


Investor relations on the internet. An empirical study of Romanian listed companies

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Corporate disclosure is critical for the functioning of an efficient capital market (Healy & Palepu, 2001) and investor relations has more and more importance in communication between company and its investors. In recent years many publicly traded companies use internet as a new channel to inform current and potential investors about their financial performance.

In this paper we investigate the extent to which Romanian listed companies use internet for investor relations purposes. To achieve this goal we carried out an investigation of the Romanian companies listed on Bucharest Stock Exchange (BSE) and data from all the listed companies have been collected. The objective of our paper is to identify the stage Romanian listed companies are as regarding the internet advantages they use for disclosing information for their investors. The results suggest that is a poor use of internet advantages for investor relations.

Keywords: investor relations, listed companies, corporate reporting, disclosure, internet.

JEL codes: M41, G32

1 Introduction

The developments known by e-business, global capital markets and information technologies in the last decades has influenced the economic system to become more digital. The purpose of financial reporting has also changed in the recent years, now it is more users oriented. Stakeholders like: investors, creditors, clients, suppliers, social agents, etc, the users of financial reporting, for being better informed, require more and more accounting information from the companies. Because companies are interested to improve their image, to obtain some competitive advantages, or to get more capital from the capital markets they started to disclose voluntary financial or non financial information in addition to those mandatory contained in the financial statements. The internet is the best media for both companies and stakeholders to reach these goals. In this context company's communications had evolved from its traditional channels to the online investor relations services, that provide additional information to a relative low cost. Online or internet reporting became a new way for external users to access relevant financial and accounting information for supporting their decision making process.

In the last decade a wide international academic research was developed in the field of investor relations and internet reporting. But only a few studies have made poor investigations usually on Top 10 companies listed on Bucharest Stock Exchange. Our study investigates the use of internet for investor relations purposes by the companies listed on Bucharest Stock Exchange (BSE). Comparatively with other stock exchanges, BSE is a new one, founded in 1995, and Romanian companies listed here had less experience in transactions than the foreign ones. So we are expecting our findings to be far from the results of other researchers that analysed companies from developed European countries, U.S.A., Canada or Australia.

The objective of our study is to find out if Romanian companies use internet advantages in communicating with institutional and individual investors. Using internet for disclosing financial statements facilitate stakeholders' access to information and decrease the costs with printing and disseminating the hard copy of financial statements through the interested investors. Have Romanian companies give more attention to online investor relations for improving their investor communication? Is the question we try to answer.

2 Theoretical aspects

Investor relations represent “the link between a company and the financial community, providing information to help the financial community and the investing public evaluate a company” Marston (1996). Investor relations has grown significantly in the last years, particularly in economies with strong equity markets (Marston & Empson, 2003). Ryder and Regester (1989) consider investor relations of strategic importance in creating closer links with investors, enabling companies to develop strategies that will be welcomed by shareholders. In developed market economies investor relations is an important management responsibility of stock exchange listed companies that had become part of the corporate strategy and one of the most important value-driver. Among the benefits that investor relations brings to the company the follows have to be taken in consideration: enable company to predict investors who will become shareholders, identify and provide the information to the market that determines company’s stock value, help management understand how the market currently is valuing the company, contributes to reducing the costs of capital, alleviate the volatility of the share price, lead stakeholders to a fair valuation. Practice has proved that the benefits of investor relations are higher than its costs.

Four trends are characteristic for investor relations:

- Investor’s targeting being a key tool; listed companies are seeking more active investor relations,
- increasing of the regulatory requirements,
- Investors are demanding companies to be more transparency,
- The investor relations’ departments and organizations are increasingly interested to get a stronger position of the company in the financial community.

The importance of investor’s relations has risen sharply since the last decade of the XXth century bringing a changing scenary in business communication: enterprises were attracted in the game of their image promoting and disclosing information to their stakeholders through a media that had revolutioned the communication and information technology: the internet. Like a disclosing channel, internet has evolved on a increasing scale; since the beginning of ’90 it became of public utility. Its evolution is presented in figure 1.

In Romania the internet had also known an important increase: only in the last few years, from 2000 to 2007 the usage of internet in Romania had growing up with more than 20%¹ (from 3,6% of the population in 2000 to 23,9% in 2007).

¹ Romania, Internet Usage Stats and Market Report 2007

Companies use a multi-channel approach to inform investors. Information is traditionally communicated by means of financial reports, press releases, road shows and in analyst meetings. The Annual Report, the investor relations website and the annual general meeting are of major importance in communication with public shareholders. Road-shows and individual discussions are the most important platforms for communication with institutional investors but communication with investors is more effectively online.

