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EFFECTIVE FINANCIAL COMMUNICATION

Financial communication and investor relations are strategic corporate functions, tasked with fostering relationships with financial audiences, such as investors, analysts, and journalists. These financial audiences are of critical importance to the establishment, growth, and sustainable success of corporations. This book draws on insights from finance and accounting research, economics, and psychology as well as media and communication studies to explain the role of effective financial communication in corporate disclosure, storytelling, and relationship management on capital markets.

It explores both theories of and empirical evidence for effects of financial communication on key audiences and derives principles for effective financial communication and investor relations. This book develops a distinct perspective, guiding readers through the state of research by focusing on the effects and effectiveness of financial communication. For both practice and academia, it derives evidence-based implications for the role and management of financial communication and investor relations.

This book makes a valuable resource for scholars and graduate students studying or researching investor relations and financial communication across schools of communication, finance and accounting, and business and management. Offering practical implications, it will also serve as a much-needed guide for practitioners.

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EFFECTIVE FINANCIAL COMMUNICATION

Key Concepts, Empirical Insights, and Implications for Practice

Christian Pieter Hoffmann
and Nadine Strauß

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1

INTRODUCTION TO EFFECTIVE FINANCIAL COMMUNICATION

In today's globally interconnected and digital capital markets, the effectiveness of financial communication is crucial for ensuring sustained corporate success. Corporate interactions with investors and a range of capital market intermediaries do not only affect the financial performance of the organization – they also contribute to various intangible assets, such as the corporate image or reputation. Numerous studies find that a company's investor relations (IR) can impact the company's valuation. A number of practice guides explain how financial communication can or should contribute to a fair share price. In addition, studies from communication science highlight how good press relations can bolster investor sentiment. Increasingly, those practicing financial communication are called upon to assess and report on the effectiveness of their programs – and to reflect on the impact of their work on a range of stakeholders. Yet, a thorough account of the state of research on effective financial communication – including key concepts, theoretical perspectives, and empirical insights – is still missing from the literature.

The purpose of this book is to provide an accessible introduction to the current state of financial communication and investor relations research – and to extend our understanding of effective financial communication by highlighting distinct theoretical perspectives on its various responsibilities, objectives, and its management. The research field exploring and analyzing financial communication is quite young, it is growing dynamically, and it is spread across various disciplines. Therefore, when surveying, condensing, and presenting the state of research, it is necessary to take a position, to focus, and to highlight a specific perspective so that readers can make sense of key insights, understand core arguments, and derive salient implications. To that end, this

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book will center the *effects and effectiveness of financial communication*. This choice is motivated by three rationales:

First, while focusing on research, presenting theoretical perspectives and empirical findings, this book is not exclusively addressed to students and scholars of financial communication, but also to practitioners. While this book may not always be a light read – in fact, it is often quite dense and occasionally delves deep into theoretical considerations – it is also intended to be insightful to those shaping the practice of financial communication and IR. Learning about the evolution, key concepts and current lines of exploration in research on effective financial communication can help practitioners reflect on their field, their role and contributions, and future developments. This book offers a deep understanding of the institutional, social, psychological, and economic conditions of financial communication. Thus, it can help those working in the field become more effective financial communicators. To this end, each chapter culminates in a brief summary of implications for effective financial communication. Chapter by chapter, these summaries foster a sound understanding of core insights that shape today's state of the professionalization and institutionalization of financial communication and IR.

Second, from a conceptual perspective, the effects of financial communication are particularly fascinating. Theoretically, it isn't entirely evident why corporations would engage in financial communication beyond the fulfillment of regulatory requirements (Hoffmann, 2023). Similarly, it isn't obvious why financial communication would engender effects that go beyond those created by ensuring transparency or reducing information asymmetries: Why is it possible or beneficial to engage in storytelling, why is it worthwhile to foster a positive image or reputation on capital markets, why do trust and relationships matter? Why, thereby, is the National Investor Relations Institute (NIRI, 2023) justified in describing IR as a *strategic management responsibility* rather than just a compliance function? Why has financial communication evolved so quickly into a field of strategic communication? Focusing on the effects and the effectiveness of financial communication allows for a systematic exploration of these critical conceptual challenges.

Third, a number of trends are currently reshaping the fields of financial communication that highlight the importance of carefully considering its (desired) effects. Due to a rising public and regulatory focus on corporate sustainability, non-financial information has become a critical element of corporate disclosures. A push toward an integrated perspective on financial, governance, social, and environmental performance data currently is at the top of the agenda. Increasingly, corporations are called upon to disclose how their business impacts a variety of stakeholders. At the same

time, digitalization and technological advancements in collecting, analyzing, and conveying data have made the state and performance of corporations more transparent than ever before. The impact of corporate actions can now be tracked in real time. This new abundance of data on capital markets, whether free or at a cost, coupled with new technologies like artificial intelligence and automated analytical tools, raises the question of the future role of financial communication. In sum, financial communication needs to recalibrate, shape, and manage its contributions in the face of current challenges such as the rise of sustainability and increasing automatization. It needs to assess, evaluate, and communicate its effects and effectiveness to internal stakeholders to remain a relevant part of the corporation's dominant coalition.

Reasons to Study Effective Financial Communication

As will be discussed in the following pages, the research field examining financial communication is still relatively young, and it is scattered across various disciplines. At the same time, it has managed to generate an impressive body of insights and copious empirical evidence on the effects and effectiveness of financial communication and IR. This book strives to provide the most comprehensive overview of this state of research to date, by reviewing hundreds of studies from international authors and multidisciplinary backgrounds, and adding some original research. This book is more than a research primer on effective financial communication, however. It also derives key insights and implications for practice. Far from a dry accounting of complex empirical studies or conceptual arguments, this book strives to convey why the field of financial communication is particularly fascinating and deserving of careful consideration.

Here are just a few arguments for why it is worthwhile to think and learn about financial communication, its specific tasks, preconditions, challenges, opportunities, and its effects:

- *Financial communication is of critical importance not just to the sustained success but also to the existence of corporations*. Of course, many communications functions can rightfully claim to be important to corporate success: public relations (PR), marketing, employee communication, lobbying, etc. After all, various stakeholders affect a corporation's success (Freeman, 1984). So, corporations need to maintain fruitful, constructive relationships with all of these stakeholders (Ledingham & Bruning, 1998). Still, across markets, business models, sizes, and development stages, most corporations' stakeholder analysis (Mitchell et al., 1997) is bound to place investors at the top of the stakeholder priority hierarchy. When assessing various stakeholders' power over the company or the legitimacy of

their claims, few, if any, can rival those of the investors. Why is that? Investors, after all, are the owners of a corporation. They are the ultimate decision-makers. They can most immediately decide over the corporation's leadership and strategy, its development and future existence. Maintaining good relationships with investors, thus, is not just strategically advisable, it is indispensable. In this book, we will discuss the critical role of capital markets for corporations and the unique relationship between corporations and their investors.

- *Financial communication, in a sense, is the oldest, even the original corporate communications function*. While there is still only little research on corporate communications in start-ups (Wiesenberg et al., 2020), when examining the founding and initial development stages of corporations, it is striking that the first stakeholders fledgling enterprises and their founders reach out to, are investors. Finding investors is, again, indispensable for establishing and growing a corporation, for hiring employees, and for developing and marketing products. All other stakeholder relationships – those with employees, customers, suppliers, or competitors – can only be established and fostered once relationships with investors have been secured. Therefore, the stakeholder group entrepreneurs first need to focus strategic communication efforts on, are investors. In this book, we will discuss the role of different types of investors and that of various intermediaries that play a role in reaching these investors.
- *At the same time, IR is a very recent communications function*. Research on the history of IR shows that the first IR teams or departments emerged in the 1950s in the US, and just in the 1980s in Europe (Laskin, 2022; Köhler, 2015). The first academic studies on IR were published in the 1990s. At first glance, this may appear like a contradiction: how can financial communication both be at the roots of the establishment of a corporation and still constitute a very young corporate function? Originally, IR tasks were assigned to experts within the finance, legal, or PR departments. Only later did corporations begin to hire dedicated IR experts, establish IR teams, and later IR departments. IR, thus, is still very much an evolving organizational unit. This book will discuss the history of financial communication as well as its more recent evolution – and future trends and developments.
- *Financial communication is a heavily regulated corporate function*. In practice, IR experts often complain about the level and complexity of regulatory burdens. However, the broad range and constant evolution of financial communication regulations also indicate the relevance of financial communication from a public perspective. As recurring financial crises and the ensuing political turbulences highlight, a well-functioning, transparent, and efficient capital market is of crucial importance to modern societies. It is an important precondition for growth, employment,

and innovation (Bekaert & Harvey, 1998). Governments and regulators, therefore, constantly attempt to optimize capital market regulations, with respective implications for financial communication. Within organizations, IR therefore often requires a seat at the table when relevant strategic decisions are made (Hoffmann & Binder-Tietz, 2021). Many, if not most, substantial corporate decisions are subject to capital market regulations and require involvement not just of legal experts, but also IR officers. From an IR perspective, thus, tight regulatory frameworks are both a burden and a blessing. This book will introduce key regulatory requirements in IR and discuss the strategic role of financial communication and IR.

- *Financial communication is organizationally complex and challenging to manage*. Many IR tasks require collaboration with and input from other corporate functions, like accounting, human resources, legal, sales, and marketing. An annual report, for example, accounts for a tremendous variety of corporate actions and developments. Compiling such a report – usually an IR task – necessitates close, well-coordinated collaboration across departments to access, compile, and accurately represent all of the required information. Similarly, corporate leadership, including the Chief Executive Officer and the Chief Financial Officer, and sometimes other executives, play a crucial role in financial communication. The financial communication function is itself not exclusively delegated to the IR department, but the PR department also bears important financial communication responsibilities. Both in practice and research, financial communication, thus, necessitates flexibility, curiosity, openness, a knack for collaboration, and tolerance for ambiguity. This book will delve into the complexities of managing the financial communication function.
- *Both in research and in practice, financial communication is very much an interdisciplinary phenomenon*. As noted, the IR function was long embedded in the finance department and often has important legal implications, but it also intersects with PR responsibilities. Today, financial communication experts on the PR-side often have a humanities, journalism, or communications background, while those working in IR departments more frequently have studied business and finance and often worked in finance before switching to IR (cf., Hoffmann et al., 2011). Similarly, research on IR spans disciplines such as finance and accounting, law, communications, computer science, psychology, and others (Hoffmann et al., 2018). A multi-disciplinary perspective, thus, is necessary to practice and to understand financial communication. This book will very much apply such a multidisciplinary perspective, drawing not just on studies from the fields of business or communication science, but also psychology, sociology, economics, and history.
- *Financial communication necessitates original research*. As a result of its organizationally complex, interdisciplinary nature, IR is especially

interesting for communications research, as many theories in the field were developed specifically in the context of PR (Falkheimer & Heide, 2014). Not all of these theories, however, are immediately applicable to IR. In fact, IR research is still establishing itself within the wider field of PR and corporate communications research (Hoffmann et al., 2018). To understand why and how IR is distinctive from PR, it is necessary to account for the dynamic development of the IR role, its interdisciplinary nature, its organizational complexity, but also the specificities of the capital market arena and the unique relationship between investors and the corporation. One key purpose of this book is to bring together a broad overview of the research into financial communication and IR and to showcase the emergent but impressive state of research on this subject.

- *Finally, financial communication is exciting because capital markets are dynamic, impactful, and sometimes difficult to grasp*. Capital markets play a crucial role in the emergence of capitalist societies and in the evolution of the institutions, organizations, and technologies that shape the modern world. As noted above, capital markets are a critical precondition for entrepreneurship, innovation, and growth. The immense explosion of wealth during the last two centuries, first in the West, and today across the globe (Pinker, 2019; McCloskey, 2006) could hardly be attained without capital markets. Capital markets are where enormous wealth can be accumulated – and lost. Countless individuals – professionals and laypeople – participate in capital markets and attempt to benefit from the growth of individual enterprises, specific sectors, or entire economies. But even those who do not directly invest on capital markets are affected by the decisions made there (some speak of a link between "Wall Street" and "Main Street", i.e., capital markets and the overall economy). The job opportunities, educational decisions, family planning, relocation decisions, or retirement options of even those not consciously investing on capital markets are directly or indirectly affected by the resource allocation decisions made on capital markets, as companies emerge and grow, new technologies proliferate, and industries rise or decline. Hardly any human being on this planet can claim not to be affected by capital markets. It is hardly surprising, thus, that modern culture has an intense fascination with capital markets, as showcased in Hollywood blockbusters such as "Wall Street", "The Wolf of Wall Street", "The Big Short", "Trading Places", "American Psycho", or "Margin Call".

Given all of these arguments, this book will delve deeply into the important, complex, challenging, and exciting topic of the effects and effectiveness of financial communication. We will begin by defining the key terms *financial communication* and *investor relations* and then proceed to briefly

sketch the evolution of the financial communication function in recent decades. We will finish this introductory chapter by outlining the argument and structure of this book.

Defining Financial Communication and Investor Relations

There are two distinct disciplinary views of financial communication that can lead to some conceptual confusion. This confusion is related to an occasionally unclear, imprecise, or contradictory use of the terms *financial communication* and *investor relations*. From a communications perspective, financial communication is often seen as a PR function (Cutlip et al., 1985). However, in this context, the term financial communication is also indiscriminately applied to the IR team or department. From an accounting and finance perspective, instead, financial communication is described as a finance function (Hong & Ki, 2007; Petersen & Martin, 1996). Here, IR is actually the more common term used to describe this function.

Both of these disciplinary views can be accurate. In a thorough investigation of the institutionalization of IR in Germany, Köhler (2015) describes the emergence of IR departments in the 1980s. Before that, IR tasks, such as preparing the annual report or organizing the annual shareholders meeting, were performed by the PR, finance, or legal department. Only in the 1980s did listed corporations begin to hire IR experts, and later form IR teams (cf., Laskin, 2009; Marston & Straker, 2001; Rao & Sivakumar, 1999; Marston, 1996). Initially, these teams were often still part of the finance department. As team sizes, responsibilities, regulatory burdens, and the perceived importance of IR tasks grew, investor relations were spun off into independent departments. The eventual independence of IR departments, thereby, resembles the gradual detachment of a stand-alone PR department from the older, more established, and better resourced marketing department (Laskin, 2014, 2009; Hong & Ki, 2007; Grunig, 2006; Grunig et al., 2002).

To this date, aside from IR teams, many listed corporations also employ financial communication experts within the PR department (Figure 1.1). This cross-departmental allocation of financial communication responsibilities arises from the fact that the financial community comprises journalists as well as (retail and institutional) investors and analysts (aside from a number of other actors – see Chapter 5). While IR departments, as the name implies, are tasked with maintaining relationships with investors, they tend not to engage with financial journalists, as these fall into the domain of the PR department (Binder-Tietz et al., 2021). Instead, financial communication experts within the PR department closely coordinate with the IR department when engaging financial journalists to ensure that consistent information and messages are distributed to all members of the financial community.

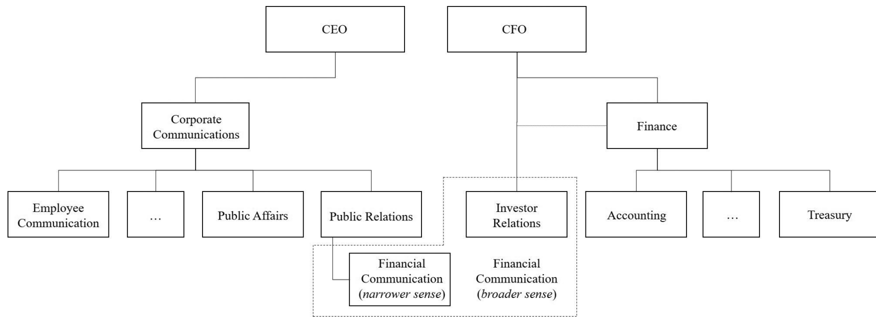

FIGURE 1.1 Financial communication and investor relations within the organization (Figure by the authors)

To date, though, there is significant variance in how corporations organize the financial communication function: in small listed corporations, there is frequently just one (small) communications team that covers all PR and IR tasks. In some cases, IR tasks are outsourced to consultants (Hoffmann & Binder-Tietz, 2021; Laskin, 2014; Hong & Ki, 2007; Marston & Straker, 2001). In some corporations, IR is still subsumed under the finance or legal department (Laskin, 2014, 2009; Marston & Straker, 2001). Regrettably, both the state and evolution of common organizational designs in financial communication are difficult to estimate due to a lack of international comparative research or of longitudinal data.

For the purposes of this book, we will distinguish two distinct uses of the term *financial communication*. In a broader sense, financial communication is used as an umbrella term that encompasses both IR teams or departments *and* financial communication experts within the PR department. This broad understanding of financial communication can be summarized by the following definition (cf., Hoffmann et al., 2022[1]):

> Financial communication encompasses all communication activities carried out by a company or on its behalf that serve to maintain relations with financial stakeholders as well as important capital market intermediaries.

In a narrower sense, financial communication refers specifically to financial communication experts or professionals within the PR department:

> Financial communication [in a narrower sense] refers to the public relations domain that is dedicated to participating in or initiating conversations on the financial aspects of a company's performance. This includes communication and relationship management with intermediaries such as financial and business journalists.
>
> *(Hoffmann et al., 2022, p. 6)*

The National Investor Relations Institute (NIRI, 2023), in turn, has defined investor relations as 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.

When this book discusses financial communication in the narrower sense, this meaning will be clarified. When speaking of *IR*, it consistently denotes specifically the IR department or team, in line with the definition provided above. Similarly, the term financial communication professionals will refer to those within the PR department specializing on financial topics, while the term investor relations officers (IROs) denotes the members of the IR team or department.

The Evolution of Financial Communication

As noted above, financial communication is both a very old and a quite recent corporate function – the latter particularly with regard to the IR department. Over the past four to five decades, IR, in particular, has experience a drastic and rapid evolution. This section will offer a brief account of this evolution, as these insights will inform the structure and argument of this book, specifically in Part 2.

IR originally was – and still largely is – shaped and motivated by legal requirements, particularly in terms of reporting and disclosure obligations (Laskin, 2022). Shareholders, especially those of large public companies, do not directly control strategic or operational management decisions (Fama, 1980; Jensen & Meckling, 1976; see Chapter 10). This could lead to discretionary leeway for executive managers pursuing their self-interest over those of shareholders and a misallocation of corporate resources. By this rationale, the IR function serves to reduce information asymmetries between shareholders and management to ensure the alignment of interests between corporate outsiders and insiders (Fama, 1980; Jensen and Meckling, 1976). Accordingly, a significant part of IR can be understood as compliance efforts (Hoffmann, 2019). Listed corporations are required to publish regular earnings reports, annual reports as well as ad-hoc disclosures of strategically and financially significant developments (Laskin, 2022; see Chapter 7).

The compliance perspective on IR, however, implies a limiting view of the scope of the function. IR efforts have been shown again and again to influence corporate value (see Chapter 11). This is why – despite the important compliance function of IR – IR is more than just an attempt at reducing

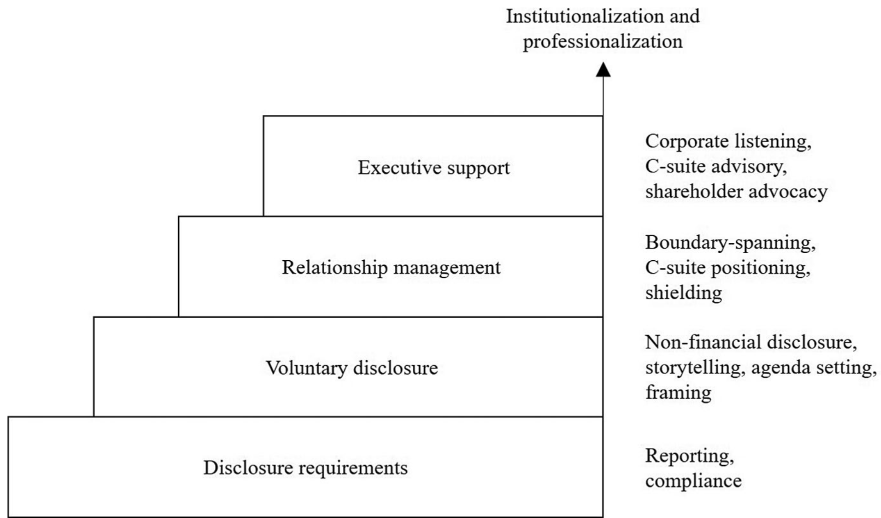

FIGURE 1.2 The evolution of financial communication (Figure based on Hoffmann, 2023)

information asymmetries, it is dedicated to more than a mere "packaging" and transmission of information (Agarwal et al., 2016). As noted above, the National Investor Relations Institute (NIRI, 2023) defines investor relations as a "strategic management responsibility". IR encompasses voluntary disclosure, dialogue, and relationship management and contributes to strategic management (Figure 1.2).

First, IR regularly engages in the voluntary disclosure of both financial and non-financial data (Hoffmann & Fieseler, 2012). In the Accounting literature, both mandatory and voluntary corporate disclosures have been related to impression management efforts (Merkl-Davies et al., 2007). As rhetorical analyses highlight, corporations engage in tactics such as obfuscation and even deception, reading ease manipulation, narration, and argumentation in their disclosures (Nicolaides et al., 2018; Palmieri et al., 2015; Beattie, 2014). In other words, corporate disclosures are employed to persuasive ends. In the corporate communications literature, IR is seen as engaged in agenda setting and framing (Strycharz et al., 2018; Laskin, 2011), image formation (Hoffmann & Fieseler, 2012), or reputation management (Mazzola et al., 2006). Dolphin (2004) even likens IR to a marketing function.

Second, a number of scholars have pointed out that IR engages in fostering dependable and beneficial capital market relationships by increasing trust, cooperation, and commitment (Hoffmann & Binder-Tietz, 2021; Strauß, 2018; Tuominen, 1997). Kelly et al. (2010) found that US IR officers predominantly practice two-way symmetrical communication. In fact, the symmetrical model is particularly fitting for managing relationships with a

relatively small, professional, powerful, and demanding audience such as the financial community. Fostering dialogue includes positioning members of the C-suite in conversations of strategic significance (Hoffmann et al., 2020; Zerfass et al., 2018). At the same time, Rao and Sivakumar (1999) argue that IR departments also occasionally serve to shield executives from unruly investor demands.

Third, in her account of the institutionalization of the IR function in Germany, Köhler (2015) diagnoses the emergence of a strategic IR role. She terms it an “integrated function” due to its “distinct internal dimension” (Köhler, 2018, p. 435). Here, IR officers are seen to contribute to corporate success by listening to capital market audiences (Chandler, 2014), analyzing the corporate environment, and advising corporate leaders on how to ensure investor support for strategic plans (Hoffmann & Binder-Tietz, 2021). IR, thus, takes on the inbound role of representing shareholder interests in strategic management deliberations (shareholder advocacy). This role has been bolstered by a rise in shareholder activism, which renders ensuring shareholder support all the more important (Hoffmann & Fieseler, 2018). In general, CEOs value input from investors and perceive capital market feedback as helpful in charting the organization’s strategy (Chandler, 2014).

To summarize, emerging from a compliance function focused on ensuring adherence to corporate governance standards, financial communication has evolved into a strategic communication function. Today, it bears a broad range of responsibilities and provides various contributions to the success and value of corporations. As noted, this evolution of financial communication and IR will inform the argument and structure of this book.

This Book: Understanding Effective Financial Communication

This book provides the first comprehensive overview of theories and empirical findings on the effectiveness of financial communication by applying an interdisciplinary perspective. True to the multidisciplinary nature of the field of financial communication itself, this book reviews and summarizes academic findings from accounting, business, finance, and communication science and derives implications for effective financial communication to be applied in practice, teaching, and research.

This book is structured into two parts. **Part 1, Foundations of Effective Financial Communication**, establishes an understanding of the basic conditions, the institutionalization, the tools, and audiences of financial communication.

- *Chapter 2* will expand upon the important role of capital markets, in particular for corporations, but also for its other participants and society at large. It highlights the notion of capital market efficiency but also

delves into the very human, psychological underpinnings of capital market dynamics.
- *Chapter 3* will go into more detail on the history of financial communication and IR, and their evolution in recent decades. It also presents a brief overview of the development and state of research on financial communication.
- *Chapter 4* focuses on the financial communicators. Building on what has been discussed above, it explains the respective roles and profiles of IROs and PR experts, but also the contributions of executives to financial communication (focusing on the CEO and CFO). The chapter then highlights how the financial communication profession has changed and matured over time.
- *Chapter 5* will differentiate the audiences of financial communication, both within the category of *investors*, and beyond this core target audience, discussing various important intermediaries. It presents a model of information flows on capital markets.
- Finally, *Chapter 6* will explain the tools or instruments of financial communication and IR, as well as when and how they are employed. It introduces the concept of a financial communication calendar and looks at some current changes in the financial communication toolset.

At the end of Part 1, readers will have developed a sound grasp of what financial communication is and does, and where it comes from. In other words, Part 1 establishes the foundations of effective financial communication.

Part 2, Objectives and Management of Effective Financial Communication, will delve deeper into the topic of effects and effectiveness by differentiating why and how financial communication and IR contribute to the survival and success of corporations. Here, especially, distinct theoretical perspectives will be foregrounded to explain the various ways in which financial communication affects the corporation and its stakeholders. Theoretical accounts will be explored that go beyond the established state of research on financial communication, offering a foundation and inspiration for future studies of financial communication and IR.

- *Chapter 7* will begin by explaining and differentiating disclosure requirements. These include financial and non-financial disclosures, focusing on mandatory disclosures, but also touching upon voluntary disclosure. This chapter, thus, provides deep insights into financial communication's compliance role highlighted above. It explains the first and basic level of the layered model of financial communication evolution presented in Figure 1.2.
- *Chapter 8* highlights the storytelling role of financial communication and explores the importance of narratives on capital markets. This discussion

builds on the notion of voluntary disclosure, but goes beyond it, by touching on rhetoric, narrative structures, and sensegiving. Chapter 7, thus, relates to the second level of the model depicted in Figure 1.2.
- *Chapter 9* will expand on the voluntary disclosure of listed corporations by focusing specifically on media relations and the responsibilities of those conducting financial communication in the PR department. It discusses concepts such as agenda building, agenda setting, and framing.
- *Chapter 10*, then, will discuss the next evolutionary step in financial communication, the relationship management role. Here, we will reiterate the principal-agent-theory, introduce the concept of boundary spanning, and discuss how insights from PR research on relationship quality and dialogue apply to financial communication. This chapter, thus, relates to the third level of the model presented in Figure 1.2.

Together, these chapters in Part 2 will establish a rich, theoretically informed, and evidence-based understanding of the responsibilities and objectives of financial communication and IR. It explains how and why financial communication engenders effects on capital markets, on corporations, and their stakeholders. Part 2 will then proceed to a rarely discussed dimension of financial communication: its strategic management. While, today, it is common to define IR as a strategic function, few previous publications have presented as differentiated and substantially argued an explanation for why and how financial communication is capable of contributing to the value and success of corporations as this book does in the remainder of Part 2.

- *Chapter 11* will systematically outline the effects of financial communication both within the corporation and on capital markets/among its audiences. It encompasses all of the responsibilities explored in Chapters 7–10, but will extend the discussion to how financial communication contributes to the strategic management of the organization (as depicted in the topmost level of the model presented in Figure 1.2).
- *Chapter 12* will introduce the concept of communication management, explain the requirements of strategic communication management, and apply these insights to financial communication.
- *Chapter 13* will then discuss the evaluation of financial communication, a crucial last step in communication management. It will present a management framework that builds on the state of research both within the field of financial communication and beyond.

Part 2, in summary, directly grapples with the effects and effectiveness of financial communication. The insights presented here are immediately

relevant to practice, but they also push the boundaries of the current state of research in financial communication.

- *Chapter 14*, finally, will present a look ahead at current and future trends that will shape if and how financial communication and IR will affect capital markets, corporations, and its stakeholders. It will discuss tangible trends, such as sustainability, digitalization, and shareholder activism, but also emergent trends such as multiple crises and resilience. The trends discussed here are bound to be further explored in future studies, and will capture the attention of practitioners striving to ensure the future effectiveness of financial communication.

Note

1 Translated from German.

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PART I

Foundations of Effective Financial Communication

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2

THE CAPITAL MARKET ARENA

Capital, Human Behavior, and Stakeholder Capitalism

Capital markets play a critical role in modern societies. Through the allocation of resources, they influence all sectors of society – commerce, politics, education, even the arts – and they ultimately affect each individual citizen, even those that do not actively invest in funds or shares. In US parlance, there is an inextricable connection between "Wall Street" and "Main Street", i.e., between capital markets and the daily lives of the citizenry (Lamin & Zaheer, 2012). Due to their critical role for all facets of modern society, capital markets are characterized by a continuously increasing need for ever more, more detailed, and more frequent information. Information is a – if not *the* – prerequisite for the smooth operation of capital markets – including the avoidance of mistakes, fraud, and turbulence. In the case of listed corporations, such information includes company updates, announcements, data, metrics, and performance indicators.

Some of the capital markets' information needs result in formal disclosure requirements (Chapter 7). Such requirements facilitate the standardization of relevant information. Regulatory bodies strive to ensure high levels of transparency to reign in capital markets and avoid malfunctions. Today, the hyperconnectivity and competitiveness of global markets tend to push transparency standards even higher. For listed corporation, the interaction with capital market participants thus requires a professional management of financial communication (Piwinger, 2009). By preparing, providing, and distributing relevant information to market participants, investor relations officers (IRO) play a key role on modern capital markets – their services facilitate a fair evaluation of the company, and thereby the proper performance of capital markets (Laskin, 2022; Nielsen & Bukh, 2013; Piwinger, 2009). Previous research has shown that the timing, form, and content (e.g., metrics

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such as quarterly results) of financial communication can have a significant impact on capital market perceptions and valuations (Strauß et al., 2018; Nielsen & Bukh, 2013).

A sound understanding of financial communication, thus, requires an understanding of the role and function of capital markets. What exactly are capital markets and what is their purpose? How does information shape capital markets? What does it mean when capital markets are described as "efficient"? What do we know about the choices and behavior of capital market participants? And finally: what is the role of capital markets in the attainment of a sustainable market economy? This chapter will address all of these questions and reflect on their implications for financial communication.

Defining Capital Markets

In simple terms, capital markets are "where savings and investments are channeled between suppliers – people or institutions with capital to lend or invest – and those in need" of capital (Hayes et al., 2021). According to Hayes and colleagues, capital markets encompass the in-person and/or digital spaces in which entities trade various investments or financial instruments. The first instance of a capital market in a modern understanding can be traced to the establishment of the exchange that traded the shares of the Dutch East India Company in Amsterdam in 1602 (Petram, 2011). Since then, capital markets have expanded to encompass most economies across the globe and many thousands of corporations.

The delineation of capital markets depends on the underlying definition of "capital". For example, the real estate market could be considered a type of market for capital, as real estate is often described as a form of capital. In a very broad sense, even labor markets could be considered a market for capital, as human capital is traded here. More commonly, however, capital markets refer to the trading of *financial* capital. Accordingly, capital markets are a type of *financial market*. Financial markets, more broadly, also include markets for commodities and derivatives, or the foreign exchange. Another type of financial market is the money market, where short-term loans are traded. *Capital markets* in a narrower sense, instead, revolve specifically around long-term financial securities (see Figure 2.1).

Capital markets can be further distinguished into (1) the stock market (also: equities market), where shares of publicly listed companies are traded (Chen et al., 2022b), and (2) the bond market, where trades revolve around debt securities (Hayes et al., 2022c). Whereas stocks or shares denote an equity stake – and thereby ownership – in a company (Hayes et al., 2022c), bonds are debt securities, sometimes shortened as "IOU" which stands for "I owe you" (Kenton & Catalano, 2021). In other words, bonds are loans

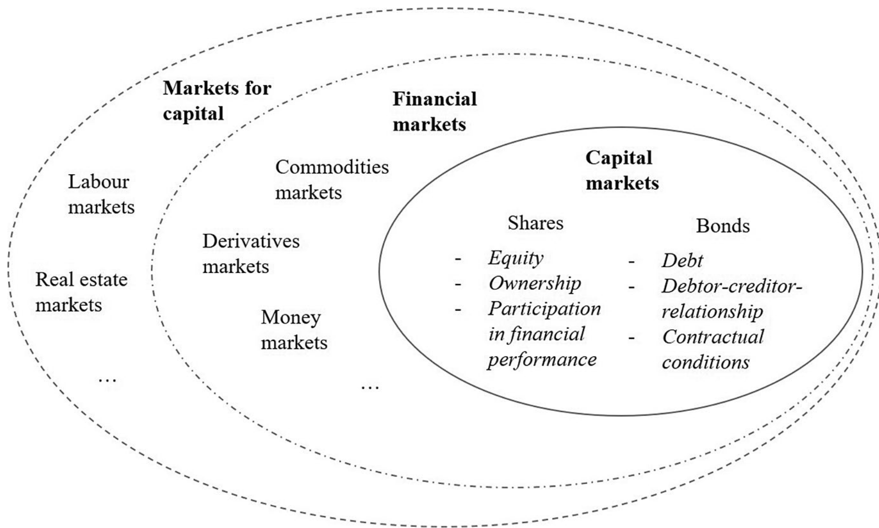

FIGURE 2.1 Capital markets (Figure by the authors)

(or parts of a loan) given by a creditor to a debtor (e.g., government or company), akin to a bank loan (Fernando et al., 2022). The debtor is also called issuer as bonds are issued as a tradeable security (in contrast to some other forms of loans). The rights associated with shares and bonds differ significantly. Bonds don't bestow voting rights at the annual shareholders meeting, for example, as they don't confer ownership in a company. Conversely, shares don't afford a right to cash payments – dividends paid out to shareholders are dependent on the financial success and strategy of a corporation. Bonds, instead, are usually associated with rights to both repayment and interest payments. In the case of a corporate bankruptcy, bond holders are serviced before shareholders, because shareholders as owners of the corporation bear the entrepreneurial risk while bond holders do not. From an investor perspective, shares are thus associated with greater downside risk, but also greater upside potential: the value of a share can, in theory, grow ad infinitum as the company evolves, while the value of a bond is determined by the contractual conditions of the loan.

Finally, capital markets can be distinguished into the primary and secondary markets (Hayes et al., 2021). While the primary market refers to the market where new stocks or bonds are sold for the first time by underwriting agents such as investment banks (e.g., initial public offering) or where investors can buy securities directly from the issuer, the secondary market encompasses the market where assets, such as stocks, are traded among investors (Chen et al., 2022a). The secondary market is usually far bigger than the primary market, encompassing much higher trading volumes.

Stock exchanges are services operated by private companies, such as the New York Stock Exchange, NASDAQ, Euronext, or the London Stock Exchange. In many cases, the shares of these companies are themselves tradeable on the stock exchange. Aside from these exchange operators, the financial services industry plays a crucial role in the functioning of modern capital markets. It encompasses banks, insurance companies, and the investment industry – with various sub-categories (e.g., retail bank, pension funds, financial advisory providers, traders, dealers, and clearing houses; O'Reilly, 2014). The financial industry helps investors choose and make investments, it provides information and advice, and it also engages capital market participants as an investor. It facilitates trading through a variety of services, such as analyses, brokerage, market making, and insurance. Chapter 5 will provide more in-depth information on the roles of various capital market participants.

The Role of Capital Markets

There is a broad consensus among economists that capital markets tend to be efficient in transferring capital from participants with a monetary surplus to those who require it for various entrepreneurial purposes (Heyes et al., 2021). As described above, and as the name implies, financial markets are markets for financial assets, they facilitate the exchange of capital supply and demand. Thereby, they generate *prices* for financial assets. Prices are a key outcome of financial markets – the information encapsulated in these prices allows entrepreneurs to calculate the viability of competing business projects (Mises, 1920). Information, thus, is both a critical input and output of capital markets. Regulators strive to ensure transparent capital markets. They enforce disclosure requirements, for example, to ensure that sufficient high-quality information is available to capital market participants. This serves to reduce transaction costs (Coase, 1937) and thus contributes to the availability and quality of price information. Through the price mechanism, capital markets not only assign value to assets such as companies but also effectively allocate and accumulate capital throughout the economy (Dziawgo, 2012).

One of the founding fathers of the idea of efficient markets is Adam Smith (1723–1790). With his notion of the "invisible hand", he implied that competitive markets are necessary for an efficient allocation of resources through the price mechanism. As he writes, "By pursuing his own interest [individual] he frequently promotes that of the society more effectually than when he really intends to promote it" (Smith, 1776, p. 9). In other words, the market mechanism ensures that individuals following their own self-interests will ultimately benefit society as a whole, as price incentives will channel their energy and resources toward the demand of others. For this seemingly

miraculous mechanism to function, however, Smith argues that there needs to be freedom of production and consumption and a government that secures the unbiased rule of law, enabling free competition among market participants (Linß, 2014).

Another author who highlights the informational role of capital markets is Friedrich August von Hayek (1945). The famed Nobel laureate distinguishes between implicit and explicit knowledge and points out that implicit knowledge is often transmittable only through action. Unimpeded action within a market system, thus, also serves to make implicit knowledge available to others. Through supply and demand, market participants feed both their explicit and implicit knowledge into the price system. Similar to Smith, Hayek therefore stresses the importance of freedom of competition and the rule of law to ensure that as much information or knowledge as possible can enrich market transactions and lead to smart decision-making. Mises (1920) argues that there is never a dearth of business ideas and potential entrepreneurial projects. Rather, the scarcity of available resources forces market participants to choose the most fruitful projects – those that generate the most utility from the available resources. Again, prices reflecting the best available information are crucial in comparing and choosing these projects and allocating scarce resources efficiently.

In the tradition of Mises and Hayek, Israel Kirzner (1997) points out that alertness is a critical characteristic of the entrepreneur: the entrepreneur strives to discover insights, information, or knowledge that others have not yet gleaned to exploit these advantages. Through entrepreneurial action, by investing and trading on unique insights, information is fed into the price system and thus becomes available to all other market participants. Kirzner's theory of the entrepreneur is especially important for understanding the role of speculators on capital markets. Speculators are often distinguished from entrepreneurs, and they tend to be met with more public skepticism because they are held not to produce anything of value. Speculators, however, produce something that is of utmost importance to the efficient operation of capital markets: information. By trading on their insights, they feed information into the price mechanism.

One of the most prominent concepts when discussing market efficiency is *Pareto efficiency* or *Pareto optimality*, introduced by the Italian economist Vilfredo Pareto (1848–1923). It describes an economic state in which resources are distributed in such a way that any further reallocation would benefit one individual only while disadvantaging another (Pareto, 1935). In other words, resources are allocated in the most economically efficient way possible under the condition of *Pareto optimality*. The concept of Pareto efficiency is a major pillar of welfare economics that describes how the allocation of resources and goods affects social welfare, and it is often used to assess the efficiency of markets.

Critics point out that notions of an optimal allocation, sometimes described as an *equilibrium*, imply far too static an understanding of markets. Rather than an institution striving for stability, markets should be understood as a disruptive force of constant change. Joseph Schumpeter (1942) coined the term "creative destruction" to describe how competition constantly challenges the status quo, induces technological innovations, and replaces less profitable business endeavors with more fruitful alternatives. It is thus the disruption of any temporary equilibrium that creates economic growth. Schumpeter was convinced that financial markets accelerate economic growth by funding small and young ventures inducing technological inventions that promise high returns (Linß, 2014; Westbrook, 2014). However, Schumpeter himself was also critical about the disruptive force of capitalism and considered it unsustainable, doomed to be destroyed by its own structures and forces (Linß, 2014). Theoretical conceptualizations of (capital) markets as proposed by economists such as Smith, Pareto, Hayek, and Schumpeter are critical for the modern assessment, operation, and regulation of capital markets (Brock & Logan, 2023). They also contribute to a well-rounded understanding of the role of investor relations (IR) in contributing to market efficiency.

Efficient Market Hypothesis vs. Market Irrationality

One of the most prominent theories in finance and economics that has important implications for financial communication is the efficient market hypothesis (EMH). The key paper discussing efficient capital markets in *The Journal of Finance* was written by Eugene Fama (1970), amassing more than 34,000 citations to date. Fama (1970) proposes that an ideal stock market is realized when prices reflect accurate signals, meaning that "security prices at any time 'fully reflect' all available information" (p. 383). Implied in this statement is that any successive changes of the stock price are independent and identically distributed, in accordance with the random walk model (Fama, 1970). Fama (1970) also defines three *sufficient* conditions for the EMH to hold, which are (1) the absence of transaction costs when trading securities, (2) all information is available to all market participants for free, and (3) all market participants interpret the information and its implication for the security prices the same way. Given that all three points are rarely if ever met, Fama (1970) argues that these three conditions are sufficient, but not necessary for the EMH to hold.

However, in response to criticism of the EMH, Fama (1970) discusses three distinct information situations that contextualize the EMH and that could potentially challenge the efficiency of markets. The first situation where markets might not be efficient refers to the *weak form* tests, in which information only refers to past stock market prices or returns. The second information

situation is the *semi-strong form* test in which additional publicly available information, such as annual reports, or other announcements of the stocks are taken into account. The third information situation that could limit the efficiency of markets is the *strong form* test where information extends to the unique access of some individual groups or persons on the market (e.g., investment managers) to market-relevant information about the stock. Yet even after reviewing a body of empirical studies testing these three information conditions that could bring the EMH to fall, Fama (1970) concludes that his theory holds up and that there is no “important evidence against the hypothesis in the weak and semi-strong form test” (p. 388) and only limited proof against it for the strong form test, as unique access to market-relevant information does not seem to be a wide-spread phenomenon, according to Fama.

Of course, more than 50 years have passed since the EMH has been presented, discussed, and tested based on numerous empirical studies. Thus, it should not come as a surprise that a counter paradigm has been proposed since. In particular, representatives of behavioral finance (e.g., Nofsinger, 2005; Shiller, 2003; Prechter, 2001) have long advocated for a revision, or even the rejection of the EMH, based on the assumption that markets behave irrationally and unpredictably, and that they are subject to anomalies such as emotions, shocks, and surprises. More specifically, an accumulation of financial crises over the past decades, such as the oil crisis in the 1970s, the dot.com bubble in the beginning of the 21st century, the Great Financial Crisis (2007–2009), or more recently, the COVID-19 pandemic and the war in the Ukraine that have resulted in a worldwide energy, inflation, and corporate debt crisis, challenge the perception of efficient markets. According to some scholars, financial crises such as these offer direct proof of how stock market prices do not reflect true values anymore but are the result of a complex mix of market and price estimations, over- or under-valuation of commodities, currencies, and shares, as well as irrational human behavior, driven by emotions such as fear or hope. As Berezin (2009) states, “Emotion is a constitutive dimension of the economy–even if we only collectively recognize it in times of crisis” (p. 336).

In fact, the rise and fall of share prices are predestined to evoke emotions in investors. The volatile nature of share prices is likely to provoke sudden and uncontrolled impulses among market participants, ranging from “impatient greedy excitement about potential reward” (Tuckett, 2009, p. 11) to “panicky anxiety about potential loss” (p. 11). Fear and hope are two dominant emotions that have been identified and studied on the stock market extensively (Lee & Andrade, 2015; Kleinnijenhuis et al., 2013; Bollen et al., 2011; Neri, 2009; Nofsinger, 2005). In fact, analyzing keywords that refer to fear and hope with regard to certain stocks on the Amsterdam Stock Exchange (AEX), a study found that an increase in

negative emotional words in news coverage about AEX stocks leads to a downward shifting effect on the opening prices of these stocks (Strauß et al., 2016). Particularly, accumulative negative coverage about certain companies appears to have a negative effect on the performance of these stocks (Strauß & van der Meer, 2017).

Capital market participants recognize the importance of market sensitivity to irrationality and emotions. In the financial community, the VIX (Chicago Board of Options Exchange Volatility Index) is well-known as the "fear index" or "investor fear gauge" (Whaley, 2000), measuring volatility and thus instability on financial markets (Berezin, 2009). Nofsinger (2005) refers to the notions of "optimism" and "pessimism" and implies that these moods or emotions are affecting stock market behavior. In other words, while hope and optimism lead to more risk taking, the buying of stocks and more trading overall, negative emotions, such as fear or suspicion, are reflected in declining stock prices, more volatility, and a turn toward risk-averse portfolios. Such insights and new research paradigms challenging assumptions of the dominant EMH point to an important characteristic of capital markets: their nature as a human endeavor.

The Human Nature of Capital Markets

Given the often dry, data-heavy, and abstract representation of capital markets in mass media, it may be surprising to some to see capital markets described as a social institution. Yet, capital markets irrefutably are constituted of human beings – human beings that do not behave in an automated, objectively rational, and predictive way, but rather human beings who are subject to emotions and occasionally irrational behavior. One fascinating instance of tangible human behavior is the collective reaction to information characterized as "herd behavior" (Nofsinger, 2005; Prechter, 2001; Scharfstein & Stein, 1990). Herd behavior describes the phenomenon when people copy or imitate the behavior of others, assuming that other people know what is best (Hayes, 2022a). On financial markets, this translates into investors who trade in such a way as to reflect what they believe other investors are or might be doing. This herd instinct, however, can also lead to exaggerations, bubbles, and panic trading (Hayes, 2022a), as witnessed, for example, during the Global Financial Crisis 2007–2009.

The presence of herd behavior on financial markets has a long history. Back in 1936, John Maynard Keynes introduced the analogy of the "beauty contest" to explain herd behavior, implying that rather than following one's independent assessment of a trade, the majority of traders and investors follow the prevalent market opinion (Davis, 2015). This is also reflected in insights from an interview study Davis (2005) conducted with professional traders, who indicated that their trading decisions are less based on the actual

value of a stock but rather based on what they believe other traders might sell or buy. The concept of herd behavior is also closely related to the idea of "information cascades in financial fads", as pointed out by Bikhchandani et al. (1992). According to these authors, the best strategy for an investor is to follow what other investors might be trading. Opinion leaders or experts on the markets thereby take on a crucial role, as they are assumed to have firsthand knowledge that allows them to form an informed and independent opinion about stocks (Prechter, 2001). In practice, these opinion leaders on financial markets are usually prominent or celebrity investors, such as Warren Buffet (CEO, Berkshire Hathaway), financial analysts, rating agencies, or a few financial journalists who can be considered market experts (e.g., Strauß et al., 2018).

In describing the relationship between financial reality and financial information, Thompson (2009) identifies communicative reflexivity on three levels, in which herd behavior is manifested: the first is on an *implicit* or *performative* level where the enactments of theories and discourses on financial markets by market participants are reproducing the prevailing discourse (e.g., policy or market paradigms), often with the help of the financial news media. The second level, according to Thompson (2009), describes the *explicit* or *transactional* level that refers to the daily financial movements on worldwide stock exchanges. Here, information on trading screens and the news media are integrated in trading behavior in real time whereby trades become symbolic and communicative actions themselves. Third, there is the *contingent* or *game* reflexivity, which is most closely related to the notion of herd behavior. As Thompson (2009) argues, market participants do not only pay attention to information about fundamentals, but particularly to news about the behavior and opinions of other market actors.

The discussion of herd behavior exemplifies occasional irrational trading behavior that speaks to the human nature of financial markets. Another field of study that has researched the irrationality of markets from various perspectives is behavioral finance. Behavioral finance describes the study of psychological influences and biases that affect the financial behavior of investors and market participants (Hayes et al., 2022b). Duxbury (2015) provides a comprehensive overview of studies in behavioral finance that identify how biases, moods, and emotions influence individuals' financial decisions. For example, the common phenomenon of overconfidence among individual investors has been found to be associated with "increased trading volume, increased price volatility, excessive risk taking and lower expected utility" (Duxbury, 2015, p. 154). Furthermore, studies investigating the impact of prior outcomes of trading on financial behavior have shown the so-called house money effect, that is, a tendency for more risk taking after one has experienced gains; and reversely, a tendency toward more risk aversion after experiencing losses (Thaler & Johnson, 1990).

With regard to moods and emotions, a plethora of research has studied positive and negative moods (Au et al., 2003) induced by influences such as weather and temperatures or sports events (e.g., Hirshleifer & Shumway, 2003) and their relationship with the stock market. However, the academic community has called some of these findings into question (e.g., Fung et al., 2015). Similarly, various emotions have been scrutinized in behavioral finance, ranging from regret (e.g., Summers & Duxbury, 2012), fear (e.g., Kaplanski & Levy, 2010) to excitement (Andrade et al., 2015), or affect more generally (Ackert & Church, 2006). Although, again, some of the experimental studies in this field have been contested and evince weaknesses in their design, data collection, and/or analysis, Duxbury (2015) concludes that "the experimental method is well established in finance (…) to advance our understanding of individual financial behavior and the functioning of financial markets" (p. 169). While the intention of this chapter is not to review the findings in the field of behavioral finance in detail, the main point here is to highlight the multitude of psychological states, biases, and influences that affect market participants and thus can shape capital market outcomes. First, these insights highlight the human nature of capital markets as social institutions. Second, IR need to be aware of these influences when communicating with the financial community. Box 2.1 provides an overview of the best-known psychological biases in financial behavior. However, there is still a lack of research on the implications of these, and other, biases on financial communication.

BOX 2.1

Loss aversion: Loss aversion refers to the state of mind of investors when they weigh concerns for losses higher than the pleasure they might derive from potential gains (Tversky & Kahnemann, 1973). Investors tend to rank the avoidance of losses higher when compared to the potential of monetary gains (Hayes, 2022b).

Confirmation bias: Confirmation bias is also an important factor in political science and psychology and describes the tendency of individuals to accept information that confirms previously held opinions or beliefs (Hayes, 2022b; Nickerson, 1998). This might even lead to individuals accepting false or misleading information about a company to confirm an investment decision that has already been taken.

Availability/recency/experiential bias: Availability bias, or synonyms like recency or experiential bias, is present when individuals are biased in their opinion or decision-making due to a recent event that they remember comparably well (Hayes, 2022b). For example, the dramatic fall of the widely popular

"Deutsche Telekom" shares in Germany in the beginning of the 21st century wiped out more than 300 billion Euros, affecting thousands of retail investors (Editorial, 2003). This crash has shaped the collective memory of many Germans, still affecting their hesitant investment behavior today (DIW, 2021).

Familiarity bias: The familiarity bias occurs when investors tend to invest in companies or assets that seem to be closer to them or to which they are accustomed (Hayes, 2022b). For example, decisions are made because the company is based in the same country as the investor or because the investment can be situated within an industry the investor is more familiar with. Familiarity bias can lead to high-risk investments due to limited diversification.

