost importance. The main difference between PR and IR lies in the legal sanctions related to inadequate execution of disclosure obligations imposed on a public company. It should be noted that the lack of communication with stakeholders (i.e., the financial community) in the case of a public company entails financial and criminal penalties as well as the risk of civil lawsuits, brought by disgruntled shareholders (not to mention the huge loss of image which is also reflected in the market value of a public company). Of course, the highest sanction is depriving an entity of its public company status. These are the issues which are of particular concern to the departments responsible for IR. It should be also emphasised that the capital market participants are not so much interested in the fact that IR departments orchestrate communications and serve marketing functions within a given company. For them, IR activities are directly linked with the reduction of investment risk, by providing reliable information about the general state of a company and its environment. It seems that over the course of time, IR has become primarily a tool for reducing the risk of investing in the shares of a given company. To summarise, the most important differences between IR and PR are presented in table below.

5. Conclusion: the business is about communication

Hoffmann and Fieseler (2012) identified the quality of IR departments – their staff, instruments, and activities – as one of the most important non-financial factors influencing the decisions of the financial community and their perception of a given company. This should be of little surprise given the earlier studies that also showed the impact of high disclosure standards on capital market performance and shareholder's interests (Bushee & Miller, 2007; Francis, Hanna, & Philbrick, 1997; Healy, Hutton, & Palepu, 1999). It should be noted, though, that the quality of communication in terms of Hoffmann's and Fieseler's study also incorporates the competence, availability, and experience of the IR staff. Hiring highly qualified staff and conducting training on a regular basis may therefore be a key to

a favourable perception of a company as a professional and reliable communicator. Capital market participants will judge any information received from a company through the prism of their appreciation of and respect for the responsible IR professionals working in this company. If an IR team manages to establish its reputation as a professional and reliable point of contact, it will be in a better position when it comes to collecting relevant input from capital markets, dispelling rumours and false information, and managing access of the financial community to the top management. Another important non-financial factor according to Hoffmann and Fieseler is also strongly supported by the previous research: a company's corporate governance. The principal-agent theory holds that shareholders strive to control the actions and decisions of top executives (Berle & Means, 1932; Fama, 1980; Jensen & Meckling, 1976). Given the information asymmetries between the company's insiders and outsiders, investors depend on governance structures ensuring that the stewardship in a company is managed in accordance with the shareholder's interests (Botosan & Plumlee, 2002; Jensen, 2000; Karpoff et al., 1996). The analysis also showed that the capital market participants strongly believe that the company's management team wields power over the fate and success of its business organisation. Accordingly, the financial community is eager to form a personal impression of the people in charge of a business. In fact, managing the image of the company's top management may be crucial to how this company is perceived in the capital market – and therefore, the core task of IR departments is image-building.

To recapitulate, the study by Hoffmann and Fieseler (2012) confirmed that the financial community's sense-making efforts are contingent upon a wide range of factors and corporate characteristics, far beyond the financial data only. It thereby outlined the core elements of IR's image-building function (Dolphin, 2004). IR needs to provide information regarding the company-stakeholder relations as well as report on its efforts in managing these relations. IR also needs to pilot and shape the exposure of the key managers to capital markets. Well-trained staff and the efficiency of its activities have a direct impact on how a company is perceived by the financial community.

To sum up, Youngshin and Eyun-Jung (2007, pp. 210–212) noticed that IR activities within organisations have always been handled by staff from financial departments. There has been a growing consensus that IR and PR should be convergent. Silver (2004) asserted that a combination of PR and IR contributes to improving stock prices of corporations as well as enhancing corporate reputation in the long run. According to Johnson (1990), a favourable corporate image resulting from PR endeavours boosts the confidence of shareholders for particular companies. Owing to the close relationship between PR efforts and higher financial values of corporations, scholars have considered the integration of PR and IR as beneficial for public companies (Johnson, 1990; Silver, 2004).

According to Laskin (2005), IR practitioners at the Fortune 500 companies responded that providing top executives or other departments with information is quite a common practice. So when it comes to the involvement of top executives, PR practitioners, chief executive officers, and IR practitioners at the Fortune 500 corporations seem to have similar views.

Furthermore, the respondents regarded 'writing and speaking skills' and 'public relations knowledge,' which fall into the category of PR skills rather than financial skills, as the most necessary competences in handling IR. Interestingly, specific IR experiences or financial knowledge and experiences (e.g., 'knowledge of financial/capital markets' and 'experiences in major financial centre') were considered less important. According to this point of view,

IR should be considered part of PR functions. This view is in accordance with those of PR scholars (Cutlip, Center, & Broom, 1999; Ferris & Newman, 1991). Laskin (2005) also agreed that without communication background, IR practitioners might be unsuccessful when it comes to communicating and increasing corporate values. Specifically, the survey on the qualifications of IR from PRSA showed that IR and PR are interdependent (Ferris & Newman, 1991). This trend might coincide with the increasing need to converge PR and IR (Johnson, 1990; Silver, 2004).

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