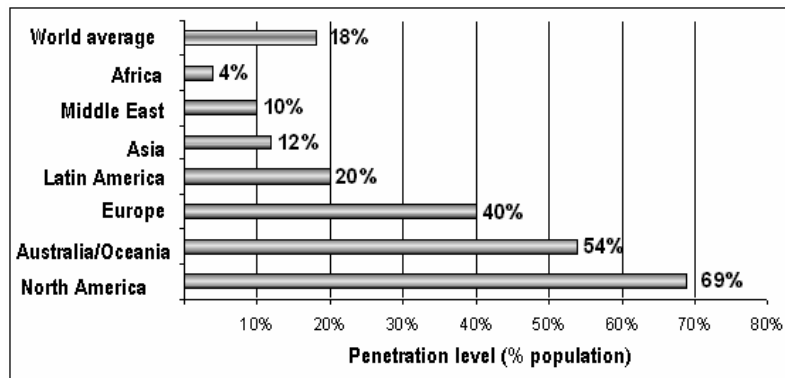


Figure 1

World internet penetration rates by geographic regions, Source: www.internetworldstats.com information at 30th June 2007

The Internet can be used as medium to provide investors a copy of the traditional paper-based annual report, but it also offers new opportunities to present and communicate information (Geerings, Bollen and Hassink, 2003). These include technology-specific presentation advantages, the use of cookie technology, and direct forms of communication like mailing lists and online participation (Deller *et al.*, 1999).

The advantages of providing information to investors on the Internet are speed, lower costs, flexibility, dynamism and the possibility of reaching large groups of investors. Lymer (1998) summarizes the advantages of the Internet for financial reporting as being cheap, quick, dynamic and flexible. Xiao, Jones and Lymer (2005) present the characteristics of the Internet and its advantages over traditional media used for financial reporting as being: the adoption of a client-server model, the use of digital technology, the capability of integrating with other technologies, the allowance of real-time as well as delayed communications, the use of hypertext/hypermedia, and the Internet's capability for supporting one-way, two-way and multi-way communications on a local, national or global scale. Starting from its advantages Hedlin (1999) describes three stages of investor relations on the Internet. We based our research on

Hedlin (1999) and Geerings, Bollen and Hassink (2003) classification and the three stages are the following:

- ✓ First stage: internet presence, offering general company information,
- ✓ Second stage: using the Internet to communicate investor information,
- ✓ Third stage: exploitation of the internet specific advantages for investor communication.

3 Methodology and research framework

Based on a quantitative content analysis the goal of our study is to find out if Romanian listed companies provide the information contained in business reports and inform their investors through an alternative media, the internet, not only by traditional hard copy and if they are using the advantages offered by internet for investor relations purposes. Using internet for disclosing financial and non financial information facilitate stakeholders' access to information and decrease the costs with printing and disseminating the hard copy of companies' reports through the interested investors.

We investigate all companies listed on BSE. Our sample consists of 87 companies listed on BSE at the end of year 2007 that are actively traded. The main reason to choose all the listed companies is to explore the readiness of those companies to inform investors by providing information on their websites and to appreciate the conformity with the regulations of Romanian National Securities Commission (RNSC) regarding transparency of listed companies. This is due to the fact that RNSC and BSE are the Romanian governing bodies that encourage companies to disclose financial information on their website.

Our research instrument is based on the CIFAR study (CIFAR, 1995)² and on the national and European regulations in the field of business reporting. As a research method we use content analyze for study the homepages of the sample companies developed from Weber model (Weber, 1985) and the hypothesis development.

In the first stage of our study we define our own list of variables (table 1) starting from CIFAR study and Hendlin clasification regarding internet disclosure for investors (Hendlin, 1999).

In the first stage we include companies which published reports as: annual, iterim and quartely current reports and reports from previous years (with all

² CIFAR (1995), International Accounting and Auditing Trends, 4th Edition, Princeton NJ

theirs components) in electronic format. In this stage the internet is used as an alternative medium to provide information that is already available through other sources. Information provided is not specifically directed to investors. List of variables that measure the extent to which BSE companies are part of this stage contain 10 elements (table 1).

In the second stage internet is used more directly for a better communication with investors, it is an alternative communication channel. Information like press releases, financial calendar, organizational structure, external links for analysts and information about share price and dividends are disclosed also on company website or secondary websites. Our list of variables that measure the extent of second stage of BSE companies contain also 10 elements (table 1).

The third stage is the more advanced one, companies use specific advantages offered by internet that enable them to contact or inform investors more easy, rapidly or in different ways that were hardly possible using traditional communication channels. Advantages as multilingual homepages, map site, internal search engines, hyperlinks, the use of cookies, direct contact via e-mail and mailing lists, access to video or audio recordings of meetings and online participation in meetings are specific for internet and listed companies from developed capital markets are often use them. In our variable list we take in consideration 15 elements for determining how many BSE companies are in the third stage of investor relations (table 1).