From Shareholder Value to Sustainability: The Changing Role of Capital Markets

To date, policies addressed at regulating capital markets are heavily informed by arguments on market efficiency developed in the finance and economics literature. There is a host of regulations attempting to safeguard investor rights and protecting consumers engaged on capital markets. Yet, the overall regulatory trend has favored lowering transaction costs, facilitating access to capital, and increasing market transparency. The past decades, thus, have been characterized by an internationalization and liberalization of capital markets (Stiglitz, 2000). This liberalizing trend has been mirrored in discussions of good corporate governance. Milton Friedman (1912–2006), one of the most prominent representatives of the so-called Chicago School of Economics (Reder, 2017), famously championed the notion of "shareholder capitalism". He introduced the concept in a *New York Times* essay in 1970 titled "A Friedman Doctrine: The Social Responsibility of Business is to Increase Its Profits". As the title suggests, Friedman argued that firms should not be guided by vague responsibilities to society or the public but rather should be accountable to their shareholders (Friedman, 1970). Thereby, the key purpose of businesses is to increase shareholder value by "us(ing) its resources and engag(ing) in activities designed to increase its profits, so as it stays within the rules of the game, which is to say, engages in free and open competition, without deception or fraud" (Friedman, 1970). Shareholder capitalism is held to ensure efficient markets and thus lead to economic growth (Freeman et al., 2007).

The spirit of shareholder capitalism manifested itself in the shareholder value movement that came to dominate much of management research and the business administration literature in the 1980s (cf., Rappaport, 1986). Authors in this tradition strove to develop improved models of corporate valuation, financial reporting, and management – all to ensure that corporate leadership was oriented toward increasing corporate value. Critics later

pointed out that some of these models introduced incentives biased toward short-term financial optimization and came at the cost of financial stability and economic sustainability (Fligstein & Goldstein, 2022). Since the late 1980s, the shareholder capitalism concept has come under powerful criticism focused on (a) unfair and unequal competitive practices, (b) ignorance of business ethics, (c) the influence of dominant groups in decision-making, and (d) the recurring need for government bailouts of failed businesses as well as regulatory capture (Fligstein & Goldstein, 2022; Freeman et al. 2007; Stiglitz, 2000). In reaction to this criticism, the notion of "stakeholder capitalism" has emerged, which is "based on freedom, rights, and the creation by consent of positive obligations" (Freeman et al., 2007; p. 311). Rather than rejecting the idea of competition and capitalism, or even the need to create corporate value, Freeman and colleagues (2007) argue that value is best created through mutually beneficial cooperation with stakeholders, ranging from suppliers, customers, and employees to civil society, which implies a moral responsibility for respecting the interests of stakeholders – and not just shareholders alone.

A more recent trend – building on a shift toward stakeholder capitalism – that has captured capital markets is the global move toward sustainability. Considering the risks associated with a looming climate crisis (IPCC, 2022), increasing biodiversity loss (Seddon, 2022), environmental pollution, and persistent inequalities in societies around the world, social scientists, including communication scholars, have argued for systemic changes and a re-orientation of the financial and economic system toward sustainability. Policymakers and central banks now ponder the financial risks associated with climate change or biodiversity loss (Smale, 2020). The term "stranded assets" has been proposed for financial assets that may lose financial viability in a scenario where global warming exceeds 1.5 degrees (Caldecott, 2017). Likewise, the insurance sector is increasingly incorporating the physical risks due to climate change, rendering some assets uninsurable even today (Cohn & Nomiyama, 2022).

The international community has agreed on 17 Sustainable Development Goals (SDGs) that cover global challenges such as poverty, hunger, climate change, water availability, biodiversity, or inequality (UN, 2022). There is a growing consensus that the objectives of the SDGs and the Paris Climate Accords can only be achieved if the financial sector shifts the stream of financial capital into sustainable and carbon-neutral companies, sectors, and assets (EU HLEG, 2018). Recent policy initiatives, such as the EU's Green Deal, attempt to implement this vision. Under the umbrella term "sustainable finance", market participants are incentivized to shift their capital toward the so-called ESG investments that consider environmental, social, and governance criteria (EU HLEG, 2018). In the second quarter of 2022, global sustainable fund assets amounted to USD 2.47 trillion, according to Morningstar (2022). This is an increase by almost 150% compared to the

fourth quarter in 2019. However, 82% of the recent global sustainable assets have been allocated to Europe.

While the move toward stakeholder capitalism has brought about a heightened awareness of the responsibility of businesses toward environmental (e.g., net zero targets) and social objectives, critics increasingly accuse companies of *greenwashing*, manifested in the continuation of status-quo business practices (Strauß, 2021), unclear sustainability definitions, plans, and strategies, and an over-reliance on carbon offsetting strategies (Friends of the Earth, 2021). Some intellectuals, thus, advocate for a more radical transformation of the economy, including capital markets and the financial system. For example, Kate Raworth, who is associated with the concept of "Doughnut Economics" (Raworth, 2017), espouses an alternative economic mindset to guide the transformation toward a more regenerative and distributive economy, acting within the planetary boundaries (Röckström et al., 2009). In a similar vein, Maria Mazzucato (2018) argues for the need of rethinking the meaning of "value" in modern society and suggests that the financial sector does not actually create value, but rather extracts value from other sectors (e.g., through interest differentials and transaction costs). She advocates for a stronger role of governments and public spending, such as expansive public financing of infrastructure.

A heterodox theory popular among proponents of post- or degrowth and critics of market efficiency is "Modern Money Theory" (MMT). Proponents of MMT argue that governments are not constrained by revenues or incomes (e.g., taxes and borrowing) in their spending. Instead, monetarily sovereign governments could spend as much money as needed to transform an economy (e.g., for universal healthcare, renewable energy; D'Souza et al., 2022; Chohan, 2020). MMT has been strongly criticized by economists for being unrealistic and even detrimental for the economy (Palley, 2015). The return of inflation post-COVID and the ensuing rise in interest rates across the globe has rendered heterodox approaches such as MMT even less compelling as budget restraints reinsert themselves. Additionally, in the US, there is a tangible policy backlash to the consideration of ESG criteria in the investment of public funds (Pollman, 2022). Across the West, though, sustainable finance initiatives remain strong. The EU's Green Deal policy framework will be observed carefully by many to see whether capital markets can effectively be employed as tools of environmental and social policy. Sustainability requirements for listed corporations are bound to keep IROs on their toes for years to come (see Chapter 7).

Implications for Effective Financial Communication

- Financial communication and IR constitute only one small albeit an important component of a large and complex institution, the capital market.

Understanding the role and societal importance of capital markets can help understand both public sentiment and regulatory initiatives affecting capital markets. IROs with a sound grasp of the role and importance of capital markets will be better prepared to address public concerns and anticipate future policy making.

- There is a variety of theoretical perspectives on the functioning of capital markets, providing some helpful insights on the role of financial communication. Theories focusing on market efficiency, for example, highlight the importance of transparency and the disclosure function of financial communication for accurate asset pricing. Other theories focus on how capital markets *produce* information, and the role of entrepreneurs and speculators in this process. These theories illuminate the share marketing function and also the inbound role of IR, i.e., the importance of keeping corporate decision-makers abreast of capital market sentiment. Effective financial communication, thus, accounts for the varied and dynamic role of IR on capital markets: IROs channel concerns and critical questions from investors back to the management of a company, executives respond to and integrate the market's expectations in their practices, and IR then informs the market about relevant adjustments.
- Theories focusing on the human nature of capital markets, for example, by exploring cognitive biases or the role of emotions, highlight the importance of the relationship management role of financial communication and IR. Establishing trusting relationships with retail investors, for example, can help corporations weather financial turbulences even when it might seem rational for shareholders to abandon an investment. Similarly, IROs need to understand how perspectives on corporate decision-making can differ among market actors, and how opinion leaders may shape capital market sentiment. Insights from behavioral finance, thus, are especially helpful to understand why financial communication is more than just a compliance and disclosure function, but actually a strategic communication function.
- Similarly, the human character of capital markets becomes manifested in the occasionally herd-like behavior of market participants. This implies that IROs not only need to have crisis plans and targeted interventions ready in case of such excesses, but that they should also constantly engage in the management of expectations among key investors, thereby monitoring capital market sentiment. These monitoring and issue management tasks gain particular relevance when it becomes necessary to react rapidly and professionally in case of a stock run or a full-blown reputational and corporate crisis.
- It is not always easy to prognosticate the effect of new theories (e.g., degrowth and Modern Monetary Theory) on capital market conditions. A rising interest in concepts such as "degrowth" may make it more difficult for corporations to access capital (also a likely effect of the EU Green Deal). Other theories, like Modern Monetary Theory, instead, could lead

to looser monetary policies and thus induce a shift from equity to debt financing. As theories shape policies, and policies shape communication and disclosure requirements, keeping abreast of theoretical developments can help IROs prepare for (potential) new tasks and functions. IROs, therefore, need to constantly educate themselves about new and evolving discourses and trends.

- Likewise, by monitoring, learning, and engaging with such new topics, IROs can also make use of the strategic part of the financial communication function and take on a leading role in co-shaping the discussion of theories, concepts, and policies in the public sphere. For example, by collaborating with other corporates, partners, industry alliances, politicians, or representatives from the public sector (e.g., NGOs and citizens), they can join forces, learn from each other, and thus gain more power in advocating for their position and interests vis-à-vis counterparts.

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3

THE HISTORY OF FINANCIAL COMMUNICATION

Financial communication is a comparatively young corporate function. Its roots can be traced back to the 1950s in the US (Laskin, 2022) and only to the 1980s in Europe (Laskin & Köhler, 2012; Marston, 2004). Research on investor relations (IR) and financial communication followed the establishment of the professional field. The earliest peer-reviewed studies in this domain were published in the 1990s. In this brief timespan, both IR and financial communication practice and research have evolved rapidly – a process sometimes analyzed through the lens of institutionalization (Köhler, 2015). As the practice has established itself and evolved, common concepts, terminologies, and mental models have taken root that helped shape and define the field (Sandhu, 2009). In addition, norms have emerged, some implicit, as in common standards or routines, and some explicit, as in the case of rules, guidelines, laws, and regulations.

The institutional environment – or the "field" (Bourdieu, 1993) – in which the professional practice is embedded shapes the profession and its evolution. In the case of IR and financial communication, that relates primarily to the local and international capital markets (Chapter 2). Participants, volumes, regulations, or shocks of capital markets each play a role in the function of financial communication, its organization, resource allocation, necessary skills, and more. Given that capital markets long were, and to a certain degree still are, national phenomena, the history of IR and financial communication is best told through a national lens. Early accounts in research of IR history thus focus on specific countries such as the US, the UK, or Germany. A more international perspective on the profession is only slowly emerging. A similar diagnosis applies to IR research, which tends to be nationally embedded, focusing on national markets, and rarely engaging in comparative, international analyses.

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This chapter first provides an overview of research on the *history* of IR and financial communication, mostly focusing on the US and Europe (and Germany, in particular). The chapter then presents an overview of the IR and financial communication *research field*. It complements the available literature by introducing a dedicated bibliometric analysis, which offers some notable new insights into the development, structure, and gaps of research dedicated to IR and financial communication.

A History of Investor Relations in the US

The IR function has its origins in the US Major developments on the US and international financial markets induced the establishment and, subsequently, an increasing professionalization of IR in the US. After World War I, the stock market crash in 1929, and the Great Depression, the US government introduced the Securities Act of 1933 and the Securities Exchange Act of 1934 (Laskin, 2022). These federal regulations required that every trade (offer or sale) of securities – both on the primary and secondary market – needed to be registered with the Securities Exchange Commission. Thus, companies were now required to have formal processes for documenting the issuance, as well as the buying and selling of shares. However, it was only after World War II, when the profession of IR and financial communication started to emerge and became more and more institutionalized. Laskin (2022), who has a strong focus on the development of IR in the US, distinguishes between three eras of IR, ranging from the early 1950s (communication era) to the 1970s (financial era), and the 21st century (synergy era).

The first era, the ***communication era***, was characterized by IR professionals mostly focusing on activities related to communication practices, such as public relations (PR) or marketing. According to Laskin (2022) and other authors (e.g., Knight, 2010), IR emerged when the first dedicated IR function was established by the chairman of the board of General Electric (GE), Ralph J. Cordiner, in 1953. The goal of Cordiner was to introduce a new functional role that would manage the communication between GE and its shareholders. In these early days, the main role of the IR function was to provide an overview of the shareholders to the company, explore their demands and needs, identify the best ways to communicate with them (Knight, 2010), and attract attention to the company shares. In the 1950s, due to an economic boom, companies grew ever larger and financial management and transactions became ever more complex, necessitating a stronger focus on financial markets and (potential) shareholders. Conversely, individuals had more money at their disposal and were looking for ways to invest it and thereby profit from the growing economy. Following Laskin (2022), car companies, such as Ford, GM, and Chrysler, were at the forefront of making use of these

developments, seeking out consumers' attention for their stocks, thereby also ensuring customer loyalty.

Still, the formal job description of the investor relations officer (IRO) was not widely employed yet, and companies hence turned to PR and marketing experts to facilitate the communication with financial stakeholders. However, PR professionals were usually not trained in finance or had a profound understanding of financial markets. Therefore, early financial communication often mimicked flashy and entertaining publicity, such as glossy brochures, luxurious shareholder meetings, or fancy gifts (Morrill, 1995). The main purpose was to convince potential and current shareholders of the attractiveness of the company, its products, and the financial opportunities it offered. During that period, the communication with shareholders was characterized by a one-way process, in which companies were merely distributing information to the financial public. IROs were not yet focusing on listening to their shareholders, establishing dialogue, or integrating feedback from various stakeholders into their business practices.

As financial PR activities grew more and more "outrageous" in promoting corporate shares (Cutlip et al., 2000, p. 107), the profession suffered from a tarnished image, and those who wanted to focus more on the financial aspects of communicating with financial publics began to distinguish themselves from PR professionals (Morrill, 1995). These developments were also the starting point of new professional associations, such as the Investor Relations Association (today: National Investor Relations Institute) in 1967. The goal was to create a new professional function that could clearly be distinguished from PR or marketing practitioners, who were known back then for "operat(ing) on the fringe of stock touting, and who (we)re fouling the nest" (Morrill, 1995, p. 1).

The second period of IR in the US, according to Laskin (2022), is the ***financial era***, which lasted from the 1970s until the end of the 20th century. Beginning in the late 1960s, interest in the financial markets and shareholding peaked. However, the financial infrastructure increasingly struggled to process large trading volumes and thus meet investor expectations (Chatlos, 1984). As a result of an ultimately overblown system, retail investors began to turn away from the stock market, brokerage firms closed, and companies had to merge to avoid bankruptcy (Laskin, 2022). Increasingly, retail investors were substituted by institutional and professional investors, and in 1976, the very first index fund by the Vanguard Group was initiated.

The professionalization of the financial community meant that IROs now had to tailor their communication toward a financially savvy audience with expert knowledge, rather than communicating glitzy marketing messages to retail investors. Institutional investors as the new core financial stakeholders required "detailed and timely strategic and financial information" (Higgins, 2000, p. 24) from IROs, who were obliged to fulfill the company's fiduciary

duty. Besides institutional investors, IROs also had to focus their communication on financial analysts, a group of financial audiences that used to be covered by the *chief financial officer*. Financial analysts not only required much more detailed information on the company than retail investors, but they also held considerable power in moving share prices, based on their buy, sell, or hold recommendations (Bar-Haim et al., 2011).

The IR function now required that practitioners respond to feedback or inquiries from highly skilled institutional investors and analysts, either ad-hoc or proactively in preparing for Q&A sessions. Therefore, companies increasingly hired former financial analysts or professional investors to fill the job of IRO. According to Rao and Sivakumar (1999), IR departments emerged as functional units in the US between the 1980s and 1990s. However, IROs still attempted to contain communication flows by only allowing certain questions to be posed during meetings and by limiting top management exposure to financial audiences. Often, CEOs were disinterested in engaging in these conversations themselves (Laskin, 2022). While IROs were now more proficient in conveying the financial aspects of the company, they often lacked communication expertise, which was about to become increasingly important again in the following era.

The last era in the modern history of US IR is the ***synergy era*** (Laskin, 2022), which brings both the financial and communication expertise of IROs together. Since the early 21st century, IROs are required to excel in both financial knowhow and communication skills and, additionally, show some familiarity with securities law and marketing. A number of financial crises and scandals since the beginning of the 21st century (e.g., Dotcom Bubble, Enron accounting scandal, Global Financial Crisis, and Wirecard scandal) entailed a steady increase in regulatory requirements (e.g., MiFID 1 and 2, EU Taxonomy, and EU Corporate Sustainability Reporting Directive). As a result, IR has evolved into a management responsibility, playing a key role in establishing and maintaining trusting relationships with various audiences (Laskin, 2022; Strauß, 2018). Whereas in the past, financial communication was characterized by a one-way flow of information, in the *synergy era*, practitioners are required to engage in dialogical communication with a variety of financial stakeholders, obtain feedback, analyze information, and channel the resulting insights back to their top management. In this new role, IROs have become the conduit between financial audiences and the company and its management.

The Emergence of Financial Communication in Europe

Compared to the US, IR is an even more recent function in European corporations. The emergence of IR in Europe can be traced back to the 1980s when the discipline evolved mainly in the UK (Laskin & Köhler, 2012). The

pioneering role of the UK in Europe is likely due to its cultural proximity to the US (Marston, 2008), as well as stronger trading links between US and UK companies. Throughout the 1980s and 1990s, IR slowly began to spread across Europe due to a burst of deregulation, privatization, and the development of active stock markets within the European Community (cf. Laskin & Köhler, 2012; Marston, 2004). One of the few scholarly works that investigates the history of IR and financial communication in a European country was published by Kristin Köhler (2015), focusing on Germany. Some key insights from this study will be summarized below.

A Case Study on the Development of Investor Relations in Germany

Similar to Laskin's (2022) account of the history of IR in the US, Köhler (2015) traces the evolution of the IR discipline in Germany to developments of the local capital markets. More specifically, Köhler (2018) differentiates six phases in the development of IR in Germany, ranging from the 1950s to the period after the Global Financial Crisis 2007–2009.

The first phase is called the "**forerunner phase**" and encompasses the period between 1950 and 1985. Similar to the *communication era* in the US as described by Laskin (2022), in this phase, IR mainly referred to PR activities, thus the promotion of the company as an attractive investment. Professionals mainly employed one-way communication tools, such as ads, reports, or press releases. Since during that time, German companies strongly relied on debt financing, banks were among the most salient IR audiences. In addition, early financial communication was focused on compliance and interactions with financial authorities regarding supervisory issues. IR was rarely institutionalized as a formal corporate function, rather IR tasks were often fulfilled by the legal or finance function.

The second phase, according to Köhler (2018), is called the "**innovator phase**" and spans from 1986 to 1990. In the 1980s, new opportunities arose due to the globalization of financial markets (e.g., expansion and internationalization), innovations and growth in the banking sector (e.g., further investment opportunities) as well as stock markets (broadening trade offers). Large, listed corporations such as BASF, Siemens, or Bayer began formally installing IR positions and departments. IRs thus emerged as a dedicated function to manage communication with financial audiences. However, the IR profession was not yet fully established, and IR roles were enacted quite differently across companies. In this period, IR was considered both a communication and finance function.

The "**familiarity phase**", reaching from 1991 to 1995, is the third phase and is characterized by first steps toward the standardization of IR practice (Köhler, 2018). During this time, German companies began to untangle cross-holdings and decreased their reliance on bank financing. New

institutional investors emerged, and the German stock market grew more open to international investors. Investment professionals from the US and the UK increasingly confronted German listed corporations with demands for information and dialogue. One key driver of the standardization and professionalization of IR in Germany was the establishment of a professional association, the German Investor Relations Association (Deutscher Investor Relations Verband [DIRK]) in 1994. By facilitating the sharing of information, experiences, and practices among professionals, the association contributed to the development of a common understanding of IR across the German market.

The fourth phase is defined as the "**new economy phase**" – it spans the time of the so-called New Economy (1996–2000). During that time, numerous Internet companies and startups jostled to go public and gain access to new sources of capital. This significantly increased the demand for IR expertise and expanded the IR job market. Following Köhler (2018), the German IR association experienced "a significant growth in its membership" (p. 433) during that period. Yet, even though the profession grew in leaps and bounds, the quality of IR practice did not keep pace. At this point, few guidelines or standards existed for the profession, and legislators and financial authorities did not consistently enact supervision over the newly listed corporations. As a result, mistakes and abuses accrued, and many newly listed corporations employed IR as a mere stock marketing function rather than striving for transparency and an accurate representation of their financial performance. Ultimately, the new economy phase found an ugly end in the bursting of the Dotcom Bubble.

In the beginning of the 21st century, the "**professionalization phase**" (2001–2007) occurred that was characterized by "consolidation and professionalization" (Köhler, 2018, p. 433). During that period, the profession – again, largely driven by the German IR association – strove to pick up the pieces from the disruption and disappointment induced by the Dotcom Bubble. New professional guidelines were developed, education programs established, and extensive dialogues with interest groups were conducted to increase both the quality and standing of the IR profession. IR was clearly distinguished from the communications function, leaning more toward a strong finance expertise and eschewing any marketing activities. IROs focused on engaging the sell side–again, a similar trend as observed during the *financial era* in the US (Laskin, 2022), just roughly 20 years later.

The last phase identified by Köhler (2018) refers to the "**differentiation phase**" and is described as ongoing since 2008. Fueled by the aftermaths of the Global Financial Crisis 2007–2009, the IR profession developed into an integrated function, implying an independent IR department that is firmly integrated in the company leadership and that combines both finance and communication responsibilities as well as other strategic tasks, such as

mergers and acquisitions, governance issues, sustainability, or corporate development. In doing so, IR has also taken on a critical role in informing and advising corporate leadership. Once again, this last phase mirrors the third and last phase of IR history as described by Laskin (2022), the *synergy era*. Today, IR practices in Germany and US can be considered quite comparable, with professional associations across the Atlantic engaging in regular exchanges of knowhow.

The Research Field of Investor Relation and Financial Communication

In line with the comparatively young professional field of IR, research on IR and financial communication is also still emerging. For example, communication science only started to research the practice of IR in the early nineties, with Hutchins (1994) who studied annual reports and their relevance for institutional investors. As Doan and McKie (2017) point out in their interdisciplinary literature review of IR research from 1994 to 2016, research in the field of IR is largely driven by authors from the accounting discipline, while only a quarter of all articles they analyzed could be attributed to the field of communication science. Most of the research they identified in their review dealt with topics related to developed markets, and specifically areas like the US, the UK, or other European countries.

Interestingly, Doan and McKie (2017) identify a stark difference in the methods employed by research from either communication science or business fields. Whereas communication scholars largely rely on qualitative methods such as interviews or content analyses, and descriptive analyses (if quantitative), business scholars mostly employ quantitative methods and mixed methods designs, making use of large datasets to test economic models. Even though methodologically different, Doan and McKie (2017) identified six common research topics across both disciplines: (a) reputation, (b) ethics, (c) disclosure as a practice of corporate reporting, (d) application of technology in IR, (e) contributions of IR, and (f) IR activities and processes. However, differences regarding the focus on these topics are considerable across both disciplines, with communication scholars focusing more than half of their research on IR activities and processes (53%), whereas business scholars' research on IR is slightly more diversified, with the relative majority (29%) focusing on disclosure as a practice of corporate reporting.

Another comprehensive review of IR research has been provided by Hoffmann and colleagues (2018), who analyzed peer-reviewed journal articles published from 1990 to 2016. They find that while IR is strongly rooted in business, management, accounting, and communications literature, the profession is increasingly considered a corporate communications function, with an interdisciplinary character, and a meaningful contribution

to strategic management. Hoffmann and colleagues (2018) find a steady increase in IR research since 1998, with a strong upswing after 2009, which could be related to interest in the profession in the aftermath of the Global Financial Crisis (2007–2009).

Looking at the disciplines researching IR, Hoffmann and colleagues find – similarly to Doan and McKie (2017) – that most research stems from *business and management* (39 articles), followed by *communication* (29 articles), and *accounting* (24). Some studies can be found in less represented disciplines, such as information systems, information science, and law. The theories used in the two dominant disciplines studying IR are agency theory (Fama, 1980; Jensen & Meckling, 1976) and institutional theory (DiMaggio & Powell, 1984) in *business and management*, and excellence theory (Grunig & Hunt, 1984) in *communication*. The methods used most frequently in IR research are surveys, followed by content analyses, experiments, and secondary data analyses. The five key streams of research Hoffmann and colleagues identified are (a) organization, (b) strategy, (c) instruments, (d) content, and (e) effects. However, given that both reviews on IR are now already dating back more than eight years, an updated bibliographic analysis is warranted.

Bibliometric Analysis: Financial Communication and Investor Relations Research

The authors conducted a literature review employing the bibliometrix software (Aria & Cuccurullo, 2017). Following the examples of Doan and McKie (2017) and Hoffmann and colleagues (2018), the search string [“investor relation*” OR “financial communication*” OR “financial public relation*”] was applied to the title, abstract, or keywords of a study to gain an overview of all relevant publications. The search employed the scientific database *Scopus*, and it was limited to all peer-reviewed articles and reviews published in academic journals, but without limiting the time frame. This search resulted in 447 articles that met these criteria. All abstracts of these articles were screened, and irrelevant articles were deleted from the dataset that did not deal with IR or financial communication in a corporate context. The final dataset ($n = 327$) with all relevant author, article, and indexing information was then uploaded to the *biblioshiny* web app, which provided an overview of the main characteristics, features, and insights of the literature in the field from 1980 until the beginning of April 2023 (the time the analysis was conducted).

In total, the bibliometric analysis revealed that out of 327 articles, 19 were classified as review articles, stemming from 611 authors in total (88 single-authored articles). Across all articles, 16,024 sources were referenced. Figure 3.1 presents the number of articles published per year. It shows a

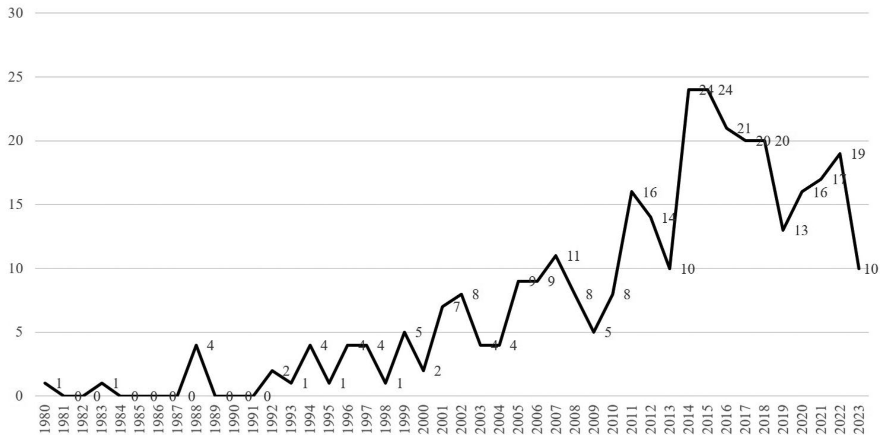

FIGURE 3.1 Number of articles published per year (Bibliometrix: Aria & Cuccurullo, 2017)

steady increase over the past 40 years, with a peak in 2014 and 2015, followed by a slight decline in 2019. The apparent decrease in the past three years (2020–2022) needs to be interpreted with some care, as peer-reviewed publications are frequently only published with a significant time lag. It is possible, therefore, that a number of studies from that timeframe have not been captured by the present analysis. Overall, the growing output and popularity of IR research reported by Hoffmann and colleagues (2018) have further continued.

The three-fields-plot (Sankey diagram) depicted in Figure 3.2 shows how the sources of publications, the authors, and the topics are related to each other.[1] The graph indicates that most publications in the sample are published in *communication science* journals, and particularly in the field of corporate communication, PR, communication management, and business communication. This finding deviates from the results reported by Doan and McKie (2017) and Hoffmann and colleagues (2018) but could be related to the use of just one scientific database in the present analysis, or the exclusion criteria used.

However, when taking a look at the most local cited sources (i.e., how many times an author or document in the sample have been cited by other authors in this sample), the analysis confirms previous findings (Hoffmann et al., 2018; Doan & McKie, 2017), showing that the field of IR and financial communication research is strongly embedded in references and research from the field of accounting, finance, and business (see Figure 3.3). Similarly, the analysis of the countries of corresponding authors of all articles in the sample reveals that most research – by far – in the field stems from the US, followed by the United Kingdom, and Germany (see Figures 3.4 and 3.5).

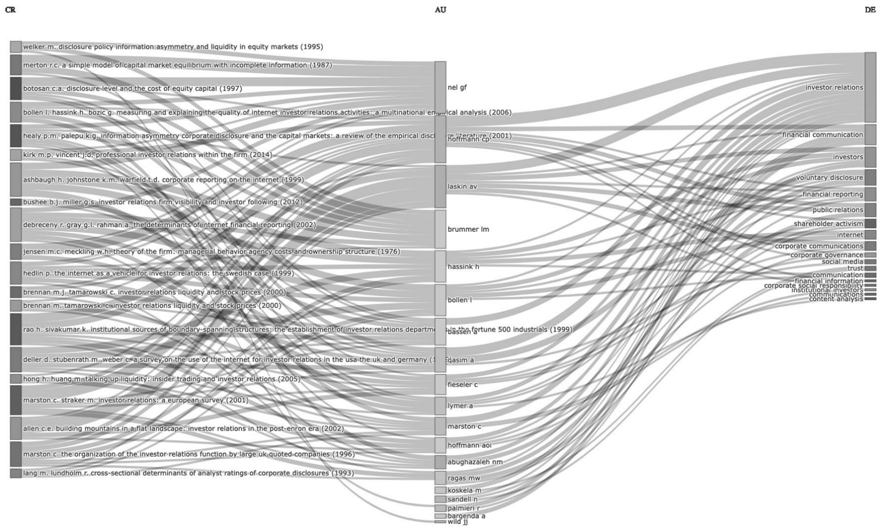

FIGURE 3.2 Three-fields-plot (Sankey diagram; Bibliometrix: Aria & Cuccurullo, 2017)

FIGURE 3.3 Most local cited sources (Bibliometrix: Aria & Cuccurullo, 2017)

Other regions, such as Asia, Africa, Australia, or Scandinavia, are less represented, whereas South America is almost absent (except for Brazil).

The fragmentation of the field in terms of geography is also reflected in the network analysis of collaborations among authors (see Figure 3.6). Here, the hubs depicted in the graph imply that there are little cross-country collaborations and that most articles are published by small research groups, or collaboration between two, or at most three authors. Thus, there is great potential for IR research from less represented countries but also for collaborations across countries and continents.

Finally, a word cloud analysis of the most frequently occurring keywords in the articles of the sample (see Figure 3.7) illustrates the diversity of topics related to IR and financial communication research across the time span

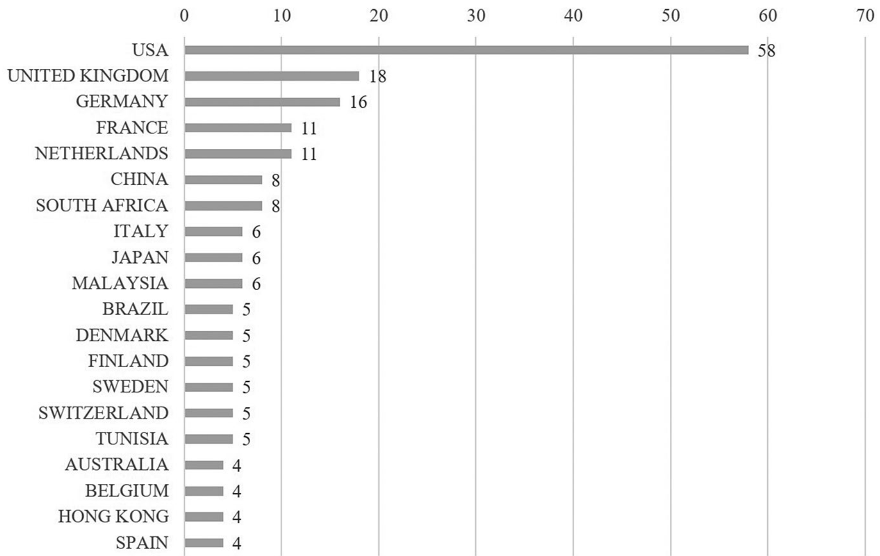

FIGURE 3.4 Corresponding author's countries (Bibliometrix: Aria & Cuccurullo, 2017)

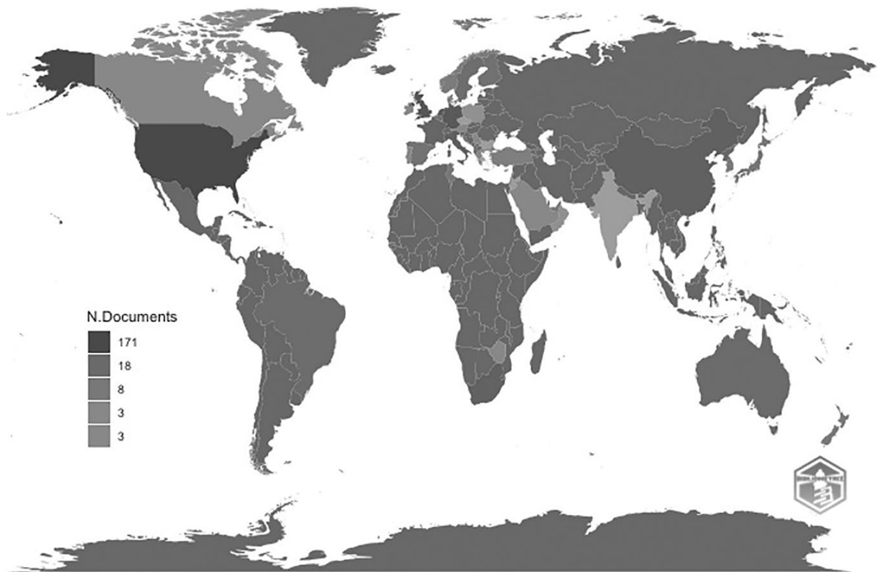

FIGURE 3.5 Country of scientific production (Bibliometrix: Aria & Cuccurullo, 2017)

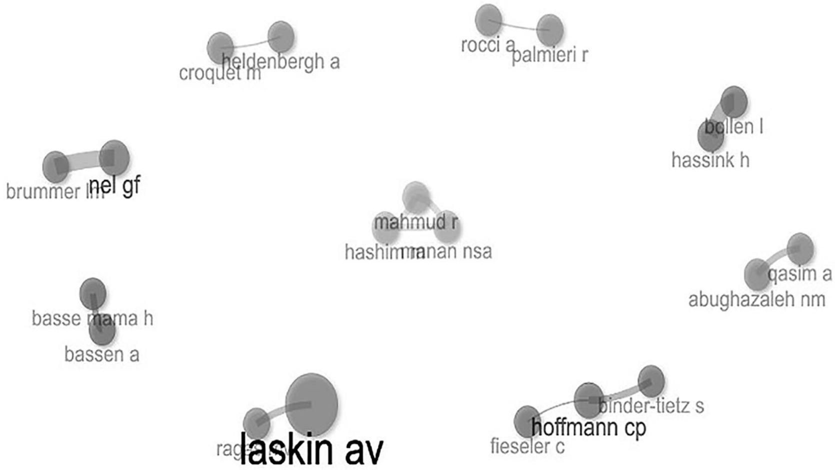

FIGURE 3.6 Collaboration network analysis (Bibliometrix: Aria & Cuccurullo, 2017)

FIGURE 3.7 Word cloud analysis (Bibliometrix: Aria & Cuccurullo, 2017)

analyzed. Apart from the central keywords related to the research field (e.g., investor relations, investment*, finance), research topics and foci, such as commerce, decision-making, business development, corporate strategy, disclosure, PR, website, Internet, sustainability, performance, stakeholder, but also a plethora of methods, such as survey, content analysis, conjoint analysis, conceptual frameworks, or comparative studies, seem to have emerged in the field of IR and financial communication over the past decades.

Overall, the updated literature review confirms some findings from previous research, such as a limited size of the – still recent – research field, a steady increase in interest, interdisciplinary roots, and a strong focus on developed Western markets, especially the US, the UK, and Germany. It further identifies a fragmented research field – not just between disciplines and countries, but also authors. This fragmentation goes hand in hand with a scattered focus in terms of topics and phenomena. Of course, the presented analysis is focused on structural characteristics. An in-depth analysis of the literature published in the past eight years would be helpful to get a clearer overview of recent developments in IR and financial communication research. A more in-depth understanding of the field and its progress in terms of methods, concepts, and theories would further contribute to the emergence of the field as a stand-alone, institutionalized, and established research domain, guiding future research endeavors, knowledge generation and distribution, as well as offering practical implications for academics, students, and practitioners alike.

Implications for Effective Financial Communication

- To a significant degree, the development of the IR profession is driven by local market conditions. The establishment of transparent and well-regulated capital markets induces the emergence and continuing professionalization of the profession. Occasional capital market turbulences (such as corporate crises, accounting scandals, or boom-and-bust-cycles) tend to trigger both tighter capital market regulations and larger resource allocations to financial communication. Both contribute to a more visible and distinguishable IR and financial communication role within the corporation. The internationalization and professionalization of capital markets further facilitate the growth and professionalization of the IR discipline. Keeping an eye on market trends, thus, is key for judging the state and the further development of the local IR field.
- Since the evolution of national capital markets and local regulations plays a key role in the evolution of the professional field, common and best practices in financial communication and IR can differ across markets. Practitioners have a choice of benchmarking their own efforts against national champions or international best practices. The choice of an appropriate standard often depends on the composition of a company's shareholder base: the more international the shareholder base, the more important that financial communication practices accord with international norms.
- Just like the profession itself, research on IR and financial communication is still young and emerging. The research field is still heavily focused on few established Western markets. It is interdisciplinary, with strong roots

in finance and accounting research, but increasing contributions from the communication field. Research on IR and financial communication tends to be scattered across countries, topics, theories, methods, and authors, with little coherence and collaboration. Little is known about IR globally, especially in emerging markets. Both researchers and professionals would benefit from a lively exchange and close collaboration – increasingly at an international scale.

Note

1 Please note that Scopus did not correctly identify *Corporate Communications: An International Journal*, which resulted in 8 articles captured as being published in *Corporate Communications: An International Journal* and 21 as being published in *Corporate Communications* – but both denominations imply the same journal.

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4

FINANCIAL COMMUNICATORS AND THE FINANCIAL COMMUNICATION PROFESSION

As noted in Chapter 1, the financial communication function can be quite organizationally complex, as it encompasses several members of the C-suite and (frequently) more than one corporate department. This organizational complexity may be due to the relative recency of the investor relations (IR) function, its rapid evolution, and the growth in its responsibilities. The IR function, in particular, has emerged only relatively recently, often driven by regulatory requirements. As discussed in the previous chapter, IR was initially implemented as a kind of add-on to the finance or legal department – but due to the growth in IR responsibilities evolved into a stand-alone team or even department. Some financial communication responsibilities remain with other departments, though, necessitating close cross-departmental coordination and cooperation.

This chapter will describe the financial communication profession, presenting first a global perspective before delving deeper into insights from the US and Europe (again with a focus on Germany, due to the available research). It will discuss some key characteristics and institutions shaping the professional field. Before exploring these characteristics and institutions, however, the next section will build on Chapter 1 to explain which roles or functions can actually be considered part of the financial communication profession. To that end, this chapter will present insights from research into financial communicators, including investor relations officers (IROs), financial communication professionals, the CEO, and CFO.

Financial Communicators

Multiple corporate representatives take on a communicator role in the financial communication domain, key among them IROs and financial

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communication professionals within the public relations (PR) department. Research on IROs is still quite scarce, however – certainly in comparison to PR officers more generally (cf., Dozier & Broom, 1995, 2009).

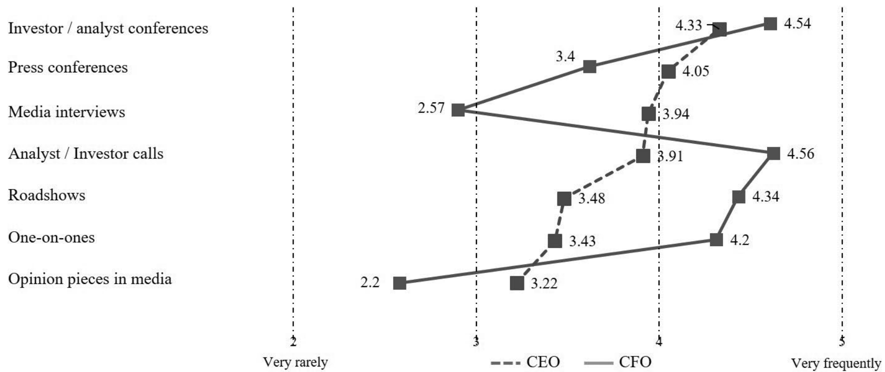
Aside from IROs and financial communication professionals, the most important corporate representatives in the capital market arena are two members of the C-suite, the CEO and the CFO (Brown et al., 2019; Chandler, 2014; Guimard, 2013). Both members of the C-suite are usually supported by the IR department when they encounter capital market participants such as (potential) investors and analysts, and by the PR department when they face financial or business journalists. Thereby, while the IR department commonly reports to the CFO, it often also has a so-called dotted reporting line to the CEO. The PR department, instead, tends to be less involved with the CFO.

Given their seniority, the next section will first summarize key insights on the CEO and CFO as financial communicators, before presenting the state of research on IROs.

CEOs and CFOs

In a study of corporate directors in the UK, Marston (1996) found that they dedicated an average of 36 days a year to IR. In a study of US-based CEOs, Chandler (2014) even finds that they allocate a third of their time to investor engagement. Back in 2001, Pye (2001) estimated this time commitment as 20–25%. This highlights the importance of the CEO as a financial communicator. Likewise, the role of the CFO as a financial communicator has evolved significantly over the years – from a supporting function focusing on financial management, to a more strategic and communicative role engaged in relationship management with the financial community (DiStaso et al., 2017; Spencer Stuart, 2016; Zorn, 2004). Much of this change is due to a liberalization and internationalization of capital markets, which has expanded the size and scope of financial audiences. This change has also rendered the CFO a more influential and visible part of corporate leadership. Chandler (2014) also highlights the necessity of close collaboration between CEOs and CFOs when it comes to financial disclosures (cf., Krishnan, 2018).

Hoffmann and Fieseler (2012) found that while investors and analysts do value direct interactions with competent IR teams, they insist on personal encounters with the CEO and CFO. Personal impressions of these corporate leaders play a key role in their corporate valuations, for example, by considering their leadership quality, grasp of the business and industry, even personal appearance (cf., Chandler, 2014). Rao and Sivakumar (1999) explain the emergence of the IR function as a result of top management's need to shield itself from overburdening demands for accessibility by the financial community. Of course, the rise of shareholder activism has only aggravated



n=100; Q: How frequently is the CEO/CFO involved in financial communication in the following formats?

FIGURE 4.1 C-suite involvement in financial communication formats (Figure by the authors)

this challenge and thereby further raised the profile of the IR department (Hoffmann & Fieseler, 2018; Hoffmann et al., 2016). Another element shaping the C-suite's exposure to capital markets is regulation, with ever tighter and more extensive disclosure requirement necessitating frequent exchanges with analysts and investors (Laskin, 2022). All of this points to the importance of (1) close collaboration between the CEO, the CFO, the IR, and PR departments in financial communication and (2) access to the C-suite for IR and PR departments (Vercic & Zerfass, 2016; Hong & Ki, 2007; Grunig, 2006).

In a study of corporations listed in Germany, Hoffmann et al. (2020) survey IR and PR professionals on the roles of CEOs and CFOs in financial communication. They find that both CEOs and CFOs are ascribed similarly high levels of exposure to financial audiences. However, their profiles differ somewhat in that CEOs are more engaged in exchanges with members of the press, while CFOs are more involved in meetings with investors and analysts (see Figure 4.1, see also Chapter 6).

The authors also find that CEOs and CFOs tend to address distinct issues in their exchanges with the financial community, with CEOs focusing on strategy, socio-political issues, or topics like digitalization and sustainability, and CFOs, instead, focusing on financial performance and KPIs (see Figure 4.2; Hoffmann et al., 2020).

To summarize, both CEOs and CFOs are key corporate representatives in the capital market arena, with financial audiences frequently requesting access to both, and PR and IR departments attempting to manage (and also limit) such access. CEOs have a somewhat broader communicator profile, addressing high-level topics in exchanges with both journalists and investors/

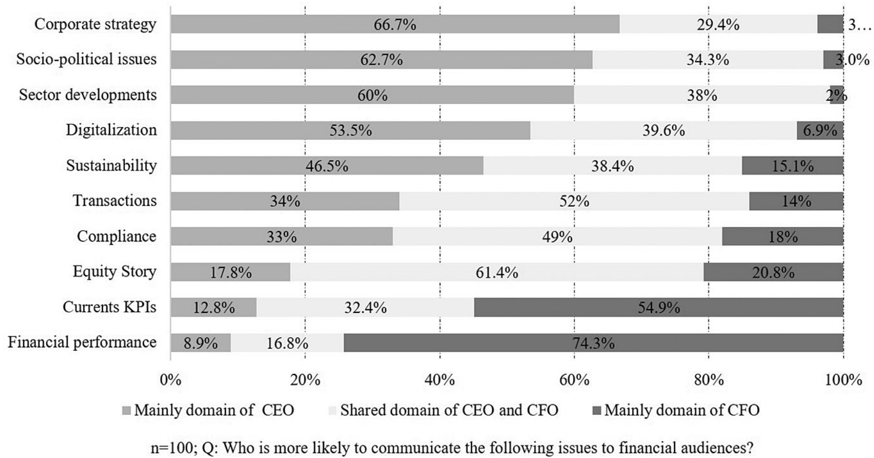


FIGURE 4.2 Financial communication issues communicated by the CEO and CFO (Figure by the authors)

analysts, throughout the year – while CFOs focus on issues of financial management, largely addressed to investors/analysts, and most visibly so during reporting seasons. Howes (2018) points out that the greater public profile of CEOs can also create challenges for financial communication, as public statements, for example, on a personal social media profile, can easily be at odds with regulatory disclosure requirements.

Investor Relations Officers and Financial Communication Professionals

Surveying PR and IR representatives of listed corporations in Germany, Switzerland, and Austria, Binder-Tietz et al. (2021) explore their cross-departmental cooperation and coordination in matters of capital market communication. The study reveals that responsibilities are usually delineated along target groups, with the PR department focusing on journalists and the IR department focusing on investors and analysts (see Chapter 5).

As noted, PR departments commonly report directly to the CEO, and IR departments more frequently report directly to the CFO (Binder-Tietz et al., 2021; Hoffmann & Binder-Tietz, 2021; Laskin, 2014). About three quarters of both PR departments and IR departments in Europe state that they are regularly involved in top-management meetings (Hoffmann & Binder-Tietz, 2021; Zerfass et al., 2017, 2017b), indicating that both are quite successful at joining their company's dominant coalition. Overall, IR departments tend to be significantly smaller than PR departments, however – among US corporations in 2014, Laskin (2014) found an average team size of two to three

full-time employees (cf., Marston, 1996), and seven years later, Binder-Tietz et al. (2021) find that the average IR team size among German corporations is between four and five, roughly equivalent to the number of (just the) financial communication professionals working in PR departments.

Narrowing in on the micro-level of individual communicators, PR research has generated deep insights into professional roles in the field of PR more broadly. The literature distinguished between a manager and a technician role, with some sub-roles, such as the *expert prescriber*, who defines and trouble-shoots PR problems, or the *communication facilitator*, who serves as an information broker (Dozier & Broom, 1995, 2009). This research highlights necessary conditions for PR officers to adopt a manager role and join their corporation's dominant coalition (Tench et al., 2017; Grunig et al., 2006). It does not focus on financial communication professionals, however. Also, this research has not yet been applied to IROs.

Previous analyses have shown that a large share of IR officers have a business, accounting, or finance background (Laskin, 2009, 2014; Marston & Straker, 2001). A sizeable majority of IROs are reported to be male (cf., Laskin, 2014), almost all share a higher education background, many in business, and most have previously worked as an analyst before taking on an IRO role. An analysis of German IROs' educational background based on their LinkedIn-Profiles showed that almost all of them had a university degree, and more than 70% had studied business (Bacher et al., 2021). A similar analysis of job advertisements in the field found that a university degree was usually required (with finance, communications, or law frequently listed as examples), as were business knowhow and communicative skills (Göbel et al., 2020). Hong and Ki (2007) surveyed IROs on perceived necessary skills for their job. Writing/speaking skills and PR knowledge, and knowledge of capital markets were ranked highest (these findings indicate that PR professionals may have been overrepresented in the sample). Petersen and Martin (1996) surveyed CEOs on which qualifications they deemed important for IROs and found that understanding of finance, and communications and writing skills ranked at the top. Krishnan (2018) points out that legal expertise is also critical for IROs, as regulatory requirements grow ever more expansive and complex.

Laskin (2009) suggests that IROs are among the highest paid corporate communications professionals. The German IR association publishes regular benchmarking studies on salaries in the field, finding a median income of more than 200'000 EUR, including cash bonuses, among senior European IROs (RIVEL, 2022). Levels of compensation are slightly higher in the UK compared to continental Europe. To summarize, similar to the financial communication research field, IR can be characterized as interdisciplinary, spanning communications, and business, with a focus on accounting and finance. This focus tends to contribute to a male gender bias, but also comparatively attractive levels of compensation.

The Investor Relations Profession

As described above, IR and financial communication is a relatively young discipline, and as such, it is still developing and emerging. The institutionalization of a profession or management practice such as IR requires re-occurring and firmly embedded organizational actions, such as common terminology and concepts used, methods employed, or behavior enacted in daily practice (Köhler, 2018; Lounsbury & Crumley, 2007). Common practices, norms, concepts, and terminology all contribute to the emergence of institutions, thereby lending stability to a professional field.

One important influence that supports and facilitates the conceptualization and institutionalization of a profession is the establishment of ***professional associations***. According to Köhler (2018), "(p)rofessional culture is mainly influenced by IRs' professional associations and interest groups" (p. 437). One of the worldwide largest associations for IR is the National Investor Relations Institute (NIRI) – the association for IR mainly situated in the US. NIRI was founded in 1969 and describes itself as the "professional association of corporate officers and IR consultants responsible for communication among corporate management, shareholders, securities analysts, and other financial community constituents" (NIRI, 2023a). NIRI is the largest professional association for IR worldwide, representing over 1,500 publicly held companies. Not only does NIRI provide a definition of IR (see Box 4.1), but it also strives to provide the community with educational and professional development programs and networking opportunities, such as an annual conference, seminars, online learning, and certification programs.

