

# Investor Relations - Integrating Social Media into Board - Oman Perspective

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## Abstract

Investor relations refer to a strategic management responsibility that integrates finance, communication, marketing, and securities law compliance to enable the most effective two-way communication between the company, the financial community and other constituents which ultimately contributes to a company's securities achieving fair valuation. Dialogue with investors has become important as companies compete for attention and face various corporate governance challenges. Social media is taking the lead as a new way of engaging with investors. More and more companies are using this channel to communicate and interact with investors. Social media has created new challenges for regulatory bodies to establish comprehensive set of rules and guidelines. In this paper, we attempt to explore on the use of social media as a communication tool that is emerging and enhancing investor relations globally and specific exploration in Oman.

**Keywords:** social media, investor relations, Muscat Securities Market

## INTRODUCTION

In light of an outbreak of high-profile corporate scandals and the most recent financial crisis over the last decade, there has been increased public outcry over how corporates are governed and on the role of regulators in ensuring corporates are meeting the minimal compliance rules and guidelines. Shareholders have lost confidence and trust in management and the board of directors. As a result, shareholders have begun to demand more involvement in corporate affairs. In recent years, companies' use of corporate blogs and social media sites to communicate with members of the investment community has grown significantly, to the point that some companies have abandoned traditional media outlets for release of their earnings announcements. The future of good corporate governance lies in engagement and communication. To remain in business, if not competitive, new and effective ways to engage and communicate with investors and top management need to be adopted and embraced. However, the growth in use of social media to engage investors by companies is not impressive. It is slow compared to the growth in use of social media by the general public. The reason for this is partly because concerned regulatory bodies are reluctant in blessing this channel of communication related to social media.

## LITERATURE REVIEW

It is globally known that investor relations have emerged as a central corporate governance process for public companies. The modern concept of investor relations is founded on the economic theory of efficient markets. The theory assumes all relevant information about the company and its performance is publicly available, all market participants have equal access to such information on a timely basis, and all investors are rational and capable of evaluating the information available to them. To ensure that this theory of modern capitalism survives, investor relations role is to ensure proper dissemination of information from the company to all market participants (Laskin, 2010). It has also been suggested that investor relations is founded on both financial and public relations knowledge. In support for this, a two-symmetrical communication model or a mixed-motive model which incorporates both financial and communications expertise is proposed. This will ensure dialogue between the company and the financial community with the aim of enhancing mutual understanding and long-term relationships. In a survey conducted by Goldstein (2011), there was broad consensus that engagement between companies and investors was common and increasing both in terms of frequency and subject areas. The survey also found that engagement was expanding beyond financial and strategic issues and "traditional" governance topics to include more environmental and social issues; that issues related to executive compensation remain atop the agenda and that engagement was evolving as increasingly - sophisticated investors demand more detailed information on all of these topics. In MacDougall and Adamson (2013), they define shareholder engagement as "all the ways that shareholders can communicate their views to the board and that boards can communicate their perspectives to shareholders (in addition to existing investor relations activities and processes)." They were also pointing out that boards should consider multiple approaches to shareholder engagement and incorporate them into the organization's overall shareholder communications strategy. In the past, "routine" communication occurred in forums like annual general meetings, conference calls and analyst

meetings. Today, the interaction between organizations and takes place in a variety of media, from conference calls and meetings to e - mails, public announcements, telephone calls and regulatory filings (Goldstein 2011). In general, there is a common view in the current governance environment that directors should respond to shareholder questions regarding executive compensation, corporate strategy, financial performance, campaign financing, environmental and social issues, and corporate governance matters. Not surprisingly, say on pay and the appointment of an independent board chairman remain the primary focus of board-shareholder engagement activity (Kim & Schloetzer 2013). According to 'First Study Benchmarking U.S. Corporate and Investor Engagement Reveals Consensus, Dissonance, Power Shift' 2011), there has been growing tendency for firms and investors to engage which has been fueled by a number of developments. Modern day investors are more sensitive to risks and less willing simply to trust boards to oversee management and leave it at that. This change in investor behavior arose as a result of late 1990s corporate scandals like Enron and WorldCom and more recently by the collapse of major financial services firms (Goldstein 2011). Investors are demanding higher levels of independence and want to see more accountability in the boardroom. Directors who are perceived to act in a manner contrary to shareholders' best interests can expect to receive higher levels of opposition at the ballot box. Directors, who are taking note of these changes and trends, are now keen to engage proactively with investors. The regulatory environment has also championed the idea of increased engagement. Disclosure requirements have been ungraded to provide shareholders with greater visibility into company financials, potential conflicts of interest involving officers and directors, and compensation practices. It has also facilitated proactive action by shareholders to go a step further and pursue additional information where they have questions and challenge status quo (Goldstein 2011). Improving investor relations through engagement can be a powerful tool for both investors and corporates in addressing the intrinsic conflicts between the two, and potentially enhancing long - term value at a reduced cost. A few years back, only companies within the tech industry understood the real power that could be harnessed with Web 2.0 technologies, including social media. Firms that appreciate social media are more likely to be market leaders, have high market share, and use management practices that lead to higher margins which can be named as “networked enterprises”(Larcker 2012). It has been established that investor relations thrives well when dialogue is constant; and this has been made easier through the use of social media platforms. According to the Board-Shareholder Engagement Survey Report by Morgan (2013), key findings were as follows:

- The majority of survey respondents (60%) state that their companies do not permit board members to engage directly with shareholders (defined as in-person or via telephone).
- Within companies that do allow direct communication, 65% state that any board member may speak directly, while 35% state that only certain board members may speak directly to shareholders.
- Within companies that do allow direct communication, 57% indicate that a member of management is not required to be present during these discussions.
- In general, as market cap increases, so does the likelihood that only certain board members may speak with shareholders and that management's presence is required.
- Companies are only slightly more likely (43%) to facilitate indirect communication between boards and shareholders (defined as e-mail responses to questions via a third-party, such as the IR department or Corporate Secretary's office), than direct communication (40%).
- The most likely venues for direct interactions between board members and shareholders are annual meetings (49%), through the proxy voting arms of institutional shareholders (11%), during non-deal road shows/one-on-one meetings (9%), and at analyst days (8%).

According to Group (2013), the key findings into the investigation of social media use in investor relations were as follows:

- The majority of investor relations (IR) professionals (72%) do not use social media for their work.
- Almost half (49%) of respondents who do not currently use social media for IR plan to reassess the issue within the next 12 months. The recent SEC guidance on the topic is a driving factor in determining reassessment.
- Those already using social media for IR state that recent SEC social media and Bloomberg Twitter announcements will not affect the way they utilize the medium.
- Over half of IROs using social media for IR state that social media postings are held to a lower degree of review than applied to press releases or SEC filings.

The Conference Board and the Rock Center for Corporate Governance at Stanford University which conducted a survey of executives and board members to gain insight into how senior-level decision makers in North American companies view social media, and the extent to which they incorporate it into their corporate strategy and risk management practices (Larcker and Tayan, 2012). Key findings were as follows:

- Facebook and Twitter are the most recognized social media services—each with recognition rates above 90%, LinkedIn with 70.1% and Google+ with 63.6%.

- Social media popularity decreases with age. However, Facebook, Twitter and LinkedIn platforms popularity is still above 50% across all age groups.
- 76.4% of respondents' companies use social media to support business activities (sales and customer outreach initiatives). Only 14.4% use it to communicate with shareholders.
- The board of directors tends not to be involved with social media. 90.7% said their companies have not assigned oversight of social media monitoring to a board committee.
- Only 10.3% of the respondents said their board of directors has never used social media to make a public announcement or engage with constituents.
- 7.7% of the respondents said their directors receive summary information derived from social media sources. Out of these 28.6% find the information useful.
- 75% of survey respondents said that their companies do not have social media guidelines for their board of directors.
- Only 24% of boards use restricted social networks (board portals) for interactions with other board members.

### GLOBAL PERSPECTIVE

Social media has become one of the key methods for companies to engage in discussions, share information, and connect with their audiences. Despite many companies' reluctance to take part, the case for developing and implementing social media as part of a communications and/or marketing strategy is no longer in question. The US corporate world has been swept by significant changes from the Congress and the Securities and Exchange Commission (SEC) which have affected boards and investors (Goodman, 2011). Focus has now been turned on the need for better engagement between the two groups. The SEC issued a statement that social media is an acceptable means for accomplishing disclosure of material information by public companies. Even after this development, the vast majority (77%) of CFOs and investor relations professionals at major public companies do not think the SEC has given enough guidance on how to use social media to disclose company information – this is according to a new survey conducted by KCSA Strategic Communications, a leading integrated communications firm specializing in financial public relations, investor relations, social media and creative marketing services (Newswire 2013). As a result, not many companies are keen to use it despite its well-known benefits. For companies to reach out to investors, they need to be at the forefront of coming up with a social media strategy for investor relations within their companies. Only through this can investors participate more in corporate affairs. However, the regulatory bodies need to establish proper guidelines for the use of social media as a vehicle for corporate-investor engagement.