Investor relations classification	Information category	No. of items considered
First Stage	Annual report and its components from current and previous years	7
	Semestrial reports	1
	Quartly reports	1
	Financial data selections	1
Second Stage	Information about shares and dividends	2
	Administration and executives reports	2
	Links to external analysts	1
	Organizational structure, financial calendar, press releases and FAQ	4
	Special section on website for IR	1
Third Stage	Presentation advantages: multilingual website, search engine, hyperlinks, cookies, reports in html format <i>et al.</i>	9
	Direct contact with investors	4
	Video, audio recordings, online participations	2

Table 1
Information categories regarding investor relations stage

After identifying the homepages of our sample companies we determine for each company the mean score for measuring internet investor relations stage, based on a list of variables predefined in the first part of our study. To measure the investor relation stage quantitatively in the present study, a disclosure index for investor relations (IR) was developed:

$$ScorIR = \sum_{i=1}^{35} IR_i \quad (1)$$

We use a composite index for measuring the investor relations stage (Chavent et al., 2006; Marston and Shrides, 1991). For each company we assign the value of “one” to each informational criteria satisfied and value “zero” otherwise. Each information subcategory from our sample contains a different number of items.

4 Data and empirical results

From our sample of 87 companies listed on BSE at the end of the year 2007 that are actively traded not all companies had website, only 83% of them (table 2).

Descriere	Number of companies
Sample companies	87
Companies without website	14
Companies with website underconstruction	1
Companies with website	72

Table 2
Sample of Companies listed on BSE and websites statistics
Source: www.bvb.ro

From our descriptive and comparative analysis on the information disclosed on the internet by the companies listed on BSE we outline that the first stage is one we find more of the Romanian companies (45%) or at most (cel mult) the second stage (27%). This means that BSE listed companies are using internet for disclosing information and less for communicate with their investors. As regards the exploitation of the internet advantages for investor communication only 19% of the analysed enterprises are using them. Among the possible advantages they prefer only the facility to offered information in different languages and the direct contact with investors via e-mail. The results are also presented in figure 2 and table 3.

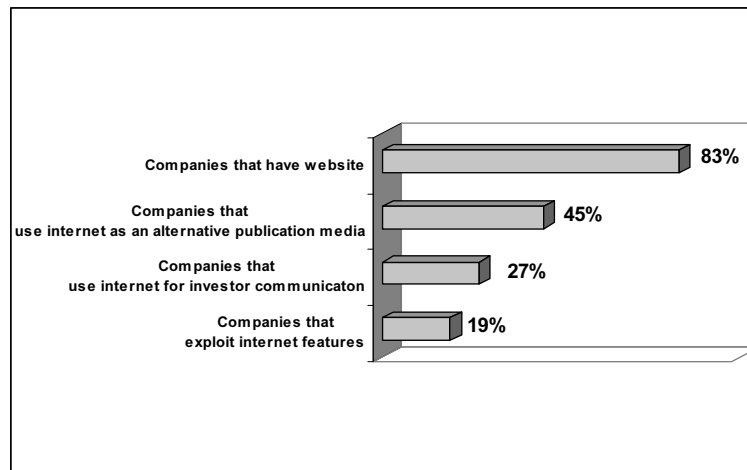


Figure 2

Usage of internet for investor relations and financial reporting

	Stage I	Stage II	Stage III
Companies that are using the internet advantages for investor relations (%)	45%	27%	19%

Table 3
Internet usage for investors communication

5 Conclusions

The internet like a disclosure media has proved its potential for business reporting and investor relations. Companies are providing on their websites financial statements, annual reports and also a wide range of other financial and non financial information. Companies listed on BSE provide their financial statements and other additional reports by using online disclosure.

The empirical research we started from the theoretical foundations of the advantages of using the Internet for publishing formal and informal information, and the current regulatory context, when on the desk of the NSC is the draft regulations on the transparency of information to issuers of securities that seeks to harmonize with the law in the area of the European Union. Content analysis was the base methodological instrument by which we obtained information regarding the Internet usage for investor relations of the firms listed on BSE, and helped us to obtain the main results of this research. The following conclusions have been outlined:

- ✓ Romanian companies prefer to disclose on internet financial and non financial information in formats closer from the traditional paper based copy format of reports and not in html format specific for internet.
- ✓ Romanian companies listed on the BSE are not yet ready to allow online participation in the meetings of the Governing Board, the Board of Directors or to provide the public the opportunity to hear or see records of these meetings.
- ✓ Hyperlinks and cookies are specific techniques of the Internet used to facilitate the access to other information of interest, respectively to enable the user to store the wanted information on his computer, they are not often use of Romanian listed companies.

The results obtained through descriptive statistical analysis compared with the results of similar surveys conducted in other countries shows a level low enough to use the Internet for investor relations firms in Romania compared with international practice.

Romanian companies use the Internet as an alternative way for disseminating information and less to communicate with investors and to exploit the advantages as a means of communication with investors. The dynamics of the internet publication of Romanian firms is not accelerated, the sites of most companies which use the Internet for financial reporting are updated for more than 3 months (with only two exceptions), but there are some companies which have not updated their site from the moment of creation.

The study shows that Romanian companies listed on BSE disclose information on the Internet. These companies have accepted the importance of the internet as a corporate reporting media and are interested in online reporting of their business but they still have to improve internet communication with their investors. A better understanding of these practices is an important issue for future research.

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