BOX 4.1 DEFINITION OF INVESTOR RELATIONS BY NIRI

Investor 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.

What is more, associations such as NIRI have also implemented an Ethics Council that "serves as a sounding-board and mentor to members regarding ethical matters that may arise during their practice" (NIRI, 2023b), and that further contributes to the professionalization and institutionalization of IR. Similarly, NIRI considers the setting of standards for the IR profession one of its main roles. These include, among others, disclosure standards, guidelines on earnings release content, and notice and access for distributing proxy materials (NIRI, 2023c). While NIRI is certainly the largest and most well-known

IR association worldwide, other countries – and particularly those with strong financial centers (e.g., India, the UK, Germany, France, Singapore, Switzerland) – also feature lively professional associations. According to the Global IR Associations Directory by *Irostors* (2023), a digital IR platform linked to NIRI, there are at least 30 IR associations globally, ranging from Australia (Australasian Investor Relations Association) to Belgium (Belgian Investor Relations Association), Brazil (Brazilian Institute of Investor Relations), the Middle East (Middle East Investor Relations Society), and Ukraine (Ukraine Investor Relations Agency).

Similar to professional associations and networks, professional and academic ***conferences*** in the field of IR further contribute to the institutionalization of IR. Professional conferences are usually offered by the respective professional associations or networks, such as NIRI in the US or DIRK in Germany. Annual conferences, but also occasional meetings on recent topics (e.g., environmental, social, and governance [ESG]), are common ways to bring the community together to discuss and exchange opinions, experiences, and best practices. In terms of academic conferences, researchers examining aspects of IR are dispersed across various disciplines, such as accounting, finance, and communication science (Hoffmann et al., 2018; Doan & McKie, 2017). While there is no dedicated regular scientific conference on IR, sub-disciplines such as PR, strategic communication, or organizational communication in communication science regularly host (panel) sessions on the topic and bring international scholars together to share current research in the field (e.g., International Communication Association (ICA), European Public Relations Education and Research Association (EUPRERA), and European Communication Research and Education Association (ECREA)).

Another important influence contributing to the professionalization and institutionalization of a professional field such as IR is ***educational programs*** offered by certified and accredited educational institutions. To date, however, few dedicated programs for IR education exist at universities and institutions of higher education worldwide. For example, up until 2014, Laskin (2014) reported that there were no majors or minors in IR for undergraduate students in the US In the past ten years, this seems to be slowly changing. However, to date, only four dedicated study programs on IR could be identified worldwide. Only two programs are offered in the US (University of San Francisco; Fordham University in New York) and in Europe (Università Cattolica del Sacro Cuore, Università della Svizzera italiana), respectively. Numerous individual courses and seminars on IR are offered in programs related to finance, business, accounting, and communication science – however, there is currently no reliable data on the exact prevalence of such offers. As a result, the IR profession is composed of individuals with a wide variety of educational backgrounds. Although research has found that educational diversity in IR departments brings advantages to a company, such as a higher quality of

IR and fewer shareholder activism cases (Hoffmann et al., 2011), there is a strong need to fill this education void to further professionalize the function (Laskin, 2014). In fact, the IRO role requires broad knowledge, covering areas such as accounting, finance, communications, marketing, management, and law (Laskin, 2014; Marston, 2004). And thus, the curriculum for a study program for the IR profession should bring together a variety of experts from different disciplines.

Whereas professional guidelines, educational programs, certifications, and the exchange between practitioners within professional networks all contribute to the process of institutionalization, little empirical evidence is available on how practitioners themselves conceptualize their roles as IR professionals – and how they practice their job on a daily basis. Four studies could be identified that provide an overview of self-conceptualizations, descriptions, and role perceptions among IR practitioners worldwide (Karolyi et al., 2017), in the US (e.g., Laskin, 2009, 2011, 2014), in Europe (Marston, 2004), and Germany (Köhler, 2015, 2018), respectively. These studies will be briefly summarized in the following sections, but given that some of the employed data and publications are more than 20 years old, findings need to be considered with caution and challenged in the context of current developments.

Investor Relations Worldwide

Karolyi and colleagues (2017) offer a unique dataset in collaboration with *BNY Mellon*, in which they surveyed 774 IROs from 59 countries about IR functions – and analyzed their relationships with company characteristics in 2012. Most respondents of the survey could be ascribed to a senior IR level and had on average 7.5 years of practical experience. One of the main findings of this study is that IROs were frequently involved in executive management decisions, confirming the characterizations of IR during the *differentiation phase* in Germany (Köhler, 2018) and the *synergy era* in the US (Laskin, 2022). IROs surveyed in the study by Karolyi and colleagues (2017) reported frequent exchanges with the CEO or CFO of their corporation (e.g., daily, weekly, monthly).

The study also examined exchanges of IROs with investors on ESG issues – a hotly debated topic in the financial sector more recently. Karolyi and colleagues (2017) found regional differences in that IROs in Western Europe (43%) routinely discussed ESG topics with investors, while 80% of IROs in North America indicated that ESG was not part of their IR strategy. This chasm between North America and Europe in terms of ESG communication and sustainable investments has been confirmed more recently, as most inflows of ESG investments not only occur in Europe, but some US investors and politicians (mostly Republican) actively disengage from ESG

investments, resulting in a form of anti-ESG movement (The Economist, 2023).

Karolyi and colleagues (2017) find that IROs in developed markets (North America, Western Europe) mostly engage with active funds managers, whereas in emerging markets, IROs focus more on passive investors. IROs from the healthcare and energy industry are found to be the most active (e.g., engagement with investors), while IROs from finance-related industries engage the most in global outreach efforts. Regarding the relationship between IR practices and company characteristics, Karolyi et al. (2017) find that IROs who work for large, complex firms that are also widely covered in the media engage more in IR activities (see for similar results in Europe: Marston, 2004). Furthermore, active IR practices are positively related to foreign institutional ownership, global analyst coverage, and current efforts to raise capital abroad. However, although the responses to this survey provide some insights into priorities and common practices of IROs around the world, most of the findings are reported with a focus on Northern America and Western Europe. Regrettably, an in-depth understanding of role perceptions of IRO across the globe – specifically in non-Western markets – is still lacking.

The Investor Relations Profession in the US

Alexander Laskin, Professor of Strategic Communication at Quinnipiac University, is one of the leading scholars in the field of IR, focusing mostly on the US market. He has published numerous scientific articles and books on IR and has contributed substantial knowledge on the state of the profession in the US (Laskin, 2009, 2011, 2014). In 2009, Laskin published a study in which he surveyed 63 IROs of Fortune 500 companies about common practices in the profession. The results indicated that 65% of practitioners worked in dedicated IR departments, whereas the rest was either situated within the finance or the communication department. The surveyed IROs reported mostly being involved with roadshows, presentations, and conferences as well as dealing with requests from shareholders, analysts, or stockbrokers (cf., Marston, 2004). For those IROs working within the communications department, the communication with mass media was also one of the most frequent activities, whereas IROs working within finance departments were much more involved with financial market oriented activities, such as one-on-one meetings, ownership research, and analysis. This shows that the IR profession in the US in the early 2000s was not yet fully integrated and was still practicing either communication or finance activities in dedicated organizational silos.

The study also allowed some insights into the time used to engage and communicate with various stakeholders (Laskin, 2022). The findings

revealed that IROs spent the most time communicating to funds and institutional investors, followed by analysts, and internal publics (e.g., employees, management). Less time was dedicated to exchanges with government and regulatory organizations, stock exchanges, and mass media. Interestingly, the amount spent communicating with various stakeholders reflected the influence IROs attributed to these stakeholders over the stock price. The only exception here was mass media: although mass media were considered the third-most important actor influencing the stock price, it was ranked the lowest in importance for IROs' daily work. The greatest task-related challenges that IROs reported in the survey were increasing regulatory requirements, lack of support by senior management, showing and justifying the value of the profession to the company, and dealing with a lack of resources for the IRO function.

Advancing the study from 2009, and replicating a survey of IROs in Florida by Petersen and Martin (1996), Laskin (2014) offers further empirical insights into the IRO profession in the US. Similar to the findings reported by Karolyi and colleagues (2017), Laskin (2014) finds that the number of IROs employed within an organization depends on the size of the company and ranged from just one to 15 IROs for one company. Furthermore, the survey indicated that the majority of IROs worked in stand-alone IR departments, whereas only 6% were embedded in integrated departments that combined various communication functions (e.g., PR, public affairs, IR). Most IROs, particularly those working for large-cap companies, reported to the CFO, followed by the CEO, which was more common among IROs working for small- and mid-cap companies. In terms of education, almost 69% had a graduate degree, whereas almost two-thirds had a background in business, such as finance or accounting. Only 7% reported a major in communication. The gender distribution among IROs was almost equally distributed, with 46% women and 54% men. On average, the surveyed IROs had ten years of job experience. Overall, Laskin (2014) concludes from these findings that although IR is increasingly attributed more importance in communicating with the investment community, the IR profession in the US "lacks communication skills and expertise" (p. 210).

The European Investor Relations Profession

A study by Marston (2004) explored how the IR function was established among leading companies in Europe. The 500 largest listed European companies were surveyed, resulting in responses from 17 finance directors and 167 IROs from 18 countries. Marston also conducted 19 follow-up interviews with IROs from six countries. Mirroring the results from the US (Laskin, 2009, 2014), IROs dedicated most of their time to one-to-one meetings, followed by phone calls, roadshows, feedback on analysts' reports, and

answering emails. In 2002 already, 97% of respondents indicated that IR services were prominently featured on the corporate website. In general, the IROs surveyed by Marston (2004) reported a positive image of their profession, attributing IR a value-creating function through improving stock liquidity, reducing share price volatility, securing a fair share price, and lowering the cost of capital for the company.

Marston (2004) concludes from these results that the IR profession had experienced growing importance in Europe, even though 50% of IR departments had only been established within the previous five years. This is another indication that the professionalization of IR in Europe had started later than in the US and only became institutionalized at the beginning of the 21st century. Marston (2004) also documents a scarcity of research on IR in Europe up until 2004 (Larrán & Rees, 2003; Marston, 1993, 2004). She mainly identifies a couple of industry surveys and interviews with financial analysts, experts, and executives of companies on the role of communicating with financial audiences in the UK and Spain, but very limited large-scale empirical studies in various European countries.

Types of Investor Relations in Germany

A notable exception to the general lack of research on the IR profession in Europe is Germany (cf., Hoffmann & Binder-Tietz, 2021; Binder-Tietz et al., 2021). As recently as 20 years ago, financial analysts surveyed by *Financial Dynamics* complained that German companies were lagging behind in terms of high-quality IR practices (e.g., financial disclosure, access to management; Marston, 2004). However, as noted above, the local profession has undergone a drastic professional evolution over the past decades. Köhler (2018) points out: today, IR "made in Germany" is seen as best practice and has been awarded with numerous prizes and accolades internationally. However, IR can still be considered a "microprofession with approximately 1,500 members in Germany" (Köhler, 2018, p. 434).

In her dissertation, Köhler (2015, 2018) surveyed 80 IR managers, rating agencies, financial journalists, regulators, consultants, scientific representatives, and buy- and sell side representatives to develop a typology of five distinct IR practices in Germany. The first type refers to *information disclosure*. Practitioners who ascribe to this type are mostly occupied with fulfilling regulatory requirements in IR communications, as posed by regulators, financial authorities, or other standard-setting bodies. Voluntary exchanges with the financial community occur relatively rarely, and the function is not established as an independent department within corporations. The second type is the *communications function,* and here, IR is integrated into the corporate communications function. Thus, the focus of this practice type is on managing relationships with various financial audiences and other stakeholders,

establishing long-term relationships, and speaking with one voice toward capital markets when representing the company.

The third type is the *marketing function*. IR practitioners belonging to this type, focus on creating a positive image of the company by using marketing materials targeted at capital markets and retail investors, with the goal to increase the share price. The fourth type is the *finance function* and is thus mostly oriented toward communication that supports the capitalization of companies, including refinancing. Thus, practitioners enacting this type are mostly concerned with collecting, preparing, and providing information that are crucial for presenting sound financial reports, and in turn, making sure that these reports are correctly communicated to the desired audiences. Lastly, the *integrated function* links the communication and the finance functions of IR. This type focuses on bridging the inside corporate view and the outside capital market view by consulting and advising top management on the one hand, and acting as a first point of contact for capital market actors, on the other hand.

As Köhler (2018) points out, these types of IR practice are not clear-cut, and professionals are likely to enact a combination of roles in their daily practices. Likewise, the five types are also partly delineated by the historical development of IR as described in the previous chapter. Depending on the resources available at the respective organization, a trend toward the *integrated function* can be expected. According to Köhler (2018), a "standard profile for the profession is still an illusion" (p. 434), and it might be advantageous for the profession to encompass a variety of IRO roles that necessitate a diverse set of skills with unique areas of expertise (e.g., ESG). Yet more research is needed to assess such IRO roles on a global scale and to provide more insights into the self-conceptualizations, professional activities, and opportunities and challenges of the profession in today's globalized and high-frequency financial information environment.

Implications for Effective Financial Communication

- Financial communication is a "team sport", encompassing members of the executive board, experts from the IR and PR departments, and often requiring expertise from additional departments, such as legal, accounting, or sustainability. Given that IROs and financial communication professionals focus on somewhat different key target audiences but jointly address the capital market arena, close cooperation and coordination between the IR and PR departments – integrated financial communication – is a key element of effective financial communication. Financial communicators need to be willing and able to engage various corporate functions, precisely communicate their requirements, and motivate others to contribute to effective financial communication.

- IR, especially, is an interdisciplinary profession requiring a wide variety of skills and competences. IROs frequently come from a business background but require strong communicative skills – as well as knowhow in strategy, sustainability, legal, and even marketing. In the West, the IR profession has seen an evolution toward an "integrated" role concept that combines these diverse skills into a complex professional profile. It is likely that professionals entering the IR field will require some type of training or continuing education to complement their existing skillset.
- Across the globe, IR is still a young and emerging corporate function. The past decades have seen a boost in the professionalization of IR. Professional associations, education programs, professional guidelines, academic research, trade, and academic publications all play important roles in the further institutionalization of IR and financial communication. Active membership in professional associations and engagement with education and research are key in the further advancement of the professional field, in the development of IR teams or departments, and even individual career paths.
- A focus on share marketing appears to be a hallmark of early stages of the IR evolution. Mature markets – and professional IR communities – tend to eschew share marketing activities in favor of two-way communication, relationship management, and compliance with international best practices and regulations. A look at advanced economies highlights an increasing international exchange of knowhow and experience. The more developed a capital market and its IR profession, the more international and integrated its outlook.

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5

CAPITAL MARKET PARTICIPANTS AND FINANCIAL COMMUNICATION AUDIENCES

The previous chapters have pointed out that capital markets are social institutions, constituted of human beings. Accordingly, human perception, cognition, and affect play a key role in the valuation of financial assets (Chapter 2). In communications research, a concept often used to describe the long-term collective perception of a corporation is reputation. Fombrun (1996) argues that the reputation a company enjoys among its financial audiences is crucial to securing financial resources (i.e., investments) and, in the long run, the company's survival. A company's communication with financial audiences, thus, can help make the corporation an "investment of choice" (Fombrun, 2006, p. 290). Knowing and understanding financial audiences, therefore, are critical for effective financial communication.

The term *audience* implies a focus on communication, similar to the term *public(s)* (Grunig, 1983): a group of people are observing the corporation. "Audience" connotes a rather passive observatory role. In his situational theory of publics, instead, Grunig (1983) elaborates various stages of awareness, involvement, and activity among publics, which commonly revolve around specific issues. Instead of "audience" or "public", the management literature often employs the term *stakeholders* (Freeman, 1984). This term denotes a more stable or durable relationship with a corporation. Stakeholders are defined as a group of people who have a particular interest in a company (i.e., a stake), who focus on an issue of relevance or connected to the company (Laskin, 2022), or who are otherwise connected to the firm (e.g., via location, consumption, financial interest, decision-making). Typical examples of stakeholders are customers, employees, suppliers, and – as one of the most important and powerful stakeholder groups – also investors.

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This chapter will explore the key financial audiences and stakeholders that investor relations (IR) and financial communication practitioners should consider in their communication, starting with external stakeholders, particularly capital market participants (e.g., institutional investors, analysts, regulators, financial media), which are sometimes subsumed under the umbrella term *financial community*. It will then move on to internal stakeholders (e.g., C-suite, employees), which have only recently gained prominence as target audiences of IR and financial communication. After presenting these various external and internal audiences, this chapter will then take a closer look at how these stakeholders are interconnected and how information flows among them.

External Audiences and Stakeholders

As the name implies, investors are the primary audience of IR, sometimes also termed the "buy-side" (Laskin, 2022). This can include both debt and equity investors, but the focus of the IR function has traditionally been on the equity investors, i.e., current and potential shareholders of a company. Shareholders are entities (individuals, companies, institutions) who own at least one share of a company (Hayes et al., 2023). By buying shares in a company, shareholders take on an entrepreneurial role. They establish partial ownership in a corporation to participate in its future development. Shareholders hope that the company will grow more valuable over time, so that they can profit from either an increased stock value, or dividends distributed by the company. However, there are also a number of differences between shareholders: companies can issue two different types of stocks: (1) common stock and (2) preferred stock. While the preferred stockholder has no voting rights, they enjoy a priority claim to dividends – in other words, they are first in line when dividends are paid, and these are usually higher than those for common shareholders. The latter do possess voting rights, but they are paid last (in case of dividend or liquidation), after creditors, bondholders, or preferred shareholders (Hayes et al., 2023).

Being a shareholder comes with certain rights and responsibilities. Shareholder rights include, among others, the right to attend annual meetings, to vote on critical matters (directly or by proxy), to receive dividends, or inspecting the company's books and records (Hayes et al., 2023). More specifically, voting rights can be exercised during shareholder meetings where shareholders vote on the composition of the board, and other central structural or strategic business decisions (such as changes in the capital structure, voting rights, and bylaws). Some jurisdictions actively encourage or even mandate investors to make use of their voting rights since active voting participation by shareholders is seen as a precondition for good corporate governance (see for example the voting obligation for pension funds in Switzerland). Since

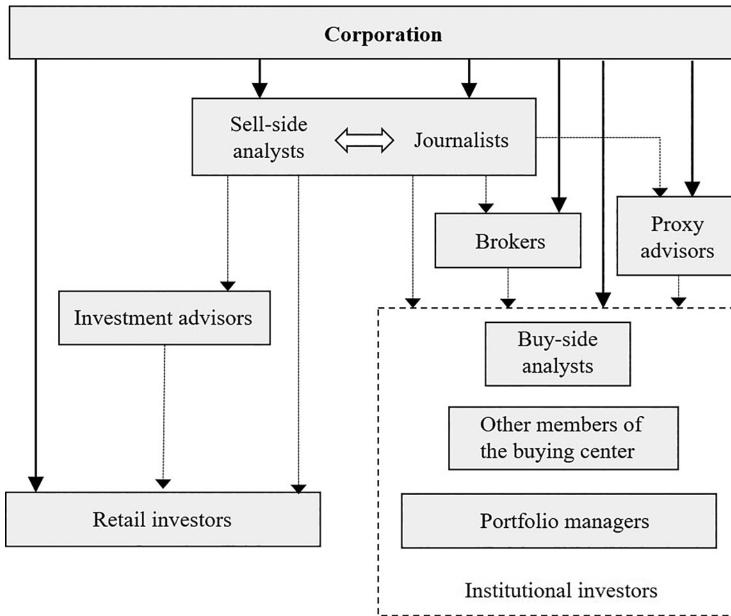

FIGURE 5.1 Direct and indirect information flows (Porák & Fieseler, 2005)

debt investors do not acquire ownership in a corporation, they have neither the right nor the obligation to involve themselves with decisions on corporate governance.

Another common and important distinction among investors is that between retail and institutional investors (see Figure 5.1). These two types or groups of investors differ mainly in the size of their individual stake in the company, but also in many other respects, such as their legal identity (natural versus juridical person), their information requirements, and the information intermediaries they tend to rely on.

Institutional Investors

While investors are the primary target audience of the IR function, today, this mostly applies to institutional investors, in particular. Institutional investor is the umbrella term for a wide range of corporations that professionally invest money on behalf of other people, i.e., their clients or customers. There are various types of institutional investors, including mutual funds, pension funds, hedge funds, sovereign funds, or endowments (Binder-Tietz & Frank, 2022; Laskin, 2022). Given that institutional investors channel enormous amounts of money collected from their clients, they are also known as the "whales" on Wall Street and thus play a critical role in determining the value of an asset, such as a listed corporation. The following overview will outline

the main characteristics and information needs of the most relevant types of institutional investors.

Pension funds. In many countries, employees pay a share of their monthly salary into a pension fund or scheme. Pension funds then invest this money in such a way to secure their beneficiaries the payment of a monthly pension during their retirement. Accordingly, pension funds have to follow the principle of fiduciary duty (Whiteside & Khartit, 2022). In other words, pension funds must put the interests of their clients first and invest money in such a way to prevent significant losses by following a low-risk profile with adequate diversification. Today, this might imply a consideration of sustainability metrics, or a preference for relatively inexpensive and low-risk index funds. Because of the sheer size of their portfolio and their long-term perspective, pension funds are an important institutional investor that investor relations officers (IROs) and financial communication professionals need to consider in their efforts.

Mutual funds. Aside from investments in pension funds, many individuals seek to bolster their savings or engage in a bit of speculation by investing some money in mutual funds. Similar to pension funds, mutual funds pool investments from individuals for the purpose of professional capital allocation (Hayes et al., 2022). Other than pension funds, however, these funds or subject to fewer restrictions and therefore can follow a wide variety of investment strategies. For individual investors, mutual funds provide the opportunity to invest in professionally managed and diversified portfolios that offer various risk profiles. The best-known mutual fund providers are Vanguard, Fidelity, BlackRock, or State Street. Large investments banks such as Goldman Sachs or JPMorgan also offer mutual funds. Today, the largest mutual fund providers tend to focus on passive investment strategies: BlackRock, Vanguard, and State Street were said to hold 22% of the average company in the S&P 500 index in 2021 (The Economist, 2022a). Knowing, understanding, and maintaining good relationships with this type of institutional investor are of critical importance for the IR function not just because of the size of their (potential) investments, but also because information requirements of fund managers can vary widely based on their respective investment strategy.

In the literature, there are various typologies of mutual fund strategies. Four strategies are frequently distinguished that each comes with distinct perspectives on the corporation and distinct information requirements:

1 Growth investor: These investors seek high revenue and earnings growth and are willing to accept risk to attain it. Growth investors are very much interested in the future development of a corporation, and its potential. They are under considerable pressure to deliver performance and will abandon investments that are not capable of delivering growth.

2 Value investor: This type of investor is seeking the fundamental value that is sometimes hidden within a company. This value could be derived from its patents, its brands or customer relationships, its human capital or culture. Value investors are open to investing in turnaround candidates if they believe that there is some core value to uncover. They need a detailed understanding of a company, its strengths, and assets.
3 Income investor: This is a rather conservative type of investor that often brings a long-term perspective and is mainly interested in the free cash flow of a company. Income investors seek high dividend payouts, so they focus on financial analysis and optimization. They neither seek strong growth, in particular, nor are they interested in turning a company's business model around as long as the company can deliver sufficient income flows.
4 Index investor: Sometimes also called passive investors, these investors follow a very simply investment rule by copying the composition of a stock index within their portfolio. These investors hardly invest in research and engagement since the stock index determines their target investments. This can make this type of investor difficult to reach from an IR perspective.

Hedge funds. While mutual funds are accessible to small investors and individuals with no or very low minimum investments, hedge funds are actively managed investments that are exclusive to investors with a high-risk profile and a high minimum investment. In comparison to mutual funds, hedge funds aim at above average returns and therefore also invest in riskier and short-term investments, such as derivatives (options and futures). Another characteristic that distinguishes hedge funds from mutual funds is that they take a higher management fee (2%) and a performance fee (20%), which is loosely regulated by the financial authorities.

Given that hedge funds are open to diverse, flexible, and sometimes unorthodox investment strategies, they are a popular vehicle for shareholder activism (Hoffmann & Fieseler, 2018). Hedge funds can move quickly to exploit specific corporate circumstances, such as mergers and acquisitions (M&A) transactions, to generate excess returns. Another strategy sometimes employed by hedge funds is short selling. *Short selling* describes the practice of betting on the decline of a company's value by borrowing shares from other investors for a small fee and then selling these shares at the current market price, expecting to buy back the shares at a lower price in the future to return them to their original owners. While usually, investors generate returns by buying at a low price first and selling at a higher price later, short sellers reverse this order and thereby generate a return from falling share prices. If the price of the borrowed share ends up rising rather than falling, however, the short seller will have to buy back at a higher price which can result in enormous losses, as there is almost no limit to how high a share price can rise.

Sometimes, other investors recognize that a short seller is betting on a falling share price and move to buy these shares to shore up its price and spoil the short sellers' game. This is called a *short squeeze*. A widely discussed example of a short squeeze was the case of GameStop in 2021 (Laskin, 2022), when retail investors learned that the hedge fund Melvin Capital was short selling GameStop shares and then banded together to push its share price to US$450, up from only US$4 a year earlier. As a result of the GameStop short squeeze, Melvin Capital needed to be bailed out with US$2.75 billion eventually. A short squeeze is akin to a game of chicken, as those speculating against the short seller need to push up the share price for long enough, until the short seller is forced to close their position and buy back the shares. This can be a risky and costly game if the short seller was right in their original assumption that the share was overpriced.

Private equity funds. Private equity funds are sometimes confused with hedge funds but play a very different role on capital markets – and are usually not a target audience for IROs. Private equity funds, similar to hedge funds, are professional investment vehicles that are usually characterized by a high risk-profile and high minimum investments. Private equity funds pursue entrepreneurial investment strategies in that they buy up parts of or entire companies, taking them private. They then fundamentally restructure these companies to ultimately sell the restructured enterprises either to a strategic investor or through an IPO. Taking companies private allows for significant entrepreneurial and strategic leeway but requires tremendous financial resources. Listed corporations are rarely taken over by a private equity fund. However, listed corporations do occasionally sell off parts of their business to a private equity investor or buy an enterprise from this type of fund.

Sovereign funds or sovereign wealth funds (SWFs) are state-owned investment funds that are invested in a variety of financial assets such as stocks, bonds, real estate, commodities, or hedge funds and private equity funds. The money usually comes from the government, for example, via surpluses from state-owned natural resources (e.g., Norway's' fossil fuel industry), trade surpluses, foreign currency operations, or privatizations. There is a variety of SWFs that focus on different purposes, ranging from funds for future generations, public benefit pension funds, or funds targeted at specific industries (e.g., technology, finance). In total, assets under management by SWFs worldwide amounted to 11.3 trillion US dollars by the end of 2022 (Global SWF, 2023). The largest SWF as of December 2022 was the China Investment Corporation (CIC), managing 1.35 trillion US dollars (Global SWF, 2023). In September 2022, another large SWS, Norway's Government Pension Fund Global has announced that it set a net zero emissions target for all companies they invest in to be reached by 2050 (Feingold, 2022). It is not unusual for a SWF to pursue both political and financial aims, which renders this type of investor potentially challenging from an IR perspective.

Endowments. An endowment is a donation of money or assets (e.g., property) that is given to a non-profit organization such as a trust, a private charity, or a foundation (Smith et al., 2022). The non-profit organization (NPO), which can be an educational, cultural, religious, or social institution, uses this endowment to invest it with a specific purpose (e.g., promotion of education, culture, environment). Endowments are usually managed in such a way that the principal amount (i.e., total investable assets of the NPO) remains intact, whereas the additional incomes through investment activities are used to cover operating costs and programs, such as charitable activities. The largest endowments worldwide can be found in the educational sector, led by US elite universities such as Harvard, Stanford, or Yale. Notable examples of endowments in Europe are the Louvre Endowment Fund in France, the European Endowment for Democracy (EED), established by the European Union in 2013, or the Carnegie Europe Endowment. In the US, endowments which amount to billions of US Dollars are regularly criticized for hoarding and their "sheer enormity" (Walsh, 2021). For IROs, thus, the collaboration with endowments can pose a reputational risk, but it also comes with the complexity of dealing with the endowment's various stakeholders and their differing demands (e.g., private owner(s), families, or other interest groups related to the purpose of the endowment such as students, artists, or other professional, social or cultural groups).

Individual or Retail Investors

Individual or retail investors are individuals who buy shares with their own financial resources. Since these financial resources are usually limited, the number of shares a single retail investor owns in a company is quite small. However, altogether, thousands of retail investors can own a sizeable chunk of corporate shares. Individually, though, retail shareholders tend to attract much less attention from the IR department than institutional investors. Collectively, though, they can still constitute a relevant financial audience. Retail shareholders' investment aims and strategies tend to be quite conservative. They often invest to save for retirement. Accordingly, they pick individual shares that they feel an attachment to and keep them for much longer than the average institutional investor. Retail investors, therefore, tend to stabilize a company's share price. A specific type of retail investor is the employee shareholder (also: internal shareholder, see below): various companies offer their employees shares at a reduced price or as part of an incentive package. The purpose of these programs is to motivate employees and foster their loyalty. Depending on the duration of these programs, a sizeable share of employees can also be shareholders.

Both the knowhow and information requirements of retail investors vary widely. Some retail shareholders have very little business acumen, some buy

shares on a whim or based on a random recommendation, many engage in very little trading. Some retail investors, however, follow their investments closely and actively exercise their rights (e.g., at the annual shareholders meeting), and some are avid traders (e.g., so-called day traders). Some listed corporations do not engage in any specific effort to target retail investors, they rely on their corporate website, the annual report, and the annual general meeting to satisfy these shareholders' information needs. Others develop targeted offers, such as brochures and newsletters, that package financial information in an accessible, sometimes more engaging or entertaining way. Occasionally, for example, during an IPO or when new shares are issued, companies even invest in ad campaigns to reach retail shareholders.

Traditionally, retail investors traded in shares through their bank, which tended to be quite cumbersome and costly. More recently, online brokers have significantly reduced the cost and increased the convenience of trading shares. Since the COVID pandemic, the number of retail investors who regularly trade on stock markets has increased sharply across developed economies. Thanks to new digital tools (e.g., apps) that come at low costs (i.e., usually low or no fees or commissions), 19.5% of all stock market shares traded could be attributed to retail investors during the first six months of 2020 – double the amount compared to 2010, according to Bloomberg Intelligence (Arora, 2022). Recent data by Vanda Research show that net flows into the stock market by retail investors averaged $1.3 billion a day in the first six months of 2022 (Sor, 2022). Following Hayes and Scott (2021), retail investors now play a crucial role for the overall market sentiment and might also become more relevant for IR.

As Figure 5.1 shows, investment advisors traditionally played an important role in shaping a company's perception by retail shareholders. With the rise of online brokers, the role of this intermediary has diminished noticeably. Some brokers now actually offer AI-based automated recommender systems instead. Retail investors often derive their information on listed companies from the press. Close cooperation between public relations (PR) and IR is therefore particularly important for communication with retail investors. Occasionally, individual professional investors or analysts take on the role of an influencer among retail investors if they can boast a number of investment successes. Warren Buffett, famed CEO of Berkshire Hathaway and "oracle of Omaha", could be named as one such opinion maker. Another would be Bill Ackman, manager and CEO of the hedge fund Pershing Square Capital Management (Forbes, 2022). From a financial communication perspective, targeting such opinion makers can be critical to influencing retail shareholder sentiment.

Shareholder Activists

One group of investors that has gained increasing awareness and attention by corporations and capital markets since the 21st century is shareholder

activists. Shareholder activists can be individual or institutional investors, but they can also coordinate and act as a group of investors. Their main purpose is to use their shareholder rights to bring about change within the corporation (Hoffmann & Fieseler, 2018). The changes that shareholder activists pursue can vary and range from environmental concerns (e.g., demanding stricter carbon emission reduction targets) to governance issues (e.g., changes in the leadership team), business models or organizational structures, the corporate culture, or profit distribution issues (e.g., amount of dividends paid) (Briggs, 2007; Kahan & Rock, 2009; Romano, 2001; Hadani et al., 2019). Demands focusing on governance issues are most likely to attract shareholder support as they tend to be in the interest of all shareholders. Strategic demands, instead, tend to be more contentious (Hoffmann et al., 2016).

The tactics of shareholder activist are also diverse, and new strategies are continuously emerging. However, in a first step, many seek to directly engage the corporate leadership, to raise their concerns and share their proposals (Cloyd et al., 2015). If these efforts do not bring about the desired changes, shareholder activists usually turn to more public and vocal activities, such as critical media campaigns, or the filing of a proxy contest (see Box 5.1 for explanation). To gain support for their proxy contest, shareholder activists often seek out other shareholders of the company to identify potential allies (Hoffmann et al., 2016).

BOX 5.1 PROXY FIGHT/BATTLE/CONTEST

A proxy fight/battle/contest is a conflict between corporate management and some shareholders that comes to a head during a shareholders meeting. It can revolve around the election of board members or a shareholder proposal. Both the shareholders (sometimes activists) contesting the management position and corporate leadership vie for support by the majority of shareholders. A proxy vote is a vote on behalf of another shareholder. Shareholders can authorize representatives to vote at the shareholders meeting on their behalf. Both sides of a proxy fight/battle/contest often attempt to collect proxy votes to shore up their position.

Following a yearly study by the Harvard Law School Forum on Corporate Governance, 2018 was a "record year" for shareholder activism with 250 campaigns initiated (Weinstein et al., 2019), while recent years saw a slower pace with only 173 campaigns, for example, launched globally in 2021 (Thomas et al., 2022). This trend is similar for Europe, where 2020 was a record year for shareholder activism and 2021 saw a decrease by 12%, equaling 50 new campaigns (Thomas et al., 2022). Recent trends in shareholder activism observed by the Harvard researchers are, among others, a

focus on topics such as environmental, social, and governance (ESG) criteria, diversity in the board room, a move against short-term investment strategies related to special purpose acquisition companies (SPACs) (see explanation Box 5.2), and M&A (Sawyer et al., 2022).

Some of the most well-known and largest shareholder activists, based on their assets under management (AUM), are Elliott Management, Carl Icahn, Third Point Partners, Starboard Value, and ValueAct Capital (Dure, 2020). A recent example of shareholder activism was the case of Exxon Mobil. The hedge fund Engine No. 1 successfully removed three board members of ExxonMobil and replaced them with their own candidates to move the corporation's strategy toward renewable energy and reduce its carbon footprint (Phillips, 2021). Engine No. 1 was only able to win this proxy battle because they had support from Exxon's biggest institutional investors, BlackRock, Vanguard, and State Street.

BOX 5.2 SPAC

SPAC stands for a special purpose acquisition company (SPAC), and it describes a publicly listed company without commercial operations (Young et al., 2022). SPACs are created for private companies to circumvent the typical IPO process, which tends to be costly and time-consuming: The private company either merges or is taken over by the SPAC and thus ends up as a listed corporation without ever going through an IPO. SPACs are also called "blank check companies" because only limited information is given to investors when they go public, and investors do not know what business will eventually take the mantle of the SPAC vehicle. Upon going public, a SPAC typically has two years to merge with a private business (Young et al., 2022; Bazerman, 2021). Although SPACs have been around for years, they have enjoyed great popularity since the beginning of the 2020s. However, recently they have experienced a relapse after sobering return rates, and the move toward more secure investments since the global energy crisis in 2022 (The Economist, 2022b).

Angel Investors and Venture Capital

Another type of investor that can be either an individual or institutional investor are *angel investors* (also: business angels) and *venture capital* (VC) *investors*. While the angel investor is usually a high-net worth individual (HNWI), VC investors tend to be a type of institutional investor (an independent fund, an investment bank activity, or, in the case of corporate venture capitalists, an investment branch of an established corporation). Both types of investors, however, focus on investing in early business ideas or startups (Laskin, 2022). Angel investors and VCs are therefore not usually a target audience

of IR departments. However, founders or startup management tend to be heavily engaged in financial communication. Since startups tend to require sizeable investments to pursue their growth plans, it is of paramount interest for them to communicate their business model, their product or service, and their investment case. Financial communication for startups often revolves around a founding idea, the mission and vision of the founding team, as well as the venture's growth potential. Storytelling techniques, but also a charismatic and self-confident performance by the founders, are crucial for catching the attention and sparking the interest of angel investors and VCs.

While there is not much empirical research on financial communication in startups, a study has shown that crowdfunding campaigns tend to have a higher success rate when communicating societal problem-solution strategies, using more pathos appeals, and focusing on the advantages of the characteristics of the project (Palmieri et al., 2022). For angel and venture investors, startups represent a high-risk investment as many startups fail rather than manage to grow into established corporations. Therefore, angel and venture investors usually invest in a variety of startups to compensate for eventual losses. IR in a more traditional sense usually begins when startups have managed to grow sufficiently to attempt an IPO. As noted, SPACs have gained importance as an efficient alternative to traditional IPOs (see Box 2). Either way, IR departments are commonly only established once the enterprise is listed on the stock market – which is also often the point at which angel investors and VCs sell off their shares and turn to new ventures.

Traders

A trader is an individual who buys or sells shares or other financial assets on financial markets (Chen et al., 2022). They can either engage in trading for themselves or operate on behalf of an institutional investor. In comparison to institutional or retail investors, traders only hold their investments for short periods of time. Nowadays, this can even happen within fractions of seconds, called high-frequency trading, based on artificial intelligence and algorithms (Lewis, 2014). However, in some markets, like the US, there have been stricter regulations for profits from short-term capital gains (assets held less than one year), which are penalized by a higher tax rate (Adamczyk, 2021). While private traders may follow a range of different, personal strategies, there are roughly three types of strategies that can be distinguished among traders, according to Laskin (2022):

> The first is the noise trader, who relies purely on technical analysis and data, and thus historical stock price movements. Because this type of trader only focuses on the market "noise," the products or the story of the company are not of interest. The pure noise trader does not read up on company reports, market analyses, or other fundamental data such as

profits, competition, technology, or other data on the company. A second type of trader, instead, does just that by relying on a fundamental analysis. The third type of trader is a mixture of both previous types and follows a quantamental approach, combining both historical technical data and fundamental company data. Thus, given that traders buy and sell in short amounts of time, it becomes crucial for IR to prepare and make the relevant fundamental company data openly and transparently available for this audience (technical data is usually retrieved from large stock market data vendors such as Bloomberg).

Analysts

Analysts are professionals, often employed by financial services providers, who analyze corporate and market data to valuate listed corporations and derive investment recommendations. They are key intermediaries and opinion makers within the financial community, as both institutional and retail investors as well as other intermediaries, such as journalists, rely on their analyses and reports. Analysts are known to spend a great deal of time reading up on companies and the markets and sectors of these companies. This means diving into corporate reports (e.g., annual report, quarterly report, CSR/ESG report), but also studying new market developments, trends, and general economic movements that could affect the monitored company. In general, three types of analysts can be distinguished: sell-side vs. buy-side analysts, and the independent analysist.

Sell-side analysts are the dominant type of analysts, also known as financial news programs (Simpson et al., 2022), and they are usually employed by brokerage houses (Hall et al., 2022). The sell-side analysists' job is to analyze companies in detail and write reports on them. In these reports, they summarize relevant information on a company (collected via company filings, interviews with management, suppliers, and/or customers), make predictions about the future performance of a company (Simpson et al., 2022), and thereby "sell" it to institutional or individual investors. The results of the sell-side analyses regarding specific companies are commonly covered in the financial news as a "sell", "buy", or "hold" recommendation. Sell-side reports are regularly made available to the public (sometimes only in parts). This renders sell-side reports and recommendations particularly influential in the capital market arena (Strauß et al., 2018).

A sell-side analyst often focuses on a specific domain, such as on one or two industries, a country, a specific company size (e.g., small- and mid-caps), and usually covers a so-called universe of up to a dozen companies (Hall et al., 2022). Conversely, the number of analysts covering a listed corporation varies widely and is strongly dependent on market capitalization – the larger a corporation, the higher investor interest in said corporation, and the

more sell-side analysts will cover the corporation to service these investors. This also implies that small companies often struggle to attract analyst coverage. Covering a small listed corporation is not very attractive to an analyst, as relatively few investors will be interested in this analysis. Newly listed and small companies therefore sometimes hire analysts to produce a report. This issuer-paid research tends to be perceived as somewhat less reliable than independent research, but it still helps corporations gain attention among the financial community.

IROs spend a significant amount of time interacting with sell-side analysts. It is crucial for these sell-side analysts to get first-hand insights on a company or an industry, and to secure their unique information brokerage position vis-à-vis the financial markets, for which they can charge fees. Also, sell-side analysts compete amongst each other for the best, most accurate, or reliable analyses and recommendations. Information advantages are therefore key to the success of an analyst. From a corporate perspective, it is necessary to establish good connections with sell-side analysts and to make sure that all relevant company information is available and well-understood by the analysts. Misunderstanding can lead to incorrect valuations and inaccurate recommendations. Occasionally, corporations limit the access granted to analysts covering a corporation unfavorably (Simpson et al., 2022). Such behavior is detrimental to a corporation's capital market reputation, though. Also, critical coverage can still be preferable to a lack of analyst coverage. Often, sell-side analysts cover a listed company over long timespans, so that IROs and analysts establish a high degree of familiarity and develop trusting relationships.

Buy-side analysts are employed by fund managers or other institutional investors, such as insurances, pension, or hedge funds (Hall et al., 2022). Similar to the sell-side analysist, buy-side analysts research specific sectors and companies to give buy or sell recommendations. According to Hall and colleagues (2022), there are three main differences between buy-side and sell-side analysts: first, the former usually cover more companies; second, they write shorter reports; and third, their recommendations are usually used and shared directly with fund managers, and they are rarely, if ever, made public (cf. Hobbs & Singh, 2015). Yet, the interrelation between the two types of analysts is rather close. Usually, the sell-side tries to provide useful information to the buy-side in the hope that the buy-side will commission the brokerage firm the sell-side analysts work for with the trading of the covered stocks. This is actually how sell-side research has traditionally been financed: from commissions. The European Union's MiFID 2 regulation, however, has forced an "unbundling" of financial services, so that institutional investors have to pay directly for sell-side research. This has led to a decline in sell-side research, with some analysts switching to the buy-side, and a loss of coverage for many corporations (Lang et al., 2023).

The term "buy-side" derives from the fact that buy-side analysts directly influence the buying decisions of institutional investors. Sell-side analysts, instead, are employed by brokerage firms and other financial services providers interested in selling shares (or, more accurately, their services) to investors. The importance of buy-side analysts is based on their immediate influence over the decisions of institutional investors, while the importance of sell-side analysts derives more from their influence over a company's public perception. IROs tend to interact less with buy-side analysts because these analysts cover a larger universe of companies and thus have less time to spend on each individual corporation. Sometimes, it can also be more difficult for IROs to gain access to buy-side analysts.

Independent analysts, as the word implies, are analysts who work independently and who are not employed by funds or a brokerage firm (Hall et al., 2022). Given the close interrelationship between buy- and sell-side analysts, independent analysts – also called "indies" – enjoy the advantage of being perceived as "untainted" or "impartial". Their clients are institutional or individual investors. Another important factor that distinguishes indies from buy-side or sell-side analysts is that they usually cover companies that are either ignored, forgotten, or unknown to the traditional analyst industry. In that way, indies can also discover "new" stocks (e.g., small or micro-cap stocks) that have high potential on the market (Hall et al., 2022). The reputation of independent analysts depends strongly on their business model, however. Some independent analysts use their analyses to influence market sentiment and trade accordingly. These models can lead to market manipulation. Other independent analysts are commissioned by listed companies (paid research), which – as noted above – is considered somewhat less reliable.

Proxy Advisors

Proxy advisors offer a number of services to institutional investors, such as research, recommendations on shareholder proposal voting, and often also actual proxy voting services. The market for proxy advisors is dominated by two firms, Glass Lewis and Institutional Shareholder Services (ISS), which has raised a number of concerns (Koch et al., 2023). Proxy advisors have grown to tremendous importance as capital market intermediaries and as an IR audience due to the rise of passive or index investors. These types of institutional investors follow very basic investment rules and thus spend little resources on research or stock picking (if any), allowing them to offer funds with very low management fees. Since index funds cannot underperform an index and are offered at attractive conditions, many investors have moved their funds out of actively managed funds into passive funds. As noted above, firms specializing in passive investing, such as BlackRock, Vanguard, or State Street, are among the largest investment firms today. These firms are invested

in many thousands of companies. Actively engaging in the corporate governance of these portfolio companies, by screening the AGM agenda, assessing each shareholder proposal, and voting accordingly, would be tremendously resource intensive – and would push up management fees. Instead, these investment firms prefer to hire the services of proxy advisors (Sarro, 2020).

Proxy advisors analyze and assess the shareholder proposals up for vote at the AGMs many listed corporations and derive recommendations for either supporting or rejecting these proposals based on a set of governance and sustainability guidelines. These guidelines are derived from the perspective on investor interests (Spatt, 2021). Institutional investors thus feel comfortable relying on these recommendations, and since the proxy advisors can sell their research and recommendations for one listed company to many investors, they effectively profit from lowering the governance engagement costs for institutional investors. Institutional investors' blind reliance on the recommendations given by proxy advisors has been termed "robo-voting". From a corporate perspective, this development is quite challenging, as the research of two companies, ISS and Glass Lewis, can effectively determine the voting behavior of a large swath of shareholders (Calluzzo & Dudley, 2019; Koch et al., 2023). Engagement with proxy advisors has therefore become an essential part of the IR task, especially in the case of proxy contests.

Journalists

Another target audience of financial communication that fulfills an important intermediary role and is in some ways comparable to analysts is the financial and business press. Financial media take a pertinent role in sharing market-relevant information about the company with the financial community and the public. The financial press has often been criticized for functioning as a direct mouthpiece for the financial industry and corporations (Manning, 2012; Usher, 2012; Tambini, 2010). Especially in the run-up to the Global Financial Crisis 2007–2008, financial journalists were accused of ignorance and of failing their watchdog function. However, IRO should not underestimate the powerful role that financial and business journalists can take regarding the reputation and financial valuation of corporations on the market. Particularly unexpected stories (e.g., investigative reporting, market-moving stories) can have significant impact on the share prices of corporations (Strauß et al., 2018).

While some of the financial audiences discussed above, such as investors or analysts, can be somewhat dismissive in their regard of journalists (Hoffmann & Fieseler, 2012), media reporting does influence how analysts, proxy advisors, retail, and institutional investors view a corporation. Therefore, it becomes crucial for financial communicators to establish good relationships with financial and business journalists who cover the corporation

or the respective industry. Alike to the communication with analysts and other financial audiences, IROs should also inform journalists correctly and coherently about the company to secure an adequate representation of the corporation in the news. Fostering these relationships with journalists becomes even more decisive in times of crises when financial audiences and the general public are seeking orientation and grasp for any available information. The role of the media on capital markets will be discussed in much more detail in Chapter 9.

Regulators, Policymakers, and NGOs

Stock exchanges instantly become an important target audience when a company decides to go public, as they set many of the rules and requirements of an IPO. They remain a relevant stakeholder throughout a company's listing, though. Again, many disclosure requirements are set by the stock exchanges, and the stock exchange is often the target recipient of such disclosures. A good and close relationship with the stock exchange is helpful in the case of unexpected or unfamiliar occurrences, when IROs like to turn to the stock exchange for advice or guidance. Of course, the stock exchange also sets important conditions for a listing, such as fees, trading options, or the composition of indices.

Given the high level of regulation that IROs are confronted with in their daily work, the interaction with *regulators and financial authorities* is also of critical importance. At the European level, the financial markets are supervised by the European System of Financial Supervision (ESFS), which has operated since 2011 and whose establishment was a direct result of the Global Financial Crisis 2007–2008 (Finma, 2023). The ESFS consists of the European Supervisory Authorities (ESAs), the European System Risk Board (ESRB), and national supervisors (ECB, 2022). The ESAs are based on three authorities that focus on micro-prudential oversight at the European Union level; hence the supervision of individual institutions (e.g., banks, insurances, funds): the European Banking Authority (EBA), the European Securities and Markets Authority (ESMA), and the European Insurance and Occupational Pensions Authority (EIOPA) (ECB, 2023). The ESRB, on the other hand, is responsible for macro-prudential oversight at the European Union level (e.g., systemic risks) and therefore collaborates closely with the European Central Bank, national central banks and supervisory authorities of EU member states, and the European Commission. This is just a very short and general overview of the regulatory bodies on the financial markets in Europe, but there are even more specific authorities and regulators that are, for example, responsible for banks in particular (e.g., Banking Union) or specialized platforms, expert or stakeholder groups.

Specific capital market regulations are usually the outcome of public discourse and policy discussions. For example, in response to the Global Financial

Crisis of 2007–2009, a number of new regulations were introduced as an attempt to reign in excessive and fraudulent trading. A host of capital market regulations has resulted from the European Union's Green Deal initiative. Current debates on climate change, social inequality, or digitalization are likely to spark new regulatory initiatives. As a result, financial communication professionals are increasingly faced with the necessity to influence policymaking and regulations at the national and international level. IR, thus, has moved ever closer to corporate functions such as lobbying or public affairs. Lobbying initiatives are necessary to inform *policymakers* about the implications of policies for the financial markets or companies more generally. At the same time, the lobbying power that the financial industry exerts over policymaking at the national and European level raises serious concerns about the independence of the legislation process. For IROs, this implies that communication with policymakers does not only need to be highly discrete, professional, and convincing in laying out the corporation's perspective, it also is subject to scrutiny by additional external stakeholders, such as NGOs and oppositional parties.

While lobbying activities do not necessarily fall under a registration obligation in some EU member states (cf. Lobbypedia, 2023), the European Commission maintains a transparency register in which all organizations that aim to influence EU law-making or policy processes need to register (European Commission, 2023). As of December 2022 (cf. LobbyFacts, 2023), the three organizations that spent the most on lobby costs at the EU-level were the European Chemical Industry Council (€9M) and the two PR firms, Fleishman-Hillard (€7.6M) and FTI Consulting Belgium (€6.8M), that both focus strongly on financial clients. The corporate sector's influence on policymaking often attracts criticism by *NGOs* that call-out corporations that try to exercise undue influence on policymaking. Thereby, NGOs are another external stakeholder to keep in mind in financial communication, as they can pose a severe reputational threat. By employing media intensive campaigns (e.g., Greenpeace), public criticism by NGOs can harm the image and potentially even the financial value of a company. Therefore, establishing good relationships with NGOs, being open for dialogue, sharing relevant information, and showing how the corporation tries to take concrete steps toward solving the concerns of the NGO are valuable recommendations in dealing with public pressure exercised by NGOs (Bauer & Schmitz, 2012).