Twitter presents an opportunity for a public company to broadcast information and build a following of relevant financial media, investors, analysts and industry influencers. It is a way to increase the investment community's conversation about a company's stock. Slide Share allows for the easy dissemination of investor content to a highly professional audience. By using Slide Share, a company can increase brand exposure and the understanding of its story through the posting and sharing of its PowerPoint presentations. When using Slide Share, public companies should establish a branded channel to post their corporate and investor presentations and share presentations from analyst days and other events that the average investor does not attend.

Facebook presents an opportunity to tie all of a company's social media channels into one investor hub, similar to its corporate website but via social media. In the near future, investors will rely on Facebook for information just as they now rely on a company's corporate website. A branded company Facebook IR page therefore provides an opportunity to showcase investor and corporate information in a multimedia format. It serves as a means for a company to improve its relationship with current and potential investors. Companies should consider creating a custom IR Facebook page with website branding elements, including a unique investor relations app with feeds to earnings releases, stock charts, etc., engaging investors on a daily basis with original industry content, polls, contests, etc. YouTube is an effective tool to expand a company's digital footprint. It can improve a company's search engine optimization and ranking, making it easier for investors to find. Companies should use YouTube to take advantage of SEO opportunities by tagging all videos with keywords and adding conference call transcripts as subtitles and shorten corporate videos and add annotations for greater investor engagement. LinkedIn allows a company to enhance its reputation as an industry leader and expert. It helps companies improve their positioning within their industries and can expand their investor networks. Best practices for using LinkedIn include: organizing contacts into downloadable investor databases, creating a targeted investor page, leading and participating in discussion groups on relevant topics, incorporating keywords to improve SEO, promoting company services and products.

There are many arguments for using social media specifically for Investor Relations. Despite the evidence that social platform use and engagement continues to increase, it seems that the case still needs to be made for IROs. The results of a survey by the National Investor Relations Institute (NIRI) and Corbin Perception, Social Media Use in Investor Relations 2013, found that 72% of their Investor Relations respondents did not use

social media for their investor relations related work. However, this seems shortsighted given that research figures from as far back as 2009 and 2010 show that many investors and financial reporters/commentators are using social media: 49% of professional investors are reading blogs (with 33% at least weekly) and 27% use YouTube (9% at least weekly) Professional investors are following one another on Twitter as well as Stock Twits to share investment intelligence and ideas about companies they are following. 3 out of 5 financial bloggers use Twitter as their primary news source. 63% of institutional investors say that social media will become increasingly more important to them. NIRI's recent survey results support the same thing; that 52% of institutional investors use social media as part of their research process and "the vast majority of these respondents indicates that it has influenced their investment decisions at least occasionally." It is encouraging to note that almost half of IRO respondents in the 2013 NIRI survey who do not use social media plan to reassess their IR programs within the next 12 months.

A report which suggests that regulatory changes should go hand in hand with technological advancements (Solutions, 2013). Regulators like the Australian Stock Exchange (ASX) are lagging behind in providing corporates with a framework that could guide them on the use of social media in investor relations. Investors are demanding for more social media use but corporates do not have the proper mandate or are limited to allow for the use of social media. There exist both legal and practical hurdles associated with shareholder communication, particularly at the board level. The main issue here is with the legal liability that directors may be exposed to if they engage with shareholders on the social media platform. Social media brings with it a whole new set of risks that may not or should not be handled in the same way traditional forms of communication risks are handled. With social media, corporates have no control over information. Therefore it is imperative that the regulators address this issue so that corporates can have a guideline when creating a strategy for social media use for investor relations and a strategy for board-investor communications.

For a long time, social media has been used exclusively in the context of marketing and PR activities. However, this notion is long gone as social media is being incorporated into all business functions of various companies. The marketing function is all about reaching out to potential and existing customers in an effort to advertise and sell company products and services; bring in cash flow for the company. Investor relations is no different in that IR is all about reaching out to new and existing investors in a bid to sell investment propositions of the company; bring in capital for the company. Companies should therefore start looking at IR from this angle and push for more use of social media in companies that aren't already using it. Also, they should also start looking at directors as part of the investor relations team. My argument for this is founded on the notion that directors are the best way to reach out to both existing and new investors since they are the representatives of investors; they are in office because investors voted for them to represent their interests.

