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Investor Relations in Developing Countries: A Disclosure Strategy

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INTRODUCTION

The recent corporate collapse in the United States of America (US) has possibly highlighted inadequacy of corporate disclosure policies, governance and investor relations that potentially indicate that current polices needed serious revisions. Corporate disclosure policies and investor relations (hereafter known as IR) are neither related nor competing each other. According to Marston (1996) the purpose of IR is to provide information to financial community and public investor to evaluate the company. Rayder and Regester (1989) proposed that IR has strategic importance to create linkage between company and investors. Furthermore, they have suggested that IR activities must focus on three principles. Firstly, is for the firm interest by achieving and maintaining highest share price. Secondly, to create investor confidence that will lower the cost of financing. Thirdly, to attain needs of shareholder whose holding highest companies' shares or to attract intuitional shareholders and foreign shareholders to invest in companies' shares or debts in future.

Lev (1992) recommended that continuous information to shareholders on the companies news and activities will minimize investors surprise that will reflect on companies share prices especially on negative news. Therefore, the IR functions can be seen as a key to restoring investors confidence (Gruner, 2000) especially during uncertainty environment. The authors' view was this uncertainty environment can be divided into factors namely internal and external factors. Internal factor is the situation whereby the companies' performance is below public expectations and negative news or rumors. The external factors may relate to unpredictable economic

environment and performance that is beyond the firm's control. The word performance here refers to the performance of others companies that are listed in the stock exchange. The above factors required the companies to inform investors and the public on the firm strategies or actions to overcome such situations. Therefore, IR can be seen as a communication of accurate information of firm's actions that will result on stabilizing the companies share price and enhance investors' confidence. Based on the above opinion, the authors concluded that IR is one of the conceptions that will increase shareholders value.

As required by law, traditional method of IR can be seen as a formal or informal communications. Formal communications in IR consists of firm to publish annual report, interim reporting and meetings (annual and extraordinary) with shareholders (Brennam and Kelly, 2000). According to Marston (1996) and Breeman and Kelly (2000), informal IR activities could be private or public. Private activities comprise of activities of mailing information to analysts and fund managers, answering queries, provide feedback on analyst reports and private companies meetings. A public disclosure activity is related to printing and issuing information by way of press release.

The emergence of internet technology has forced companies to change it communication technology and this technology has provide new way in IR. The traditional methods of IR are less timely and less useful in decision-making. The Internet will allow company to provide global IR communications without time limitation. An IR web site can cut costs of printing and save staff time. In addition, shareholders can choose to receive financial data online rather than getting through

mail. IR managers can response request from analysts and fund managers with an up-to-date information as web site is available.

The objective of this study is to investigate on the presence of IR information in the Malaysia public listed companies' web site. Secondly, it will examine the content of IR information published in the firms' web site. The main motivation to conduct this study is to extent existing literatures that focused more on the United States (US) and European countries.   Therefore, there is no evidence on IR practiced by developing countries and particularly by Malaysian companies. Therefore this research will expend current body of knowledge in IR especially during corporate reputations crisis.   Furthermore, there is little academic studies in this area (Marston and Starker, 2001)

The first section of this paper will discuss on the prior research in this area and related theoretical postulate. Secondly the methodology that explains how this study will be carried out.

Literature Review

There is no specific theory that can explained IR practices by companies. IR may relate to agency theory or efficient market hypotheses.   Agency theory introduced by Coase (1937) and later expended by Jensen and Meckling (1976) viewed that the role of accounting information was to supervise managers' behavior in order to reduce agency cost. Watts and Zimmerman (1978) argued that companies would increase its voluntary disclosure in order to avoid pressure from the

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government and stakeholders that would lead to increment of future agency cost arising from regulations. Lev (1992) pointed that without an active corporate disclosure, the truth never prevail and he noted that "economic theory has recognized that without active disclosure the truth never come out – a permanent information gap generally exists between insiders and outsiders". IR function can also be relates to Efficient Market Hypothesis (EMH). Under the EMH, a corporation may influence the market by presenting new information to its participants (Deller, Stubenrath and Weber, 1999). Even though each theory relies on different theoretical argument, it will provide new avenue for academic researcher to develop and explore new theory or others theory that especially to relative young area in IR.

As cited by Marston and Starker (2001), there was a little academic research in IR. From the literature, most of prior study in IR concerned on the existence of IR practice by firms and reporting medium used to report IR activities. However, as mentioned earlier, this prior research was concentrated on western countries. Marston and Starker (2001), had conducted a survey on the importance of IR functions and establishment of IR department to companies operating in continental Europe[1] countries. Result from the survey indicated that many companies had been establishing IR department ranging from two month to seven years. Furthermore, company executives, fund managers and analysts argued the importance of IR department. Others similar study was conducted in United Kingdom (UK) by Barker (1998), Holland (1998a, 1998b), Marston (1996) and Newman (1984). Clark and Murray (2000) explored the perceptions of UK investment unit trust chairman about the importance of IR information in chairman statements to the shareholders and

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[1] Continental Europe countries used as a sample were Belgium, France, Germany, Italy, Luxembourg, Spain, Switzerland and Netherlands.

public investor. The result showed that the importance of chairman statement because it creates good impression and confidence on the companies. In US earlier studies in this area was done by Marcus (1983), Mahoney (1991) and Marcus and Wallace (1997). Lang and Lundholm (1993) conducted an empirical study on the ranking of firm disclosure practice for US companies and the result showed that the importance of IR related with the firm size and performance.