Internal Audiences and Stakeholders

Although external stakeholders (e.g., institutional investors, analysts) traditionally take priority in the daily work of IROs, relationships and communication with internal stakeholders are indispensable in securing the correct messaging about the corporation to interested parties, both internally and externally. Therefore, maintaining and fostering a close and functional

network with various internal stakeholders are crucial for financial communicators to exercise their job effectively (Wolf, 2022). Some of the relationships introduced below will be discussed in more depth in Chapter 12, which highlights the organization of financial communication and IR.

C-Suite

IROs and financial communication experts are in regular exchange with the management of the corporation. More specifically, IROs have to regularly report to the C-suite about recent share price developments, fluctuations, trading volumes, analysts' assessments, and other relevant market information (e.g., sector-specific developments). Furthermore, in advance of meetings with external stakeholders (e.g., institutional investors and financial media), IROs have to prepare materials (e.g., roadshow presentation), anticipate questions by the audience, work out fitting responses, and train corporate leadership in communicating key messages (cf. Laskin, 2022). Aside from the CEO, the Chief Financial Officer (CFO) plays a particularly important role in capital market communication, particularly during regular reporting (Nolop, 2012; Hoffmann & Binder-Tietz, 2022). Supporting the CFO in conveying the equity story usually falls to the IR department (Holzinger, 2004).

Supervisory Board

The role of the supervisory board of non-executive directors in communicating with the financial market has recently gained more attention. In some markets, particularly those with a two-tier board system, non-executive directors didn't tend to engage in exchanges with external stakeholders, such as investors or journalists, beyond the annual shareholders meeting. The globalization of capital markets and the increasing influence of US- and UK-based investors have shaken up these traditional roles and have led to more frequent interactions between members of the supervisory board and the (financial) public (Binder-Tietz, 2022). Shareholder activism and the increasingly influential role of proxy advisors have further accelerated this trend. Topics covered by the supervisory board revolve around governance and sustainability (such as diversity and renumeration). As a result, financial communication professionals and IROs now need to brief, support, and train non-executive directors in preparation of their external communication. Also, financial communicators need to brief the supervisory board on market trends, akin to their reporting obligations toward the C-suite

Corporate Departments

Besides corporate leadership, IROs also need to be aware of and engage other internal departments and functions that are relevant to their tasks. Naturally,

they are in close contact with other communications departments, such as PRs, corporate communications, or the marketing and CSR teams. Particularly with regard to the preparation of quarterly and annual reports, as well as ESG and CSR reports, regular exchanges with the communications and finance departments, but also with more technical departments (e.g., sales, production, and research), become decisive in collecting all relevant information and data (cf. Laskin, 2022). Occasionally, other corporate functions are incorporated into financial communication measures, such as capital markets days (see Chapter 6). IR then needs to prepare representatives of these other functions or departments for their encounters with members of the financial community.

Employees

As noted above, in some companies, employees are encouraged to invest in the corporation and are an explicit IR audience as employee shareholders. Beyond that, employees play a crucial role in multiplying messages about a corporation internally and externally and should therefore also be kept in mind in financial communication (Laskin, 2022). Just as external stakeholders, employees consume financial and corporate information and data and want to stay abreast of current developments about their workplace, anticipating crises or developments that could indirectly or directly affect them. Thus, communicating consistently, both internally and externally, is important to keep employees informed. When information is communicated inconsistently internally and externally, it can be interpreted by employees as a lack of respect or appreciation, dampen motivation, or harm loyalty. IR and financial communication should therefore be considered an integral part of all integrated communication efforts (Schultz et al., 1996; Binder-Tietz et al. 2021).

With regard to *employee or internal shareholders*, there are a number of specific regulations to consider. For example, when new material information about the company is disseminated internally first (e.g., change of the CEO, crisis), employees are usually prohibited to trade on the stock because they have an information advantage over public or external shareholders. If corporate insiders would still trade based on the unreleased information, this would be considered *insider trading*, which is illegal and prohibited by law (European Commission, 2016). The same applies to IROs or financial communication experts who work for a company internally or externally. Because they are usually very close to the leadership team in times of change or crises and therefore are privy to privileged information about new developments, they are excluded from trading shares of the corporation on the stock market.

Information Flows among Key Stakeholders

As the overview of relevant internal and external stakeholders provided above highlights, financial communication and IR address a variety of audiences for

different purposes. Ultimately, financial communication revolves around the core audience of investors (institutional investors, in particular). A number of intermediary audiences serve to inform and influence investors, such as analysts, journalists, or proxy advisors. Corporate leadership also constitutes a core audience for IR and financial communication, but this relationship is derivative of the importance of investors: members of the board rely on IR and financial communication for insights about the financial community to be prepared for interactions with investors and to assure investors' support for management initiatives. Similarly, regulators and policymakers are undoubtedly powerful stakeholders, but, again, corporations are only dependent on these stakeholders because they are ultimately seeking access to investors.

Figure 5.2, therefore, depicts information flows in financial communication primarily as a (partially mediated) relationship between corporations and investors. This unidirectional model of information flows starkly reduces the actual complexity of information flows in capital markets, which is often among intermediaries or between investors and intermediaries and only partially involves listed corporations directly. Another model to depict how information emerges, is constructed, and consumed by various actors and then acted upon on financial markets is the self-referential financial information ecosystem (SRFIE; Strauß, 2018; see Figure 5.2).

The SRFIE model builds on the concept of communicative ecology (Foth & Hearn, 2007) that broadly describes "the context in which the communication process occurs" (p. 9). Thus, the way in which information flows among key financial audiences can be described as a network of interactions that includes online and offline communication, global and local communication, as well as interactions within digitalized and interconnected networks. Within those networks, participants do not only communicate face-to-face but may also use a variety of media or communication technologies, and/or hybrid forms. As shown in Figure 5.2, there are four central actors within the ecosystem whose interactions determine capital market developments, their coverage in the news, and the ensuing stock market reactions. It should be noted, though, that the SRFIE model only focuses on external audiences that have been examined in empirical research on stock market reactions (Strauß, 2018), it does not address the role of internal stakeholders (e.g., employees and C-suite), or some of the external audiences covered above, but rarely discussed in previous research.

In the upper left corner, the model highlights financial journalists who report about financial market events as they occur (termed "financial reporting"). These events can range from daily stock market movements, the release of new economic indicators, or business news or releases. In their reporting task, financial and business journalists stand in close and regular contact with other financial actors (e.g., financial analysts, IROs, investors, traders, other financial market actors) (Strauß, 2019). These relationships are

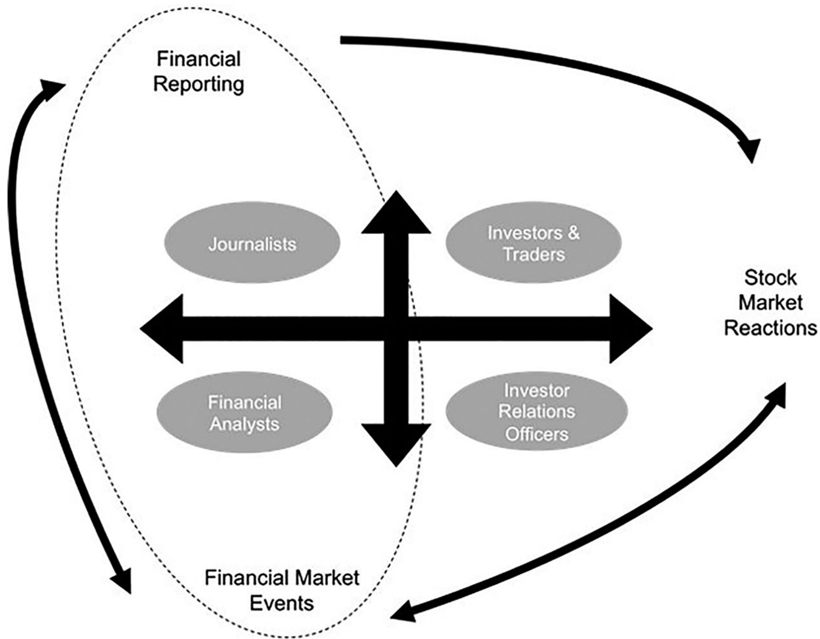

FIGURE 5.2 The self-referential financial information ecosystem (SRFIE; Figure by the authors)

occasionally constituted by face-to-face interactions, but more often by mediated information exchanges, such as via the phone, email, other news media, or information distribution channels. While these close and trusting relationships between financial journalists and their sources have been criticized in the past for a lack of inclusion of independent and alternative sources from outside the financial system (Manning, 2012; Usher, 2012; Tambini, 2010), they also present an opportunity for financial communication professionals to establish and foster relationships with journalists, which will potentially positively influence the representation of the company in the news media. On the flipside, the SRFIE model also indicates that journalists can have a distinct impact on financial market outcomes (e.g., stock market reactions) that listed corporations should be aware of and monitor.

Aside from journalists, the SRFIE model considers financial analysts, investors, and traders as well as IROs as key actors in the information ecosystem. As the arrows indicate, the model assumes a lively exchange of information among all of these actors. As noted above, IROs need to be aware of these exchanges among their target audiences. A company's financial reputation is collective constructed by all market participants and emerges from the interactions of these distinct capital market stakeholders. The SRFIE model

prescribes transparent and consistent communication with all key audiences. Establishing financial reputation management, environmental scanning, and active corporate listening (Macnamara, 2020) ensures that none of the critical audiences are ignored or overlooked. Fostering trusting relationships with analysts and investors is considered as important as in the case of journalists.

But how does the information that flows among these key actors translate into market events? A financial market event usually emerges as part of the financial business cycle (e.g., announcement of macroeconomic indicators, scheduled IPOs, and quarterly earnings releases). Following the left arrow, financial journalists learn about the event, for example, by receiving a press release or from publicly available market data (e.g., company profiles on Yahoo Finance). If the event is scheduled sufficiently far in advance, financial journalists will have time to develop a full story or analysis to cover and frame it. In other instances, however, financial journalists will have to react quickly and might only cover the event with a short report and/or will deliver more in-depth reports with a delay. Of course, the style of reporting strongly depends on the business model of the news media outlet. While wire services aim primarily at producing and distributing breaking news, quality newspapers are more prone to publish stories in-depth and analytical stories.

The "financial reporting" produced by journalist can induce market reactions, contingent upon the object and subject of the story (e.g., surprising news, failed/surpassed expectations, crises). Reporting about an individual listed corporation can affect the share price of said corporation, but it can also affect entire industries or even entire markets, if the news is seen as indicative of a larger trend or development. Conversely, reporting about a market or industry can easily affect the share price of listed companies within that market or industry, even if not explicitly the subject of the report. Thereby, market reactions can be considered market events in themselves (e.g., strong upward/downward shifts), which might in turn become the subject of further news reporting (Scheufele et al., 2011), depending on their news value and the practice of the respective news outlet (cf. Galtung & Ruge, 1965; Harcup & O'Neill, 2001). The SRFIE model thus points out that media coverage not only report on market events, but it can also trigger market events. By means of investigative reporting or in-depth analysis of a company, financial journalists may reveal new information affecting share prices (Strauß et al., 2018).

From a social constructivist perspective (Berger & Luckmann, 1966), financial market events can be seen as being socially constructed. In some instances, it is unclear whether reporting on an event simply represents the event or actually shapes or even triggers the event. For example, analysts commenting on a negative market sentiment, which is then published by financial media, may actually turn market sentiment sourer. That is to say, although an event might exist out there (i.e., upward/downward shifts in

prices), only by communicating about them (i.e., financial reporting, market talk) are these events "objectified" and "internalized", thus becoming part of social reality (cf. the financial reality). However, the social construction of market events does not necessarily have to be driven by the news media. In some instances, the financial market event is constructed by the very existence and movement of market prices as reflected in the ticker symbols or the continuous representation of high- and low-frequency stock market quotes on the screens of traders and investors who, in turn, interpret and act according to the information displayed (Knorr Cetina & Bruegger, 2002). Hence, it may also be the investors who construct the market event in making sense of the available financial information and reacting to it by means of their trading decisions.

To summarize, based on the available conceptual and empirical literature (Strauß, 2018), the SRFIE model highlights how the various market actors, including IROs, generate, process, and distribute financial information, trigger, react to, or shape market events, and ultimately influence market reactions. This perspective is particularly helpful from an IR and financial communication perspective because it not only highlights the diversity of relevant financial audiences and their myriad interactions but also the limited, embedded, and interconnected role of the IRO in the financial information ecosystem. While from a corporate perspective, it may be tempting to conceptualize information flows as linear and directed (see Figure 5.2), the reality of interactions among capital market participants is much more complex, dynamic, and occasionally chaotic.

Implications for Effective Financial Communication

- The capital market arena is characterized by a complex information ecosystem that includes not only many different types of investors but also various intermediaries, such as analysts, journalists, brokers, and proxy advisors. All of these interact and collectively shape our understanding of capital market events – and of the value of specific corporations. While IR is focused on interacting with investors, effective financial communication requires communicating and maintaining relationships with a host of additional capital market participants.
- Knowing the distinct roles and strategies of different investors is key to understanding their information requirements. Among actively managed funds, the fund strategy determines the requirements of the investor. Passive funds engage in little research and are therefore difficult to engage from an IR perspective. Some hedge funds, like short sellers, may have no interest in engaging a company. Activist investors, instead, usually do seek direct interactions with corporate leaders, but it may be difficult to satisfy their demands. IROs, first, need to maintain a sound oversight of their

investor base. Second, they need to understand the types of investors that currently hold company stock, and third, tailor their communication to the specific needs of different investors. Fourth, IR may engage in investor targeting and attempt to attract a specific type of investor that fits the company's strategy.

- As will be discussed in subsequent chapters, the IR function often does not focus on press relations, as this is the domain of the PR department. However, journalists are critical intermediaries shaping the public perception of corporations, also among the financial community. Close cooperation between the IR and PR functions is therefore especially important for effective financial communication.
- Possibly even more so than journalists, analysts are influential intermediaries on capital markets, supporting funds in their decision-making (buy-side) and shaping investor sentiment (sell-side). Analyst coverage is key to reaching a broad investor audience. Newly listed and smaller companies sometimes struggle to attract analyst coverage. Paid research tends to be received with more skepticism than the research provided by established, reputable financial institutions, but it can be a viable way to establish a capital market reputation and attract additional attention.
- The capital market information ecosystem is heavily regulated. Regulatory bodies and policymakers should not be overlooked as a financial communication target audience. IR needs to closely cooperate with the PR and public affairs functions to monitor public discourse and policy discussions. NGOs can play a key role in shaping public sentiment and policy initiatives. Effective financial communication requires integrated communication across communication functions and departments, considering a multitude of external stakeholders.
- Some key target audiences of financial communication and IR are actually within the company, above all top management and the board of directors. Some of the next chapters will discuss the inbound role of IR as a key element of effective financial communication. IROs strive to gain the consideration and respect of a company's dominant coalition to be included in strategic decision-making. In addition, employees are interested in many IR topics, and their potential insider role needs to be taken into consideration from a regulatory perspective. Effective financial communication, thus, dedicates sufficient attention and resources to internal audiences.

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6

THE INSTRUMENTS OF FINANCIAL COMMUNICATION

The target audiences and stakeholders of investor relations (IR) and financial communication are varied – as are their perspectives, requirements, and demands. Accordingly, capital market communication employs a wide variety of instruments or tools to fulfill disclosure requirements, provide voluntary disclosures, engage in storytelling, foster a positive reputation, and maintain fruitful relationship. Before delving any deeper into these roles or purposes of financial communication, this chapter will first introduce the most important and widely used instruments of IR and financial communication.

Some of these instruments are widely known – either because they are used in various corporate communications functions, or because they garner significant media attention. Among these instruments are press releases, press conferences, or the annual general meeting (AGM). Other instruments, however, tend to be somewhat obscure or unfamiliar beyond the capital market arena. These include roadshows or capital markets days. Some instruments of financial communication are mandated by hard or soft law, and they are subject of disclosure requirements (see Chapter 7). These instruments include the annual report, interim reports, ad-hoc releases, or the AGM. A range of other instruments, instead, are employed voluntarily to better convey corporate messages, to foster capital market relations, or to reach new audiences. Among these instruments are conference calls, investor conferences, or newsletters. Of course, the instruments employed in financial communication change over time – due to technological innovations, regulatory adaptations, and evolving audience preferences.

This chapter will introduce and explain the most important instruments of IR and financial communication. It will provide a typology to differentiate these instruments and explain their respective roles. Furthermore, it will distinguish

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between instruments more commonly used in either the IR or the financial communication domain. The availability and the use of communication instruments in practice are always contingent upon policy, technological, and social trends as well as available resources, so this chapter will also discuss some current trends in the composition of the financial communication toolset. Finally, implications for effective financial communication will be discussed and summarized.

A Typology of Financial Communication Instruments

When establishing an overview of financial communication instruments, a helpful distinction can be drawn between instruments of live communication or mediated instruments (Table 6.1). As will become apparent, events and live communication play a critical role in IR, especially. There are, however, also a number of mediated instruments – documents, reports, or notifications – that are of critical importance for both scheduling and allocating resources in financial communication. Much of the available research on instruments of IR and financial communication focuses on mediated instruments – reports, releases, and websites – as these instruments lend themselves to content analyses (Hoffmann et al., 2018). A number of event formats, instead, are closed to the public and not directly accessible to research. For some events, though, like the AGM or earnings calls, transcripts are made available that enable analyses of even these instruments. As a result, the state of research on financial communication and IR instruments tends to be spotty or somewhat lopsided.

A second distinction, mentioned above, that is helpful in differentiating IR and financial communication instruments is the one between mandatory and voluntary instruments (Table 6.1). The boundary between mandatory and voluntary instruments isn't always entirely clear, though. It depends on local regulatory requirements (see Chapter 7). For example, several markets require that reports and releases are made available to the general public on the corporate website, rendering the website a required instrument. Of course, companies employ their website to offer a wealth of voluntary information beyond these requirements. Some markets mandate that listed corporations conduct at least one earnings call or one roadshow per year – most corporations, however, visit their current and potential investors more frequently. In the wake of digitalization, the boundaries between live and mediated communication have become similarly blurred. AGMs or investor conferences are increasingly streamed online, and conference calls have always been both live and mediated instruments.

In addition to the distinction between instruments of live or mediated communication, and mandatory vs. voluntary instruments, the tools of IR and financial communication can also be characterized by their audiences (Figure 6.1). First, among the instruments discussed in this chapter, the annual report can be considered the nucleus of all financial communication efforts.

TABLE 6.1 Typology of financial communication instruments

	Mandatory instruments		*Voluntary instruments*
Instruments of live communication	Annual general meeting	Roadshows	One-on-one meetings Press conferences Capital markets days Investor conferences Conference calls
Mediated Instruments	Annual reports Interim reports Ad-hoc releases	IR Website	Factbooks Brochures Newsletters Press releases

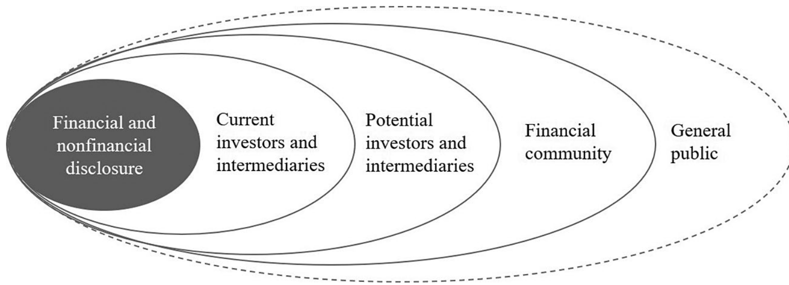

FIGURE 6.1 Disclosure as the nucleus of financial communication (Figure by the authors)

It is akin to the grandparent of the financial communication instruments, with the AGM as its close sibling. As noted in Chapters 2 and 3, the financial communication and IR functions arise from the necessity to keep *current shareholders* abreast of their company's financial health. Compiling a financial report, and discussing and approving this report during the AGM are therefore foundational corporate governance tasks that form the historical basis of financial communication and IR. At their core, these two instruments serve to inform current investors (and intermediaries) and, as noted before, to reduce information asymmetries between corporate insiders and outsiders, or agents and their principals (Fama, 1980; Jensen and Meckling, 1976). Furthermore, the content compiled for the annual report forms the basis for not only the AGM but also numerous voluntary instruments of financial communication that pick up on and further contextualize and explain the data presented in the report: presentations, factbooks, calls, and conferences. Over time, the annual report has been complemented with interim reports and an

increasing list of required event-based announcements and releases, to fill potential information gaps during the year (see Chapter 7).

Second, with the professionalization and internationalization of capital markets, corporations increasingly engage in outreach activities to maintain their shareholder relations and to attract new investors. Numerous voluntary instruments of live or mediated communication have been established to reach *potential investors and intermediaries* (e.g., analysts), such as roadshows or capital markets days. Third, beyond these core audiences, current regulatory requirements mandate a fair and equal treatment of all capital market participants, so that companies need to engage in communication efforts informing the broader *financial community* to maintain a high standard of transparency. Fourth, some financial communication issues are of interest to the *general public* and to stakeholders such as employees, customers, suppliers, and political institutions. As a result, financial communication can be part and parcel of public relations (PR) and public affairs efforts. Instruments like press releases and press conferences are often situated at this functional nexus. Finally, digitalization has further expanded the set of financial communication and IR instruments through apps, social media, or online-events.

Distinguishing IR and Financial Communication Instruments

For an in-depth understanding of the resulting variety of – mandatory and voluntary, live and mediated – instruments, it is useful to draw a final distinction, the distinction between instruments commonly employed in either IR or financial communication, as both these functions address distinct members of the financial community (Chapter 4). In a nutshell, IR tends to be focused more in investors and analysts, while financial communication is oriented more toward journalists and a broader financial public.

Instruments commonly employed in *IR* are characterized by three formative characteristics of the IR task:

1 *Regulation and sensitivity of information*. IR emerges from compliance requirements, from the need to address information asymmetries between corporate insiders and outsiders. It is, thus, both driven and shaped by hard and soft law. Financial communication tends to be highly formalized and subject to strict oversight within and outside of the corporation. Due to regulatory requirements, listed corporations need to keep a close eye on the sensitivity of information, as material information that is likely to affect the share price has to be reported in a very specific way. Compared to other corporate communications functions, IR is easily the most heavily regulated – which leaves a mark on the instruments commonly employed by the IR department.

2 *Data-richness and complexity*. Partly due to expanding regulatory demands, but also driven by new technological affordances and a continuing evolution of corporate valuation models and reporting frameworks, the depth and variety, the richness and complexity of data required by the financial community is both tremendous and ever-increasing. A simple measure of this development is the continual growth in the number and volume of mandatory corporate reports and releases. Aside from financial data, IR today also compiles, conveys, and explains data on corporate governance and sustainability. Demands for non-financial data, especially, are growing ever more extensive. Paradoxically, though, the time available to financial audiences for analyzing each individual corporation is being cut shorter and shorter. Financial communication, therefore, needs to be highly condensed, timely, precise, and reliable.
3 *A relatively small, but highly skilled and demanding audience*. The core IR audience consists of institutional investors and analysts (Laskin, 2022; see Chapter 5). For many companies, this core audience is represented by several dozen individuals. Of course, a listed corporation tends to also have thousands of retail investors. These shareholders do not command the same level of attention as institutional investors, however. A range of IR instruments, therefore, is tailored to a relatively limited number of recipients. While small in numbers, the core IR audience is also characterized by high levels of knowhow and sophistication, a deep understanding of the business and industry, detailed and complex data requirements and a self-confident stance vis-à-vis corporate leadership. In other words, institutional investors and analysts constitute a highly demanding, specialized, and savvy audience.

Combined, these three characteristics explain why the IR function tends to rely on

a a specific set of mandated instruments, some of which are employed with regularity,
b instruments that lend themselves to the transmission of extensive, complex, and formalized data, and
c instruments of live communication that allow for in-depth dialogue with small audiences.

In addition, the three formative characteristics of the IR task discussed above also help illuminate why IR tend to be relatively restrained when it comes to the use of popular digital communication tools, especially social media. A study of IR departments of corporations listed at the German stock exchange (Hoffmann & Tietz, 2018) sheds light on which instruments are considered particularly helpful to their tasks by IR practitioners (Figure 6.2).

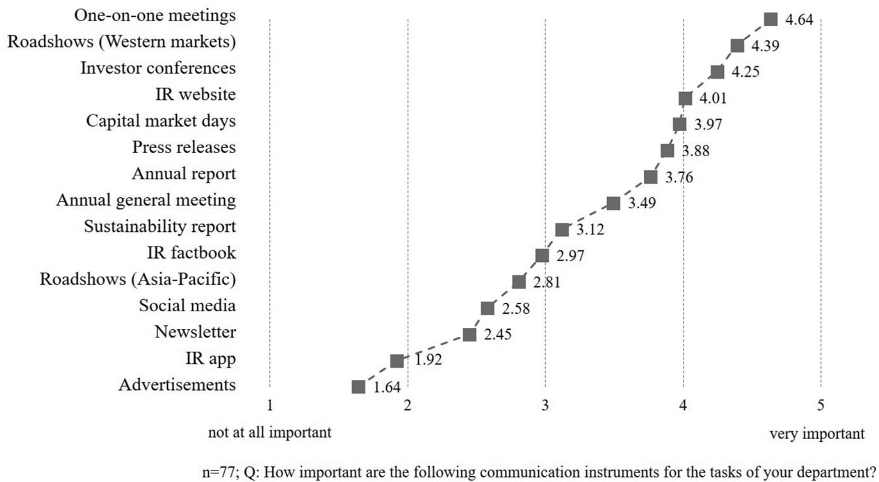

FIGURE 6.2 Importance of IR instruments (Hoffmann & Tietz, 2018)

Voluntary instruments of live communication were rated at the top of the list, including one-on-one meetings, roadshows, investor conferences, or capital markets days. In addition, instruments that allow for the compact transmission of rich data play a crucial role, such as the annual report, the sustainability report, and the IR website. Interestingly, mandatory instruments, such as the annual report and the AGM, are only ascribed to medium importance, though. The analysis also highlights widespread skepticism toward digital tools such as apps or social media.

These findings are in line with earlier studies establishing the prominent role of two-way symmetrical communication in the IR field (cf., Laskin, 2006). According to Marston (2008), British companies considered one-on-one meetings with analysts and investors the most important communication channel in 1991 and 2002. Green et al. (2014) explain that instruments of live communication are in particular demand when corporations prepare for capital markets transactions. Brown et al. (2019) point out that the strong reliance on private exchanges and interpersonal communication highlights the importance of the IR officer's role.

Compared with the IR function, financial communication tends to address a wider audience, encompassing the broader financial community and even parts of the general public beyond the capital market arena. Hoffmann and Tietz (2018) in their study of listed corporations in Germany also surveyed financial communication professionals on their estimation of important communication instruments. Their responses differed in some notable ways from the IR perspective: the most important tools for financial communication were the corporate website, press releases, the annual report, and one-on-one

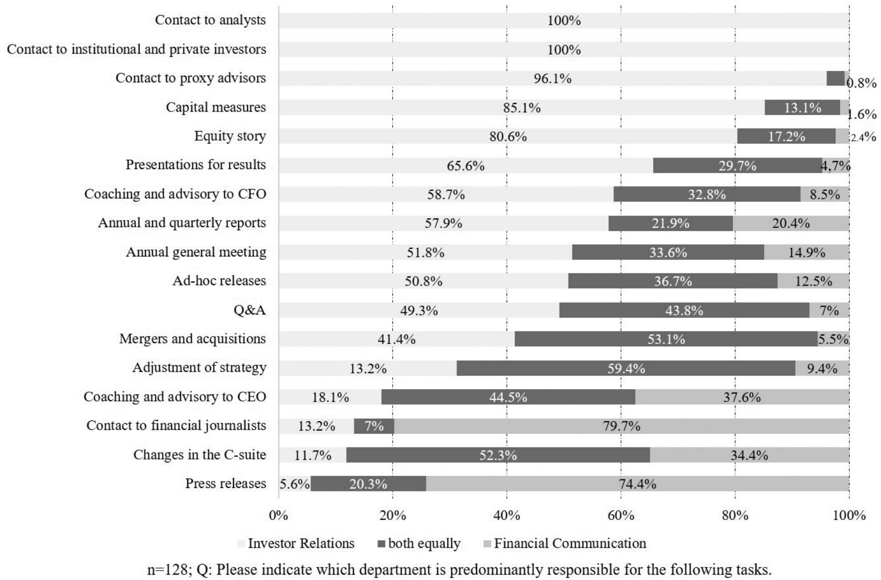

FIGURE 6.3 Departmental responsibilities of investor relations and financial communication (Figure by the authors)

meetings with journalists. Financial communication professionals also rated social media much more important than their IR colleagues. These distinct priorities are easily explained by the key target audience of financial communication: business and financial journalists. These intermediaries serve to reach a broad financial audience.

Such initial insights into the distinct functional reliance on specific instruments were further differentiated in a subsequent study, again of corporations listed on the German stock exchange (Binder-Tietz et al., 2021). It surveyed representatives of the IR department and those responsible for financial communication within the PR department. Both were asked to ascribe a list of tasks to either department or mark them as a joint responsibility (Figure 6.3). Results indicate a clear differentiation in responsibilities for maintaining relationships with either investors and analysts (IR) or journalists (financial communication). Accordingly, tasks such as regular reports, the development of the equity story, or the presentation of interim results were rated as IR responsibilities. Press releases, instead, were clearly considered the domain of the PR department. Numerous tasks, however, are considered joint responsibilities, such as changes in strategy or in the C-suite, M&A transactions, coaching and advising the C-suite, or ad-hoc releases.

To summarize, due to its specific (core) target audience, IR tends to rely heavily on instruments of live communication that allow for in-depth dialogue. Financial communication, instead, focuses on press releases, the

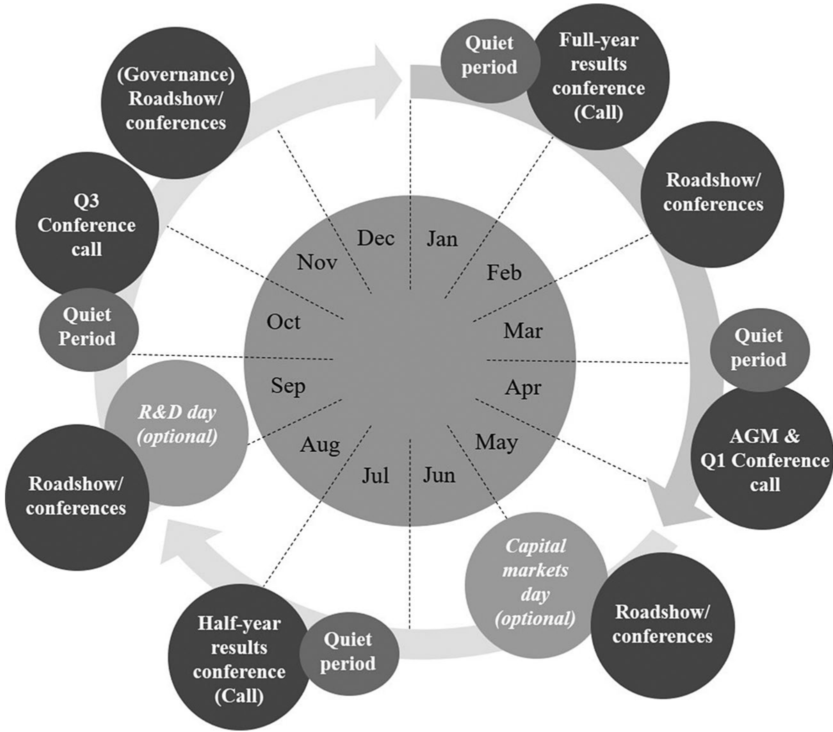

FIGURE 6.4 Exemplary financial calendar (Köhler, 2022)

corporate website, and social media to distribute corporate messages to a wider audience. These distinct perspectives can engender tensions between both functions (see Chapter 12). At the same time, there are a number of joint tasks and instruments, especially those related to mandatory communication, such as the AGM, annual and interim reports, and various announcements and releases.

Mandatory instruments, especially, allow for the creation and publication of the so-called financial calendar. The financial calendar provides an overview of when to expect regular reports as well as accompanying voluntary communication efforts (Figure 6.4). It is usually published within the annual report and on the IR website. As indicated above, the annual report and the AGM are at the heart of the financial calendar. Further highlights are the subsequent quarterly reports, which are usually accompanied by conference calls. The time between these regular reports is often used for outreach measures such as roadshows and investor conferences. One important function of the financial calendar is internal: to ensure the availability and involvement of key members of the C-suite, especially the CEO and CFO, with sufficient lead time.

An Overview of IR and Financial Communication Instruments

Next, this section will briefly introduce and explain the various instruments mentioned above, starting with mandatory mediated instruments, then voluntary mediated instruments, before moving on to the mandatory and voluntary instruments of live communication. Mediated instruments, especially, tend to be the subject of financial communication research, as these materials lend themselves to content analyses. The accessibility of these materials can thus introduce somewhat of a bias into IR research, as live communication is of critical importance to the IR function, but conferences and meetings tend to be confidential and inaccessible to research (if they are not recorded and/or transcribed). Comparatively little is known about IR and financial communication instruments of live communication, as a result.

Corporate Reports

The annual report constitutes a comprehensive compendium of data on the state of a corporation (partially verified by external auditors). Depending on local regulations, mandatory elements of the report include financial disclosures (balance sheet, profit and loss statement, cash flow statement, annexes), corporate governance disclosures (commonly on the composition, activities, and renumeration of the executive and supervisory board(s)), and sustainability disclosures (environmental and social data). Sustainability disclosure requirements are on the rise (Arvidsson, 2011), for example, in the European Union ("Corporate Sustainability Reporting Directive"). In some markets, both governance and sustainability disclosures follow the "comply or explain" principle. In other words, companies are required to disclose these data – if they refrain from doing so, they need to provide an adequate explanation.

Commonly, corporations publish a wealth of information beyond these required disclosures (in a narrow sense) within their annual reports (i.e., voluntary disclosures). The CEO and the chairman of the supervisory board publish a statement on the state of the corporation (either jointly or separately), and the business development is described in plain text, often differentiated by division or market. Furthermore, there is often illustrative content on employees, markets, products, and innovations, presented in an attractive design, accompanied by glossy pictures, mostly serving a storytelling purpose. Examining the US market, Hutchins (1994, p. 315) comments: "A staggering amount of time, energy and money are invested in annual reports—over $5 billion every year".

Annual reports are commonly provided in a PDF format, occasionally as a printed brochure, and – among larger corporations, especially – as a HTML-microsite (CRiFC, 2021). A more recent development is the option

or even mandate to publish financial data as an XBRL-file (eXtensible Business Reporting Language). XBRL is an XML-based syntax that allows for the standardized tagging of financial data, rendering it machine-readable. Aside from the annual report, interim (half-year) reports are also mandated in many markets. The requirement of quarterly reports (Q1 and Q3) varies widely by market and by market segment. It is still common, though, to provide investors and analysts with quarterly updates. The sustainability report is published on a yearly basis, only – in some cases even less frequently. Some companies publish separate sustainability reports, some publish sustainability information within their annual report, and some even strive to offer an integrated report, in which the presentation of financial and sustainability data is intertwined (CRiFC, 2021). The latter format (integrated report) is not widely used, though, and its acceptance among target audiences remains questionable (Rensburg & Botha, 2014).

During the time before the publication of an – annual or interim – report, companies strive to maintain a "quiet period" in which no announcements or releases are published. This serves to give the financial community the opportunity to prepare and focus on the upcoming disclosures, without distractions by, for example, new strategic initiatives, product launches, or the like. Regular reporting, therefore, requires strict communication discipline and a sufficient level of integrated communication (Köhler, 2022; Binder-Tietz et al., 2021). A number of studies have examined the quality of annual reports, for example, by focusing on readability. Lehavy et al. (2011) find that analysts take longer to issue their assessments if the readability of an annual report is poor. Also, analyst assessments based on less readable reports show greater dispersion and lower accuracy (cf., Fakhfakh, 2015). De Groot et al. (2011) point to diverging local language preferences, as analysts assess the communications from domestic corporations more positively.

Announcements and Releases

Listed corporations have to adhere to a variety of event-based announcement requirements (see Chapter 7). The specificities of these mandates differ by market and market segment. Their purpose is to keep the financial community abreast of relevant developments in between the publication of annual and interim reports. Commonly, corporations need to disclose changes in their structure, organization, or leadership, such as name or brand changes, changes in the company's legal structure, headquarter, or board composition. Many markets also require announcements of changes in holdings of other corporations (disclosure of shareholdings). Similarly, management transactions, or "directors' dealings" – trades with company stocks by board members – need to be announced (above a minimum threshold).

The most important and taxing requirement, however, is the requirement of ad-hoc announcements in the event of a material development within the

corporation. Material events are defined as events that, according to experience or common sense, are likely to affect share prices (Laskin, 2022). Whenever a corporation becomes aware of such an event, it needs to inform all capital market participants in a timely and non-discriminatory manner. Usually, regulators require the publication of a push-notification, outreach to key media and information intermediaries (such as Bloomberg or Reuters), and a notification of the stock exchange in advance of the public announcement, so that the stock exchange has the opportunity to pause trading in the share if drastic increases in volatility are expected. Ad-hoc announcements, therefore, are best published outside of trading hours. Aside from periodic reporting, ad-hoc announcements can be considered the most crucial element of financial communication. Ad-hoc announcements serve to reduce information asymmetries, prevent illegal insider trading, and ensure the equal treatment of all capital market participants.

Similar to analyses of the readability of annual reports, some studies explore the clarity of (press) releases. In a content analysis of press releases of Spanish IBEX 35 companies, Guillamón-Saorín and Martínez-López (2013) identify several potentially misleading disclosure practices that reduce the reliability of financial information presented on the Internet, such as the selective choice of benchmarks, use of illustrations, framing, or internal versus external attributions of results (where successes are usually attributed internally to corporate decisions). With regard to the frequency of announcements, Guillamón-Saorín and Sousa (2010) find that larger companies and those with a more disperse shareholder base are more likely to regularly publish earnings press releases.

IR Websites

The IR section of the corporate website has become one of the most important instruments of IR. It allows for the provision of a tremendous wealth of data in a timely and user-friendly manner. All corporate reports, releases, announcements, presentations, factbooks, and other materials can be made available on the website (cf., Marston, 2003). In addition, the financial calendar, a preview of upcoming events, and the documentation of past events (recordings and materials) can often be found online. Aside from all of the various documents that are primarily targeted at investment professionals, the website also allows for dedicated offers for retail investors, such as brochures and newsletters. As noted above, since the ad-hoc requirement commonly mandates that companies provide a sign-up option to receive push-notifications, the IR website is, in effect, a mandated instrument. Companies are, however, quite flexible in how to design their IR website, i.e., which additional functionalities and content they provide online.

The website is the most frequently explored instrument in research on IR (Hoffmann et al., 2018). Esrock and Leichty (2000) find that investors are

among the most prominently addressed target audiences of corporate websites, in general. Based on an analysis of sixty listed companies in Sweden, Hedlin (1999) shows that there are three stages of development in using the Internet as a vehicle for investor information: (1) establishing a web presence, (2) using the Internet to communicate investor information, and (3) using the full interactive possibilities of the medium for IR purposes. The authors find that only few companies explore the full potential of interactive online IR (such as contact forms, chats, surveys), with most focusing on the provision of information (cf. Đorđević et al., 2012; Patel, 2012).

Studies indicate that the maturity of a capital market, local legal requirements, but also shareholder structures affect the quantity and quality of information provided through the corporate website (Bagnoli et al., 2014; Bollen et al., 2006; Yanjie & Wan, 2013). Emerging markets with lower regulatory requirements and markets with large blockholdings tend to feature less information depth or richness on IR websites. Larger companies usually invest more in online IR instruments due to resource availability and international isomorphism (Geerings et al., 2003). Conversely, smaller or younger companies tend to feature less refined IR websites (Bollen et al., 2006).

Bollen et al. (2008) identify a number of management practices that contribute to a high-quality IR website, such as dedicated staff members, centralized approval processes, a clear communication strategy, or the use of style sheets. Pozniak et al. (2013) try to identify the influence of company performance on the level of online financial disclosure in France. Results indicate that financial underperformance negatively affects online disclosure, which is interpreted as a defensive tactic (see also Pozniak, 2010). However, in a US-based study, Ettredge and Gerdes (2005) find the opposite: here, weaker financial performance predicts more regular information updates. The authors suggest that companies in dire straits may wish to direct investors' attention toward the future.

Today, many IR websites feature dedicated sections for sustainability communication. Also, some websites offer content tailored to creditors or debt investors. Financial releases and announcements can frequently be found both in the IR and the press section of the corporate website. As noted above, the website is considered even more important by financial communication experts compared to their IR colleagues. The corporate website allows for expansive and creative corporate storytelling. While the IR website is commonly rather data-driven, clean, and a bit dry, the press section tends to be more colorful and visually appealing, and more accessible to audiences beyond investment professionals.

Factbooks, Brochures, and Presentations

A very important but somewhat difficult to delineate instrument of IR is the IR presentation. It can be imagined as a comprehensive slide deck that

encompasses the equity story, key performance indicators, including governance and sustainability data, and a vast backup of detailed graphs, tables, and other roundups of – roughly – the information provided through the listed corporation's reports and announcements. The IR presentation is regularly updated with fresh data and aligned with the current strategic messaging. It is employed in most event formats, such as roadshows, conferences, and calls. In other words, whenever IR attends or organizes an event, parts of the IR presentation are picked to compile a tailored slide deck. There is very little literature on the IR presentation, despite its central role in IR practice. Variations of the IR presentation can be found on the corporate website, often as part of the documentation of IR events.

Aside from the IR presentation, key corporate data can be communicated through various documents, such as factbooks or brochures. Factbooks provide a comprehensive overview of corporate data. Less detailed than the annual report, it highlights key data and serves to transmit the corporate perspective on its strategy and objectives. It provides a birds-eye view of the organization, its structure, products, markets, and leadership. Brochures, in contrast, offer a condensed and appealing presentation of key information, addressing a wider audience, while avoiding overly dense data. Some listed corporations even publish a shareholder magazine that employs journalistic formats to convey IR information in a very approachable manner. Newsletters serve a similar purpose and tend to address retail investors. It is important to ensure that such services tailored to retail investors remain comprehensive and reliable in content and don't lean too much toward share marketing.

Social Media (IR Accounts)

It seems like hopes of IR finally embracing social media arise periodically, just to fizzle shortly thereafter. Analyses of the potential opportunities provided by social media for IR abound often pushed by consultancies and PR agencies. Yet, IR practice has proven largely indifferent to these platforms – with the single exception of Twitter (now "X"). Due to its brevity and popularity among journalists, Twitter tends to be employed by some IR departments (Nuseir & Qasim, 2021). Companies mostly tweet quotes from press releases and then direct audiences to the corporate website (Prokofieva, 2015). Based on experimental evidence, Elliott et al. (2018) argue that financial news communicated through the personal Twitter account of the CEO may be perceived as more credible. Some online investment communities use Twitter to discuss their assessments and recommendations. Information intermediaries like Bloomberg and Reuters integrated Twitter feeds.

Other social media platforms, however, play little roles in IR – despite some markets officially recognizing social media as a legitimate disclosure

tool, in case the financial community is sufficiently aware of this practice (Laskin, 2022; Zhou et al., 2015). This can be explained by IR's focus on investment professionals as key audience rather than retail investors or journalists. Some companies with a tradition of attention to retail shareholders or those with extensive employee stock option programs experiment with social media platforms like LinkedIn, YouTube, or social intranets. Similarly, social media play more of a role for financial PR. It is common to use social media as a secondary information dissemination tool of corporate information (e.g., after official release via news agencies). To reach financial and business journalists, all corporate social media accounts can be employed. This most often occurs when IR and PR work closely together, for example, during reporting seasons, around the AGM, or when strategic changes have to be conveyed (Binder-Tietz et al., 2021). Research on the use of social media in IR is still rare and often conceptual (Halim et al., 2015; Alexander & Gentry, 2014). Some studies attempt to illuminate IR's reluctance to employ social media, finding that regulatory impediments and a lack of examples (in the terminology of neo-institutional theory: mimetic isomorphism) may play a role (Alberti-Alhtaybat & Al-Htaybat, 2016).

Annual General Meetings

The AGM is the highest decision-making organ of any listed corporation. It is the yearly assembly of all shareholders that is necessary to elect the members of the supervisory board or board of directors, to approve the latest corporate reports, and to decide on the allocation of profits. In some markets, shareholders also vote on executive compensation packages (Laskin, 2022). Depending on the size, prominence, and industry of a company, the AGM can be a relatively brief and efficient, rather bureaucratic event, or an extensive, contentious even raucous affair. The annual shareholders meeting of US retailing giant Walmart, for example, is famous for including hundreds of employees and an extensive entertainment program that attracts leading music acts and Hollywood stars.

The larger and more prominent a corporation, and the more contentious or politically sensitive its business, the more likely the AGM is to attract activist shareholders who use this platform to criticize and attack corporate leaders and their strategies. Shareholders have a right to submit proposals to be voted on. Such proposals are then included in the proxy statement, an information package provided to shareholders for an overview of agenda items and necessary background information. Some activists submitting a proposal may be gadfly investors who have no realistic chance of garnering a majority, merely seeking publicity. Other, more strategic activists begin organizing alliances far in advance of the AGM and bring their power to bear during critical votes. Losing a proxy fight is considered a sign of

shareholder discontent, indicating a crisis of corporate leadership (Hoffmann et al., 2016).

Organizing the AGM of a large listed corporation can be a tremendous effort. Many IR departments rely on service providers to choose, rent, and decorate venues, offer catering and small giveaways, ensure a reliable technical infrastructure and security, but also to send out invitations and administer votes. During the COVID-19 pandemic, several companies conducted their AGMs online – often a much more efficient, speedy, and less costly affair. Still, retail investors, especially, prefer physical meetings – as they allow for personal encounters with corporate leaders, and in some cases also catching up with acquaintances or former colleagues, a hot meal, and often a small present to take home. The specific procedures of an AGM are heavily influenced by local regulatory frameworks, including the ability to conduct the AGM online, to set speaking time limits, or to influence the agenda (i.e., submission of motions and voting procedures). Companies can call extraordinary shareholders meetings if, during the year, decisions need to be taken that require a shareholder vote (for example in the context of mergers and acquisitions).

Conference Calls

Conference calls are a very common instrument in various domains of corporate communications. They also enjoy popularity and frequent use in IR. A conference call is a quick and convenient tool to facilitate dialogue with key financial stakeholders. Some calls are planned far ahead, as part of the periodic reporting elements of the financial calendar. At the same time, conference calls are a flexible tool that can be employed to accompany event-based announcements or releases (Rocci & Raimondo, 2018). In IR, conference calls usually address a limited audience of analysts and portfolio managers. In some instances, financial journalists are invited to join as well. It is, however, more common to offer separate, dedicated calls for journalists as the interests, competencies, and requirements of these audiences don't always sufficiently align.

A typical conference call begins with a short presentation by the CEO and/or CFO. If both participate, the CEO tends to present the general outlook and strategic analysis, the CFO presents the latest financial and non-financial data. Much of this presentation repeats the content of recent releases in a condensed form (as no new material information may be disclosed in this format). A key element of the call, therefore, is the ensuing question and answer (Q&A) session. Here, analysts and portfolio managers get a chance to probe and challenge some of the corporate announcements, and they can request context information that allows them to better feed the provided data into their valuation models. Frankel et al. (2010) find that call length increases for

companies failing to meet analyst expectations, indicating a need for more extensive justification and discussion. An important element for participants on both sides, thus, is to get a feeling, a subjective impression of the mood, the confidence, and the conviction of their opposites. Analysts and investors like to test how knowledgeable and convincing executives appear, executives and IR representatives get a chance to gage investor sentiment.

Increasingly often, conference calls are recorded, transcribed, and subsequently published. This has made calls a popular subject of research, especially with a focus on rhetoric or argumentation (Rocci & Raimondo, 2018). Palmieri et al. (2015) study earnings calls to identify how corporate representatives and analysts engage in dialogue. They show that corporate representatives (CEO or CFO) take the role of a protagonist by defending and justifying corporate perspectives (particularly in terms of evaluative and predictive concerns), whereas analysts take the role of an antagonist, challenging the assumptions put forth in corporate presentations. Interestingly, research suggests that participants derive informative value from conference calls beyond the written materials published in advance (Bassemir et al., 2013; Bushee et al., 2003; Bowen et al., 2002). This constitutes somewhat of a theoretical puzzle as no additional material information should be presented during such calls.

Roadshows

A roadshow is a trip by corporate representatives, commonly the IR staff plus the CEO or CFO, to key financial centers to visit current and potential investors. In some instances, the corporate delegation attends conferences, and in others, financial stakeholders are invited to attend shared events. Often, the delegation conducts one-on-one meetings with analysts and members of investors' buying teams. The topics discussed at roadshows include updates on the state of the corporation and/or recent changes or initiatives (e.g., strategic shifts, new members of corporate leadership, M&A transactions). Some roadshows focus on governance or sustainability issues. Typical stops in a roadshow include New York, London, Boston, and Chicago, in continental Europe also Zurich, Frankfurt, and Paris. Depending on the target audience, Tokyo, Singapore, Hong Kong, and Dubai are also common destinations.

Roadshows are either organized by the IR team or by service providers, often the sales team of an investment bank (broker). Aside from the direct cost of the trip, a key resource required for a roadshow is the time invested by C-level executives. For the IR staff, a roadshow with executive participation is a chance to spend time with the C-suite, not just in meetings and on the road, but also during side activities. Roadshows are preferably planned during the timespan in between quarterly reports. They can be a regular occurrence; however, roadshows are also a popular tool to extend the investor

base, and to drum up investor support for major strategic decisions, such as M&A transactions (deal vs. non-deal roadshows). Roberts et al. (2006) find that meetings between finance directors or IR managers and investors tend to be initiated by the corporate side, indicating a power asymmetry in how this tool is employed.

(Investor, Analyst, and/or Press) Conferences

Conferences are gatherings organized by financial service providers to which important financial stakeholders are invited, usually to meet representatives from several listed corporations. Each conference revolves around a theme, such as a country, index, sector/industry or company size, or topical issues (e.g., ESG, biodiversity). Conferences offer convenient opportunities for analysts or investors interested in the specific theme to meet representatives of target corporations, receive an update on their business, and get a chance to attend a Q&A or a one-on-one meeting. Such conferences are usually held in a financial center, such as London or New York, to relieve financial professionals from the burden of travel. Some conferences are even conducted entirely online. From a corporate perspective, the advantage of a conference is the opportunity to attend a large number of densely organized meetings, and the downside is a lack of influence over the attendees available for meetings (as opposed to a roadshow). Green et al. (2014) find that younger firms, those planning a transaction, and more difficult to evaluate companies (e.g., with high share of intangible assets) are more likely to attend conferences, as they face a higher need to explain their business and strategy.