### **OMAN PERSPECTIVE**

The principal foreign investment is in the oil sector. Foreign private investment is officially encouraged in certain areas—such as industry, agriculture, and fishing—through an initial five-year tax exemption, which may be renewed for another five years. Foreign participation in a local company cannot exceed 65% (this also applies to the sharing of profits). Companies holding commercial agencies must also have at least 51% Omani participation. The Sultanate does not publish estimates of inbound and out-bound investment foreign investment in the Muscat Securities Market (MSM) has averaged 15–16%, but has dropped in absolute terms. In December 1999, foreign investment in the MSM was \$867.8 million. A year later this had fallen to \$730.5 million, and at the end of May 2001, foreign investment in the SMS was \$708.9 million. No systematic information is available on foreign direct investment (FDI). However, it is known that Oman seeks to diversify its economic base, so it is actively seeking private foreign investors in information technology, tourism, and higher educational fields.

The extent and variety of practices of internet financial reporting (IFR) by companies listed on the MSM in Oman. While IFR is fast becoming the norm in most western countries, there is little empirical evidence of the phenomenon in the Middle East region. A recent research conducted on the 142 companies listed on the MSM was investigated to ascertain whether they maintain websites and/or if these sites are being used for communicating financial information. It was concluded that only 84 of the listed companies were found to operate websites, with even less (only 31) engaging in IFR. However, IFR is not restricted to the publication of annual financial statements only as the companies also disclose financial highlights through their websites.

Oman Oil Marketing Company's Facebook page has been recognized by the Pan Arab Web Awards Academy for social media interactivity in the oil and gas sector. Receiving the 'Best Interactive Award', omanoil's Facebook page was applauded for creating interesting and valuable experiences, interacting with a following of over 15,000 friends, richness in information and design.

Last year Omantel was voted the Best Company for Investor Relations in Oman in the Fifth Annual Middle East Investor Relations Survey, undertaken by Thomson Reuters, in partnership with the Middle East Investor Relations Society (ME-IRS). Omantel also figured in the top 3 Corporates in the Overall Grand Prix among leading corporates for Investor Relations, 7th Ranked Company for Corporate Governance and 8th Best

Investor Relations Website, in the Middle East.

In Oman, some companies are using social media very effectively from a business-to-consumer perspective—and social media are starting to affect the investor relations efforts of public companies as well. The principle on how social media can and should be used by a company's management team for IR is still being written. However, in the not-too-distant future, this new paradigm will be an integral part of every public company's communication efforts. It is still at the early stage and there are lots of opportunities and challenges for stakeholders to face in the corporate sector.

## CONCLUSION

Social media is the new paradigm for investor relations. It is no longer a marginal concept but has become mainstream especially in the investor community. Modern day business has become complex and having an enlightened and knowledgeable investor community is further complicating the state of affairs. There is increased pressure on corporate governance to rethink investor relations and more so with regards to the adoption of social media into investor – board communications. Social media use will only be capitalized once there are proper guidelines on its use by companies and more so by the directors. Research has shown that investors are asking to communicate more with directors instead of the usual management teams of various companies. Social media has presented itself as a platform for communication to look-out for that would benefit director-investor communications because of its availability, convenience and efficiency in terms of cost saving. In my opinion, based on the statistics on use of social media by directors, training will be required to give directors the skills needed to use social media especially if they are to use it to communicate with investors. It is quite common to find directors that have the necessary skills in terms of financial and compliance knowledge but lack the necessary skills in technological knowledge.

There is a growing belief that social networking will become increasingly important to investor engagement activities. It is also true that for a long time, directors believed social media wasn't an essential tool that can give a company a competitive advantage beyond the traditional business functions like marketing and PR. This is changing as companies are beginning to incorporate it into investor relations. The statistics provided are very compelling and imply something needs to be done to accelerate appreciation of this new communication channel; more so with regards to regulation and development of social media strategy in investor relations. The US Securities and Exchange Commission have spearheaded this by giving a green-light for companies to disclose information via social media. The rest of the world needs to catch up. However, more rules and guidelines are required that would direct companies on how they should use this platform. Also, the aspects of risks that are brought about by social media need to be addressed with regards to company liability and more so, directors' liability. It is only through this that social media will be capitalized by companies and the board in an effort to reach out to investors, both existing and new.

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