The Internet evolution can be seen as new communication tools that will expedite communication of IR information to investor and others interested parties. Deller et al. (1999), conducted a survey on the communication of IR information via Internet by the companies in US, UK and Germany. The sample was based on 100 index-linked counters in those respective countries. Result from the studies showed that the US firm (91%) had utilized internet as a communication medium for IR as compared with UK (72%) and Germany (71%). Another study conducted by Hedlin (1999) for the Swedish firm. This firm had been divided by there categories namely most active stock, small and medium companies and newly high-technology companies. However, Hedlin did not indicate the average mean for total IR information disclosed. The IR information was independently reported, for example on 83 % of the firm had a financial report in web and 12% had the hyperlink for the interpretation of financial reports. Moreover, Bernam and Kelly (2001), had also conduct similar study on IR reporting via internet. The sample consisted of 99 Irish listed companies. The result revealed that only 67 % from the sample was having the web site and 84 % of them having an IR information. As a conclusion, from the above literature none of the studies above conduct for developing countries especially in Malaysia. As such this study tries to fill those gaps.

METHODOLOGY

The sample of this study consists of 100 companies that are listed in Kuala Lumpur Stock Exchange (KLSE). These companies are the index link counter.[2] The authors choose index link counter because the expectations that these companies will actively conduct investor relations activities and closed scrutinized by private, institutional investors and lastly by local and abroad funds managers. As per prior research (Deller et al., 1999), the first step is to identify the companies' web site. The KLSE web site is choosing for the identification of homepage of the respective firm. Then, other popular meta search tool will be using if there is no homepage available in the KLSE web for the respective firm.

This study will employ content analysis to measure the quantity of IR disclosure in the web. Various authors (Berelson, 1952; Stone et al. ,1966; Carney,1971; Krippenderoff,1980; Weber,1990; Berger, 1991; Riffe et al, 1998; Neuendrof, 2002) had proposed formal definition of content analysis. Krippendrof (1980) defined as "content analysis is a research technique for making and valid inference from data according their content" whilst Waber (1988) definition was "content analysis is a method codifying text (or content) of piece writing into various group (or categories) depending on selection criteria". Krippendrof (1980) and Neuendrof (2002) had given essential stage process to any content analysis study.

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[2] The Kuala Lumpur Stock Exchange index link counters (CI) are made up from 100 components stocks listed on the Main Board of the exchange. In order for the company to be considering as a CI companies, the index sub committee will evaluate companies. Among others factors consider as a selection criteria are sectors represent, market capitalization and trading volume.

There are three essential processes for content analysis embody in this study with reference to Krippendrof (1980) and Neuendrof (2002) suggestions. The first process is deciding document to analysis. This research used web site content as a document to analyse. To achieve a high degree of significance of information, the web site is monitored for three month[3]. However there is no theoretical argument on deciding the period to monitor IR web site.

The second process in content analysis is to determine measurement of IR theme. A review to prior literature suggested the measurement of IR information is based on the incidence of IR information (Deller et al. 1999; Hedlin, 1999; Bernnam and Kelly 2001). Moreover, the appropriate unit analysis used in IR study is subjective in nature. To measure the disclosure level for every company, a disclosure index is developed. The effective use of this index greatly depends on the selection of the items to be included in the index. A dichotomous procedure developed by Cerf (1961) is used to measure the disclosure score. This method is easy because a score of one will be given if the item is disclosed and zero if it is not disclosed. In this study, all IR items digested from the web site are considered equally important. The selection for the items used in this research is replicated from the prior research in IR that will be explained in the third process below.

The third and final process in content analysis is to develop checklist instrument. This process involves the selection of categories or dimension in disclosure theme. For these study, checklist instrument categories IR into 6 categories. These 6 categories are background of companies and financial data, share

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[3] Deller et al (1999), using one month interval because their research is comparison of IR information by firm in 3 countries and Bernam and Kelly (2001), taking 1 year, as discuss in literature review above.

price and shareholder data, ratio analysis, press release and presentations, frequently ask questions and IR contact details and on-line investor service. Definitions applied in the checklist derived from extensive review of prior literature, which is based on earlier work done by (Deller et al. 1999; Hedlin, 1999; Bernnam and Kelly 2000). It also includes major characteristics as discussed in literature review section above. A detail of the individual theme is given on the appendix one.

The inter-coder reliability is the main concern in content analysis study. To minimize inter-coder reliability, some precautionary measure is adopted to ensure the reliability of the measurement. First, both author cum coder has to discussed the existing literature relating to IR which is aim to enhance their understanding. Secondly, both coder review a small sample of IR printed web document, independently and proceeded with coding process using checklist instrument. The coded data are then being compared and if discrepancies exist, the document will be reanalyzed and difference will resolved. Accordingly, both author analyze the remaining IR printed web document.

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Appendix I

Individual Theme

1. Background of companies and financial data

   This will include company background, industry overview and number of employee. For the financial data, it will look into annual report (summary or full statement) and interim results.

2. Share price and shareholder data

   Reference is made to the current share price, market capitalization, numbers of shares issue, and detail of large shareholder, historical share prices, previous year earnings and dividends.

3. Ratio analysis

   Looks on the performance ratio used to analyze companies. This will include price earnings ratio, earnings per share, return on assets, and return on earnings and gearing ratio.

4. Press release and presentations

   Analysis on current and prior press release relating to IR.

5. Frequently ask questions

   Only look into the aspect of IR.

6. IR contact details and on-line investor service.

   This will include online service for company like contact number or e-mel address for IR department or responsible companies personnel for IR information's.

(Reference; Deller et al. 1999; Hedlin, 1999; Bernnam and Kelly 2000).