Of course, individual corporations can also invite their specific target audience to a conference. The most familiar instance of such a conference is the traditional press conference, usually organized by the corporate communications department. The equivalent analyst or investor conference tends to be less common, as it is considered an undue burden for various analysts or investors to travel on a fixed day just to interact with the representatives of one corporation. Conference calls, organized conferences, and roadshows are more convenient and accommodating, in comparison. This asymmetry also serves to highlight the relative importance of journalists or analysts and investors as target audiences in IR and financial communication (Hassink et al., 2008).

Capital Markets Days, Investor Days and Site Visits

Capital markets days – sometimes also referred to as investor days – are invitations to analysts and investors to visit a corporate site, not just for a C-level presentation and Q&A, but to actually tour a branch or subsidiary of the corporation, speak to a range of employees (including middle management),

and gain an in-depth feeling and understanding of the corporation. A capital markets day, accordingly, is much more elaborate and arduous to organize compared to a conference/roundtable or a conference call. Therefore, this instrument is employed with restraint, at most once a year. Still, capital markets days tend to be popular among financial audiences for the in-depth impressions they provide. They need to be announced far in advance to ensure that relevant members of the financial community find the time to attend. Capital markets days have not yet been examined in the IR literature.

One-on-One Meetings

One-on-one meetings of 30 to 60 minutes with individual analysts or investors often accompany some of the events discussed above, such as roadshows, conferences, or company visits. It can be considered one of the most important – if not the most important – and sought-after instruments (Hoffmann & Tietz, 2018; Marston, 2008; Hutchins, 1994). From the audience's perspective, attending a meeting of executives and a group of analysts and investors is always associated with the disadvantage that any question asked in the Q&A will be observed by other participants, frequently competitors. The most important, critical, and probing questions are therefore best reserved for a one-on-one exchange, in which these questions cannot be overheard by others. This renders the one-on-one meeting particularly helpful and valuable, in some cases: literally, to financial professionals.

For corporate representatives, one-on-one meetings are accordingly stressful. First, the questions posed in these meetings tend to be probing, critical, and challenging (Roberts et al., 2006). Executives need to be at the top of their game not to buckle under this pressure. At the same time, they need to be exceedingly careful not to disclose any new material information. While most valuable to the investment professional, such material information may only be disclosed through the proper channels. IROs and financial communication professionals, thus, need to invest some time to prepare the C-suite for one-on-one meetings. Executives need to be briefed on key messages, the equity story, interests and particularities of the capital market attendees, regulatory restraints, etc. Some organizations choose to conduct mock trainings to ensure that executives are ready to face investors one-on-one. Marston (2008) finds that companies engage in more extensive investor meetings the larger they are, and with higher analyst coverage. Foreign listings and recent transactions also positively relate to the number of meetings.

Implications for Effective Financial Communication

- The right toolset for effective financial communication can be imagined as an onion, constituted of several layers. The core of the toolset is shaped by regulatory requirements, especially the annual report and AGM. It

is complemented by mandatory releases, most importantly occasional ad-hoc announcements. All of these are usually offered on the IR website. The next layer consists of outreach efforts, like conference calls and roadshows. If resources allow it, dedicated roadshows and conferences (e.g., on governance or sustainability issues, or targeted at retail investors) are added. Capital markets days can add some noteworthy accents to the toolset. Finally, on the outermost layer, some corporations like to experiment with new digital tools, such as chatbots, apps, or new social media applications.

- It is worth investing time and resources into creating a top-notch IR website. The importance of the IR website can hardly be overstated, as almost all other tools (publications, releases, recordings or transcriptions of events, etc.) are offered on the website. A comprehensive, easy to navigate, appealing website can address a host of shareholder questions or demands and can thus free resources for IROs to focus on strategic projects.
- While hardly ever entirely visible from the outside, the IR presentation is somewhat of a pacemaker within the IR toolset. It is constantly evolving, and it always reflects the most recent data and the most up-to-date storyline. Maintaining a current and polished IR presentation is a tremendous help in the daily IR work, as all kinds of event-specific slide decks are based on or drawn from the IR presentation. It is a repository of the most important IR content that can also inform releases, brochures, factbooks, etc.
- Effective financial communication requires monitoring and listening to target audiences. Technological or organizational changes on the part of investors, analysts, journalists, proxy advisors, etc., or just personnel changes can come with changing preferences for IR instruments. Maybe audiences develop a preference for online formats, for machine-readable data, for new digital platforms, or they wish to return to in-person meetings. Preferences and demands change, and effective financial communication requires regularly evaluating the IR and financial communication toolset, exploring new instruments, exchanging experiences with peers, and actively surveying stakeholder wishes.
- IR and financial communication can be distinguished by their key target audiences. These audiences have somewhat differing preferences for information tools and formats. The tools employed by IROs, on the one hand, and financial communication professionals, on the other hand, can therefore differ. Often, both sides are involved when an instrument is planned and developed, such as a report, a press release, and event. The more regular, open, structured, and transparent the cooperation between IR and financial communication, the smoother the selection, preparation, and implementation of a communication tool.
- Effective financial communication doesn't always require employing the most recent, hyped, or expensive tool on the market. However, IROs and financial communication professionals should keep an eye on the market,

observe peers, and attend industry meetings and conferences to keep up to speed on new instruments and their pros and cons. It is often the larger corporations, commanding more resources, that explore new tools – and then share their experiences with peers and colleagues. Networking within the IR community and learning from peers can therefore help maintain high standards in the toolset employed by a corporation.

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PART II

Objectives and Management of Effective Financial Communication

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7

THE ROLE OF DISCLOSURE AND CORPORATE SOCIAL RESPONSIBILITY IN FINANCIAL COMMUNICATION

Compared to other corporate communications fields, such as marketing, advertisement, or public relations (PR), financial communication and investor relations (IR) are subject to a strict regulatory environment. Investor relations officers (IROs) and financial communication practitioners must adhere to a long list of guidelines, frameworks, laws, and regulations in their work. Compliance is therefore often seen as the primary and foundational responsibility or purpose of IR and financial communication (Köhler, 2018, 2015). Compliance with disclosure requirements has been described as the nucleus of financial communication (Hoffmann, 2019), various other, additional and often more recent responsibilities build on IR's disclosure function. Strategic financial communication objectives can only be pursued in compliance with applicable regulations.

The relevant regulatory environments, of course, vary depending on the country and location of the respective company and its stock market listing(s). This chapter will focus mostly on disclosure requirements derived from the European market regulations. Furthermore, Germany will be examined as an illustrative example, as it would be out of scope to discuss the differences in regulation for each European country. Germany does not only represent the largest economy in Europe (Rao, 2023), but the country also operates one of the largest stock exchanges in Europe, aside from Euronext (Amsterdam, Brussels, Lisbon, Dublin, Milan, Oslo, Paris), the London Stock Exchange, and SIX Swiss Exchange (World Federation of Exchanges, 2022). As discussed in Chapter 3, the German capital market is considered one of the most advanced, transparent, and professional markets in the West. Most of the requirements and regulations discussed in this case apply to other Western markets as well, including the U.S. and the UK.

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This chapter will not only summarize the most important regulatory requirements to be considered in IR practice but also provide insights into the relevance of non-financial information disclosure, disclosure channels, as well as the growing importance of disclosing information and data on corporate social responsibility (CSR) and environmental, social, and governance (ESG) criteria to capital markets and financial stakeholders. To date, the topic of financial and corporate disclosure and regulatory environments for IR is rarely addressed in communication science research. In fact, according to the literature review on IR published by Doan and McKie (2017), disclosure is one of the key topics addressed in business journals (29.15% of articles), whereas communication science journals scarcely deal with the subject area (4.17%). Therefore, most literature and studies discussed in this chapter stem from neighboring disciplines, such as accounting, business, law, and finance. Yet, the interdisciplinary empirical insights on the relevance and impact of information disclosure developed in these fields provide a sound foundation for the derivation of recommendations for IR and financial communication practice.

Defining Disclosure

Following Rieves and Lefebvre (2012), "(t)he only way for your company to mitigate the perception (to be risky) is to demonstrate a fierce commitment to full disclosure" (p. 113). Corporate disclosure can be defined as the dissemination of information and data by public and private corporations "to communicate governance and firm performance to external stakeholders" (Nuseir & Qasim, 2021). According to Bassen and colleagues (2010), "(i) nformation disclosure is the natural means by which companies attempt to reduce information asymmetries. It can either be mandatory or voluntary" (p. 50). Whereas mandatory disclosure aims at establishing and maintaining trust in the corporation and the functioning of capital markets within a regulatory framework, voluntary disclosure can be calibrated by the corporation itself in terms of the sort, depth, and quantity of information shared but nevertheless can present important and valuable information to market participants (Bassen et al., 2010). A more detailed overview of mandatory disclosure and the rise of voluntary and non-financial information disclosure activities by corporations are given below in this chapter.

Following Marcus (2005), in the context of IR, disclosure implies "transparency" and translates into informing all investors equally about relevant information about the company so that investment decisions can be made without giving preference to some investors over others. In fact, the regulatory framework for corporate and financial disclosure has been established to ensure that "*all* [emphasized in the original] market participants have access to material news at the same time" (Rieves & Lefebvre, 2012, p. 117) – see

Box 7.1 for an explanation of "materiality". Regulation is intended to make sure that companies do not selectively disclose material information to certain stakeholders that could benefit from that information advantage, thereby suppressing illegal insider trading. Insider trading is defined as trading that is based on nonpublic, privileged information (Laskin, 2022).

BOX 7.1 MATERIALITY

The notion of "materiality" is ubiquitous in the discussion of financial disclosure and what should be included in financial statements. It is thus a central concept in accounting. Harvard Business School Online (2016) defines materiality as "an accounting principle which states that all items that are reasonably likely to impact investors' decision-making must be recorded or reported in detail in business's financial statements using generally accepted accounting principle (GAAP)[1] standards". In other words, whenever a transaction, business decision, or other information is significant for investors' decisions or others who use the corporation's financial statements, the information becomes "material" and cannot be left out corporate reports. Materiality can refer to both financial (e.g., revenues) and non-financial information (e.g., lawsuit, CSR engagement). Key examples for material information are as follows: changes in earnings, losses or forecasted earnings, mergers or acquisitions, changes in control or management, changes in an audit, or new products and services (Rieves & Lefebvre, 2012). In addition, information on sustainability is increasingly considered material in light of climate change (Harrell, 2015) and is currently being integrated into mandatory disclosures, at least in Europe (Corporate Sustainability Reporting Directive, EU No. 2022/2464).

Theoretical Frameworks for Disclosure

Scholars have proposed three distinct theoretical accounts of the relevance of corporate disclosure. According to these accounts, disclosure serves: (1) to secure legitimacy on the market (*legitimacy theory*), (2) to secure capitalization (*capital need theory*), and (3) to signal the value and quality of the corporation to the market (*signaling theory*). Based on legitimacy theory, Deegan (2006) argues that only by upholding the "social contract" between the corporation and society, the corporation is legitimized to act. Legitimacy theory focuses on the perception of corporations by society and thereby argues for corporations and their management to disclose and share information that influences these perceptions, opinions, and attitudes (cf. Omran & Ramdhony, 2015). Representatives of the capital need theory (e.g., Choi, 1973) take a similar perspective but argue that these perceptions by societal

actors are crucial for corporations to issue equity or public debt. Indeed, a large body of research has investigated and found evidence that increased information disclosure can reduce capital costs for corporations (see for an overview: Lobo & Zhou, 2001). However, it should be noted that information disclosure requires relatively more resources from smaller companies, thereby questioning the positive effect of information sharing on minimized capital costs (Nuseir & Qasim, 2001). Closely connected to the capital need theory, signaling theory argues that the goal of corporate disclosure is to inform the market about the true value of the corporation (Dainelli et al., 2013).

Another theory, widely used to describe the process, necessity, and shortcomings of information disclosure, is *agency theory* (Bassen et al., 2010). Following this theory, actors on capital markets (e.g., companies or investors) behave opportunistically (Healy & Palepu, 2001). Thus, they strive to maximize their "individual utility function" (Bassen, 2010, p. 52) and make self-serving decisions, given the available information (Healy & Palepu, 2001). Importantly, information asymmetries exist between corporate insiders (e.g., management), also called the agents, and external groups, including shareholders (also called principals). Actors within the company and close to its management possess an information advantage over external market participants (Achleitner et al., 2001). This can lead to agents behaving opportunistically and disregarding the legitimate interests of their principals. Information asymmetry can also lead to higher costs of capital, as investors are facing insecurities and thus risks in estimating the corporations' future performance, activities, or earnings. It is for this reason that IR is ascribed a crucial role in disseminating and disclosing relevant information for market participants that could potentially reduce information asymmetries, and thus the risk and cost of capital for the company. Agency theory, accordingly, provides an important account of why investments in IR can produce positive returns for the company (i.e., by lowering capital costs).

Lastly, two prominent theories in the realm of corporate disclosures are the *full-disclosure theorem* and the *discretionary disclosure model*. The full-disclosure theorem, similar to agency theory, assumes that there is an information asymmetry between the management of a corporation and its external investors (cf. Jensen & Meckling, 1976). On the one hand, this asymmetry leads to under-investment given that investors lack information that could potentially make a company an attractive investment, and, on the other hand, firms are facing the issue of illiquidity of the stock on the market due to a lack of investor interest (Bassen et al., 2010). These disparities thus incentivize corporations to fully disclose information to attract investments and safeguard the liquidity of the stock. Proponents of this line of thinking, dating back to the 1960s (e.g., Benston, 1967; Stigler, 1964; cf. Bassen et al., 2010) tend to be skeptical of government regulation of corporate disclosure,

as economic incentives should be sufficient for corporations to disclosure information voluntarily.

Yet, some have criticized the assumptions of the full-disclosure theorem, for example, that it does not differentiate between disclosure practices across firms, industries, sectors, or even countries and assumes no restrictions in terms of information disclosure abilities (e.g., resources and reach) or willingness (e.g., competitive advantage and legal restrictions) of firms. As a result, a more factor-dependent model has been introduced, the *discretionary disclosure model*. In essence, the discretionary model takes a more realistic approach by taking more factors (e.g., company-, industry-, resource-dependent aspects) into account that impact information disclosure, and thus the practice of IR, thereby being less restrictive than the full disclosure theorem. Even though supporters of the discretionary disclosure model are also skeptical of government disclosure regulations, findings from previous research (see Bassen et al., 2010 for an overview) have shown that information disclosure by one firm can impact market evaluations of other firms – usually from the same industry – implying that regulations of information disclosure can be helpful to manage such informational externalities (Bassen et al., 2010). The following paragraphs will dive deeper into the most important regulatory requirements that need to be observed by firms and IROs when disclosing information to the market.

Regulatory Disclosure Requirements

Regulatory requirements for the publication of market-relevant information by companies have been introduced over time to ensure efficient capital allocation, satisfy legal requirements to sufficiently inform shareholders, and provide means to control the governance of companies (Langenbucher et al., 2022). In Germany, for example, these requirements are covered in a number of laws, such as the Commercial Code (Handelsgesetzbuch), in the Stock Corporation Act (Aktiengesetz), or the Securities Trading Act (Wertpapierhandelsgesetz). In addition, the European Union has passed the European Prospect Regulation (EU No. 2017/1129), the European Market Abuse Directive (EU No. 596/2014), and, more recently, the Corporate Sustainability Reporting Directive (EU No. 2022/2464). In many European countries, firms also follow the *International Financial Reporting Standards (IFRS)* and other GAAPs (Laskin, 2022).

According to Langenbucher and colleagues (2022), disclosure requirements either refer to the regular reporting of information or are related to events that demand certain information and data to be disclosed (see Figure 7.1). Although this chapter will not go into too much detail here, the following overview based on Langenbucher and colleagues (2022) provides a coherent summary of mandatory corporate disclosures for corporations, with a particular focus on Germany and Europe.

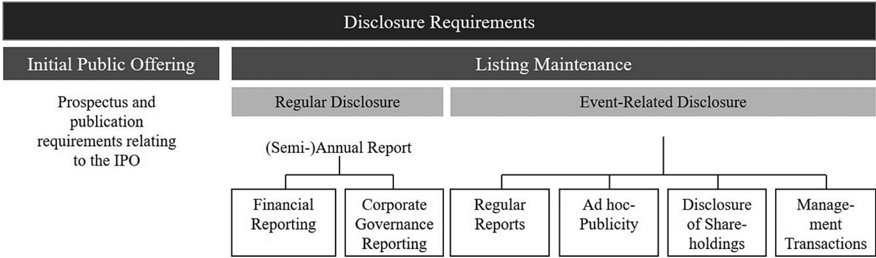


FIGURE 7.1 Disclosure requirements (Porák & Fieseler, 2005)

Regular Disclosure. One of the most important regular disclosures that companies need to provide are the annual reports, which, in the case of Germany, need to contain the annual account (financial statement), a status report, and the compliance statement that is in line with the German Corporate Governance Codex (DCGK). Of particular importance in these regular disclosures is the adequate representation of the financials of the corporation – this includes the balance sheet, the income statement, and the cash flow statement (cf. Laskin, 2022). The (supervisory) board of a company is responsible for the preparation and publication of the financial reporting. Aside from the annual report, many markets also require the publication of a semi-annual or half-year report. Although quarterly earnings reports are not required by the Securities Trade Act in Germany, major stock exchanges do require them. Furthermore, the publication of a financial calendar as well as dates of yearly analyst conference calls are also obligatory (Langenbucher et al., 2022). To ensure the validity and correctness of the published financial statements, publicly traded companies are required to have their financial results verified by independent auditors (e.g., the *Big Four:* Deloitte, Ernst & Young, KMPG, PricewaterhouseCoopers) (Laskin, 2022).

Aside to the financial reporting, annual reports also contain non-financial information. This usually encompasses topics such as environmental protection, employee matters, human rights, or prevention against corruption and should be covered if they are of relevance to the financial and non-financial business operations (cf. materiality). In Germany, for example, companies need to disclose and explain how certain business activities imply risks or impacts to society, if they can be considered essential or material. However, there is a certain leeway that allows companies to report on these issues in more or less detail, which makes non-financial information disclosure a legal grey area (cf. Langenbucher et al., 2022). In a similar vein, corporations have a certain scope in reporting their governance. However, since the beginning of 2020, there is an obligation for European companies to report on the renumeration of the executive board and supervisory board members.

Event-Related Disclosure. In addition to the regular disclosures, which are usually planned far ahead and announced in the financial calendar, there are a number of disclosure requirements that only need to be followed if certain organizational or business-related events occur. These disclosures can be difficult to anticipate and are usually not announced ahead of time. One of such event-related disclosures is the *prospectus requirement,* which is of special relevance when a company plans to go public (cf. Langenbucher et al., 2022). For the initial public offering (IPO), companies need to prepare a prospectus in which all essential information is presented that enables investors to make a sound and well-founded investment evaluation of the stock. There are particular requirements for the format, length, and content of such prospectus that ensure that the market is adequately informed and not deceived by means of lengthy material or technical and complex wording.

Once a company is listed on the stock exchange, a number of event-related disclosure requirements need to be followed, to maintain the listing. Among these are reports whenever there are significant administrative changes in a corporation, such as a relocation, a new company name, new members of the board, changes in the capital structure, and relevant decisions taken at *annual shareholder meetings* (e.g., voting results, changes in statutes). There are some disclosure requirements related to insider trading, specifically focused on *management transactions*. For example, when members of the corporate leadership team (or members of their household) trade in shares of the company they are employed by, these transactions need to be disclosed to the public (above a certain minimum amount, in Germany: above €5,000 per year). Similarly, when the company is taking over a *substantial shareholding or acquisition* of another firm, it needs to publish an announcement (in most markets, this applies to both acquisitions and sales of shares). These announcements need to be published whenever a certain threshold is passed, such as 3, 5, 10, 15, and 20 percent of shares.

Ad-Hoc Disclosure. Ad-hoc disclosure regulations encompass the obligation to make all non-public insider information that is of relevance to the issuing company and the financial market public. The goal is to inform financial market participants comprehensively and rapidly, thereby preventing insider trading and ensuring the integrity and fairness of capital markets (Langenbucher et al., 2022). Ad-hoc disclosures are mandatory whenever a piece of information arises that is precise and relates to specific events or circumstances (e.g., supply chain issues, changes of the board) and that is of (expectable and considerable) relevance for the stock market price of the firm. In other words, if the piece of information can be considered important for investors to base their investment decision on, it needs to be disclosed to all market participants equally. If the information is not disclosed, or not in time, the company can be confronted with various legal and financial sanctions (cf. Langenbucher et al., 2022).

Ad-hoc disclosures are among the most complex and time-consuming requirements from an IR perspective. Listed corporations usually install an ad-hoc committee that consists, for example of the IR and PR departments, finance, legal, and the CFO. The committee decides whether an event or occurrence or new piece of information fulfills the conditions of the ad-hoc requirement. Because they are expected to be price-sensitive, ad-hoc releases attract a lot of attention on capital markets as analysts and investors need to take this information into account when trading the stock. There is no definite list of events that fall under the ad-hoc requirement, so the release of an ad-hoc announcement needs to be decided on a case-by-case basis. On the plus side, the ad-hoc requirement ensures that the IR department is part of every major corporate decision, because IROs need to advise on the sensitivity of information and thus require sufficient time to prepare ad-hoc announcements in the case of price-sensitivity.

Over time, regulatory frameworks pertaining to information disclosures for listed corporations have become ever denser and more complex, and also stricter (sanctioned with more severe penalties when compared to the past). Reasons for these developments are corporate scandals, such as the accounting scandal by Enron in the U.S. in 2001, or financial crises such as the Dotcom Bubble in the early 2000s or the Global Financial Crisis 2007–2009. These incidents and the subsequent public and policy debates have resulted in the perception that corporations and capital markets need stricter regulations to ensure transparency, honesty, and accountability on the market. Box 7.2 shows two key regulations that have been introduced on the US market in the past 20 years as a consequence of far-reaching corporate and financial scandals that have shattered trust in financial markets.

BOX 7.2 KEY REGULATIONS ON THE US MARKET

The Sarbanes-Oxley Act of 2002

The Sarbanes-Oxley Act (SOX) was introduced shortly after the *Enron* accounting scandal – one of the largest accounting scandals in US-history. SOX was passed to oversee the reporting landscape by corporations and to ensure the reliability of corporate disclosures (Rieves & Lefebvre, 2012). Thus, the information disclosed by listed corporations needs to be accurate, responsible, and relevant. SOX specifies the requirements of auditing companies and defines what independence of auditors from the company implies (Laskin, 2022) The SOX includes among other aspects the following major changes: attributing greater responsibility to the audit committee of the board, creating a new Public Company Accounting Oversight Board to oversee the accounting profession, making it a crime to destroy or conceal documents during federal investigations,

limiting the offer of both consulting and auditing services to a corporation by the same firm (cf. independence), and requiring the CEO to sign off on the accuracy of financial reports (Marcus, 2005).

The Dodd-Frank Wall Street Reform Act (2010)

The Dodd-Frank Wall Street Reform Act (DFA) was a reaction to the Global Financial Crisis 2007–2009 that caused enormous losses on the financial markets and led to a trust crisis across financial markets. DFA is mostly concerned with investment practices by giving more power to shareholders in influencing the composition of the board of companies, having a say in the rules and guidelines for the management, and giving directors the possibility to exchange underperforming management (Rieves & Lefebvre, 2012). Particularly the last point requires IR professionals to stay in constant exchange with the board of directors to ensure that they act in line with the interest of the shareholders, and vice versa. What is more, DFA strengthened the protection of whistleblowers who speak out on corporate fraud, and reward insiders who dare to uncover and make corporate misconduct public (Laskin, 2022).

Disclosure Channels

The disclosure requirements outlined above have some important implications for the tools and instruments of IR (Chapter 6), as a number of requirements prescribe *how* information is to be distributed to the capital market. As Langenbucher and colleagues (2022) point out, there are a number of official filing databases (e.g., Securities and Exchange Commission in the US, Company Register in Germany), and in many cases also digital reporting platforms provided by the stock exchanges, that IROs need to publish the required information and disclosures in/on. In addition, three communication channels are explicitly mentioned in the case of the pertinent German regulations: (a) news releases/newswire services, (b) corporate websites, and (c) social media.

News Releases and Newswire Services. Aside from the official filings, news releases (or press releases) are a common tool to disseminate relevant or material information to the investor community. In fact, the news release can be considered the “first line of timely disclosure” (Marcus, 2005, p. 54). Information that regularly gets published through news releases deals with earnings announcements, new product releases, major changes in the business strategy, or CSR activities. One major channel to distribute these news releases publicly is newswire services, such as *Dow Jones, Reuters, PR Newswire, Business Wire,* or *Bloomberg News Service*. Depending on the local capital market regulation, these news wire services are legally accepted disclosure mediums (Marcus, 2005).

Corporate/IR Website. Another convenient and up-to-date channel to disseminate and disclose information is the corporate or IR website. By now, almost every listed company has a corporate website with a dedicated area where information for investors can be found, usually labeled as "investor relations" or "investors". Here, IR publishes, updates, and integrates relevant and material information for financial markets and other key stakeholders. These include, for example, news and announcements (where press releases are published), annual reports, corporate presentations, webcasts with Q&A, official filings (e.g., 10-Q or 10-K in the US), the financial calendar (with earnings release dates or conference calls), information on corporate governance (e.g., organigram and code of business ethics), and a section on CSR or sustainability/ESG in general. Research has shown that more profitable firms tend to make information on their websites easier to read but also publish information more frequently (Ettredge et al., 2002). Some markets require an IR website not just for the publication of mandatory disclosures but also to provide an opportunity for members of the public to sign up for the company's distribution list.

Social Media. Since the beginning of the 2010s, social media has been heralded as a new, effective financial disclosure channel for IR and was even considered to become the primary source for investors seeking financial information (Zhou et al., 2014). Advantages of using social media as dissemination channels are as follows: quasi real-time information sharing, easy and free access by investors, a wide reach to (potential) stakeholders, the inclusion of multi-media content (visuals, videos, audios, etc.), and opportunities to interact with the audience. However, research on using social media as disclosure channels by corporations is limited (Nuseir & Qasim, 2021). Studies on the use of social media for the dissemination of corporate information have shown that the extent to which corporations employ social media is dependent on the sophistication of the IR function, resource availability, organizational culture, the size of the respective social media audience, and litigation risks (Nuseir & Qasim, 2021; Jung et al., 2017).

Zhou and colleagues (2014) argue that Twitter (now "X"), in particular, offers the opportunity to quickly distribute information to (potential) investors. Tweets by corporations that contain information about earning announcements or other accounting information may attract attention to the related press release, or the website linked in the posts. Today, almost all publicly listed companies have a public account on social media channels, such as Twitter, LinkedIn, or Facebook. While US companies have been shown to be first adopters of social media for IR (Lei et al., 2019), Nuseir and Qasim (2019) report considerable differences across countries worldwide, and even within Europe. In general, they conclude that the rates of disclosing information on the internet and social media are lower in developing countries and areas, such as China, Egypt, Slovenia, Spain, Malaysia, Singapore,

or the Middle East when compared to the US or Europe. However, social media are not mandatory disclosure channels in any market, and even in the US and in Europe, few companies regularly employ these channels for disclosure purposes.

The Rise of Non-Financial and Voluntary Information Disclosure

Although the financial results and hard facts about a company are crucial for financial stakeholders to assess the value of a firm, non-financial data and information are also very important for financial analysts and investors and are increasingly becoming an integral part of investment decision-making (Hoffmann & Fieseler, 2012). Laskin (2022) proposes the term return on expectations (ROE), instead of return on investment (ROI), as a new formula that investors seem to use to assess whether a company's share is worth buying or selling. In annual reports, for example, the section on *Management Discussion and Analysis of Financial Condition and Results of Operations* is widely read by financial audiences to find out about the vision, opinion, and assessment of a firm's executives on their plans and business goals, and how overall market developments are evaluated in light of the company's positioning (cf. Laskin, 2022).

More specifically, non-financial information can encompass intangible assets, such as patents, brands, reputation, sustainability strategies, or information that concern the future of a company (e.g., expansion strategies, new collaborations, and research projects) – thus, intangibles and non-financials are usually used interchangeably (Lev, 2001). Accounting firms such as PwC or EY have attempted to classify non-financial information, and Laskin (2022) defines the following categories as most important: strategy of the company, management quality, employee quality, organizational processes, research and development, products and services, competitive market position, and ESG issues. These categories are largely in line with an empirical study examining which non-financials are considered by investors and analysts on the German capital market (Hoffmann & Fieseler, 2012).

However, practitioners and academics have a hard time putting a specific value on intangibles. Some economists even estimate that intangible assets make up more than half of the market capitalization of publicly traded companies (Laskin, 2022; Lev, 2001). The issue lies with the complexity of measuring non-financial information, retrieving data on these topics, and agreeing on the value of intangible assets that might be strongly influenced by subjective opinions. This poses a challenge for accounting, as information is not always public, hard to compare across companies and industries, and highly variable over time. Thus, corporations usually cannot rely on standardized accounting formats to report on non-financial information (although this is slowly changing regarding sustainability data, specifically). In addition, financial

analysts are not used to work with models that would take non-financial information and the value thereof into consideration. This dilemma likely leads to a systematic undervaluation of corporations' intangibles.

According to Bassen and colleagues (2010), the extent to which corporations engage in voluntary disclosure "depends on the perceived trade-off between the costs and benefits of those disclosures" (p. 51). Thus, corporations can choose whether to disclose non-legally mandated information, which kind of information, how much of the information, and where and how the information should be shared. However, in an empirical study, Laskin (2016) showed that although non-financial information about the management of a company is rated as being the most important by IROs, they seem to fail to actively communicate it. Laskin (2022) thus considers the disclosure of both tangible and intangible information to the financial community as the core function of IROs to educate market participants and ensure a fair valuation of the stock on financial markets. Indeed, in a study of sustainability communication, Arvidsson (2010) found that investors show the most interest in these topics, so companies target and tailor their sustainability information for this particular audience. Given the increased demand by investors to understand the role of companies vis-à-vis society and the environment, more and more firms are voluntarily disclosing information on their CSR or engagement in ESG criteria, which shall be discussed next.

Corporate Social Responsibility

The European Commission defines CSR "as the responsibility of enterprises for their impact on society" (2023a). According to the EU Commission, companies can become socially responsible by "integrating social, environmental, ethical, consumer, and human rights into their business and strategy options" and by "following the law" (2023a). In communication research, CSR is understood as an obligation by corporations to work for social betterment (Frederick, 1994). However, CSR is not a new concept and has been debated in the business context at least since the 1920s and with a focus on corporations' responsibility toward society since the 1950s (Arvidsson, 2010). Since the 1970s, the debate has moved to the corporate and social responsibility of corporations to respond to demands by society (e.g., Frederick, 1994). This shift from a corporation-centered perspective to a stakeholder-perspective has characterized most of the scholarly work on CSR in the late 20th century (see for a more detailed discussion: Arvidsson, 2010).

In fact, corporate disclosures of information about CSR have become a major domain of non-financial and voluntary information disclosure by corporations. In 2020, 92% of S&P 500 companies and 70% of Russell 1,000 companies have published sustainability reports (Governance & Accounting Institute, 2021). Such reports are thereby seen as a strategic approach

to communicate CSR activities (Bartlett & Defin, 2011). Communication about CSR is defined by various scholars as a process of legitimization, in which corporations try to communicate their social and ethical behavior to positively affect stakeholders' perceptions of the company (e.g., image and reputation) (e.g., Deegan & Rankin, 1999; Hooghiemstra, 2000; see Birth et al., 2007 for an overview). Reilly and Larya (2018) have shown, for example, that companies scoring high on *Newsweek's Green Rankings* show more engagement in formal external CSR communication (e.g., CSR reports), in informal CSR communication (e.g., responses to CSR issues), and are also more likely to voluntarily participate in transparent CSR communication (e.g., joining the Global Reporting Initiative [GRI]). At the same time, Ihlen (2009) analyzed the world's 30 largest corporations and found that those that are characterized as America's worst greenwashers (Ford, BP, Chevron, General Motors: Green Life, 2006) are the ones that used climate-related keywords the most in their non-financial reports.

While the causal relationship between CSR communication and environmental performance in rankings might not be proven and potentially be spurious, there are six reasons for why corporations engage in CSR reporting, according to Crane and Glozer (2016):

1 Stakeholder management, to build relationships and influence stakeholder behavior (e.g., employer branding),
2 Image enhancement, to present the company in a positive light,
3 Legitimacy and accountability, to signal appropriate and desirable corporate actions,
4 Attitude and behavior change, to affect outcomes, specifically among customers,
5 Sensemaking, to communicate how the company and stakeholders make sense of their world,
6 Identity and meaning creation with stakeholders, to build the company identity.

Scholars in the field of corporate communications argue that communication about social responsibility can have a positive effect on the corporate reputation (Fombrun & van Riel, 2003), that it can create a buffer effect in times of corporate crises (Schnietz & Epstein, 2005), and even have a positive influence on firms' CSR activities (e.g., mandate vs. voluntary disclosure: Christensen et al., 2021). Aside from these rather intangible advantages of corporations engaging with CSR reporting, there are also some tangible benefits: as an overview by Peloza and Shang (2011) has shown, there are positive relationships between CSR communication and consumer product choices (e.g., Arora & Henderson, 2007), consumer attitudes toward the firm (e.g., Barone et al., 2000), consumer purchase intentions (e.g., Ellen et al.,

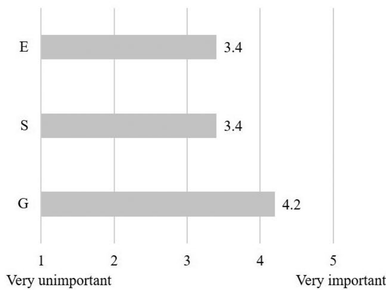
2006), and organizational commitment (e.g., Turker, 2009). As Christensen and colleagues (2021) summarize, CSR reporting that goes beyond what is mandated can increase liquidity, lower cost of capital, and improve capital allocation (see also: Du et al., 2010).

Based on a survey and interviews with IROs in Sweden, Arvidsson (2010) finds that CSR is not only considered one of the most important topics, aside from financial performance, but communicating about CSR was also seen as a necessary action to respond to stakeholders' demands. In that vein, CSR communication is a rather reactive approach that is aimed at building or restoring trust among stakeholders, who have become increasingly skeptical about corporations' CSR activities in light of high-profile corporate scandals in the beginning of the 2000s (e.g., Enron, WorldCom, and Lehmann Brothers). Even though the practitioners in Arvidsson's study acknowledged a more proactive approach in CSR communication to detain legitimacy concerns by stakeholders, CSR communication was not ascribed to a value-creating function per-se, but rather a way to avoid "value destruction" (Arvidsson, 2010, p. 349). Arvidsson (2010) also characterizes CSR activities as following a consequentialist or utilitarian approach; thus, instead of engaging in CSR for the sake of achieving social and environmental goals, firms engage in CSR to avoid negative outcomes (e.g., mistrust, reputational loss, bad ranking, and loss of investments). Much of this criticism is also reflected in current developments in research on ESG criteria.

Environmental, Social, and Governance Criteria

ESG issues were first mentioned in the United Nation's Principles for Responsible Investment (PRI) report "Who Cares Wins – Connecting Financial Markets to a Changing World" in 2004 (UNEPFI, 2004). In this report, the incorporations of ESG criteria in the financial evaluation of companies were announced and a first group of 63 investment companies subscribed to following ESG criteria in about $6.5 trillion in assets under management (AUM) (Atkins, 2020). In the last quarter of 2022, PRI had 5,319 signatories, representing US $121 trillion of AUM (UN PRI, 2023). Market analyses (e.g., by NASDAQ; Atkins, 2020) show that over five years, those companies that can be considered sustainability leaders have higher returns and lower risks compared to those companies that are labeled as laggards. Other meta-analyses (Friede et al., 2015) come to similar conclusions, showing that investments that score high on ESG perform better than traditional investments.

ESG is a concept that is typically used within the realm of investments, more specifically in *sustainable finance*. Sustainable finance is defined as "the process of taking **environmental, social and governance (ESG) considerations** (highlighted in the original) into account when making investment decisions in the financial sector, leading to more long-term investments in sustainable



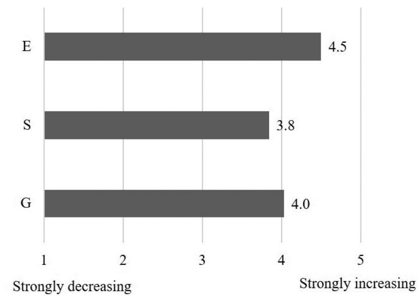


FIGURE 7.2 Perceived importance of ESG topics among German IROs (Binder-Tietz et al., 2020)

economic activities and projects" (EU Commission, 2023b). The concept has enjoyed growing popularity on the financial markets in the past years, leading to a rise of financial offerings labeled as "sustainable", "green", or "ESG-related". For example, Morningstar reported that ESG strategies were the central investment approach on the ESG market in Europe in 2022 with assets in ESG ETFs and exchange-traded commodities rising from €231.6 billion in 2021 to €248.8 billion in 2022 (Funds Europe, 2023).

Given the relevance of ESG-related factors for investors, companies have started reporting and disclosing information specifically addressing ESG issues and the underlying indicators, for example, by publishing ESG reports and by engaging in direct dialogue and exchange with financial market actors about their performance on ESG indicators. A recent study conducted in cooperation with the German IR association (Binder-Tietz et al., 2020) illustrates the state of ESG-integration in current IR practices on the German market. The study confirms that ESG topics are usually communicated only passively, upon demand: 65% of surveyed corporations do not proactively address ESG topics in their IR efforts. The most frequently discussed of the ESG topics is governance – however, the importance of environmental issues is seen as gaining most in importance (see Figure 7.2). Only 35% say that sustainability issues have already been incorporated into the equity story, although 50% report that sustainability is part of the corporate strategy. However, more than half of the surveyed corporations report that C-suite remuneration packages do not take sustainability issues into account.

There has been growing criticism regarding the measurement and labeling of ESG-related investments or financial products. To combat that challenge, multiple initiatives have been founded to make the reporting about financial and non-financial data on ESG more transparent, comparable, and reliable.

The five most widely used and known frameworks in this regard are (see Atkins, 2020):

1 Global Reporting Initiative (GRI),
2 Carbon Disclosure Project (CDP),
3 Sustainability Accounting Standards Board (SASB),
4 Taskforce on Climate-related Financial Disclosures (TCFD),
5 Workforce Disclosure Initiative (WDI).

The most widely used among them is likely GRI, which is often complemented with TCFD for climate-related disclosures, in particular. GRI (2023) states that their standards enable "organizations – large or small, private or public – to understand and report on their impacts on the economy, environment and people in a comparable and credible way, thereby increasing transparency on their contribution to sustainable development". Most recently, the IFRS Foundation announced the formation of the International Sustainability Standards Board (ISSB), which is developing a new, more comprehensive sustainability reporting standard. However, as part of its Green Deal, the EU has already issued its own new reporting standard, named European Sustainability Reporting Standards (ESRS). Thus, for European companies, in particular, the complexity of ESG reporting will remain high for the foreseeable future.

Next to the plurality of reporting frameworks, there are several rating agencies that have developed their own frameworks and measurements to serve the market with ESG data and evaluate firms bases on set ESG (sub-) criteria. The four rating agencies that dominate the market on ESG ratings currently are *MSCI, Sustainalytics, RepRisk,* and *ISS* (Atkins, 2020). However, the sustainability ratings market has shown a high degree of fluctuation with multiple mergers and takeover leading to increasing consolidation.

ESG reporting frequently draws criticism raised scholars, activists, politicians, and industry actors alike, specifically regarding the lack of transparency of ESG data and measurement (Schrader, 2006), diverging definitions regarding responsible investments (Paetzold et al., 2015), the partly unreliable and incomparable ESG ratings (cf. different rating agencies for the same company come to different ESG ratings: Berg et al., 2022), the complexity of sustainable finance in general and core metrics more specifically (Strauß, 2022), and a lack of impact measurement of ESG investments (Dupre & Roa, 2019; Barby & Gan, 2014). What is more, whistleblowers from inside the financial system and financial institutions have come forward in the past years to uncover fraudulent use of the ESG terminology (e.g., Desiree Fixler from the asset management firm DWS at Deutsche Bank) and to make the public aware of insincere intentions by financial institutions to engage with ESG. Whistleblower Tariq Fancy, former head of sustainability investing at

BlackRock, accused Wall Street of greenwashing, pointing out that "existing mutual funds are cynically rebranded as 'green'–with no discernible change to the fund itself or its underlying strategies–simply for the sake of appearance and marketing purposes" (Fancy, 2021).

Greenwashing

In fact, ever since corporations started to talk about CSR and, more recently, about ESG in public, greenwashing accusations became widespread, and insincere claims to sustainability have been called out. CSR has been criticized as "mere window dressing or some sort of PR invention" (Arvidsson, 2010, p. 342). In fact, some firms may only engage in CSR practices and communication for *signaling* reasons (cf. Montiel et al., 2012; Arvidsson, 2010). Scholars argue that given rising social and normative demands, firms feel a stronger pressure to engage in CSR disclosure – either based on legitimate actions or not (Vourvachis et al., 2016; Delmas & Burbano, 2011). This thinking also follows an argument derived from neo-institutionalist theory (Meyer & Rowan, 1977), suggesting that corporations are following sustainability claims, actions, and goals to meet the norms, expectations, and guiding principles of their indirect and direct institutionalized environment.

However, making non-financial information that encompasses intangible assets related to sustainability quantifiable remains a challenge (Laskin, 2022). Despite ambitious goals and targets (e.g., net-zero by 2030), many companies either do not have clear transition plans on how to become more sustainable and carbon-neutral, nor do they have the means and tools to measure their progress. A recent report by the New Climate Institute (2023) has shown that out of 24 major multinational companies, 15 have climate strategies that are of "low or very low integrity" (e.g., relying heavily on climate offsets; excluding scope 3 emissions). Such soft or inconsistent claims and behavior (e.g., fossil-fuel investments/loans by "net-zero" financial institutions: ShareAction, 2022) have publicly been criticized for "greenwashing".

Kurpierz and Smith (2020) define greenwashing as "any general situation where firms or organizations provide a claim, appearance or implication of environmentally-friendly actions, while actually engaging in environmentally-neutral or -unfriendly actions" (p. 1076) and describe a "conflict between *reported behavior* and *actual behavior* [highlighted in the original]" (p. 1081). In their seminal paper on the drivers of greenwashing, Delmas and Burbano (2011) define *greenwashing* as "the intersection of two firm behaviors: poor environmental performance and positive communication about environmental performance" (p. 64). Developing Delmas and Burbano's (2011) conceptualization of *greenwashing* further by using a legal framework, Kurpierz and Smith (2020) distinguish two forms of greenwashing: the first, in which the firm communicates false claims about

its environmental performance and causes harm is defined as "fraudulent", whereas, second, communication based on false claims about the firm's environmental behavior without causing harm is called "cheap talk".

Another issue regarding CSR and ESG communication by corporations comes with the difficulty of making the activities measurable and tangible. Particularly financial analysts are looking for CSR and ESG information that they can put in a numeric form to execute their calculations and thereby their valuation of assets (cf. on CSR: Arvidsson, 2010). In fact, a meta-analysis of 109 empirical studies revealed that in almost half of the studies, a positive relationship between corporate social performance and financial performance could be shown (Margolis & Walsh, 2003). However, DesJardine and colleagues (2021) found evidence that companies that engage more in CSR are more likely to be attacked by activist hedge funds and showed that this effect was even stronger when the financial communication of firms is vague. Thus, companies that are highly involved in CSR need to consider reaction costs (e.g., lawsuits, PR, and communication) in order to manage activist attacks, and in the worst case, making provisions for the restoration and rebuilding of their reputation.

Scholars, including Kurpierz and Smith (2020), argue that a more standardized framework for environmental reporting could reduce greenwashing and outright fraud (e.g., Tschopp & Huefner, 2015). However, aside from governmental and external regulations, companies also need to improve their communication and disclosure about CSR and ESG to prevent greenwashing accusations. More specifically, firms should communicate in a clear and transparent way and disclose sincerely whether CSR objectives have been met or failed, and what progresses have been made (cf. Arvidsson, 2010). Furthermore, following Birth and colleagues (2007), CSR objectives should be defined according to the specific issues faced by the corporation and the respective stakeholders. To effectively communicate CSR, they suggest that corporations should create synergies between issues, objectives, and communication channels, while also setting up and following criteria to ensure credible social reports (e.g., GRI standards, approval by third parties) and understanding and adjusting to the national context in which the firm is operating. That way, they can make the most of the potentials of CSR communication when targeting stakeholders such as investors or customers. Following the ethical PR approach outlined by Bowen and colleagues (2018), "organizations should choose an active, normative IR goal that aims at meeting stakeholders' satisfaction and authenticity needs through the decision-making of the organization" (p. 73).

Implications for Effective Financial Communication

- Even more so than other corporate communications function, IR requires a multidisciplinary perspective that includes a sound grasp of the legal and

regulatory environment. IR is situated at the intersection of finance, communications, legal, strategy, and increasingly sustainability. Some of the necessary competences to manage these varied challenges and perspectives can be integrated into the IR team. However, given that most IR teams are limited in size, IR also relies on a close collaboration with a host of other corporate departments. Maintaining good cross-departmental relations and managing the intersection across departments is of critical importance for effective financial communication.

- Effective financial communication requires a solid foundation. That foundation is the assurance of compliance with current laws, regulations, and standards. Compliance may not be the most exciting part of the IR task, but it is part of the IR function's purpose, it provides internal legitimacy to the function, and it is a strong argument for necessary resource allocations. Legal and regulatory requirements necessitate that any listed corporation allocates sufficient resources to ensure sound IR practices – both to avoid fines and lawsuits, but also shareholder activist attacks. Conversely, any strategic financial communication initiative requires that, first, compliance with all disclosure requirements has been guaranteed.
- One upside of disclosure requirements, the ad-hoc publicity requirement in particular, is that IR is involved in all material corporate decision-making. Any listed corporation not involving IR in strategic decisions risks running afoul of disclosure requirements. Effective financial communication, thus, needs to ensure a seat at the table when corporate leadership engages in material decision-making.
- CSR, ESG, or sustainability are increasingly becoming part of disclosure requirements, in Europe especially. To credibly present sustainability topics to capital markets, it requires an integrated perspective. In other words, financial and ESG performance cannot be disjointed silos, and these issues are related to each other and need to be presented as such. Analysts and investors need to understand how social and environmental outcomes relate to the bottom line, and how financial and sustainability objectives are integrated into governance mechanisms (such as remuneration policies). While few companies actually publish the so-called integrated reports, the annual report needs to present an integrated account of financial and non-financial, sustainability and governance objectives, indicators, and track records.
- Effective financial communication, thereby, requires that IROs familiarize themselves with sustainability issues, such as management systems, measurement, reporting frameworks, policy discussions, and ratings systems. Half-hearted ESG reporting runs the risk of raising greenwashing suspicions. Also, the more a company proactively communicates ESG topics, the more solid, transparent, and credible its ESG reporting needs to be. Bumbling into ESG communication – with an eye to good PR or juicy

marketing – without establishing a sold ESG reporting foundation, will risk a company's capital market reputation.

- Analysts and investors are used to receiving hard and audited financial data that they can feed into their valuation models. These critical audiences apply the same perspective to ESG topics. In other words, analysts and investors expect hard ESG data, transparent measurement, ideally externally audited data, clear and tangible objectives, transparent and consistent progress reports, and, as noted above, alignment of ESG objectives and governance mechanisms. The capital market arena is not the space for warm words and lofty aspirations, but for cold, hard facts. Effective financial communication will apply experiences gained from financial disclosures to the growing field of non-financial disclosures.

Note

1 GAAP stands for General Accepted Accounting Principles that are specific to the U.S. market but also apply to other countries, as elaborated by the International Financial Reporting Standards (IFRS) and International Accounting Standards Committee (IASC). Legal force is dependent on the respective country, but IFRS is mandatory for publicly traded companies in the EU (ENISA, 2023).

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8

THE ROLE OF NARRATIVES AND EQUITY STORYTELLING IN FINANCIAL COMMUNICATION

"Organizational goals, histories, heroes, and informational and persuasive communication, are often communicated via myths and stories" (Kent, 2015, p. 480). This proposition, developed in regard to public relations (PR), seems somewhat ill-at-ease when examining financial communication. After all, isn't investor relations (IR) concerned with the disclosure of hard, reliable, audited data? Do stringent regulatory requirements leave any room for something as frivolous as "myths and stories"? These questions touch upon the widely discussed and contentious issue of the purpose of financial communication. Is financial communication more than a compliance-focused disclosure function? Can it actually be considered a strategic communication function? Can, does, or should it pursue any persuasive objectives? If so, what is the role of narratives or storytelling in financial communication?

While the unavoidably persuasive character of PR is widely acknowledged (Heath & Frandsen, 2008; Heath, 2000), the same cannot be said for financial communication. In the context of capital market relations, persuasion still reeks of illegitimacy. Yet, according to Brown et al. (2019, p. 64), a key function of IR is "managing the narrative" presented to capital markets. This chapter will explore the role of narratives and storytelling in financial communication. It begins by broadly exploring the importance of narratives from a sociological, psychological, and economic perspective. Next, it will examine the narrative at the heart of financial communication, the equity story. The chapter will end on an overview of diverse research strands exploring storytelling, sensegiving, impression management, rhetoric, and argumentation in the context of IR and financial communication. Highlighting the role of narratives and storytelling will provide valuable insights into the role, prevalence, and techniques of effective persuasion in financial communication.

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The Power of a Good Story

A quote sometimes attributed to Mark Twain holds: "Never let the truth get in the way of a good story". While funny, this quip can actually be turned on its head; frequently, it is a good story that helps uncover the truth. As Heath (1992, p. 57) notes: "One reason that perspectives become widely believed is because they are embedded into stories that are told over and over through interpersonal conversation and mass media". Fisher (1984) famously described human beings as *homo narrans*, because the telling of stories is so deeply ingrained in our psychology and in our epistemology, it is a crucial element of human culture:

> The idea of human beings as storytellers indicates the generic form of all symbol composition; it holds that symbols are created and communicated ultimately as stories meant to give order to human experience and to induce others to dwell in them to establish ways of living in common, in communities in which there is sanction for the story that constitutes one's life.
>
> *(Fisher, 1984, p. 6)*

This, of course, raises the question of what a *narrative* actually is. "A narrative is an account of a sequence of events in the order in which they occurred to make a point" (Polletta et al., 2011, p. 111, based on Labov & Waletsky, 1967). Narratives commonly contain agents or characters, at least one of which tends to be sympathetic to the audience. They focus on a relevant series of events that is based on causal links. Often, narratives are derivative of or reference popular and widely known narratives, both fictional and non-fictional – so narratives tend to be interconnected. Narratives contain a larger meaning, and they often make a normative point. Focusing on *stories* rather than narratives, Kent (2015, p. 482) proposes:

> A compelling story contains several expected parts. All stories have a recognizable structure: a beginning, middle, and an end (or continuation point). Additionally, stories need a clear plot, characters that an audience can identify with, action, a compelling or interesting setting, some sort of climax, denouement, or resolution, and something has to change (the villain is defeated, the hero triumphs, good wins out over evil, etc.).

Contrasting stories and narratives, stories can be seen as the narrower concept, as they contain a recognizable dramatic plot structure.

Akerlof and Snower (2016, p. 58) characterize a "narrative" as "a sequence of causally linked events and their underlying sources, unfolding

through time, which may be used as a template for interpreting our ongoing experience". They differentiate seven functions of narratives:

1. Understanding the environment: Narratives provide mental models that facilitate making sense of past and present events, particularly with regard to causality.
2. Focusing attention: Narratives select (aspects of) events that deserve attention, they serve "as a filter for screening data" (p. 59).
3. Predicting events: Based on the causality made salient by narratives, expectations toward future events can be substantiated.
4. Motivating action: Narratives can activate desires, influence motives, increase the salience of norms, help predict outcomes, and thereby guide behavior.
5. Social assignments and identities: By assigning roles and characterizing relationships, narratives help establish social order. Social identities, in turn, can focus attention and motivate action.
6. Power relationships: Narratives bestow legitimacy, which may reinforce or challenge established power relationships.
7. Social norms: Narratives teach social norms, explain the function and value of norms, and convey potential consequences of infringements upon norms.

This overview indicates that narratives can be analyzed from a sociological (e.g., roles and power), psychological (e.g., attention and motivation), and economic (e.g., prediction and decision-making) perspective. The following three sections will explore the role of narratives from each of these three disciplinary perspectives. This will subsequently help understand why narratives can and do play an important role in the context of financial communication (e.g., equity story, sensegiving, rhetoric).

Legitimacy, Narratives and Metanarratives

Institutions have been defined as "the rules of the game of a society, or, more formally, (…) the humanly devised constraints that structure human interaction" (North, 1990, p. 3). From a neo-institutional perspective, organizations adapt their practices, processes, and structures to adhere to societal expectations inherent in institutions to ensure legitimacy. An example of such adaptations would be the establishment of the IR department to fulfill disclosure requirements on capital markets. As Meyer and Rowan (1977, p. 340) point out:

> (…) (O)rganizations are driven to incorporate the practices and procedures defined by prevailing rationalized concepts of organizational work

> and institutionalized in society. Organizations that do so increase their legitimacy and their survival prospects, independent of the immediate efficacy of the acquired practices and procedures.

DiMaggio and Powell (1983) explain that such adaptations occur through three distinct isomorphic processes: "(1) coercive isomorphism that stems from political influence and the problem of legitimacy; (2) mimetic isomorphism resulting from standard responses to uncertainty; and (3) normative isomorphism, associated with professionalization" (p. 150). Applied to IR, this could imply following current reporting mandates, copying best practices in reporting, and exchanging experiences within IR associations. It can also apply to IR as a corporate function striving for legitimacy within the organization by adhering to corporate rules, common knowledge, and shared values. Mayer and Rowan (1977) describe the institutional rules embedded in modern society as "highly rationalized myths" (p. 343). These myths can be understood as shared notions of what is to be considered good and proper. In accordance with the three isomorphic processes, they can take the form of rules and regulations, of common concepts and beliefs, or of norms and values.

Such an understanding of the role of institutions and institutional isomorphism raises the question of how "myths" lending legitimacy to, for example, organizations are established and disseminated throughout society. Focusing on the micro-level of individual experiences, Berger and Luckmann (1966) propose that individuals are inducted into an institutional order through a process of socialization. Socialization implies a transmission of knowledge through social interaction. The structure of language plays a key role in this transmission; however, knowledge is also transmitted through a logic of narration. Berger and Luckmann (1966) highlight typified roles and performances which form a pattern, "like the unwritten libretto of a drama" (p. 75). Narratives allow for complex accounts of agents, their roles and actions, as well as normative evaluations of these agents and actions (Volchik, 2017). In a similar vein, narratives can help IROs understand their professional role, or that of investors or analysts.

In the social sciences more broadly, the "narrative turn" has led to in-depth discussions of the role of narratives in uncovering and conveying knowledge (Morgan, 2017; Goodson & Gill, 2011; Polletta et al., 2011). Theorists of postmodernism have paid particular attention to the role of narratives in the establishment of informal and formal knowledge, and in the bestowal of legitimacy. The latter is of particular interest to financial communication as IR responsibilities such as disclosures serve to ensure legitimacy for the corporation. Lyotard (1984) coined the term "meta-narratives" for grand, overarching narratives – such as progress and enlightenment – that are widely shared in society and employed to lend legitimacy to what is conceived of

as reliable knowledge. Applied to capital markets, meta-narratives based on efficiency, wealth, and progress serve to legitimize not just the capital market as an institution, but also the practice of financial communication.

Different theoretical accounts of the role of narratives in the determination of legitimacy disagree on the importance of rationality and formalization. While Mayer and Rowan (1977) speak of "myths" as sources of institutions, they do qualify these myths as "highly rationalized" (p. 343). Berger and Luckmann (1966), instead, stress that only a "small and by no means the most important part" (p. 65) of our "knowledge" of the institutional order can be qualified as theoretical, formalized knowledge. More weight is given to common knowledge, derived from "an assemblage of maxims, morals, proverbial nuggets of wisdom, values and beliefs, myths and so forth" (ibid.). Lyotard (1984: 29) even suggests: "Scientific knowledge cannot know and make known that it is the true knowledge without resorting to other, narrative, kind of knowledge, which from its point of view is no knowledge at all". So, in his view, formalized knowledge actually presupposes narratives. Again, applying these insights to financial communication, an argument can be made that publishing highly formalized financial accounts (balance sheets, profit and loss statements, etc.) only constitutes one part of how IR conveys knowledge about the organization and contributes to corporate legitimacy. Less formalized narratives, appeals to common knowledge, and cultural capital should also be considered a part of the financial communication function.

Patterns, Sensemaking, and Bonding

Sociological considerations of the role of narratives in the transmission of knowledge and establishment of legitimacy can be complemented by insights from social, cognitive, and evolutionary psychology. In cognitive psychology, human perception is often framed as an activity: "The individual, in orientating himself in his environment, perceives. What he perceives arises from and ties back into his activity" (Blumer, 1969, p. 155). "Sensemaking" has been suggested as a description of an individual's *active* perception and interpretation of their environment (Gioia, 1986). "It is the job of the sensemaker to convert a world of experience into an intelligible world" (Weick, 2001, S. 9). The role of investors and analysts in understanding and evaluating corporations, for example, has been described as sensemaking (Hoffmann & Fieseler, 2012; Kuperman, 2003). Of course, an individual's level of involvement in this process may differ (Kahneman, 2011; Petty & Cacioppo, 1984). Yet, individuals need to actively bestow meaning upon the sensory input they receive. "Individuals (…) realize their reality by ‚reading into' their situation patterns of significant meaning" (Morgan et al., 1983, p. 24).

As Morgan and colleagues (1983) note, patterns play a critical role in the sensemaking endeavor. In selecting sensory input that is then subjected to

interpretation, individuals attempt to identify recognizable patterns (Gergen & Gergen, 1986; March & Simon, 1976). These patterns are matched with structures already embedded in the individual's cognition – such as schemata, frames, or scripts (Fiske & Taylor, 1991; Markus & Zajonc, 1985). One pattern that human cognition is especially attuned to is causality. Complexity reduction is achieved by identifying a temporal order of events (and agents and actions) which imply causal relationships. As Weick (1995) notes, identifying such causal relationships is often a post-hoc exercise. However, failing to identify causality is commonly perceived as confusing, unsatisfactory, and unsettling. Establishing a causal order, in turn, frequently implies at least a modicum of a narrative: *A* happened, which then led to *B*, etc.

Narratives are of particular interest as an element or tool of intersubjective sensemaking, the establishment of shared understandings (Brown et al., 2008). They are employed both for transmitting and cognitively anchoring cognitive scripts. Narratives encapsulate causal relationships in an accessible, engaging, and memorable way (Polletta et al., 2011). They facilitate higher levels of engagement with a piece of information, which increases the likelihood of both sharing and long-term memorization (Gergen & Gergen, 1986; Markus & Zajonc, 1985). Interestingly, affect appears to play an ambivalent role here, as emotionalization may increase engagement, but at the cost of elaboration (Lane, 2023; Hamelin et al., 2020). Once memorized, narratives serve as cognitive structures that are applied to the selection and interpretation of new sensory inputs and perceptions (Markus & Zajonc, 1985). For financial communication, these findings imply that while narratives are a powerful tool for explaining, for example, recent developments leading up to the current state of a business, emotionalization or affective appeals, however, should be applied only with restraint as it/they may come at the cost of a differentiated in-depth understanding.

Evolutionary psychology, which assumes that the human environment of evolutionary adaptedness was characterized by interactions within small groups, tribes, or clans (Buss, 2019; Cosmides & Tooby, 1997), offers the insights that language is a tool that humans evolved to adapt to their environment (Pinker, 1994; Pinker & Bloom, 1990). The human physiology (brain, throat, etc.) is in fact uniquely tailored to the use of language by vocal communication (Buss, 2019). Even beyond language (Scott-Phillips, 2007), some argue that storytelling itself, the use of language for the transmission of narratives, can be understood as adaptive (Carroll, 2012; Gottschall, 2012). For example, storytelling serves to strengthen social ties or to stabilize social hierarchies (Dunbar, 1998; Pinker & Bloom, 1990). It can be employed to delineate ingroups and outgroups, to identify leaders or ostracize rulebreakers (e.g., through gossip). Narratives, thereby, do not just serve to bestow legitimacy and convey knowledge, and they also serve a relationship building and maintenance purpose. As pointed out in Chapter 6, IR is often focused

on personal interactions between corporate representatives and a small number of investment professionals. It stands to reason that under these circumstances, narratives may serve all three of these purposes.

Narrative Economics, Networks, and Conversations

Aside from sociology and psychology, economics offers some interesting and unique insights into the importance of narratives – and some potential arguments for why narratives should play an important role in financial communication. In his work on "narrative economics", Robert J. Shiller (2019) explores how storytelling affects economic decision-making. He defines narrative economics as "the study of the viral spread of popular narratives that affect economic behavior" (p. 3). "An economic narrative is a contagious story that has the potential to change how people make economic decisions, such as the decision (…) to invest in a volatile speculative asset" (ibid.). Similar to Lyotard, Shiller also finds that narratives tend to be interrelated as "their credibility relies on a set of other narratives that are currently extant" (p. 28). Narratives, accordingly, are more easily accepted if they are compatible with previously established narratives. Furthermore, Shiller highlights both the normative dimension of economic narratives (as a means to shape and maintain institutions), and their important role in the cognitive processing of information ("scripts", p. 37). An economic narrative "reminds people of facts they might have forgotten, offers an explanation about how things work in the economy, and affects how people think about the justification or purpose of economic action" (p. 87). Similarly, Akerlof and Snower (2016, p. 58) propose: "Narratives play a role in understanding the environment; focusing attention; predicting events; motivating action; assigning social roles and identities; defining power relations; and establishing and conveying social norms".

A number of empirical studies have examined how narratives captured in media discourse interact(ed) with economic up- or downswings – both historically and in current business cycles (Ferguson-Cradler, 2023; Hsu et al., 2021). For example, Bertsch et al. (2021) found that narratives tend to consolidate in economic upswings, but fracture during contractions. While a consolidation of narratives may indicate an oversimplification and collective overconfidence, a fracturing could imply insecurity and a search for alternative explanations. Some authors even explore the role of metanarratives in economics, as, for example, efficiency-centered justifications are commonly seized upon to justify economic reforms during crises or depressions (cf., Polonskaya, 2020). Evidence that narratives can causally shape economic developments, as Shiller (2019) proposes, remains scant, though.

The narrative economics lens has been fruitfully applied to capital markets, in particular, and to the role of central banks. Based on sensemaking

theory, Abolafia (2010) analyses Federal Reserve meetings transcripts. He identifies intense pattern-recognition efforts that are based on or aligned with culturally approved models. The identified patterns are subsequently shaped into plausible narratives, such as an external shock justifying the lowering of interest rates. "Plotting the narrative weaves together an intricate set of facts and events into a coherent story" (pp. 355–356). In developing a narrative, agents like central banks unavoidably also engage in identity work – they position themselves within the story they propose (Davis, 2009). Smart (1999) highlights how the narratives produced by central banks are subsequently disseminated through trade and mass media, academics, public officials, and members of the financial community. "(…) ultimately, it becomes a communal cognitive resource (…)" (p. 268). Of course, central banks are not the only agents developing and proposing narratives on capital markets (see also next sections), they are just particularly impactful in shaping economic developments.

The narrative analysis of economics aligns with studies of capital markets that focus on interpersonal relations and conversations. In the latter view, capital markets can be understood as networks of interacting agents that share both soft and hard information amongst each other (Hirshleifer & Teoh, 2009). The number and strength of social ties maintained within the financial community determine the amount and quality of information accessible to an individual. Strong ties are more prone to afford access to privileged, soft, or exclusive information, which tends to be especially valuable (Uzzi & Lancaster, 2004). Holmes (2019) argues that the Bank of England, for example, is embedded in a relatively small network of approximately 9,000 contacts in which conversations critical to central bank policies unfold. As Knorr Cetina and Bruegger (2002) point out, personal interactions, conversations, play a critical role in establishing and maintaining social ties on capital markets. Stories or narratives can therefore be used to share informal information and maintain social ties, but also to publish "hard" information.

Shiller (2019) notes that economics constitutes only a very small fragment of human conversation. However, even narratives shared among very few experts may come to exert significant economic impact. The narratives shared among experts (such as analysts or portfolio managers) may over time come to shape the narratives popular among laypeople (such as retail investors), through what Van Bavel and Gaskell (2004, p. 435) call "colonization" (in the sense of expert ideas colonizing the understanding of laypeople). From a Keynesian perspective, the diffusion of narratives is of particular interest when they spread virally, capture the attention and imagination of ever more market participants, and thereby shape economic behavior at a sufficient scope to affect market outcomes (Shiller, 2019). Hirshleifer and Teoh (2009) find that "verbal arguments obtained in conversation or media presentations" play a critical role in "thought and behavior contagion" (p. 1). Yet,

little is known about the characteristics of economic narratives that manage to achieve virality.

To summarize, sociological insights into the importance of narratives to the establishment and maintenance of legitimacy, and psychological findings on the role of narratives in cognitive processing, sensemaking, and social interaction can be applied to the broad field of economics, and to the capital market arena, in particular. Capital market participants employ narratives to make sense of economic developments, and to shape others' interpretations and decisions. Narratives are employed both to convey soft, exclusive information or hard, public information. Economic narratives tend to be shared in relatively small expert networks but are then disseminated, for example through journalistic media, to broader and lay audiences. Finally, narratives can be employed strategically, to position oneself or to persuade others. The next section will further explore how narratives are employed in this vein by corporations in the context of IR and financial communication.

The Equity Story

Among those agents (strategically) offering narratives to capital market participants are listed corporations pursuing capital. Corporate narratives are very much about identity work (Davis, 2009), and they serve to explain and position corporations as investment objects (Westbrook, 2014). These narratives ensure legitimacy – they highlight how corporations adhere to established norms, rules, and standards. They also act as a sensemaking tool, helping (potential) investors gain a deeper understanding of the corporation. "Organizational storytelling provides a comforting and familiar yet powerful vehicle for organizational messages to reach audiences" (Lane, 2023, p. 5). Numerous studies assert that corporate messages are more readily accepted by audiences if they are "packaged" in a narrative form (Boukes & LaMarre, 2021; Xu & Kochigina, 2021; Carlsson Hauff et al., 2014). In short, narratives offered by corporations to capital market participants serve economic, sociological, and psychological functions. The term commonly used to describe these corporate narratives on capital markets is *equity story*.

Ditlevsen (2016, p. 25) defines an equity story as

> the story of a company's accomplishments and the investment potential of its shares, which is communicated in order to give an impression of its ability to succeed in future, thus making a company's share attractive to actual and potential investors.

As the term equity story implies, this narrative primarily addresses potential and current shareholders.[1] Beyond that, though, the equity story is of interest to creditors, regulators, and journalists – it addresses a wider capital market

audience. The equity story is akin to an elevator pitch of what characterizes and distinguishes the corporation as an investment object (see example in Box 8.1). It is a company's "sales pitch" of its stock. It conveys a comprehensible corporate identity (Martens et al., 2007). The equity story usually contains some financial information but also provides at least as much non-financial information. As such, it forms a crucial basis for all financial communication efforts, a through-line for all messaging to the financial community (Westbrook, 2014).

Storytelling as a means of capital acquisition can already be observed in the very earliest stages of a corporation's lifespan, as research on startup communication and on IPO communication highlights (Roundy, 2014; Martens et al., 2007). Startups employ stories as "legitimizing accounts of entrepreneurial action" (Lounsbury & Glynn, 2001, p. 548). Service providers, such as IR firms or investment banks, often play a supportive role in crafting a company's initial equity story (Guimard, 2013).

BOX 8.1 "WHY INVEST IN SAP?"

"As a market leader in enterprise application software, we help companies of all sizes and in all industries run at their best.

We simplify technology for companies so they can consume our software the way they want – without disruption. Our end-to-end suite of applications and services enables business and public customers across 25 industries globally to operate profitably, adapt continuously, and make a difference.

With a global network of customers, partners, employees, and thought leaders, SAP helps the world run better and improve people's lives.
Headquartered in Walldorf, Germany, and with a diverse global population of more than 100,000 employees, SAP achieved total revenue of EUR30.87 billion in fiscal 2022. Our stock is traded on the XETRA and NYSE exchanges under the symbol SAP".

Example: The SAP SE Equity Story[2]

The equity story is more than just a disclosure tool, it is an instrument of persuasive communication (Westbrook, 2014). It highlights certain aspects of the corporations – and thereby necessarily neglects others. It is used for agenda setting purposes (McCombs & Shaw, 1972, for more detail on agenda setting and framing see Chapter 9). The equity story attempts to increase the salience of specific aspects of the corporation. The equity story is also an attempt at priming (Iyengar& Kinder, 1987), and it centers those corporate features or characteristics that the corporation itself believes should

inform its value. This is a core element of the sensegiving function (Gioia & Chittipeddi, 1991) of the equity story. A corporation is an incredibly complex phenomenon. There is an abundance of financial and non-financial data available that could be employed to assess its value (Laskin, 2016; Hoffmann & Fieseler, 2012). Corporate valuation therefore requires selection and focus. Analysts and investors need to pick and choose those (financial and non-financial) indicators that are most meaningful and valid for an estimation of corporate value. These indicators are very contingent, though, they depend on a corporation's locale, industry, business model, products and markets, state of evolution and growth, etc. Picking non-meaningful or invalid indicators will lead to a misevaluation of the corporation and may entail significant financial losses. To a degree, capital market participants therefore rely on the IR function to explain which indicators should be considered relevant for an assessment of its state and value (Chapman et al., 2019). The equity story encapsulates these indicators.

Finally, the equity story serves a framing function (Scheufele, 1999). It contextualizes raw data and relates it to preexisting schemas or mental models. While this, too, is an important element of sensegiving, it unavoidably implies a persuasive dynamic, as frames often implicate valence, they nudge toward a normative assessment, they may contain a "spin". So, the equity story goes beyond presenting raw data, it contextualizes these data and presents them as, for example, in line with expectations, a sign of success, or as disappointing. The equity story "packages" information (Agarwal et al., 2016). Accounting research has come a long way in analyzing how distinct narratives are more or less successful in capturing the attention and ensuring (or obfuscating) the understanding and approval of investors (Nicolaides et al., 2018; Beattie, 2014; Rutherford, 2003). Some have gone so far as to characterize IR as a marketing function (Dolphin, 2004). Such a view of the equity story may come with some pitfalls, though, as overly optimistic storytelling leads to unrealistic earnings expectations and subsequent disappointments (Solomon, 2012; De Jong et al., 2007).

Notably, the equity story often does not explicitly take the form of a narrative as defined above. In an analysis of German listed corporations' websites, Tengler and colleagues (2020) find that, first, many corporations do not explicitly present their equity story on their website at all, and if they do, they use various descriptions, such as "investment case", "capital market story", "why invest", and "reasons for an investment". Second, only 65% of equity stories were presented in plain text, and others rely on tables, graphs, bullet points, or a combination thereof. In a study of crisis communication, Clementson (2020) finds that presenting arguments in a narrative form does not necessarily increase their persuasiveness. The choice of a narrative form needs to fit the corporation's circumstances. Possibly, capital markets as high-speed and data-driven institutions do not generally lend themselves to

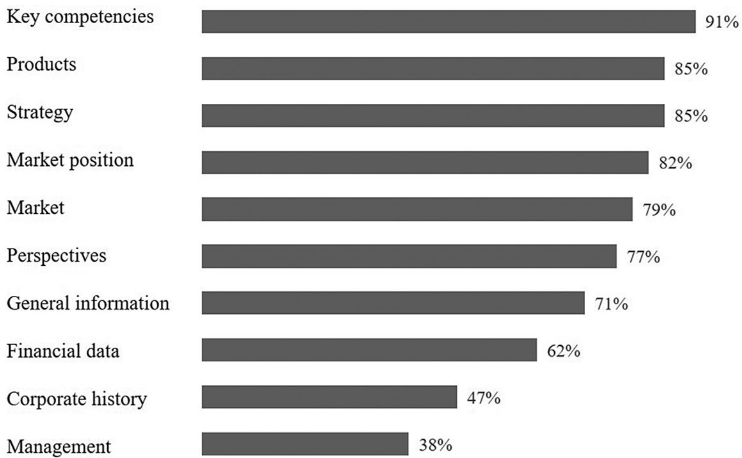

FIGURE 8.1 Content of equity stories on German IR websites (Figure by the authors)

textual narratives. Figure 8.1 presents the corporate aspects most frequently addressed in German corporations' equity stories (Tengler et al., 2020). Strikingly, only 62% of equity stories presented any financial data.

So, the equity story is often not a narrative in the sense of a textual coherent narrative account of a sequence of events. Over time, though, as the equity story is updated and evolves, it does form an account of how the company conceives of itself and wants to be perceived by the financial community. With regard to the apparent lack of a plot in the equity story, and its construction through a series of disclosures, Beattie (2014, p. 118) notes:

> A story is an 'emplotted narrative'. Chronicles comprise a series of causally connected events, but without plot. A plot moves the events from one equilibrium to another, through a phase of disequilibrium. The periodic nature of financial reporting means that the story in corporate annual reports is provided in instalments. Disturbances to the initial equilibrium come in the form of external events (e.g. takeover or financial crisis) and/or changes in the company's business model.

The equity story also isn't just presented in one place, like the corporate website or the annual report (Brown et al., 2019; Adorisio, 2015). It infuses almost every IR publication and disclosure, especially the IR presentation (see Chapter 6). Any press release, slide deck, fact book, etc. is built on the equity story and contributes to its evolution (Westbrook, 2014). Lyotard (1984) points out that once a narrative is well-established, it is often sufficient to just present fragments of this narrative to convey meaning or knowledge. That

certainly applies to how the equity story is consistently an implicit element of corporate interactions with analysts and investors, who are well-acquainted with the corporation's investment case.

As noted, the equity story is more than a tool of sensegiving, of knowledge transmission, helping investors gain a reliable understanding of the investment case. It is also an economic narrative that sometimes manages to catch on or go viral (Shiller, 2019) – think of the broad demand for a popular tech stock such as Apple Inc., or the crowd-based enthusiasm for the GameStop short squeeze (Hasso et al., 2022; see Chapter 5). Equity stories appeal to established schemata or scripts shared by capital market participants (such as evaluation models, market trends and sentiment, and industry characteristics). They serve to maintain the corporation's legitimacy by highlighting how the organization adheres to social expectations of compliance, professional conduct, and values (i.e., institutional isomorphism).

A current exemplification of this dynamic is corporations' shift to sustainability in their equity stories. Another analysis of equity stories of German listed corporations conducted in 2020 revealed that half of them addressed ESG aspects (Waskowiak et al., 2020). Clearly, corporations understand societal expectations – some of them regulative, some normative – regarding their social and environmental responsibilities (Beattie, 2014; Fieseler, 2011), and adjust their storytelling accordingly. In line with Mayer and Rowan's (1977) description of conformity with societal expectations as "ceremonial", Brown and colleagues (2019) note that there is a degree of "theater" involved in staging IR events, such as earnings calls. Thereby, regular updates on a corporation's equity story also serve to signal its willingness to adapt to stakeholders' expectations, wishes, and values.

Sensegiving, Impression Management, and Rhetoric in Financial Communication

Both in Accounting and Communication studies, lively streams of research focus on the use of narratives, rhetoric, and argumentation in financial communication. Studies in these fields tend to analyze corporate disclosures, such as annual reports, earnings releases, or transcripts of earnings calls, to identify how corporations shape their messaging to the financial community. Some analyze quantitative data, for example, to explore earnings or expectation management, and others focus on qualitative text (Beattie, 2014). Many of these studies build on agency theory and the implied information asymmetry between management and shareholders (Merkl-Davies & Brennan, 2007; Healy & Palepu, 2001). It is this asymmetry that gives corporations leeway to select, adjust, and frame data released to financial publics – both in mandatory and voluntary disclosures, with slightly more leeway afforded by the latter due to less stringent regulation (Beattie, 2014).

In Accounting studies, earnings management can be thought of as the foundation of narrative manipulation.

> Earnings management occurs when managers use judgment in financial reporting and in structuring transactions to alter financial reports to either mislead some stakeholders about the underlying economic performance of the company or to influence contractual outcomes that depend on reported accounting numbers.
>
> *(Healy & Wahlen, 1999, p. 368)*

For example, studies have identified downward earnings management in years of senior management changes, so that the new management is more likely to announce positive results after one full year in office (cf., Godfrey et al., 2003). Aside from massaging the numbers, another important facet of narrative manipulation in corporate disclosures is the selection of what to include or exclude in a publication (Merkl-Davies et al., 2011). Of course, the sheer quantity of disclosures can also be changed to influence market sentiment – for example when corporations "hype" their shares through a flood of releases (Bushee et al., 2023).

In addition, narrative manipulation unfolds in how data is presented to the financial community in corporate disclosures – for example, through weighting, comparisons, attributions, wording, illustrations, readability. (cf., Nicolaides et al., 2018; Lehavy et al., 2011; Godfrey et al., 2003; Rutherford, 2003). Such manipulations in the presentation are the subject of various research strands: "Recent NLP [natural language processing] studies have focused on readability, tone and markers of deception; traditional content-analytic studies have focused on topic, quantity and quality, while recent qualitative case studies have examined impression management, storytelling, sensemaking and sensegiving" (Beattie, 2014, p. 112). Famously, Merkl-Davies and Brennan (2007, p. 146) identified seven common impression management strategies in voluntary disclosures:

> Six strategies are used for concealment. Two of these obfuscate bad news by manipulating verbal information either by (i) reading ease manipulation (i.e. making text more difficult to read) or (ii) rhetorical manipulation (i.e. using persuasive language). Four strategies emphasize good news by manipulating verbal and/or numerical information: (iii) thematic manipulation emphasizes positive words and themes, or emphasizes positive financial performance; (iv) visual and structural manipulation involves the way in which information is presented (i.e. visual emphasis or ordering of verbal/numerical information); (v) performance comparisons involve choosing benchmarks that portray current financial performance in the best possible light; and (vi) choice of earnings number involves selecting

one of a number of earnings amounts for disclosure to favorably portray current financial performance. The seventh impression management strategy is the attribution of organizational outcomes.

Applying an impression management lens to corporate disclosures highlights the role of the narrator. Based on insights from social psychology, studies assume that corporate representatives attempt to anticipate audience reactions and adjust their disclosures accordingly (e.g., Merkl-Davies et al., 2011). Some cast an even wider net and explore interactions between corporate representatives and the financial community. For example, analysts sometimes challenge the narrative proposed by corporations. Analysts, in turn, are occasionally criticized by shareholder activists who propose their own counter-narratives (Stolowy et al., 2022; Paugam et al., 2021). Such challenges revolve around the authority, the intentions, and competence of a narrator. Lyotard (1984) highlights the power held by narrators, who command the capacity to establish and convey a narrative. Berger and Luckmann (1966) agree that storytellers often speak from a role of authority (such as a priest) – a notion that could be extended to intermediaries such as journalists or analysts. Polletta and colleagues (2011) describe how through a narrative lens, activism is characterized by challenges to authorities manifested in attempts to establish or strengthen an alternative narrative in a public discourse.

The role and responsibility of the narrator in public discourse is a theme also addressed in the PR literature, specifically in the "rhetorical approach" to PR (Heath, 2000). In this perspective, organizations participate in public discourse, and they acknowledge and engage other parties invested in an issue. Argument, advocacy, and persuasion are key functions of PR. While based on the organizations' self-interest, PR ultimately serves the larger purpose of contributing to understanding, conflict resolution, and shared meaning (Heath & Ihlen, 2018; Heath & Frandsen, 2008). "The key is not neutrality, but how well any information advances the quality of the dialogue" (Heath & Frandsen, 2008, p. 352). The rhetorical approach highlights the unavoidably persuasive nature of corporate communications, while also arguing for a need to engage stakeholders, present arguments, employ rhetoric, and defend a position – without recourse to illegitimate means such as threats, lies, or deception.

The rhetorical tools employed in persuasive communication are at the heart of research into argumentation in financial communication (Palmieri, 2018). One setting that lends itself to such analyses is (earnings) conference calls, as such calls usually include a Q&A, which allows for the unfolding of an exchange of arguments between corporate representatives and analysts (Rocci & Raimondo, 2018; Westbrook, 2014). Indeed, if management refuses to answer analysts' questions in a Q&A, a negative share price performance

is likely to ensue (Hollander et al., 2010). Palimieri et al. (2015) find that analysts frequently employ indirect questions to precisely target management's explanation. Open challenges, instead, remain relatively rare. Still, corporate representatives are eager to back up their claims or opinions with evaluative arguments (i.e., normative statements). Argumentation can also be observed in defense documents, for example, when management attempts to fend off a takeover bid, when a shareholder activist attacks (Palmieri, 2018). They can also be found in CEO letters in the annual report, where the CEO presents the case for their leadership of the organization (Leibbrand, 2015). Laskin (2018) analyzes rhetorical strategies employed by over-versus underperforming companies in their annual reports. He finds that overperforming companies stress accomplishments and cognition (learning and discovery), while underperforming companies employ terminology that signals concrete and material statements, realism, and assurance. In a study of short seller reports, Paugam and colleagues (2021) find that narratives appealing to *logos* (logic) tend to find more resonance in subsequent media reporting. However, appeals to *pathos* (emotions), such as humor, and *ethos* (norms), such as stressing expertise, are also positively related to media coverage.

Given these diverse strands of research into storytelling, impression management, rhetoric, and argumentation, Adorisio (2015) proposes a helpful differentiation of narratives in financial communication. She distinguishes narratives-as-artifact, where narratives are manifested in IR publications, narratives-as-practice, where the focus is on how capital market participants develop and employ narratives, and narratives-as-method, where a narrative lens is applied to the study of financial communication. As is often the case in the field of financial communication, research into the role of narratives is very dispersed, often fractured, and rarely connected across disciplinary boundaries. Still, the broad body of literature on narratives, storytelling, sensegiving, impression management, rhetoric, and argumentation highlights the persuasive character of financial communication. Listed corporations need to present a credible, engaging, and distinctive equity story to adhere to normative expectations, ensure their legitimacy, help the financial community understand and evaluate the business, and ultimately contribute to a functional capital market. Capital market participants, in turn, need to be aware of the persuasive character of corporate storytelling, remain vigilant, and occasionally challenge the narratives proposed by financial communication professionals.

Implications for Effective Financial Communication

- IR and financial communication can be understood as a sensegiving function. It is necessary to select the information that is conveyed to capital markets, both in mandatory and voluntary disclosures. It is necessary to

give weight to the chosen data and information, to structure it, and to relate it to previous disclosures. Also, it is necessary to provide explanation, context, and guidance. Aside from hard data, IR instruments also contain soft data, non-financial information, textual information, graphs, and images. They contribute to narratives and often serve an argumentative purpose.

- Effective financial communication needs to be aware of its unavoidably persuasive nature. That doesn't imply embracing a "marketing" role, but adopting a realistic understanding of the narrative function of financial communication.
- The equity story is a core element of IR and financial communication. Even though it may not take the shape of a traditional narrative plot, it does contain the company's self-presentation as an investment object. It is an element of identity work, as it characterizes the company and positions it in its competitive field, differentiating it from peers. The equity story is built over time through subsequent disclosures and releases. Effective financial communication establishes a clear equity story early on, often during the IPO, and subsequently builds on this story, extends it, and occasionally adjusts it when necessary. The equity story ensures consistency in financial communication.
- Crafting a good equity story requires an excellent understanding of the organization, its history, its business, its products, its strategy, objectives and ambitions, its peers and markets, etc. However, a good equity story also relates and appeals to larger narratives, such as current market trends, common strategies within the competitive field, and policy initiatives. Even beyond that, it appeals to relevant meta-narratives, such as the purpose of capital markets, its legitimization through values such as efficiency, wealth, growth, and innovation. Appeals to larger narratives are visible in corporate announcements (e.g., earnings releases) when recent business developments are explained through references to market sentiment, external shocks, or policy interventions (e.g., interest rate adjustments). Such appeals help financial audiences make sense of corporate disclosures.
- The narrative lens can also be applied to individual IROs and IR teams: individuals often learn their organizational role, and the role of a corporate function, through storytelling. They tell stories about themselves and their tasks in order to generate understanding and legitimacy within the organization, to establish good internal relationships. Such micro-level narratives ideally relate to larger organizational or societal narratives, such as the corporate strategy, the corporate vision or purpose, or social values (e.g., sustainability) to explain contributions and gain legitimacy – especially vis-à-vis corporate leadership.
- Effective financial communication employs narratives as a strategic tool. Yet, the narratives offered by a listed corporation are only one contribution to a narrative field, a discourse. Numerous other actors offer their

own, competing, sometimes even conflicting narratives. Competing narratives play a key role in circumstances such as short seller attacks, shareholder activist interventions, or M&A transactions. Investors, analysts, journalists, and other intermediaries can offer narratives that run counter corporate interests. In these cases, building on a long-term, familiar, transparent, and credible equity story can be all the more valuable as it lends authority to the corporate position.

Notes

1 Some propose the term *debt story* for the company's positioning toward creditors (Guimard, 2013). Others propose the more encompassing term *capital market story*.
2 https://www.sap.com/investors/en.html (accessed June 12th 2023).

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9

THE ROLE OF MEDIA RELATIONS AND AGENDA SETTING IN FINANCIAL COMMUNICATION

One of the key functions of financial communication is to establish, maintain, and foster effective media relations. Media reporting can play a critical role in guiding financial audiences' attention to corporate disclosures and corporations' financial storytelling. Corporations, therefore, do not limit themselves to financial disclosures, they also don't just "package" their disclosures in captivating narratives, they proactively reach out to their audiences and intermediaries to convey their messages. They engage in agenda setting. Financial communication can even be understood as an image-building and reputation management function (Hoffmann, 2019). As noted in the introduction, the media relations function of financial communication can be differentiated from investor relations in a narrower sense. Chapter 12 will delve deeper into the organizational implications of this important distinction. This chapter will employ the term *financial communication expert* to describe those communications professionals who are engaged in the public relations or media relations side of financial communication.

Media relations encompass the direct and indirect external communication of corporations with the media. It serves to positively influence the knowledge, opinions, attitudes, and expectations of the reporting journalists but also other stakeholders (e.g., shareholders, employees, customers) who stay informed about the corporation via the news media (see also Vahouny, 2011; Meckel & Will, 2008). Financial communication experts establish and foster relationships with journalists and news outlets where they would like to place their messages. They also attempt to ensure that the news coverage of the corporation they represent is adequate, factually correct, and presents the company in a positive light. Particularly in times of crises, relationships with (financial) news media and the respective journalists become crucial to

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inform the public about current developments, causes, and consequences; to limit negative publicity; and to correct false or misleading information about the company.

But why are the news media still so important for informing capital markets and financial stakeholders in today's fast-paced media environment? What is the rationale and the mechanism that explain why financial communication experts should continue to maintain media relations to effectively communicate with their stakeholders? What is the role of financial and business journalists on capital markets? And how should financial communication experts make use of insights from public relations research to communicate effectively in their daily practice? This chapter will highlight key media theories like agenda building, agenda setting, and framing theory in light of financial communication and explain how they relate to some of the key functions of financial communication experts in proactively shaping the perceptions of key actors on the capital markets.

The Role of the Media for Capital Markets

The news media – be it online or in print – can still be seen as one of the main sources for capital market participants to retrieve corporate and financial information about the market, its key actors and participants, economic developments as well as relevant regulatory and political discussions (Strauß, 2018a; Wang, 2013). In fact, media coverage takes on a crucial role for listed companies, as it not only influences the corporation's reputation (Carroll, 2009; Carroll & McCombs, 2003; Fombrun & Shanley, 1990) but also the fluctuation of stock prices (Strauß et al., 2016; Scheufele et al., 2011; Tetlock, 2007). A rich body of research provides evidence on how news media can affect the share price of corporations (e.g., Strauß et al., 2018; Oberlechner & Hocking, 2004; see also Chapter 11 for an overview). Scholars and practitioners agree that financial reporting does not only have an impact on stock prices but also on policy discussions (e.g., Shiller, 2005; Parsons, 1989). Financial communication experts are keenly aware of the power of the media in raising criticism, presenting corporate news in an unfavorable light, or uncovering scandals that can have a lasting negative impact on the corporate reputation and its valuation (Strauß, 2018a; Westbrook, 2014; Deephouse, 2000).

Following the Nobel Laureate Robert Shiller, "(t)he media actively shape public attention and categories of thought, and they create the environment within which the stock market events we see are played out" (Shiller, 2005, p. 105). This citation highlights the role that the news media play in presenting financial topics, such as IPOs, stocks, or corporate news, thereby influencing the ways market participants and financial actors understand and react to them. Aaron Davis (2006), who has interviewed more than 350 high-profile practitioners from the financial sector, political parties, and trade

unions throughout his career, similarly argues that the news media are powerful vehicles in spreading financial information and reflect what the majority of the market – the market consensus – believes. By covering stock market events (Scheufele et al., 2011), contextualizing and explaining market development as well as by providing new insights and analyses (e.g., investigative reporting), the news media offer a foundation for the formation of market opinions, and thereby trading decisions (Pollock & Rindova, 2003).

Thompson (2013) argues that capital markets are constitutive of information flows and the communication and interaction among market participants. More specifically, he contends "the financial media and the news services they provide cannot be regarded simply as external and independent observers of market events" (p. 209). Following Knorr Cetina and Bruegger (2002), the news media have a double function: on the one hand, they reflect events on the financial markets; on the other hand, they represent a constitutive part of the financial market itself by providing relevant information for market participants, their decisions, and actual behavior. However, this close interrelationship between the (financial) news media and the financial markets has led to critical observations and evaluations regarding the dependency of financial journalists on sources and information from the financial elite, thereby questioning the authenticity and efficacy of their role as watchdogs and independent observers (Knowles et al., 2017; Doyle, 2006; Davis, 2000).

Even though this criticism raises concerns about the independence of financial journalists, it also implies that news media are crucial channels for financial communication experts to place corporate messages and inform key stakeholders. Recent research has shown that specialized financial news outlets, especially, are key in placing messages about current issues (e.g., sustainable finance) in the public sphere, and in providing alternative views and substantial insights and information, that may influence the behavior of decision-makers (Strauß, 2021). For example, in a recent study, journalists from financial newspapers such as *The Financial Times (FT)* or the *Responsible Investor* reported that they believe that they have a key function in providing a platform for information about sustainable finance for and by political and economic decision-makers, thereby contributing to the opinion formation and decision-making among elite audiences (Strauß, 2021). Thus, the news media should not only be perceived as a channel to convey corporate and financial messages by financial communication experts, but also as a conduit through which corporations can co-shape public debate, and maybe even affect decision-making regarding key issues on the political agenda.

Key News Media for the Financial Markets

News media are publications that can be distributed in print, online, or in other hybrid forms (e.g., e-papers, social media channels). In the context

of financial communication, the literature mainly refers to news media that are curated or have other editorial processes that accompany and enrich the production of news articles (Wang, 2013; Strauß, 2019). This applies not only to news media formats such as daily or weekly newspapers, tabloids, magazines, and financial newspapers but also online news formats such as the digital version of news outlets, or the distribution of news stories from traditional and online news outlets via digital and social media channels (e.g., TikTok, Instagram, Facebook).

Wang (2013) provides a list of various news sources that are key for understanding media relations in financial communication. Print news publications, such as *The FT*, *The Wall Street Journal*, or *The New York Times*, offer their audiences daily information about business and financial news that provide insights about investment opportunities, trends, and recent economic developments as well as information about the stock market, companies, or other market events. More specifically, the *FT* has been identified by scholars and industry leaders as one of the most important and prestigious news outlets for the financial community (Davis, 2015). According to the *FT* itself, the newspaper (print and online) is not only popular among opinion leaders in the financial industry, by business and corporate leaders (e.g., C-suite), but also among investors and political decision-makers (Financial Times, 2020).

Of course, most print news publications are also available online, thereby publishing financial news 24/7 (Strauß, 2019). Likewise, online news websites, like *Bloomberg, Reuters, CNBC, Yahoo Finance,* or *Market Watch*, have become popular information sources for financial experts and investors by providing them with nearly real-time financial news feeds, information about stocks, investments, and ongoing assessments of market trends (Strauß, 2019; Wang, 2013; Hope, 2010; Barber & Odean, 2001). In addition, discussion forums and social media platforms such as *Reddit* have more recently gained attention as information sources that can shape market sentiments (Long et al., 2021). However, they are not discussed here in detail given that they lack an editorial process that would qualify them as news media (see Chapter 14 for a discussion of digital information channels). Furthermore, Wang (2013) lists weekly publications such as *Barron's* or magazines such as the *Business Week* as common sources for retrieving financial information. In fact, more specialized (online) news magazines and trade journals have more recently gained relevance in the context of expert discussions on sustainable finance and investments (Strauß, 2022).

The most important news outlets for investors and traders on the financial markets are the real-time news wire services, such as *Dow Jones, Reuters,* or *Bloomberg* (Strauß, 2019; Westbrook, 2014; Davis, 2005). More specifically, news releases, headlines, and stories that are distributed via the *Bloomberg* terminal have an immediate impact on share prices and continuously draw the attention of the financial community (e.g., Strauß et al., 2018; Knorr Cetina & Bruegger, 2002). For example, a study by Strauß

and colleagues (2018) showed that market-moving stories distributed via *Bloomberg* terminals were reflected in significant share price movements, while news sourced from *Reuters* and *Bloomberg* and shared via Twitter seem to lag behind and provide information to a broader public. Thus, while news distributed and consumed via news terminals (e.g., *Bloomberg*) present almost real-time market information to professional traders, news distributed via public channels, such as Twitter or the general (financial) news media, offer delayed market information for the broader public, including retail investors.

Agenda Building and the Influence of Public Relations

Given the important role that news media play on capital markets, corporate and financial actors continuously try to place their messages in the news media to influence capital market sentiment and trading. Agenda-building theory has become a well-known framework that explains how actors and sources aim at influencing the media agenda with their own agenda and which factors explain how the news media agenda eventually is shaped (Turk, 1986; Gandy, 1982). Nisbet (2008) defines agenda building as "the process by which news organizations and journalists feature, emphasize, and/or select certain events, issues, or sources to cover over other" (p. 1). However, the concept has been applied and studied from various perspectives, with varying definitions (see for an overview: Denham, 2010). In fact, a large body of research in political communication has investigated to what extent the political agenda influences the media agenda and how political actors exert their power over what is being discussed and covered in the news media (Hopmann et al., 2012; Kiousis et al., 2006; Turk, 1986).

Increasingly, the agenda-building theory has been applied to the field of corporate and financial communication, highlighting the influence that public relations and corporate communications efforts can exert on journalists and their coverage (e.g., Ragas, 2015; Tang, 2012; Berger, 2001; Gandy, 1982). Kiousis et al. (2007), for example, show a strong correlation between the salience of companies in public relations materials and the coverage of the *New York Times* and the *Wall Street Journal*. Similarly, Ragas et al. (2011) found support for the agenda-building process between corporate candidate-controlled information subsidies and the financial news coverage during the 2008 Yahoo! Inc.-Carl Icahn proxy contest. DiStaso (2012) showed how annual earnings press releases are correlated with positive coverage in local media and negative coverage in national news media. According to a review of studies researching the relationship between PR and the news media by Macnamara (2014), 40–75% of news media content is sourced from PR materials.

Scholars have often defined the relationship between public relations and journalism as interdependent or symbiotic (Evans, 2010), a "tango" (Gans,

2004), or in terms of the "intereffication model" (Bentele & Nothhaft, 2008). On the one hand, journalism – and particularly financial and business journalism – is dependent on the information provided through public relations (e.g., press releases, disclosures) because researching this information themselves would be too costly and time-consuming for journalists. On the other hand, PR is dependent on the publicity of corporate information in the news media to gain visibility and attention for their corporate messages (Bentele & Nothhaft, 2008; Zoch & Molleda, 2006). Public relations experts, therefore, attempt to facilitate journalistic coverage by providing helpful input that is easy to process for journalists. Research has provided evidence that press releases written in the style of news reporting are more likely to be taken up by the news media (Maat, 2007).

Although Carroll and McCombs (2003) suggest that "organized efforts to communicate a corporate agenda will result in a significant degree of correspondence between the attribute agenda of the firm and the news agenda" (p. 42), it should be noted that financial journalists work within external and internal constraints (Shoemaker & Reese, 1996) that affect the selection of information and the presentation thereof (cf. Meckel & Will, 2008). In fact, one stream of research in agenda-building theory has investigated the reverse relationship, finding evidence that the news media is also influencing the corporate agenda (e.g., Strauß & Vliegenthart, 2017; Ragas, 2013; Zyglidopoulos et al., 2012). After all, besides information provided by corporations, one major source for financial and business journalists is analyst recommendations, but also sources from the industry with whom journalists have established year-long and trusted relationships (Strauß, 2019; Laskin, 2011).

To achieve the objective of placing corporate messages in the (financial) news media, financial communication experts should be aware of the selection process employed by journalists. Solomon and Soltes (2012) have identified seven determinants that can be considered as key *news values* for the business press, which are company size, industry relevance, unexpectedness, negativity, timing of the release, effectiveness in dissemination, and access to sources who can comment on the news. In other words, the more of these elements are contained in corporate disclosures or press releases, the more likely they are to be picked up by news media. Westbrook (2014) provides a helpful overview of the working routines at Bloomberg and explains how news stories come about, how they are composed, and what angles usually get covered in the news (see Box 9.1 for more information on financial and business news practice).

BOX 9.1 FINANCIAL AND BUSINESS JOURNALISTS

Research in financial and business journalism often highlights the watchdog role of journalists, whose job it is to hold those in financial and political

power to account by uncovering fraud, scandals, and deception by corporate and financial actors (e.g., Strauß, 2019; Usher, 2013; Tambini, 2010; Doyle, 2006). However, previous research has shown that quality standards in financial journalism (such as objectivity) have decreased in English-speaking news (Australia, UK, USA), many journalists have failed to live up to their watchdog role during the Global Financial Crisis 2007–2009, and that there was a considerable lack of media accountability during this period (Manning, 2013; Usher, 2013; Tambini, 2010). Some point to an increased influence of PR on financial news coverage (Strauß, 2019; Thompson, 2013; Davis, 2000). Possible causes for these trends include financial strains on journalism, pressure to produce more content in less time (Tambini, 2010; Witschge & Nygren, 2009), a lack of domain-specific knowhow (Strauß, 2019; Schiffrin, 2011), and the complexity of financial topics (e.g., Manning, 2013) as well as the tension between the need to convey and rely upon corporate information, on the one hand, and providing relevant information for the public and the financial community, on the other hand (Strauß, 2022).

Recent research has corroborated the assumption that financial and business journalism is mainly written for a male, white, middle- to high-income, and educated audience (Strauß, 2022, 2019), failing to reach a broader audience with financial topics. The focus of the financial press on elite audiences restricts the presence of perspectives from low-income, female, and lower educated citizens (Strauß, 2022; Knowles, 2020; Knowles et al., 2017; Davis, 2005). At the same time, surveys and interview studies have shown that financial and business journalists still rank journalistic standards such as accuracy, objectivity, fairness, and balanced reporting highly (Strauß, 2019, 2022). Many financial journalists identify with the role of an educator and information transmitter (e.g., Strauß, 2019). The recent years have witnessed a rise in niche and subjective financial journalism, including the work of so-called finfluencers (financial influencers). This type of journalism is characterized by highly personalized reporting, often focused on commentary, and much less attached to established professional standards – and thus more vulnerable to attempts at market manipulation.

Setting the Agenda for the Financial Markets

First-level agenda-setting theory is one of the most central theories in communication science and has been broadly employed in the field of financial communication (e.g., Strauß, 2018a; Kleinnijenhuis et al., 2015; Scheufele et al., 2011). At its core, the theory implies that those issues that are more often and more centrally covered in the news media also rank higher on the publics' minds (McCombs, 2014; Scheufele, 2000; McCombs & Shaw,

1972). The theory goes back to the famous Chapel Hill study in which McCombs and Shaw (1972) could prove a medium to strong correlation between those topics that were most widely covered in popular news media during the American presidential election in 1968 and those topics that surveyed American citizens indicated to be most important to be addressed by the government. Thus, the news media select which topics will be discussed in the media agenda, which in turn indirectly influencing what the public is thinking about (Cohen, 2015). Reversely, given that the news media cannot cover an unlimited number of topics on their daily agenda, the selection of one topic usually comes with the exclusion of another topic (Brosius & Kepplinger, 1995).

With regard to financial communication, the agenda-setting theory suggests that those companies that are covered more often in the (financial) news will become more salient in the minds of the financial community. In other words, when certain stocks or listed companies receive more attention in the news, financial market actors will likely assess these companies as more important for the financial sector (cf. Carroll & McCombs, 2003). However, particularly with regard to the financial markets and financial communication, the *how* of the news coverage is of particular relevance, given that negative news about a company, such as the unfolding of a corporate crisis (e.g., a leak of sensitive information) can send shares prices tumbling. Here, *second-level agenda-setting theory* is useful in explaining how the way in which an issue or actor is portrayed in the news media relates to how the audience interprets the respective issues or actor (Carroll & McCombs, 2003; McCombs et al., 1997). In other words, the tone in which journalists select to present a topic influences the impression formation on the part of the audiences (Scheufele, 2000). For shares or listed companies, this implies that whether the news media portray a stock in a positive or negative light (cf. attributes) can spill over to the evaluations made by the financial community (cf. Pollock & Rindova, 2003; Deephouse, 2000).

The *first-* and *second-level agenda-setting theory* has been employed and tested in the field of corporate and financial communication with a focus on the corporate image or reputation (e.g., Kim et al., 2015; Ragas, 2015; Kiousis et al., 2007). One seminal study by Fombrun and Shanley (1990) shows that the volume of media attention devoted to 292 companies in the United States is negatively correlated with their *Fortune* rating, a measurement of reputation. These studies are of particular interest because they imply that financial communication is, in effect, an image-building and reputation management function. Another stream of research in financial communication has employed *first-* and *second-level agenda-setting theory* to study the effects of financial and corporate news on share prices (Strauß et al., 2016, 2018a; Kleinnijenhuis et al., 2015; Scheufele et al., 2011). Here, findings imply that daily news about corporations tend to lag behind and follow

rather than influence the market. However, intraday news – and particularly negative news – can drive share prices down in the long run.

Framing Corporate Messages

Closely related to the *second-level agenda-setting theory* is the field of *framing theory* (Entman, 2007; Scheufele, 2000). Framing theory describes the way in which the framing of issues or topics in the news media is transferred to the perceptions of news audiences (Huang, 1995). One of the most famous definitions of news framing is based on Entman (1993), which he updated in 2007 by stating: "We can define *framing* as the process of culling a few elements of perceived reality and assembling a narrative that highlights connections among them to promote a particular interpretation" (p. 164). According to Entman (2007), fully developed frames usually have the following four functions: problem definition, causal analysis, moral judgment, and solution or remedy promotion. Just as *priming* (Scheufele, 2000) highlights some aspects of a story, framing contextualizes a story in a way that will influence how the audience interprets, understands, or acts upon the message (e.g., Entman, 2007; Gamson, 1992).

For financial communication, framing theory implies that the way a corporation is portrayed in the news media (e.g., positive attributes, criticism, praise) can influence the ways in which financial audiences understand the corporation, evaluate it, and potentially even behave toward it. These evaluations can manifest in the buying or selling of shares (Strauß & van der Meer, 2017; Pollock & Rindova, 2003) or in the recommendations of analysts (Laskin, 2011). Previous research, for example, has shown that being associated with sustainability topics can have a positive effect on corporate reputation (Khojastehpour & Johns, 2014). It is worth to note, however, that the framing of a message might be perceived in various ways, depending on the receiver and the context in which the message is received. The more dimensions of a message a receiver deems important, the more complex and the less predictive the response of the receiver (Kleinnijenhuis et al., 2015).

Research on corporate framing versus news media framing have investigated the correlation, inter-dependence, and interrelations between the two spheres by focusing on topics and implicit frames. Kiousis et al. (2007) found a positive correlation between various attributes in corporate and news media framing, such as vision and leadership, social responsibility, and products and services. They conclude that "emphasizing these attributes in information subsidies may be a useful strategy in developing corporate media relations messages" (p. 158). With regard to financial markets, Scheufele and colleagues (2011) argue that the news media function as a "seismograph" for investors by framing a company in a certain way and by reporting about it with reference to topics, such as financial performance, leadership, or

product quality, which in turn can affect trading behavior. Following previous research (e.g., Hisano et al., 2013), Strycharz et al. (2018) investigated the relationships between topics covered in the news media about Dutch companies ING, Philips, and Shell and their stock market prices. They found that media coverage of the topics of share price, social activities, products, and business activities can be positively related to share price fluctuation.

More recent research has applied agenda-building theory and framing to semantic network analyses, investigating the interrelationship between implicit frames present in public relations materials and news media coverage (Strauß & Vliegenthart, 2017; Guo & McCombs, 2016). Following Carroll (2016), latent links that connect objects and actors with attributes might be equally influential in building the media agenda. Scholars have labeled this as the third-level agenda-building process, which has been researched in various contexts (e.g., Netherlands: Van der Meer et al., 2014; Germany: Strauß & Vliegenthart, 2017; UK and US: Schultz et al., 2012; Schweigert et al., 2016). Van der Meer et al. (2014), for example, show that the frames in PR materials, the news media, and the public (Twitter) align over time in times of crises. In a study of German banks, Strauß and Vliegenthart (2017) found that while the German financial news media did not take up the implicit frames offered by Deutsche Bank and Commerzbank, the two banks, instead, seemed to follow the implicit frames found in the news media. This, again, aligns with the notion of an interdependent relationship between public relations and journalism.

Implications for Effective Financial Communication

- Findings derived from agenda-building theory show that financial experts should provide information to journalists that is tailored to their needs. Corporate releases should be timed to fit editorial processes (e.g., in the morning to be covered on the same day or by using automated distribution lists), they should be written and formatted (e.g., graphs and photos) to align with journalistic outputs, and they should address topics and aspects that are of value to news media. Many companies hire former journalists to serve as media relations experts because they bring experience with editorial processes and selection criteria.
- To a significant degree, media relations is a relationship management function. Corporate representatives tend to establish personal relationships with the journalists who cover them. Today, this statement needs to be qualified somewhat as many news media are under significant financial strain which can lead to a high rate of personnel fluctuation. So, some corporations may find it increasingly difficult to maintain personal relationships with specific journalists. Again, hiring former journalists can help, as they bring an established professional network to their new corporate

job. Building trusting relationships largely depends on the quality of PR practice: accurate, timely, transparent, and proactive communications engender trust. Over time, financial communication experts establish a reputation for reliability among their journalistic counterparts.

- Journalists rely on financial communication experts for access to corporate representatives for comments and quotes or background information. Access to corporate decision-makers is an asset that financial communication experts can use selectively to establish and foster relationships. High-impact journalists who have shown a willingness to report accurately and fairly are often given preferential treatment. At the same time, media relations professionals need to prepare corporate representatives (such as the CEO) for their encounters with journalists, which includes not only briefings on the outlet, journalist, and topic but also formal interview trainings to ensure that their messaging is accurate and on point.
- Among the most important tools for effective financial communication are news/press releases (audio, video, written), backgrounders and briefings, blogs, op-eds, editorials, letters to the editor, news conferences, photographs, or talks by a corporate expert on a given topic on TV or radio. Of course, although traditional media relations tools (e.g., news/press releases) are still used on a regular basis, practitioners are advised to make corporate information available via online channels, such as the corporate website, blog, social media channels, podcasts, or video streaming platforms.
- An important element of effective financial communication is understanding the power of a corporation to actually influence the media agenda. Large corporations, particularly innovative companies, politically well-connected or sensitive corporations, those with strong brand recognition, those featuring a large shareholder base, or a sizeable footprint within a given country, companies with notable share price fluctuations or capital market transactions, or companies with high-profile board members, for example, are more likely to be of interest to journalists. It is a fact, though, that most corporations will struggle to place their messages on the media agenda. In these cases, successful agenda setting is more likely when corporations analyze, understand, and adapt to the current media agenda (a tactic sometimes called *agenda surfing*).
- One key example of placing and framing messages on the news media agenda with limited editing on the part of the media are op-eds, editorials, or letters to the editor. These communications can function as effective means to reach wider audiences. Op-eds are a popular tool to position a corporation, for example by having CEOs or board members address current and contentious issues. However, while some framing strategies have been found effective in financial communication, financial communication should refrain from using exaggeration, hyperbole, or jargon

when communicating with the news media, as financial communication, in particular, should be characterized by factual, data-based, and consistent messaging.

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10

THE ROLE OF BOUNDARY SPANNING AND RELATIONSHIP MANAGEMENT IN FINANCIAL COMMUNICATION

The maintenance of beneficial relationships with financial audiences is at the core of the investor relations (IR) function. This is evident even from the function's name. Yet, financial communication and IR haven't always been conceptualized predominantly as relationship management. Köhler (2015) argues that in a European context, IR emerged first as share marketing. It was tasked with attracting capital by increasing a company's capital market profile and singing the corporation's praises. The public relations (PR) literature, on the other hand, has long focused on the importance of stakeholder relations (Grunig et al., 2002), relationship quality (see the "relational approach" to PR by Ledingham & Bruning, 1998), and dialog (Kent & Taylor, 2002). These insights are only slowly – and still only partially – being applied to the IR function. This may be seen as surprising, as even in the business literature on IR, a foundational theory focuses on relational dynamics: the principal-agent-theory, described in more detail below (Fama, 1980; Jensen & Meckling, 1976).

Today, applying a marketing frame to IR (cf., Dolphin, 2004) can be contentious, as the purpose of IR is not necessarily to sell shares (in the vein of maximizing share prices), but rather facilitating an adequate, fair pricing of the corporation (NIRI, 2023). However, Tuominen (1997) argues that the establishment of long-term beneficial relationships is the aspect of the marketing function most applicable to IR: "By investor relationship marketing, we mean the continuous, planned, purposeful, and sustained management activity which identifies, establishes, maintains, and enhances mutually beneficial long-term relationships between the companies and their current and potential investors, and the investment experts serving them" (p. 47).

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This chapter will explore the implications of relationship-focused concepts and theories for financial communication. It begins with explaining the principal-agent-theory, a foundational theory in IR research that defines and characterizes the company-shareholder-relationship, and informs a host of financial communication regulations (see Chapter 7). Next, it will characterize IR as a boundary-spanning function, bridging organizational decision-makers and stakeholders – a perspective that touches upon some helpful insights from social network theory. Finally, the chapter will turn to PR research and explore the applicability of relationship management concepts to financial communication – ending on a staple of the PR literature, the two-way symmetrical communication concept (Grunig & Grunig, 1992). Overall, this chapter offers an overview of theories and research placing relationships and relationship management at the heart of financial communication and IR.

Principals, Agents, and Information Asymmetry

A prominent – if not the most prominent – conceptual framework in the financial communication literature is the principal-agent-theory (Fama, 1980; Jensen & Meckling, 1976). The principal-agent-theory highlights the need for listed corporations to provide material information to its financial publics to facilitate oversight and good governance. The theory builds on the neo-classical theory of the firm as developed by Ronald Coase (1937). Coase explains that, while the market mechanism is generally conceived of as efficient in the economics literature, the use of the market mechanism comes with costs, so-called transaction costs. Among these transaction costs are the costs incurred by market participants when searching for offered goods or services, assessing, testing, or comparing these offers or when negotiating contracts. Transaction costs, thus, are distinct from the price of a transaction (such as the listed price of a good). Coase (1937) further argues that integrating transactions into an organization, and thereby subjecting them to the coordinating power of the entrepreneur, can be considered efficient when the costs of a market transaction are higher than the costs incurred by organizational integration. “The main reason why it is profitable to establish a firm would seem to be that there is a cost of using the price mechanism” (p. 390). Transaction costs, thus, determine the boundaries of corporations: sinking transaction costs incentivize the use of the market mechanism, while rising transaction costs tend to expand the scope of corporate (or: entrepreneurial) control.

Based on this foundational insight, Jensen and Meckling (1976) characterize the corporation as a *nexus of contracts*. Through a bundle of short- and long-term contracts, the corporation comes into existence, shapes its activities, and draws its boundaries – for example by organizationally

integrating market transactions. Corporate leadership, thus, is conceptualized as the administration of this nexus of contracts. Alchian and Demsetz (1972) point out that a key function of corporate leadership, from this perspective, is "metering input productivity and metering rewards" (p. 778). In other words, corporate leadership needs to ensure that contract partners fulfill their obligations and award rewards and incentives accordingly. Jensen and Meckling (1976, p. 308) describe these contractual relationships as principal-agent-relationships:

> We define an agency relationship as a contract under which one or more persons (the principal(s)) engage another person (the agent) to perform some service on their behalf which involves delegating some decision making authority to the agent. If both parties to the relationship are utility maximizers there is good reason to believe that the agent will not always act in the best interests of the principal.

Principal-agent-relationships come with costs: bonding expenditures, monitoring expenditures, and residual loss (i.e., the difference between a decision that would maximize the principal's welfare and the agent's actual decision). The assumption of self-interest on the part of both the principal and the agent results in an expectation of so-called *agency problems*. Contracts between principals and agents are specified to avoid agency problems. However, contracts can never be perfectly specified (i.e., account for every eventuality), so when the cost of oversight, contract specification or enforcement exceeds the loss due to agency problems, principals will likely accede to bearing the latter:

> Agency problems arise because contracts are not costlessly written and enforced. Agency costs include the costs of structuring, monitoring, and bonding a set of contracts among agents with conflicting interests. Agency costs also include the value of output lost because the costs of full enforcement of contracts exceed the benefits.
>
> *(Fama & Jensen, 1983, p. 304)*

A key insight from this economic analysis of the firm is that corporations are characterized by contractual relationships in which there is an *information asymmetry* between the involved principal(s) and agent(s). Since the principal delegates a task to the agent, the agent – while working at the behest of the principal – is more knowledgeable or better informed about the task (its state and progress, the effort extended in its execution, the quality of work, etc.). This information asymmetry can lead to *hidden action*, i.e. actions by the agent unbeknownst to the principal, and *moral hazard* (Fama & Jensen, 1983). Moral hazard arises if the agent is tempted to follow their self-interest

over that of the principal. The corporate leadership function of administering contracts (i.e., metering input productivity and rewards), thus, requires information, a reduction of the information asymmetry between agents and principals (Eisenhardt, 1989).

The principal-agent-relationship is at the heart of financial communication and IR. Listed companies are characterized by a separation of ownership and control (Fama, 1980; Jensen & Meckling, 1976; Berle & Means, 1932). Shareholders, especially those of large public companies, do not directly control strategic or operational management decisions. Commonly, executive managers are hired as agents of the shareholders. This could lead to discretionary leeway for executive managers pursuing their self-interest over that of shareholders, and the misallocation of corporate resources. To supervise the work of the executive management, shareholders elect a supervisory board or non-executive directors. In addition, listed corporations are obligated by contract, convention, and law to reduce the information asymmetry between management and shareholders through a range of recurring and event-based mandatory and voluntary disclosures (see Chapter 7).

Financial communication, accordingly, plays a critical role in corporate governance (Hoffmann, 2019; Bassen et al., 2010). Ensuring compliance with disclosure obligations (and expectations) is critical to ensuring oversight, balancing power, avoiding moral hazard, and asserting shareholders' ownership rights. The principal-agent-theory, thus, not only explains and lends legitimacy to the financial communication function but also provides a helpful conceptual lens through which to analyze the role and contribution of financial communication and IR. According to the principal-agent-theory, the relationship between corporate decision-makers and those providing capital to the corporation is at the heart of financial communication and IR.

Financial Communication as Boundary Spanning

The principal-agent-theory indicates that a listed company's "Chief Financial Communicator" is actually the CEO (Bassen et al., 2010): the CEO is the head agent hired by shareholders to represent their interests in the day-to-day administration of the corporation. The CEO, thus, is accountable to shareholders and obligated to reduce information asymmetries by keeping shareholders abreast of the state and development of the business. As discussed in Chapter 4, the Chief Financial Officer (CFO) takes on a comparably important financial communicator role due to their close familiarity with the financial performance of the company. The CEO and CFO delegate some of their financial communication responsibilities to the PR and IR departments. Bassen and colleagues (2010) point out that investors also delegate some oversight tasks (such as financial analyses) to analysts, which, first, may result in agency conflicts between investors and analysts and, second,

implies a degree of accountability of executive managers vis-à-vis analysts. Analysts help bridge the information gap between executive managers and shareholders.

Linkages Across Organizational Boundaries

A term used in organizational studies for bridging the gap between organizational insiders and outsiders is *boundary spanning*. "Boundary spanning is the label given to environmental monitoring activities including passing needed information to decision makers. It also describes the activity of representing the organization or its interests to the environment" (Hatch, 1997, p. 92). Beechler et al. (2017, p. 122) define boundary spanning as "the creation of linkages that integrate and coordinate across organizational boundaries". Freeman (1984, p. 79) describes boundary spanning as a critical component of stakeholder management: "Organizations with high Stakeholder Management Capability are proactive. They anticipate stakeholder concerns and try to influence the stakeholder environment". Boundary spanning is analogous to the outbound and inbound roles of excellent PR departments identified in the PR literature (Zerfass & Volk, 2018; Vercic & Zerfass, 2016): it serves to provide information to stakeholders, to influence the organizational environment (outbound), but also to inform corporate leadership about the organizational environment (inbound), and thereby to enable the organization to respond to environmental expectations (Beechler et al., 2017).

As noted, in the context of financial communication, executive managers take an active role in boundary spanning. Roberts et al. (2006) point out that one-on-one exchanges with investors empower executive managers to speak on investors' behalf within the business, lending influence and legitimacy to the manager position. Interestingly, the boundary spanning role is not free of tensions. Organizations maintain coherence through boundary work, i.e. distinguishing outsiders from insiders (Aldrich & Herker, 1977). Boundary spanners ("go-betweens, interfacers", Beechler et al., 2017, p. 122), by definition, breach organizational boundaries, potentially endangering organizational coherence. To be effective, they need to be cognitively and culturally aligned both with their internal and external networks (Tushman & Scanlan, 1981). Investor relations officers, for example, might be intimately familiar with shareholders' critical views of a recent strategic initiative and therefore feel ambivalent about or lack enthusiasm for this leadership decision. Rao and Sivakumar (1999) argue that IR departments were established within corporations to shield executives from the demands of unruly shareholders. Boundary spanning, thereby, can result in conflicting loyalties. This can apply to IR officers torn between shareholder demands and management priorities – but it can also apply to members of the C-suite, who may struggle

with tensions between shareholder expectations and organizational sentiment (employee interests, corporate culture or tradition).

Boundary spanning gains in importance whenever there is a misalignment between the organizational performance and stakeholder expectations (White & Dozier, 1992). In the context of IR, such misalignments could induce shareholder protests and/or activism (Hoffmann et al., 2016). Rao and Sivakumar (1999) explain the rise of the IR function as an accommodation to pressure exerted by shareholder rights activists. Indeed, a number of studies have shown that investors reward corporate investments in IR through lower capital costs and positive returns (Bushee & Miller, 2012; Vlittis & Charitou, 2012; Brennan & Tamarowski, 2000). Based on the principal-agent-theory, such effects can be interpreted as effective reductions in information asymmetry due to IR investments (Bassen et al., 2010). From a boundary spanning perspective, however, positive returns on IR investments may also be explained by better alignment of shareholder preferences and executive decisions. Again, the benefits of spanning organizational boundaries can arise due to both outbound and inbound information flows.

The Role of Relationship Quality

Berger and Luckmann (1966) argue that learning, the transmission of knowledge between individuals, is dependent upon the quality of the relationship between these individuals. Authority and respect, for example, facilitate the acceptance of information. Applied to an IR context, shareholders are more likely to accept information provided by a CEO who enjoys the respect and confidence of the financial community. Investing in IR formats, such as roadshows or one-on-one meetings, thereby, serves to increase shareholder familiarity with and confidence in corporate leadership (Green et al., 2014; Roberts et al., 2006; Rao & Sivakumar, 1999). Conversely, executive managers are more likely to be responsive to analyst or investor requests if they understand the value of their expertise and insight. It is not uncommon that the leadership of recently listed corporations (that were previously privately held) requires some adjustment to learn that listening to financial audiences is beneficial to the quality of executive decision-making.

The importance of relationship quality and information transmission has also been argued at the institutional level of markets: Granovetter (1985), in part as a critique of agency theory, argues that economic transactions are embedded in social relations. Some of these relations tend to be tight and socially significant (so-called strong ties), others are more fleeting or superficial (weak ties). The character or quality of social ties determines the potential benefits associated with maintaining the tie (Granovetter, 1973). A relationship characterized by trust, for example, facilitates entering imperfectly specified contracts, taking on the associated material risk, and forgoing

monitoring efforts. The social significance of a social tie (i.e., "friend", "trusted partner", "stranger"), thus, may influence the occurrence or resolution of agency problems. Testing this proposition, Uzzi and Lancaster (2004) find that socially embedded ties, that is: ties among acquaintances that interact regularly and thus establish trust, facilitate the sharing of private information. Sharing private information, in turn, affects prices, for example by lowering transaction costs. A different type of information asymmetry, thus, can arise between those disposing of strong ties versus those relying on weak ties within the financial community – an insight of obvious relevance to the boundary spanning function.

Another theoretical account of the importance of relationship quality for economic transactions is offered by Bourdieu (1986). He differentiates various forms of capital – aside from economic capital – such as cultural or social capital. Social capital is defined as "the aggregate of the actual or potential resources which are linked to possession of a durable network of more or less institutionalized relationships of mutual acquaintance and recognition – or in other words, to membership in a group" (p. 248). Bourdieu argues that different forms of capital can be exchanged for each other – social capital, thus, can be converted into economic capital. An example would be a capital market participant with an extensive personal network gaining valuable insights from their acquaintances into an imminent corporate transaction. Social capital, tips from friends, would thus be exchanged for economic capital, a trading advantage.

Tushman and Scanlan (1981) discuss the importance of extensive internal and external networks for boundary spanners. From a boundary spanning perspective, a conversion of capitals could, again, occur outbound (e.g., when the IR department hints to a long-standing analyst that their valuation does not reflect the current corporate performance) or inbound (e.g., when a long-term investor provides insights about shareholder sentiment to the IR department). In both cases, established and trusting relationships facilitate the sharing of valuable information – or in Bourdieu's perspective, the conversion of social into economic capital.

Financial Communication as Relationship Management

The financial communication literature is ripe with studies highlighting the importance of relationship management as a critical IR task (Hoffmann, 2019; Hoffmann et al., 2011; Kelly et al., 2010; Hassink et al., 2008). The German Investor Relations Association (DIRK, 2020, p. 1) defines IR as "the strategic management task of managing the company's relations with existing and potential providers of equity and debt capital, as well as with capital market intermediaries". Empirical studies of IR confirm that maintaining good relationships with the financial community ranks among the most important IR objectives, topped only by compliance considerations (Hoffmann &

Binder-Tietz, 2021). In this regard, financial communication practice aligns with a dominant paradigm in PR theory focused on relationship management and dialog as critical contributions to corporate success. The seminal Excellence study established that PR "contributes to [organizational] effectiveness by building quality, long-term relationships with strategic constituencies" (Grunig et al., 2002, p. 97).

Relational Approach

Building on the Excellence Theory, Ledingham and Bruning (1998) further highlighted the importance and intricacies of relationship management in their so-called relational approach to PR (cf., Ledingham, 2003). They differentiate trust, commitment, involvement, investment, and openness as key dimensions of relationship quality (quite similar to the tenets of relationship marketing outlined above; Hoffmann et al., 2011). Bruning and Ledingam (1999) also point out that organization-public-relationships encompass the corporation's *professional* stance toward its stakeholders (i.e., competence and delivering results), but also *personal* relations (care and benevolence), and *community* relations (transparency and corporate citizenship). Finally, Ledingham (2015) distinguishes five phases in the establishment of an organization-public-relationship (initiating, experimenting, intensifying, integrating, bonding).

These insights have rarely been applied to IR research but hold some potential for new insights. Strauß (2018) has explored the role of trust in IR, on an interpersonal level (for example, between executives or investor relations officers (IROs) and individual analysts or investors), a meso-level (organizational reputation), and a macro-level (trust in capital market institutions or the media). Openness is another relationship dimension identified by Ledingham and Bruning (1998) that is likely to play a critical role in IR (as argued by the principal-agent-theory). Investment is quite literally present in the corporation-investor-relationship. Commitment and involvement, however, are likely to vary significantly between, for example, long-term strategic investors, on the one hand, and flighty day traders, on the other hand (see Chapter 5). It is unclear, thus, if a relationship model developed in a PR context is fully applicable to IR. Of course, IR is not exclusively focused on investors, but also maintains relationships with other members of the financial community, such as analysts or financial journalists.

While the *professional* relationships between IROs and the financial community are usually the focus of financial communication research (such as the frequency or duration of professional exchanges; Palmieri et al., 2015; Green et al., 2014; Roberts et al., 2006), little is known about the quality of *personal* relations between IR officers and individual analysts or portfolio managers. Also, engagement with the financial community as a whole

(*community* relations) and the importance of the IR staff's esteem within this community remains underexplored. Finally, little is known about the establishment, fostering, and dissolution of relationships between IR and its audiences in the vein of Ledingham's (2015) five phases in the establishment of an organization-public-relationship mentioned above. So overall, there is a degree of disconnect between the heavy focus in IR practice on relationship management, on the one hand, and the state of empirical research on the dimensions, quality, and maintenance of organization-public-relationships on capital markets, on the other hand. In these regards, PR research is still ahead of the younger IR research field.

Dialog

Another recent development in PR research, also building on the Excellence Theory and insights into organization-public-relationships, is the dialogic theory proposed by Kent and Taylor (Taylor & Kent, 2014; Kent & Taylor, 2002). Dialogic theory, similar to the relational approach, holds much promise for IR research but has rarely been applied to this field. Lane (2021, p. 451) explains: "true dialogue is not just two-way communication: it is a form of two-way communication characterized by the positive orientation of participants to each other, and to the communication in which they are engaged". She links the dialog concept to deliberation, debate, and conversation. Dialog, thereby, implies a certain level of commitment and an intention to come to some kind of resolution or understanding (Pieczka, 2011). Kent and Taylor (2002) identify five characteristics of dialog: mutuality (a co-dependency of organizations and their publics), propinquity (dialog as a precursor of a decision, not just a post-hoc justification), empathy (mutual acknowledgment), risk (a willingness to make oneself vulnerable to the other), and commitment (an honest desired to reach an understanding). Empirical analyses find that dialog is rarely practiced, as PR practitioners mostly engage in asymmetric communication and employ two-way communication functionally for inbound intelligence reasons (Lane & Bartlett, 2016).

It could be argued that dialog may play an especially relevant role in IR. Compared to PR, the power dynamics in IR are such that dialog is less of an option or choice on the part of the corporation, but rather a requirement. Dialog is expected and demanded by shareholders and analysts, and executives eschew dialog at their own peril (Gomtsian, 2020; Pye, 2001). Legally, a range of corporate decisions require assent from shareholders. In an age of shareholder activism, listed corporations gage shareholder sentiment early on and strive to assure that major strategic initiatives will not be shot down at the annual shareholders meeting (Chapman et al., 2022; Hoffmann, 2019; Hoffmann & Fieseler, 2018). In the context of IR, dialog characteristics such as mutuality, empathy, or commitment (Kent & Taylor, 2002) can be

endangered by corporate arrogance or disinterest but also by a lack of attention, interest, or engagement on the part of investors (McNulty & Nordberg, 2016). Even from a functional perspective, therefore, IR are likely to aspire to dialog with financial audiences.

However, declining analyst coverage due to averse regulatory incentives and the rise of passive investors who largely forgo strategic engagement of their investments (see Chapter 5) often leave IROs struggling to identify, reach, and engage counterparts potentially open to dialog (Fisch et al., 2019; Strampelli, 2018; Mola et al., 2013; Anantharaman & Zhang, 2011). A review of the PR literature, therefore, indicates that a "relational approach" and "true" dialog are often mostly aspirational concepts, if not mere aspirational rhetoric, in the PR domain. They quite accurately describe IR practice, however. IROs do indeed actively reach out to, try to engage and bond with, analysts and investors. If there is asymmetric communication between corporations and their shareholders, it is due to a power asymmetry disfavoring corporate leadership (insights from principal-agent-theory notwithstanding). Hoffmann and Binder-Tietz (2021) show that the shielding function (that is, shielding executives from the demands of unruly investors) – hypothesized by Rao and Sivakumar (1999) to be a trigger for the establishment of the IR function – is actually a comparably unimportant task in IR practice.

Opinion Leaders

As Strauß' (2018) exploration of the role of trust in IR highlights, capital market relationships do not just unfold on a micro-level of interpersonal interactions between analysts, investors, and corporate representatives. Individual capital market participants are embedded within the financial community. Bruning and Ledingam (1999), therefore, stress that relationship management should include the fostering of good community relations (cf., Granovetter, 1985). This meso-level view of relationship management touches upon a staple in communication research, the two-step flow model of communication (Lazarsfeld et al., 1944). This model holds that an individual's views are to a large degree influenced by their social environment, and their peers. Media effects, therefore, are often socially mediated – media content may influence an individual's peers, who, in turn, affect the views of said individual. Social mediation is especially likely to occur through so-called opinion leaders, individuals held in high esteem by their peers (Katz, 1957; Katz & Lazarsfeld, 1955). Media effects are stronger or more likely if media messages persuade opinion leaders.

The two-step flow model points to some important insights for relationship management on capital markets: first, stakeholders or audiences tend to be embedded in communities. Community members interact, share information

and opinions, and influence each other. Corporations rarely interact with isolated individuals but need to consider indirect communication effects. An example from the IR context is the interaction between analysts and journalists. Many companies prefer to cater to these audiences separately, due to their distinct perspectives (see Chapter 5) – for example by offering separate press and analyst conferences. However, journalists and analysts subsequently interact, as analysts constitute important sources for journalists (Hoffmann & Fieseler, 2012). So, communication effects on either target audience cannot be separated. Shiller's (2019) narrative economics analysis of capital markets offers an insightful account of information or sentiment contagion within the financial community. Empirical research on the role of rumors on capital markets or herding behavior among investors remains scant, though (Daniel et al., 2002).

Second, not all members of the financial community are on equal footing – some are more prominent, respected, or influential than others. Due to their visibility and expertise, sell-side analysts tend to be especially influential in shaping market sentiment, more so even than journalists. Some fund managers also enjoy a high profile and are frequently featured prominently in the financial press. These analysts and investors can fill the role of opinion leaders or taste makers on capital markets, they can drive conversations and influence peers (and retail investors). Regrettably, there is a dearth of research on meso-level relationship management in IR. Little is known about whether and how IROs and financial communicators consider peer influences in their communications plans. However, it has been shown that IR and PR departments collaborate closely when reaching out to analysts/investors and journalists to ensure consistent messaging to the entire financial community (Binder-Tietz et al., 2021). Also, research indicates that IR departments engage in selective investor targeting (Hoffmann & Fieseler, 2018; Gates, 2013; Belinfanti, 2013). It is unclear, yet, what role the opinion leader status of individual members of the financial community plays, here. A new social media-driven phenomenon that relates to opinion leadership is the emergence of financial influencers (or finfluencers) that take on a quasi-journalistic role, mostly targeting retail investors (Guan, 2022). Due to its recency, the finfluencer phenomenon is unlikely to play a major role in IR practices, yet. This may change in the future, however.

To summarize, PR research has come a long way in conceptualizing relationship management, dialog, and the social embeddedness of communication effects. To date, these insights have only been applied to IR research sparingly – yet they hold much promise for illuminating the IR task and IR contributions to organizational success. To conclude, the next section will turn to one important PR concept that actually has been applied successfully to the IR domain, the notion of two-way symmetrical communication.

Investor Relations as Two-Way Symmetrical Communication

The National Investor Relations Institute (NIRI, 2023) describes IR as a function enabling “the most effective two-way communication between a company, the financial community, and other constituencies”. Two-way communication is a core concept in PR research. In a study of PR goals and behaviors, Grunig and Grunig (1992) distinguish four PR models, two of which (termed *press agentry/publicity* and *public information*) are unidirectional, with the organization attempting to influence and/or inform its audiences. Two more sophisticated models, instead, are based on two-way communication. Grunig and Grunig (1992) differentiate *asymmetrical* from *symmetrical two-way communication*, where the former is geared more toward persuading audiences based on insights gleaned from engaging them, and the latter is focused on negotiation, mutual understand, and conflict resolution. Grunig et al. (2002) also found that among the four PR models, two-way communication is especially conducive to corporate success. Two-way symmetrical communication, in particular, is often framed as the most professional, strategic, or ethical approach to PR (Bowen, 2004; L’Etang, 2004), since in this model, organizations engage in both outbound and inbound information exchange and thereby show interest in and respect for stakeholder demands.

Interestingly, the four PR models assume a relatively powerful position on the part of the corporation or its management, which may lure it toward an asymmetrical model of communication vis-à-vis the general public, employees, or customers. This assumption limits the applicability of PR models to the field of IR. After all, investors, as the owners of the corporation and the principals of the C-suite, commonly hold a position of power over the company. The principal-agent-theory explains that the C-suite may hold an information advantage over shareholders. However, Fama and Jensen (1983) also point out that capital markets serve as a control for mismanaged companies: whenever executives eschew shareholder interests, this creates opportunities for restructuring, attracting new investors who are likely to replace the incumbent management. Given this unusual power dynamic in the shareholder-management-relationship, symmetrical two-way communication is likely to be the norm in IR. In effect, that is what a number of empirical examinations have found.

Based on a survey of US-based IROs and financial communication practitioners, Kelly et al. (2010, p. 198) find that “the two-way symmetrical model is the PR model predominantly practiced by investor relations officers”. The survey item with the highest level of agreement among practitioners stated: “The purpose of this program is to develop mutual understanding between the management of my company and financial publics that the organization affects” (p. 199), followed by “Our purpose is to change the attitudes and

behavior of management as much as it is to change the attitudes and behavior of financial publics" (p. 200). Thereby, IROs conceive of themselves as boundary spanners, engaged in inbound just as much as outbound communication. Laskin (2011) also found that IROs believe that their relationship management efforts constitute a key contribution to corporate success. The practitioners surveyed in this US-based study stress the importance of trusting relationships between investors/analysts and the IR team, as well as the selective involvement of senior management.

One of the quoted IROs stated:

> If investors and analysts feel they have a relationship, not only with senior management but with a department and/or specific person devoted to helping meet their needs, they will be confident they are dealing with an accountable and transparent company.
>
> *(p. 317)*

Another found: "evaluation of the management team is critical to many firms' decision-making process. IR can help ensure that investors have appropriate access to management to make this determination" (ibid.). These statements are in line with results from European studies on non-financial factors influencing corporate valuation: Mazzola et al. (2006) find that companies develop a reputation for trustworthiness and accountability on capital markets based on assessments of their leadership and IROs (cf., Gabbioneta et al., 2007). Hoffmann and Fieseler (2012) find that the personal assessments of senior management (such as their track record and previous experience) are considered relevant by analysts and investors, as is the quality of communication (i.e., availability, openness, competence, and experience of IR staff). Practicing two-way symmetrical communication, thus, necessitates IR and financial communication teams that are engaged with the financial community, that are open, available, and responsive. It also implies facilitating access to senior management when appropriate (cf., Rao & Sivakumar, 1999).

As further explained in Chapter 12, IR and PR departments are engaged in actively positioning members of the C-suite (above all, the CEO and CFO) toward financial audiences (Hoffmann et al., 2020). Senior managers of listed corporations invest a sizeable chunk – up to a third – of their time in engaging analysts and investors (Chandler, 2014; Pye, 2001; Marston, 1996). Both members of the C-suite and IR teams develop a reputation on capital markets for competence, availability, and responsiveness – or a lack thereof. A reputable IR team can alleviate some of the demands for access to the CEO or CFO: if the financial community is aware that IROs and the C-suite are closely aligned and that the IR team enjoys trust and respect among corporate leaders, it is more willing to rely on statements or information provided by the IR team, rather than directly offered by senior management (Pye, 2001;

Rao & Sivakumar, 1999). It may also help if members of the IR team share a professional background with their key audience: Hope et al. (2021) find that hiring a former analyst as an IRO is associated with improved disclosure quality, analyst coverage, and stock liquidity.

Finally, as outlined in Chapter 6, live formats are among the most important and sought-after instruments of IR – because they allow for two-way communication. During conferences, calls, and one-on-one meetings, analysts and investors gain a personal impression of the C-suite and IR team. They get to ask (critical) questions, gage corporate representatives' competence and confidence, and enjoy a chance to provide input to corporate decision-making. Some argue that the Internet may be a boon to two-way symmetrical financial communication – either through dialogic websites or social media (Hassink et al., 2007). Indeed, timely online feedback and personal reactions or interactions on social media may contribute to the quality of capital market relations (Elliott et al., 2018; Hassink et al., 2008; Sapienza & Korsgaard, 1996). To date, though, two-way symmetrical communication in IR remains largely the domain of personal interactions between corporate representatives and their capital market audiences. Again, the limited number but considerable power of financial stakeholder's calls into question the applicability of some frameworks or theories developed in the PR literature – they speak to the importance of relationship management, however, and point to the need for additional research into the establishment, maintenance, dynamics, and complexities of organization-public-relationships in the capital market arena.

Implications for Effective Financial Communication

- While rooted in a governance function and disclosure obligations, financial communication – and IR, in particular – can also be understood as a relationship management function. Establishing connections, maintaining regular contact, initiating exchanges, keeping in touch, and being up-to-date are critical aspects of IR. From a governance perspective, the IR function serves to foster and maintain the relationship between the corporation's principals (outsiders) and agents (insiders). Aside from topical expertise, financial communication experts and IROs are therefore characterized by communication skills and a knack for networking.
- Investor relations can be conceptualized as a boundary spanning function – IROs are embedded in both the organizational leadership and the corporate environment. They need to know, understand, and empathize with corporate leadership, on the one hand, and the financial community, on the other hand. This role can be taxing, and it can create tensions when interests and perspectives within and outside of the organization diverge. Effective financial communicators should be

aware of these potential tensions and develop rules and coping mechanisms to address them.

- Effective financial communication should implement a systematic approach to relationship management, based on a contact management system (a database encompassing not just contact data but in-depth information about perspectives, requirements, issues, etc. of key stakeholders). Relationship management can be conceptualized as a process encompassing the five steps of initiating, experimenting, intensifying, integrating, and bonding. Relationship management practices should regularly assess the state of a relationship and its evolution.
- As a relationship management function, financial communication should invest in high-quality relationships. The quality of relationships can be assessed based on the dimensions of trust, commitment, involvement, investment, and openness. Stakeholder analyses can apply this or similar frameworks to systematically assess the quality of relationships – and to choose necessary relationship management measures (calls, meetings, invitations to events, sharing of information, etc.). In financial communication, especially, it is important to take power dynamics into consideration when engaging in relationship management. Few other communications functions (such as marketing or PR) are characterized by stakeholders as powerful as investors. True dialog or two-way symmetrical communication is often a necessity more than just an option.
- Effective financial communication engages in relationship management at the micro-level of individual stakeholders (investors, analysts, journalists, etc.) and at the meso-level of the financial community. Stakeholder analyses should take into consideration the interactions among individual actors and groups, as information flows among capital market participants depending on the strength of their ties. Regulatory requirements limit the company's options of engaging in targeted or selective, even exclusive communication. Still, the level of openness and engagement in relationships with individual investors or analysts differs. Stakeholder analyses should attempt to identify opinion leaders or influencers within the financial community and take their role into account – for example by targeting them specifically or by taking specific care to avoid information leaks.
- Effective financial communication is a people's business. IROs establish personal connections and networks, they develop a reputation of accessibility, competence, and reliability. A well-connected and -respected IRO can significantly moderate the strain of disclosure requirements on the C-suite, by addressing investor questions directly. Similarly, members of the C-suite develop a personal reputation on capital markets. It is therefore

one critical task of effective financial communication to position, support, and coach the C-suite accordingly. A CEO or CFO with a good capital market reputation and strong connections to the financial community is a tremendous asset for effective financial communication.

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11

THE EFFECTS OF FINANCIAL COMMUNICATION ON CORPORATIONS, CAPITAL MARKETS, THE MEDIA, AND THE PUBLIC SPHERE

The term "effective financial communication" implies that financial communication does, in fact, engender effects – effects that are intentional, that are aspired to, that can be observed, and that are welcomed by the organization. Another way to phrase this would be to say that financial communication contributes to the success of the organization, that financial communication is valuable to the organization, or that it creates value for the organization. Thinking through and laying out how financial communication can contribute to the attainment of corporate objectives is therefore a key prerequisite for strategic financial communication management. This raises the important question of what financial communication effects actually are. Based on the state of research, what is known about the effects of financial communication and investor relations (IR)?

A sound understanding of financial communication effects ultimately determines the choices available when devising a financial communication strategy. Obviously, aiming for something that financial communication cannot reasonably be expected to attain would render a communication strategy futile, disappointing, and frustrating. Importantly, corporate leadership can and should not be expected to set financial communications objectives. It is up to those experts bearing responsibility for financial communication to choose and propose objectives that are realistic, reasonable, clear, ambitious, and aligned with the corporate strategy. Financial communication experts, thus, require a sound understanding of financial communication effects. Given the recency and emergent nature of the research field focused on financial communication and IR (see Chapter 3), not all (potential) effects are well-understood. In some cases, this chapter will therefore rely on conceptual work, theoretical frameworks, or practical observations that have emerged from the literature on financial communication.

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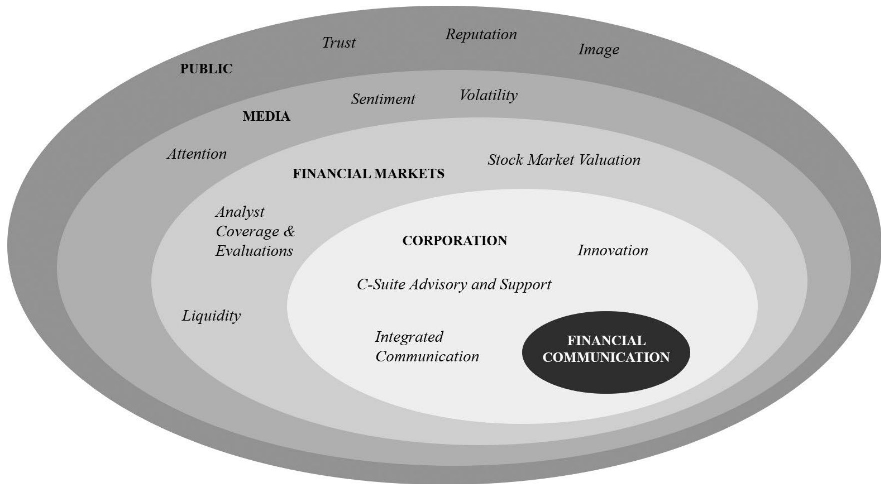

FIGURE 11.1 Spheres of financial communication effects (Figure by the authors)

Figure 11.1 provides an overview of the various spheres in which financial communication is enacted or acted upon. By taking a corporate-centric and normative view, it shows four areas in which financial communication can have a positive and ameliorating effect on factors connected to the success of a corporation. The most inner circle relates to financial communication effects within the corporation and its internal actors. It focuses on the professionalization of the financial communication function itself and corporate communications more generally, the relationship with the C-suite and corporate management, its influences in detecting trends and emerging issues, and its potential contribution to innovation. The second circle takes a step beyond the corporation and summarizes effects observed on financial markets where financial communication can leverage individual, social, and financial mechanisms that can contribute to the fair evaluation of a stock and a positive reputation and assessment of the company among its financial stakeholders. The third circle relates to the media sphere and deals with the ways in which financial communication can contribute to favorable representations of the corporation in the news media and the effects of news coverage on share prices. The fourth and outermost circle looks beyond the institutionalized spheres of the corporation, financial markets and the media and takes broader societal effects into consideration. Effects in this sphere are based on an argument that by actively engaging with the stakeholders, financial communication has the potential to contribute to trust ascriptions toward the company among the public and to enhance the company's image and reputation among various stakeholders in the public sphere.

The question of how to define, operationalize, and measure financial communication and IR effects is, of course, pertinent at this point. A proof of

the impact of "effective" financial communication on corporate performance indicators is not always straight-forward and is subject to methodological limitations and data access restrictions. Chapter 13 will delve deeper into financial communication evaluation. At this point, however, it should be noted that in finance, business, and accounting research the quantitative measurement of financial communication or IR effects has been rather crude, relying, for example, on the number of quarterly/yearly corporate reports published (Botosan & Plumlee, 2002), meetings or communications with (institutional) investors reported in official filings (e.g., via U.S. Securities and Exchange Commission (SEC): McDonough, 2023), awards received for IR performance (e.g., Katmon & Farooque, 2020; Lobo & Zhou, 2001), or checklists of IR information provided on the corporation's website (e.g., Chang et al., 2008).

However, it should be clear at this point that IR and financial communication encompasses a much more diverse set of communicative tools and activities that are not always visible or fully reported to external parties and that sometimes even occur behind closed doors (e.g., meetings with analysts, journalists, investors). Thus, the range of communicative measures in IR and financial communication can hardly be comprehensively quantified to allow a full picture of the potential effects of IR and financial communication activities on corporate performance indicators, the financial markets, and other important stakeholders. Despite these caveats, this chapter will summarize key findings from empirical work in the field of IR and financial communication research. Thus, the remainder of this chapter will go into more depth regarding the various spheres of Figure 11.1 and explain – based both on normative-theoretical argumentations and empirical evidence – how financial communication can have a value-adding function for corporations on various levels and for a diverse set of stakeholders.

Financial Communication Effects within the Corporation: Integration, C-Suite Advisory and Support, and Innovation

Financial communication and IR have important functions within a corporation that range from coordinating and collecting financial information across corporate departments for internal and external reporting, communicating corporate information to financial stakeholders, and maintaining a constant exchange with corporate leadership and management about strategic decision-making. Based on research in the fields of PR and marketing, Binder-Tietz and colleagues (2021) argue that excellent financial communication also needs to be conceptualized and practiced from an *integrated perspective* that coordinates the strategic planning, execution, and evaluation of financial communication between the IR and PR departments on a temporal, formal, and content-related level. Such an integrated view is important to ensure that

departmental responsibilities are clearly defined, separated, or identified as shared ones (Binder-Tietz et al., 2021). The authors, furthermore, found that a higher degree of integration is reflected in a higher degree of coordination of instruments, a stronger goal alignment, and more consistent evaluations of communication programs across departments. In addition, an integrated approach has also been found to lead to an improved working atmosphere and enhanced mutual appreciation between IR and PR practitioners. One effect of financial communication, is well-managed and strategically executed, therefore is a higher level of coordination and cooperation within the organization.

Beyond coordinating, managing, and contributing to the internal and external communication of corporations, investor relations officers (IROs) also have a key role in advising corporate management and the C-suite in strategic decision-making (Köhler & Hoffmann, 2018). More specifically, by establishing two-way communication with investors, IROs take on a bridging function between the expectations raised by investors and the C-suite of a company (e.g., shareholder advocacy role: Hoffmann & Fieseler, 2018). IROs who are in regular contact with the financial markets not only channel concerns and critical questions back to the management of a company, but executives can also respond to and integrate the market's expectations into their practices and plans, and inform the market about their activities and decisions more convincingly (Laskin, 2022). Furthermore, the constant exchange between IROs and financial stakeholders enables practitioners to monitor the playing field, to keep their eyes and ears open for trends on the market (e.g., environmental, social, and governance), and to feed this information back to the corporation, thereby informing corporate decision-making and business strategy adaptations. Following Hockets and Moir (2004), IR thereby takes on an important function in identifying reputational risks and spotting public concerns regarding a corporation's environmental and social responsibility position. In this vein, some authors even ascribe IR a *value-creation* role (e.g., Laskin, 2022). Thereby, financial communication contributes to the strategic management of a company based on an inbound communications function and advisory of top corporate decision-makers (Köhler & Hoffmann, 2018).

Today, corporate executives are not only internal leaders who are guiding and shaping the organization, but they are also public voices and faces that represent the corporation vis-à-vis its key stakeholders – a fact that financial communication experts should be aware of (Howes, 2018). With the emergence of social media and digital platforms, in particular, the role of corporate executives in communicating with the financial community has broadened from meeting in back offices or hidden behind corporate walls with investors and financial stakeholders toward becoming a public personality that stands in direct and continuous exchanges with a diversity of stakeholder groups. However, given this development, scholars have argued that corporate management and leaders should present themselves in an authentic way.

According to Baykal (2019), authentic leadership can be understood as "genuine leadership style wherein leaders remain true to their personal values and convictions, display consistency between their words and deeds" (p. 122). In fact, perceived authentic leadership can lead to more trust between stakeholders and corporate leaders (Clapp-Smith et al., 2009) and potentially to the corporation overall.

Another way to establish direct exchanges between corporate leadership and its financial stakeholders besides social media or personal meetings is to invite key stakeholders (e.g., institutional investors, analysts) to the corporation and its sites (see Chapter 6). Such corporate site visits (CSVs) are an important tool for financial communication to establish and maintain relationships with its key financial stakeholders, as they offer a way of directly communicating with the company and thereby gaining nonpublic and first-hand insights on the corporation's operations and products (Qi et al., 2023). Based on Chinese stock market data, Qi and colleagues (2023) have shown that CSVs are negatively correlated with the likelihood of senior executive forced turnover. In other words, for corporations that have more meetings with investors on site (and where more questions are asked during that visit), it becomes less likely that the senior executive of the corporation is forced to exit by shareholders. Of course, financial communication experts and IROs play a key supporting role in how executives address and engage with financial audiences. They brief and coach executives; they organize meetings, trips, and visits; they prepare documents, such as slide decks and handouts; and they directly engage the financial community and prepare the respective stakeholders for their meetings with executives. Overall, financial communication thus has a strong effect on how corporate leadership perceives and engages with financial stakeholders.

In addition, financial communication generates effects within the organization based on the function's internal management tasks as laid out in the previous chapter. In a study of companies listed on the German stock exchange, Hoffmann and Binder-Tietz (2021) show that internal management tasks, such as talent development or digitalization, were quite low on IROs' priority lists. Still, ensuring good management practices, fostering talents, ensuring a good mix of competencies within the IR team, investing in digital tools and processes, and optimizing interfaces with other corporate functions are critical to ensuring that financial communication practices are up-to-date, or even cutting edge. Some companies value a reputation of innovativeness. This also applies to financial communication, where some IR teams invest in and explore the most recent technologies to advance and optimize their financial communication efforts and processes (Hoffmann et al., 2018). A sometimes overlooked but important financial communication effect within the organization can therefore be seen in its contribution to innovation.

Financial Communication Effects on Financial Markets: Stock Value, Analyst Coverage, and Market Relationships

For institutional and retail investors, corporate information that is provided directly by the corporation itself can be of great value when making investment decisions, as it provides in-depth insights into the corporate strategy, its products, management, and future plans. A survey study among American retail investors by Penning (2011) provides evidence that public relations content provided through IR is indeed ranked more important than information from the news media, particularly for those who seek more company-related information (e.g., management, performance). A large body of research in finance, accounting, and business has also shown that information disclosure to the financial markets does not only reduce information asymmetry between corporations and the investment community, but it can also increase their visibility on the market, thereby attracting more investors, leading to increased *liquidity* and *a higher stock valuation, institutional ownership,* and *analyst coverage* (see for an overview: Lobo & Zhou, 2001; cf. McDonough, 2023). From a corporate leadership perspective, these effects on financial markets tend to be the most crucial contributions of the financial communication function, as they can have a major effect on the company's financial performance.

Scholars in the accounting and finance fields usually equate corporate disclosure activities with IR communication. The first stream of research in this area focuses on the relationship between corporate disclosure and the valuation of the company. For example, following Botosan (1997), distributing more information to the market can reduce uncertainty and risk perceptions among investors, thereby limiting the cost of capital, and, in turn, benefitting the financial success of the company (see also Kim and Shi, 2011). Similarly, Yu and colleagues (2023) showed that the more corporations communicate and the more they involve investors in their communications, the better their share price performance, including liquidity, market visibility, and institutional holdings. These effects were more pronounced for corporations with relatively low information transparency, a more volatile performance, and where IROs have more years of professional experience. Bassen and colleagues (2010) conclude that there is "a negative (positive) association between corporate disclosure levels and the cost of equity capital (stock prices)" (p. 53).

A second stream of research focuses on the relationship between corporate disclosure and the extent to which it influences the evaluation and coverage by financial analysts. Bassen and colleagues (2010), for instance, report that an increased level of IR activities comes with an increase in the number of analysts following the respective firm, although the causal chain is not proven by the data. They furthermore summarize previous literature and

conclude that IR activities, which may lead to more financial analyst coverage, can also lead to the reduction of capital costs or even to an increase of the market value of a firm (e.g., Agarwal et al., 2008). Chang and colleagues (2008) investigated how disclosure quality through IR influences information asymmetry and found that higher disclosure quality (measured by IR activities on the Internet) was associated with more analyst coverage, more institutional shareholders, more active trading, and a larger market capitalization. In a similar vein, Bushee and Miller (2012) find that IR activities (here: firms that hired IR firms for communication) are positively related with increased visibility in the news media, analyst coverage, a rise in institutional investor ownership, and higher share prices.

Financial communication effects on financial and corporate performance indicators have also been researched with an eye toward more specific financial and external events. For example, Reiter (2021) shows that when firms cross-list (i.e., offering shares abroad), they do not only communicate more to investors, but this increase in communication is also associated with larger and longer lasting benefits of the cross-listing for the firm in general. Reiter speculates that the increase in communication around cross-listing is aimed at increasing attention among investors and thereby facilitates coverage by regulators (e.g., SEC), analysts, and the media. In line with this research, McDonough (2023) showed that corporate communication programs (e.g., roadshows) are a powerful tool to retain an institutional shareholder base for corporate spin-offs. However, while the increase of disclosures of information on a company before its initial public offering (IPO) can help to hype the stock before its issuance (Lang & Lundholm, 2000), this exuberance can also backfire and result in over-pricing, followed by a sharp decline in share prices (cf. due to herd behavior). More recently and using the COVID-19 crisis as a quasi-natural experiment, Zhang (2023) provides evidence that a higher level of online IR efforts was positively related with stock returns of firms during the pandemic.

Taking a step further, Bassen and colleagues (2010) have reviewed factors that affect corporate disclosure, and hence IR practices that are targeted toward the financial markets. They distinguish between firm- and industry-specific factors, legal origin and other legal variables, institutional settings, and cultural values. Their literature review suggests that larger companies disclose more information voluntarily compared to smaller firms (e.g., Finland: Kanto & Schadewitz, 1997). Furthermore, firms with sizeable intangible assets are held to have lower barriers to information disclosure, as those firms tend to have better analyst coverage (Barth et al., 2001). On the other hand, Bassen et al.'s (2010) literature review implies that analysts tend to inaccurately forecast and assess companies that are more complex regarding their operations and organization (e.g., various business lines) or regarding their involvement in financial transactions (e.g., mergers, acquisitions).

Bassen and colleagues (2010) further point out that differences in corporations' legal structures can determine the extent to which they disclose information to the market. For example, US multinational companies that are active on various markets are less likely to release information that could be potentially relevant for competitors (Gelb et al., 2008). Similarly, it was found that those firms operating in foreign markets seem to engage less in voluntary disclosures. On the other hand, Webb and colleagues (2008) report that corporations based in legal environments that are "weak" (i.e., civil-law countries such as Germany or France) are more likely to disclose information voluntarily.

Cultural values are also decisive in determining how IR is practiced and to what extent information is disclosed to external stakeholders. There is, however, limited research in that area. Based on an analysis of national cultures, Gray and Vint (1995), for example, showed that firms operating in countries with high levels of uncertainty avoidance, and those active in environments with levels of power distance (i.e., hierarchy) are less inclined to disclose and share information. However, when taking developments over time into account, globalization and the rise of information and communication technologies have generally led corporations to disclose more information to the market (e.g., Kuperman, 2000). Overall, there is strong evidence for sizeable financial communication effects on financial markets – on analyst coverage, insecurity and risk perceptions among financial audiences, shareholder composition, share liquidity, and, ultimately, share prices.

Financial Communication Effects and the Media: Attention, Sentiment, and Volatility

In the eyes of some investors, the portrayal of corporations in the media is perceived as more credible than information that stems directly from the firm itself (e.g., PR material), even if not necessarily more relevant or helpful (Penning, 2011). Research on normative role perceptions of financial business journalists shows that they strive to hold the corporate and financial sectors to account and act as watchdogs (Manning, 2013; Usher, 2013; Tambini, 2010). Accordingly, news media coverage of businesses is attributed with the characteristics of independence and scrutiny. Shiller (2005) speaks of an interpretative context that the media create for investors and market participants. Therefore, the information spread through the media provide a foundation for investors to form market opinions, and ultimately investment decisions (Pollock & Rindova, 2003; Donaldson & Preston, 1995). Overall, Davis (2006) posits that trying to set the media's agenda or framing messages in the resulting coverage can "contribute significantly to the setting of investment agendas" (p. 11).

The topic of how financial communication establishes and fosters constructive media relations has already been covered in Chapter 9. This chapter

has discussed how agenda-setting theory (Carroll & McCombs, 2003) and framing theory (Scheufele & Tewksbury, 2007) explain why media relations is a critical responsibility of financial communication. Following Deephouse (2000), the media can "record public knowledge and opinions about firms and influence public knowledge and opinions about firms" (pp. 1094–1095). More specifically, when media coverage of a corporation increases, the (financial) public will also place more importance on this corporation in comparison to others, thereby influencing the public's judgments of these corporations, such as investment decisions (Tetlock, 2007; Fombrun & Shanley, 1990). In psychology, this can be explained by the theory of availability heuristics (Tversky & Kahneman, 1973), suggesting that people respond more strongly to information that is better available and easier to process. In fact, the relationship between media attention toward certain companies and its effect on the corporate share price has been proven in research multiple times, resulting in the notion of *attention-grabbing stocks* (Fang & Peress, 2009; Jang, 2007; Barber & Odean, 2001).

Davis (2006) speaks of the *reinforcement effect* in this regard and points to the framing function of the news media that can influence the ways in which the audience interprets the news about an issue, or company respectively (cf. Iyengar & Kinder, 1987). Based on framing theory (Scheufele & Tewksbury, 2007; McCombs et al., 1997), he argues that the way in which the news media frame certain issues (or corporations) can influence how audiences interpret these issues (or corporations) (cf., Carroll & McCombs, 2003). Scheufele and colleagues (2011), for example, discuss the media's function as a "seismograph" (p. 51), informing investors about corporations and thereby providing them with crucial information (e.g., company-related news about management, products) that becomes essential in forming trading decisions.

Even though these theoretical frameworks ascribe the media an important function in financial communication practice when managing the share price of a company, the consideration of media effects requires some differentiation. Not only is access to media coverage as a corporation dependent on certain factors (e.g., news values, relationship management), but the effect of the information conveyed through the media on the corporation and its share price is also subject to certain contingencies. As Davis (2006) reports, larger companies and corporations operating in trending markets (e.g., today: artificial intelligence) have an easier time being covered in the day-to-day news, given the orientation of journalists toward news values when selecting news items for their coverage (Galtung & Ruge, 1965). Common corporate topics likely to be covered in the financial news are take-overs, crises situations, extreme (stock) market movements, or looming and bursting bubbles on the market (Davis, 2006).

Thus, financial communication professionals play an important role in serving as information conduits between listed corporations and the news

media. In fact, in a recent study, financial journalists in the U.S. indicate that IR is one of the most important sources for their daily reporting, and, compared to investors or financial analysts, they feel most influenced by IROs in their work (Strauß, 2019). Equally, IROs consider the coverage of companies in the news as a crucial share price management tool, as it can either attract investors' attention or put the company under scrutiny by financial market actors (Bushee & Miller, 2012). Laskin (2016) even reports that being accurately and fairly presented in the news media is one of the main goals of IR practice. Interview studies and input-output analyses allow the inference that financial journalism is strongly dependent on the information supplies from financial and corporate sources. Davis (2006) and Strauß (2019) indeed report continuous exchanges between financial market actors (e.g., analysts, investors) and financial journalists.

A particular case in which IR becomes an indispensable information source for financial and business journalists is the IPO. Following Baden and Wismar (2009), IPOs require a thoughtful orchestrating of communication measures. Therefore, IR activities should not only be planned before and during the floatation but also in the time after the company has been listed on the stock market. Through careful preparation of key messages, storylines, and mock interviews as well as continuous exchanges with journalists and relationship management with relevant news outlets, IR takes an important role in influencing and stirring the news media coverage of a company during the IPO process. Furthermore, the presence of the CEO or executives of a firm in the news has been identified as crucial to create a favorable image among the financial community (Davis, 2006). Especially in times of corporate crises, the news media are attributed additional importance where bad or even false news need to be managed adequately by IR to prevent sudden share price fluctuations or reputational losses. In this vein, the coverage of corporations in the news media holds value for the overall reputation, and thus financial performance of the corporation.

Indeed, a plethora of research suggests that information provided through news media channels about corporations is correlated with the share price of the respective corporations (Strycharz et al., 2018; Strauß et al., 2016; Kleinnijenhuis et al., 2015; Tetlock, 2007). For example, the amount of coverage of a corporation has been found to be positively related to the fluctuation of stock prices (Strycharz et al., 2018). Crisis communication, organizational, and marketing research has shown that specific corporate information (e.g., management changes, product launches, innovations) can be influential in affecting corporate reputation and financial market performance (Strauß & van der Meer, 2017; Wies & Moorman, 2015; Coombs & Holladay, 2002; Gaines-Ross, 2000). However, research on the relationship between the tenor and sentiment of media coverage about corporations and its effect on corporate share prices is less unequivocal and indicates a need

for further differentiation (Strauß et al., 2016; Strauß & van der Meer, 2017; Jang, 2007; Pollock & Rindova, 2003).

Based on insights from practitioners on financial markets, Davis (2006) provides a comprehensive summary of the circumstances under which the news media can be expected to influence the market. For example, print news are considered to lag too much behind to determine share price movements, instead mirroring stock market movements (see also for empirical evidence: Strauß et al., 2016; Scheufele et al., 2011). On the other hand, the media can reflect the market consensus, and thereby influence market sentiments, potentially even leading to over- or underpricing of assets and thus to market bubbles (Davis, 2006; Shiller, 2005). News wire services (e.g., Bloomberg) and specialized news (e.g., Financial Times) are said to have a stronger impact on institutional investors (Davis, 2006). For example, a study researching the influence of Bloomberg and Reuters news distributed via Twitter has shown that news volume, news relevance, and expert opinions in tweets positively influence stock prices of Dow Jones Industrial Average corporations (Strauß et al., 2018). However, the strongest influences on stock prices were found to stem from so-called market-moving stories by Bloomberg that were unexpected and therefore led to sizeable price swings (volatility).

While in the past, the news media were regarded as gateway sources for retail investors to get tips and recommendations for shares on the market, today this expertise influence has migrated to the online sphere (e.g., Finfluencers: Fuchs et al., 2022). Davis (2006) concludes from his interview study of 100 financial market participants, including IROs, that the role of financial news has suffered given tighter information regulations, digital information services, and a decline of retail investors overall. Indeed, research shows significant relationships between the distribution of corporate information online and via social media (e.g., quarterly earnings), and the share prices of corporations, increasingly leaving the news media out of the equation (e.g., Prokofieva, 2015). In practice, cases such as the GameStop short squeeze (Smith & Wigglesworth, 2021) or online rumors about the bank Credit Suisse that sparked a downward spiral of its stock price and eventually led to its bankruptcy (Walker, 2022) show the necessity of IROs to not only focus on news media but also monitor the online and social media environment of corporations (cf. Strauß & Jonkmann, 2017).

Financial Communication Effects in the Public Sphere: Image, Reputation, and Trust

Hoffmann and Fieseler (2012) as well as Dolphin (2004) argue that IR has an important corporate image-building function. In this vein, IROs aim not only to increase the visibility of a corporation on the financial markets in general but also to influence the perceptions and opinions of stakeholders in

a favorable way (Mazzola et al., 2006; Clarke & Murray, 2000). The public's evaluation of the available information about a company can be understood as an interpretative process, where new cognitive structures and schemata are formed, resembling in Grunig's (1993) words a "corporate image" (p. 121). IR takes on a complex role in the image-building processes that go beyond the mere reporting of financial data but includes the provision of non-financial information and stakeholder relations management.

IR activities that can contribute to the image-formation among the general public include the spread of mandatory information and voluntary disclosures (e.g., corporate reports, conference presentations, webinars), facilitating public appearances of corporate executives, and publishing information materials such as brochures, flyers, ads, and marketing materials. However, a corporate image is not only formed by information provided by financial communication. Members of the public are also exposed to other types and sources of information that are (partly) out of control of financial communication, such as media reports about the corporation (see above), industry, and market analysis (e.g., ratings), as well as personal experiences with products or services of the company (Deephouse, 1997; Fombrun, 1996). Thus, following Kuperman (2003), IR plays a central role in providing the public with relevant information that allows it to develop a more realistic picture and understanding of the company, thereby also affecting its behavior toward the company (e.g., investment, purchase, or employment decisions).

In fact, Farragher et al. (1994) report that the rise in earnings and corporations' stock performance consistently mirrored the ups and downs of their corporate image. As Gregory (1997) posits, effective IR can positively impact the image of a corporation by creating familiarity and favorability through presence in advertising and the media, thereby eventually contributing to increased earnings and rising stock prices. To understand which factors are influencing the financial public's sensemaking processes about a company, Hoffmann and Fieseler (2012) interviewed and surveyed financial analysts and journalists and identified eight factors of non-financial information that are considered crucial when forming an image of a company. These include stakeholder relations of an organization, corporate governance, corporate social responsibility, reputation, brand, quality of the management, strategic consistency, and quality of communication (i.e., staff, instruments, and activities of the IR department). The latter was considered most important, highlighting the crucial role of IR and financial communication in contributing to the image formation of a corporation among its stakeholders.

Closely related to the concept of image is the notion of reputation. Whereas image is usually studied from a micro-perspective (i.e., individual perceptions of a corporation), reputation is researched more often from a macro-perspective (Slaughter & Evans, 2020). In this sense, image is understood as cognitive, affective, transient, and specific, whereas reputation is

seen as affective, but rather stable, collective, and global (Slaughter & Evans, 2020). Research suggests that a positive corporate *reputation* among financial publics is a determinant for future investment decisions. This seems to be especially the case when investors believe that its reputation contains relevant information about the company's profit and potential in the long run (Shefrin, 2001; Fombrun & Shanley, 1990).

In fact, a good reputation allows corporations to charge a premium for investors, as it presumably implies that the corporation has a high-quality workforce, a bigger pool of investors, and thus lower costs of capital (e.g., Little & Little, 2000; Fombrun, 1996). Several studies have provided evidence for the positive link between a firm's reputation and its overall financial performance (e.g., Hammond & Slocum, 1996) and investment decisions (e.g., in cases of IPOs: MacGregor et al., 2000). Using a survey among retail investors in Germany, Helm (2007) found that investors' satisfaction and affective loyalty toward the corporation are positively related to the corporate reputation. The communication of non-financial information, in particular, has also been argued to enhance the perceived reputation of the respective corporation (Gackowski, 2017).

A key determinant for a positive reputation is the extent to which stakeholders place trust into the corporation. Given that corporations are dependent on the financial investments by investors, trust between these two parties is essential. More than 25 years ago, already, Tuominen (1997) argued that *trust* is important to sustain a favorable reputation of a corporation among its key stakeholders. In Tuominen's words (1997), "(t)rust in investor relationships may be defined as investor A's belief that company B will act in such a way that results in positive outcomes for investor A, and that company B will not take unexpected actions that would result in negative outcomes for investor A" (p. 50). Trust can thus be understood as a form of relationship where one party (trustor) has certain expectations of another party (trustee) to perform a certain action, although the trustor has no control over the trustee and is vulnerable to a negative outcome if the expected action is not performed (Mayer et al., 1995). Therefore, trust is easier to establish if the corporation is aware of its stakeholders' expectations of the firm's values and activities (Melgin et al., 2018).

Strauß (2018) defines the role of trust in IR as follows: "Trust relationships within investor relations manifest themselves on a micro-, meso-, and macro-level and involve interactions with various individual actors, groups of people, organizations, institutions, and systems. Within these trust interactions, investor relations presents itself simultaneously three-fold: as a discipline, an organization and as individual practitioners" (p. 2). In a conceptual discussion of trust in IR, Strauß (2018) outlines the various actors, institutions, and spheres where IR can establish, maintain, and foster trust relationships. More specifically, she suggests that to establish trust relationships

with stakeholders, IR should communicate messages along the three lines of trust defined by Hon and Grunig (1999), namely dependability (the organization will do what it communicates to do), competence (the organization is able to do what it says it will do), and integrity (the organization is fair and just). Furthermore, IR needs to focus on the engagement of stakeholders and thereby building long-term relationships based on trust (Strauß, 2018). This can be achieved by listening to the needs and wants of these stakeholders, communicating transparently and honestly, engaging in dialogue, and employing empiricism to adjust IR strategies accordingly.

In fact, the role of trust in IR has gained increasing relevance in the past decades, followed by corporate and financial scandals (e.g., Wirecard scandal, Credit Suisse bankruptcy), stricter regulatory environments (e.g., Pompper, 2014), the ubiquity of social media, and the danger of becoming the object of a rumor that quickly circulates and spreads online (see GameStop). Hubig and Siemoneit (2009) contend that trust and trustworthiness are indeed communicative goals of successful IR. Similarly, an interview study among CEOs in the US revealed that even though executives value all of Hon and Grunig's relationship qualities with investors (trust, satisfaction, control mutuality, commitment), the most frequently discussed quality was trust (Chandler, 2014). In a similar vein, Kelly and colleagues (2010) highlight that IROs regularly engage in dialogue to foster relationships based on trust and mutual understanding.

Shockley-Zalabak and Morreale (2011) assert that trust can lead to more adaptive organizational structures, the formation of strategic alliances, effective crisis management, lower costs in cases of lawsuits, lower transaction costs, more product innovation, and an improved financial and business performance overall. For example, by sharing transparent information about the company and explaining its performance and outlook to analysts, investors, journalists, and other key stakeholders, IROs can establish relationships based on trust that prove advantageous in times of crises (Strauß, 2018). Scholars therefore recommend that to establish, maintain, and foster trust relationships, IR communications should be unbiased, honest, transparent, coherent, and timely, and should be actively engaged in two-way symmetrical, direct, and continuous exchanges with key stakeholders (e.g., Strauß, 2018; Bushee & Miller, 2012). Overall, there is a strong theoretical argument and rich empirical evidence for financial communication effects in the public realm, specifically with regard to corporate images among stakeholders, corporate reputation, and trust.

Implications for Effective Financial Communication

- To prove and to improve the effectiveness of financial communication, setting out specific goals and evaluating goal attainment is essential. In

choosing these goals, financial communication professionals can rely on a rich body of evidence on the effects of financial communication. Of course, it is likely that some financial communication effects have not yet been (fully) explored in the literature. However, financial communication professionals and IROs need not shy away from setting ambitious objectives as the effectiveness of high-quality financial communication has been proven again and again.

- Financial communication objectives often revolve around a company's capital market performance. At the level of capital markets, financial communication has been shown to affect analyst coverage, shareholder composition, share liquidity, risk perceptions and capital costs, and share prices. It is legitimate, therefore, for corporate executives to expect financial communication programs to affect such capital market outcomes. Financial communication effects on share prices, however, are complex and often indirect (e.g., mediated by analyst coverage, ratings, consistency with previous corporate announcements, and favorable market conditions). Financial communication plans should therefore not be restricted or limited to individual indicators, like the share price.
- Financial communication plans or strategies should not overlook effects and contributions at the corporate level. These effects, like support and advise for executives' capital market interactions, tend to be highly valued by top decision-makers but are rarely made explicit in IR strategies. Evidence points to a neglect of critical, forward-looking internal tasks, such as talent development, process improvement, and investments into digitalization. These efforts, however, will have major effects on the performance of the IR department. Internal effects, within the corporation, deserve a place in the strategic planning of financial communication.
- One important effect of a high-quality financial communication plan can be improvements in *integrated communication*, i.e., the coordination and collaboration between the IR department and the PR team (as well as other corporate functions). Research on financial communication effects highlights the impact of news media reporting on the attention given to listed corporations, markEt sentiment, the credible conveyance of information, or share price volatility. Objectives aimed at media effects should therefore complement objectives focused on the company's capital market performance. Corporate executives may be more immediately interested in share price developments (liquidity, valuation) or the composition of the shareholder base – however, media effects tend to be related to these outcomes and can influence them in complex, sometimes indirect ways.
- Media effects are not limited to news media. Increasingly, independent outlets or influencers, message boards, and viral social media posts can similarly affect market sentiments. In the digital age, financial communication

objectives at the level of "the" media need to take digital and social media into account.

- An integrative approach to financial communication is not only valuable to align media relations and IR objectives. Beyond that, financial communication can have an effect on a corporation's public perception, its image or reputation. Again, these overarching and often long-term effects may not be at the immediate center of an IR strategy. Still, contributions to public trust or broader stakeholder sentiment toward the corporation deserve attention (and monitoring). The value of trusting relationships between a listed corporation and its financial stakeholders should be eminent, but even the company's perception by customers, competitors, (potential) employees, or suppliers is likely to be affected by its financial performance and information. Financial communication, therefore, cannot be isolated from the company's public relations and/or branding.

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12

MANAGING FINANCIAL COMMUNICATION

The previous chapters have laid out that financial communication pursues a set of diverse and complex objectives, including fulfilling disclosure requirements (compliance), providing voluntary disclosures, messaging and conveying narratives, shaping the corporate image and reputation on capital markets, and fostering relations with financial stakeholders. The effects and potential effectiveness of financial communication are well-documented. As the set of financial communication responsibilities has expanded over time, the function has matured and evolved. In the course of this evolution, financial communication has grown into a strategic communication function (Hoffmann & Binder-Tietz, 2021; Hoffmann, 2019). In listed corporations, specifically, investor relations (IR) is involved in top management decisions, it provides valuable input into corporate governance. The strategic position and contribution of financial communication do not occur by chance. It is the result of communication management. Communication management is an important precondition for financial communication to create value for the organization.

This chapter will first explore the communication management concept, to then explain the role and importance of communication management. It should be noted that research on communication management is almost entirely focused on corporate communications and public relations (PR). Many of these insights can be applied to financial communication, however. This will be the subject of the following chapter. Previous studies on IR highlight some of the complexities and specific challenges arising in the multidisciplinary and functional domain of capital market communication. Therefore, this chapter will also expand on the complex organizational design of financial communication mentioned in Chapter 4. The

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chapter will end with a discussion of strategic financial communication management.

Communication Management

Management is the administration of organizations. From an institutional perspective, management can denote individuals who fulfill an organizational leadership role. From a functional perspective, it describes the tasks and responsibilities of these individuals (Nag et al., 2007). Management implies control – the objects of management are not left up to chance or natural evolution (Ansoff, 1991). Instead, they are observed, analyzed, influenced, manipulated, changed, adjusted, measured, and evaluated. The management concept is closely related to the strategy concept, since a strategy outlines the organization's objectives and how it intends to achieve them. Management serves to steer the organization toward the attainment of these objectives. Accordingly, management, in a functional sense, is often used interchangeably with the strategy process (strategic planning; cf., Mintzberg, 1990). Here, leadership analyzes the organization's current state as well as its environment; it derives strategic options or strategy alternatives, which are evaluated, to finally choose a specific strategy (Ansoff, 1965). The strategy describes a set of objectives (strategy formulation), which then need to be translated into actions – the strategy needs to be implemented through action plans, schedules, budgets, etc. (Andrews, 1987; Chandler; 1962). Implementation is accompanied by supervision (to ensure efficiency, quality, etc.). Finally, the goal attainments achieved by these actions are assessed (evaluation), to inform the subsequent planning cycle.

Communication management is the application of the management process to corporate communications. Bentele (2008, p. 22) proposes: "Here, the division of work and hierarchically organized process of control is to be described as communication management (CM) which incorporates the complex process of (environment) observation, analysis, strategy development, organization, implementation and evaluation of organization-related communication processes". More recently, Zerfass and Link (2022, p. 188) offer the following definition: "Communication management can be conceptualized as steering and shaping communication activities and processes in organizational contexts by means of planning, organizing, leading, and control". As will be discussed below, the communication management concept implies that corporate communications is a function serving the purpose of contributing to organizational survival and success (Zerfass et al., 2018). As such, communication objectives are derivative of organizational objectives and communication strategies are embedded within organizational strategies.

Communication managers are those members of the organization that are tasked with managing corporate communications. More broadly, Zerfass

and Link (2022, p. 254) note: "Communication professionals are employees who fill positions that are solely or partially responsible for the management, performance management, or execution of corporate communications". As discussed below, PR role research has established a differentiation between professionals taking on a manager role and those focused more on operative communications tasks ("technicians"; Dozier & Broom, 1995, 2009). Moss et al. (2005) examine common responsibilities of communication managers, finding that they are indeed responsible for monitoring and evaluating communications activities. They are also recognized for their contribution to issues management, as occasional trouble shooters, and, in these contexts, serve in an advisory role to top management. Nothhaft (2010) adds that, in addition to planning, organizing, and controlling (dubbed "first-order management"), communication managers, as leaders of a subordinate corporate function, also attempt to influence the management priorities of others (peers and top management).

The Importance of Communication Management

This section will argue that implementing a communication management framework in financial communication – including strategic planning, monitoring, and evaluation – serves (a) to ensure that the function actually generates organizational value through strategic alignment, (b) to generate the necessary data to demonstrate its value contribution, and (c) on a more symbolic level, to signal the seriousness, maturity, and professionalism of the function to bolster its legitimacy (cf., Tench et al., 2017; Vercic & Zerfass, 2016).

A Functional Perspective

An influential functional perspective on the value contribution of corporate communications is provided by the Excellence Theory (Grunig et al., 2002). The purpose of the US-based Excellence study was to identify how and to what extent PR departments contribute to the effectiveness of organizations. The study found that "public relations contributes to organizational effectiveness when it helps reconcile the organization's goals with the expectations of its strategic constituencies" (ibid., p. 97) through fostering and maintaining relationships. The study further identified a number of characteristics that contribute to excellent PR, one of which points to the importance of communication management: "The senior public relations executive is involved with the strategic management processes of the organization, and communication programs are developed for strategic publics identified as a part of this strategic management process" (Grunig et al., 2006, p. 38). In other words, excellence is achieved by contributing to the strategic management of the

organization, which requires an alignment of the communications program with the strategic objectives of the overall organization (cf., Vercic & Zerfass, 2016).

Such an alignment is a key purpose of communication management (Volk & Zerfass, 2018; Grunig & Grunig, 2000). Applying a management process to the communications function should thus ensure that corporate communications activities ultimately contribute value to the overall organization. Communication management, accordingly, can be identified as a key characteristic of excellent communications departments (Vercic & Zerfass, 2016). Various models and frameworks have been proposed to systematize and explicate the contributions of PR or corporate communications to organizational success (Tam et al., 2022; Zerfass & Volk, 2018; also see Chapter 13). In a recent approach, Zerfass and Link (2022) argue that, to improve their internal positioning, communications departments should explicitly develop "business models" explaining "how such a unit operates, what services and products it provides, how it creates value for an organization" (p. 193).

Another Excellence factor identified by Grunig et al. (2002) points to a related critical implication of communication management: "The senior public relations executive is a member of the dominant coalition of the organization, or the senior public relations executive has a direct reporting relationship to senior managers who are part of the dominant coalition" (Grunig et al., 2006, p. 39). The dominant coalition is described as "the group of senior managers with the greatest power in the organization" (ibid.), which usually includes but is not limited to the C-suite (Kanihan et al., 2013; Cyert & March, 1963). For financial communication, especially, access to C-level management is a critical precondition for effective communication (Brown et al., 2019). Being invited to become part of an organization's dominant coalition requires that other members of this coalition see and understand the value contribution of a function or division (Tench et al., 2017). So, to become part of the dominant coalition, a communications function needs to showcase and explain its value contribution (Brønn, 2014). This is another critical motivation for applying a communication management framework. A function or department that doesn't apply established management models or frameworks familiar to the dominant coalition will struggle to convey its value contribution.

The benefits of engaging in communication management are also pointed out by research on professional roles in PR (Broom & Dozier, 1986). Dozier and Broom (2009, 1995) empirically distinguish between two PR practitioner roles, so-called technicians and managers. While the former carry out day-to-day activities at an operational level, the latter, instead, take on a supervisory role and focus on leadership and alignment. Some factors facilitate the adoption of a manager role at the micro-level, such as professional experience, tenure in an organization, staff size, education, and management

expertise (Dozier & Broom, 2009, 1995). Dozier and Broom (2009) also apply their model to PR departments, at the meso-level. They propose that a PR department is more likely to be included in the organization's dominant coalition if it is led by a person with management expertise and if the department increases its operations research expertise – which is in line with insights from the Excellence Theory. As Grunig et al. (2006, p. 42) point out: "The senior public relations executive or others in the public relations unit must have the knowledge needed for the manager role, or the communication function will not have the potential to become a managerial function". According to this research, attaining a strategic (management) role is beneficial both at the micro- and meso-level: those in a manager role report higher levels of income and job satisfaction, and departments that are included in the dominant coalition dispose of more resources (Dozier & Broom, 2009).

Communication management, thereby, can be seen as a sign of functional maturity: as the communications function is institutionalized and the communications department undergoes increasing professionalization, it adopts established business practices (a management framework) – and by doing so, it contributes to its legitimization and improves its standing within the organization (Zerfass & Volk, 2018). While these insights are well-established in the field of PR, they frequently still have more of an aspirational character in the case of the IR function. First, the IR function is younger and often still in a process of maturation. Second, the IR function is usually quite small, which impedes the differentiation of professional roles – a lack of resources hinders the emergence of a manager role, in particular (Dozier & Broom, 1995). As will be discussed below, the IR department's relatively early stage of maturation is often mirrored by a lack of communication management practices (Hoffmann & Binder-Tietz, 2021), indicating lower levels of professionalization (with some notable exceptions, mostly within larger corporations).

A Symbolic-Psychological Perspective

The role of communication management in legitimizing the communications function and promoting its standing within the organization points to an important symbolic-psychological dynamic. Strategic management research indicates that the application of a management process does not necessarily lead to the successful implementation of a strategic plan. Often, strategies resulting from a formal planning process are disbanded. Instead, activities arise out of organizational practices that are then retrospectively identified as a "strategy" (Weick, 1995; Mintzberg & Waters, 1985; Burgelman, 1983; for the field of strategic communication see Winkler & Etter, 2018).

This leads some to speculate about the possibility of organizing without organizations (Shirky, 2008), of establishing organizations without or with only very little formal management structures and top-down coordination

(Lee & Edmondson, 2017). Such notions tend to underestimate the symbolic value of management, however. Organizations are "cognitive communities" (Porac et al., 1989, p. 397) that require the co-orientation of its members. From this perspective, the formal development of a strategy in a strategic management process, while possibly ultimately partly futile or ineffective, serves to order and structure, and ultimately convey, the organizations self-conceptualization within its environment as an end in itself (Huff, 1990; Starbuck, 1983; Weick, 1979).

Some even describe the management function as to a significant degree symbolic:

> Thus, one function of the leader or manager is to serve as a symbol, as a focal point for the organization's successes and failures – in other words, to personify the organization, its activities and its outcomes. Such personification of social causation enhances the feeling of predictability and control, giving observers an identifiable, concrete target for emotion and action.
>
> *(Pfeffer & Salancik, 1978, p. 16)*

Applied to financial communication, installing a Chief Investor Relations Officer in a management role signals the standing and aspiration of the IR function – both within the organization and toward the financial community. Similarly, enacting a management framework stabilizes a function such as financial communication, it serves to co-orient its members and to bestow legitimacy (Mintzberg & Waters, 1985; Burgelman, 1983). This applies to units of the organization as well, such as the PR or IR departments. Communication management infuses these departments with a sense of self; it provides orientation and facilitates coherence and cohesion.

The symbolic-psychological perspective on communication management aligns with the "communicative constitution of organizations" (CCO) approach to corporate communications (Schoeneborn et al., 2019; Cooren et al., 2011). Here, organizations are conceptualized as systems of meaning, while communication is described as a "process of meaning production and organization" (Schoeneborn et al., 2019, p. 476). Communication, thus, explains the existence and shape of organizations. The CCO approach stresses the importance of language, of artifacts, and acts of symbolic interaction in the emergence of organizations (Schoeneborn, 2011). Applying this perspective to financial communication, the enactment of a communication management framework constitutes an act (or several acts) of symbolic interaction that generate(s) a number of artifacts, such as plans, spreadsheets, or charts, with which members of the organization interact (cf., Winkler & Etter, 2018). This, in turn, structures or organizes their interactions, it delineates a group or team, and it gives shape and stability to the organizational

unit. The CCO perspective, thus, underscores the importance of communication management for the emergence, evolution, and institutionalization of communications functions (Sandhu, 2009) such as financial communication. By implementing a communication management framework, these functions engage in organizational boundary work, they establish and convey their identity, and they enact their ambition for strategic relevance.

Managing the Financial Communication Function

The CCO perspective raises the important question of how communications functions are actually organized. After all, in this perspective, it is communication that creates organizations (Schoeneborn et al., 2019), including delineating organizational boundaries. As noted in Chapter 4, the financial communication function tends to be organizationally complex as in many organizations, the function actually bridges departmental boundaries, with financial communication professionals embedded in the PR department, and IR officers assembled in the IR department. So how can a communication management be applied to financial communication if there are two departments involved, each with its own teams, leadership, processes, cultures, and priorities? Can there actually be such a thing as strategic financial communication management given this organizational complexity?

Surveying PR and IR representatives of listed corporations in Germany, Switzerland, and Austria, Binder-Tietz et al. (2021) explore their cross-departmental cooperation and coordination in matters of capital market communication. The study reveals that responsibilities are usually delineated along target groups, with the PR department focusing on journalists and the IR department focusing on investors and analysts (see Chapter 4). Both departments engage in frequent exchanges, usually several times a week (see Figure 12.1). The level of formalization of these exchanges is low, however, with most exchanges occurring on the spot, triggered by an event (like the necessity to release an ad-hoc statement or reply to a journalist request). The most common formats of exchange are in-person meetings, phone calls, or e-mails, with only few departments employing tools like shared drives or content management systems.

The study (Binder-Tietz et al., 2021) applies an integrated communication (Cornelissen, 2000) framework to the cooperation between PR and IR departments. It finds that content- and timing-related integration predominates, with only 25% reporting very high levels of strategic integration. In other words, both departments work hard to align messages and the timing of their communications but don’t focus very much on aligning their departmental management processes. The analysis reveals a split with roughly one-third of surveyed corporations reporting close goal alignment across departmental boundaries, but another third reporting no such alignment at all (see Figure 12.2). Similarly,

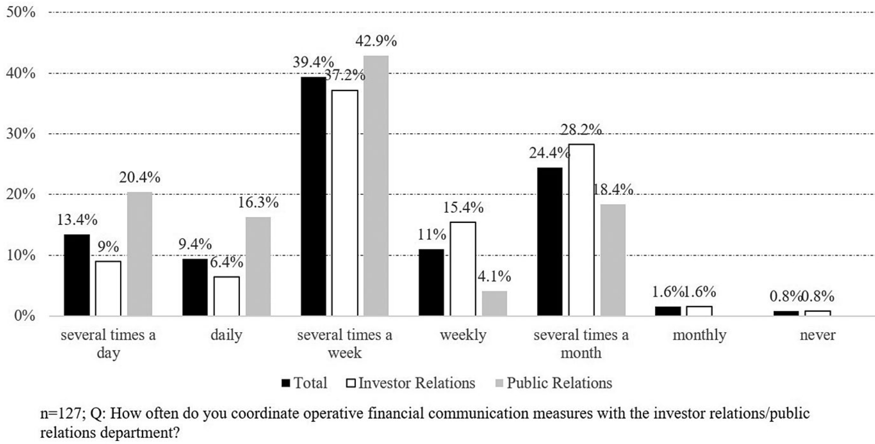

FIGURE 12.1 Frequency of coordination between the PR and IR departments (Figure by the authors)

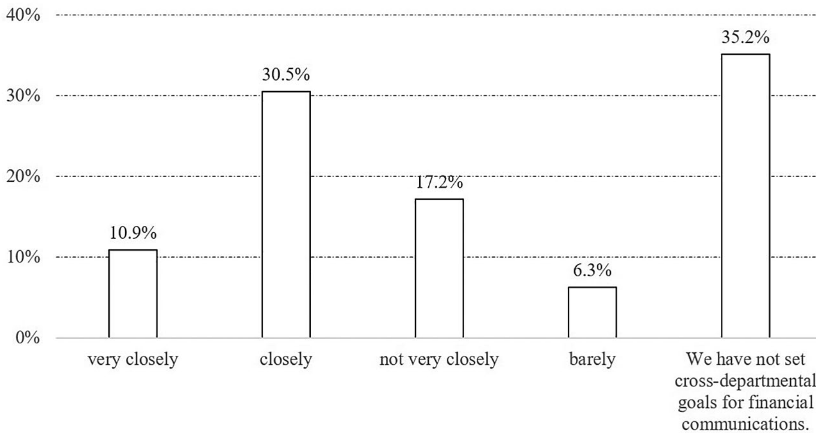

FIGURE 12.2 Cross-departmental alignment of goals (Figure by the authors)

one-third report no alignment in evaluation efforts, but about half report distinct evaluation efforts with results subsequently shared across departments (largely driven by PR departments, see Chapter 13).

Another insight emerging from Binder-Tietz et al.'s (2021) study is that levels of integration between the two departments can be distinguished across the board. In other words, departments that engage in more frequent exchanges tend to do so in a more formalized way, employing more intricate

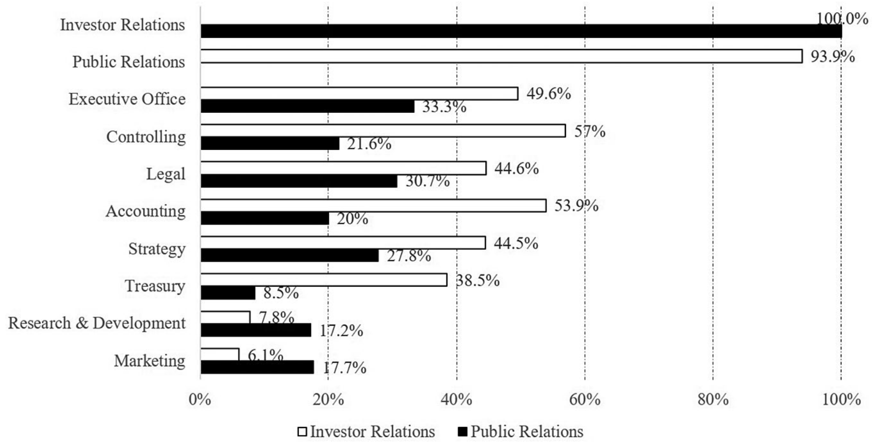

FIGURE 12.3 Cross-departmental cooperation in financial communication (Figure by the authors)

tools (such as shared drives), and engaging in more strategic integration. The study does not identify distinct approaches to integration, but rather generally higher or lower levels of integration in all surveyed aspects of it. More integrated departments turn out to be more satisfied with their level of coordination and report a better working atmosphere between both departments. Generally, the IR department tends to see both departments as more different and requiring closer coordination, while the PR department perceives both departments as quite similar and therefore not requiring additional integration. This could be due to the stricter regulatory requirements in IR, compared to PR, or to differences in the respective audiences' views, with investors (compared to journalists) being more focused on message consistency and averse to changes or surprises, necessitating stricter message discipline on the IR side. Amusingly, both departments consider themselves somewhat more strategically relevant than their counterparts.

Aside from close collaboration between the PR and IR departments (Brown et al., 2019), financial communication frequently necessitates exchanges with various other corporate functions, such as accounting, HR, or sustainability – for example when compiling an annual or sustainability report. Vercic and Zerfass (2016) identify close collaboration – with the board and various other corporate units – as one characteristic of excellence in corporate communication. Guimard (2013) argues that the IR function requires access to a wide variety of corporate data. Close alignment with the C-suite, in turn, facilitates access to data held by other organizational units. In Binder-Tietz et al.'s (2021) study, representatives of the IR and PR departments were asked to rate the importance of their collaboration with other departments (see Figure 12.3).

First, representatives of both departments rated the respective other department (PR and IR) as their most important collaborator, again indicating the importance of an integrated approach to financial communication. IR officers generally rated the exchange with other departments as more important than PR professionals, especially with regard to the controlling, accounting, and treasury departments. PR representatives, instead, rated exchanges with marketing and R&D as more important, though at a low level. The current trend toward more non-financial and CSR-related disclosures (see Chapter 7), especially, necessitates ever-closer collaboration between IR and the sustainability team or department (Binder-Tietz et al., 2020). To summarize, the organizational design of financial communication is complex, with various approaches observable in practice (for PR see Moss et al., 2017), shared and divided responsibilities across departmental boundaries, and frequent collaboration with a range of corporate functions. This complexity can be seen as a potential obstacle to the implementation of coherent communication management practices.

Strategic Financial Communication Management

The complexity of key responsibilities in financial communication – and the corresponding complexity of the organizational structure underlying financial communication – speak to the need for a sound management system to align and coordinate all actors and efforts involved (Volk & Zerfass, 2018). As noted above, communication management serves to ensure that communications contribute to corporate value and success. Communication management can be implemented within one department, or it can apply to a communication function crossing departmental and hierarchical boundaries (as is the case with financial communication).

Communication management implies basing resource allocation decisions on an analysis of environmental opportunities and threats and organizational strengths and weaknesses. It then derives and evaluates strategic options. Once a strategy is chosen and explicated, it is implemented by choosing appropriate measures, monitoring their realization, and ultimately evaluating their impact – to inform the next iteration of analysis and planning (Zerfass & Link, 2022; Bentele, 2008). The application of the management process (or cycle) to communications can be qualified as *strategic* when it is based on and aligned with the corporate strategy and thereby generates value for the corporation (Vercic & Zerfass, 2016). As Grunig and Grunig (2000, p. 308) note:

> Most of the discussion of "strategic" public relations, however, consists of loose references to the idea that public relations should be planned, managed by objectives, evaluated, and connected to organizational objectives. Thus, in essence, "strategic" public relations refer to managed public

> relations as opposed to public relations as a set of communication tactics supplied by communication technicians.

There is an ongoing, lively debate in the literature on how to define *strategic communication*. Hallahan et al. (2007, p. 3) define it as "the purposeful use of communication by an organization to fulfill its mission". Recently, this broad understanding has been specified somewhat. Zerfass et al. (2018, p. 487) propose:

> We argue that strategic communication encompasses all communication that is substantial for the survival and sustained success of an entity. Specifically, strategic communication is the purposeful use of communication by an entity to engage in conversations of strategic significance to its goals.

By definition, thereby, strategic communication is subject to some degree of management, it is purposeful and aimed at contributions to corporate success. It is also derived from the corporate strategy, as denoted by the reference to "strategic significance".

Numerous studies attempt to examine how corporate communications or PR can contribute to corporate success and generate value (Zerfass & Link, 2022; Zerfass & Volk, 2018). As the Excellence studies imply, a core contribution rests on establishing and fostering mutually beneficial relationships with important stakeholders or audiences – within or outside of the organization (Tench et al., 2017; Grunig et al., 2006, 2002; see Chapter 10). Such mutually beneficial relationships require dialog – or two-way symmetrical communication (Grunig et al., 2002; Kent & Taylor, 2002). Dialog implies both information and/or persuasion of audiences as well as listening and learning. In fact, one of the most important contributions of communications or PR is the analysis of key audiences and then advising corporate leadership based on a sound understanding of the stakeholder environment (Tam et al., 2022; Arcos, 2016). "The most excellent departments participated fully in strategic management by scanning the social, political, and institutional environment of the organization to bring an outside perspective to strategic decision making" (Grunig et al., 2006, p. 162).

Accordingly, as noted in Chapter 10, there is both an inside-out and an outside-in component to how financial communications can contribute to corporate value. Verhoeven et al. (2011) compose a "strategic orientation index" to empirically assess the degree to which European communications executives accord with conceptual notions of strategic communication. The index includes questions on how much communications executives (a) engage in planning to ensure support of business goals, (b) contribute to the definition of business strategies, (c) help their organizations reach its goals, and (d) conduct planning and evaluation to ensure overall effectiveness. The index

is helpful in highlighting the established understanding of strategic communication management, which includes inbound and outbound activities, the implementation of a communication management process, and an alignment with organizational objectives (Zerfass & Volk, 2018; Volk & Zerfass, 2018; Zerfass et al., 2017; Vercic & Zerfass, 2016).

Research on the contributions of IR to organizational value used to be mostly concentrated in the accounting field and only more recently has been complemented by insights from communications research (Hoffmann, 2019). Key functions of financial communication have been outlined in Chapter 1 and further expanded upon in Chapters 7–10. They include reporting and disclosures, storytelling, image and reputation management, and relationship management. Based on strategic communication and communication management research, another critical contribution can be identified in the inbound role of financial communication, which facilitates the coaching and advising organizational leaders (Zerfass & Volk, 2018). In her account of the institutionalization of the IR function in Germany, Köhler (2015) diagnoses the emergence of a strategic IR role. She terms it an "integrated function" due to its "distinct internal dimension" (Köhler, 2018, p. 435). The strategic IR role encompasses listening to capital market audiences (Chandler, 2014), analyzing the corporate environment, and advising corporate leaders on how to ensure investor support for strategic plans (Hoffmann & Binder-Tietz, 2021). In general, CEOs value input from investors and perceive capital market feedback as helpful in charting the organization's strategy (Chandler, 2014). Still, there is some empirical evidence that the IR department struggles to convey its (potential) strategic inbound role to corporate leaders (Brown et al., 2019).

In a survey of IR managers at German-listed corporations, Hoffmann and Binder-Tietz (2021) examine the relative importance of the strategic contributions outlined above (see Figure 12.4). They find that disclosure and compliance efforts are still considered most pressing, followed by relationship management and C-suite advisory. Share marketing efforts are deemed less important, as is shielding corporate leaders from demanding financial audiences. While a key PR contribution, reputation management is not seen as very important in an IR context. Internal efforts, such as talent development or digitalization, were rated as least important. These findings are in line with an international survey that also rates external reporting tasks as slightly more important than the collection of feedback from financial audiences (Brown et al., 2019).

As noted above, strategic financial communication management requires more than ensuring (outbound and inbound) contributions to organizational success and value. It requires the application of a management framework to (a) illustrate and explain these contributions and (b) signal the professionality and legitimacy of the function. Two studies on communication

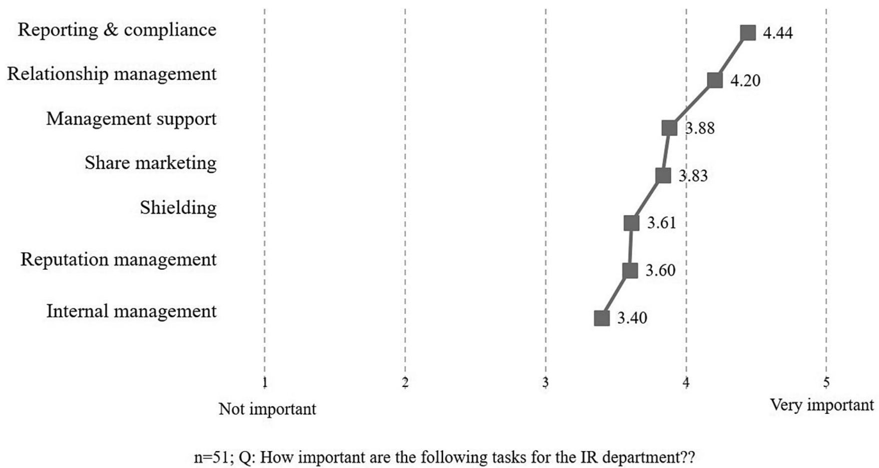

FIGURE 12.4 Importance of IR contributions (Figure by the authors)

management practices in financial communication (Binder-Tietz et al., 2021; Hoffmann & Binder-Tietz, 2021) find that both IR and PR departments regularly engage in planning activities, commonly deriving their objectives from the corporate strategy – in line with recommendations from the literature. Evaluation efforts, however, are severely lacking, especially in IR (see Chapter 13). As noted above, communication management is rarely coordinated across departmental boundaries (between the IR and PR departments). Tasks are usually allocated based on stakeholder responsibility (journalists vs. investors/analysts) or reporting lines (CEO vs. CFO). While frequent, coordination across departments remains informal and driven by ad-hoc requirements, with no shared management framework or process in place. As a result, financial communicators bemoan a lack of recognition of their strategic contributions by corporate leaders (Binder-Tietz et al., 2021; Brown et al., 2019; Köhler, 2015; Laskin, 2009).

Implications for Effective Financial Communication

- Communication management is a critical contributor to effective financial communication. Implementing a management process, including planning, monitoring, and evaluation, not only improves the performance of the financial communication function, but can also trigger a virtuous circle by which financial communication gains esteem, legitimacy, influence, and resources – which further facilitates the use of management techniques.
- A key component of communication management is strategic alignment: financial communication strategies and plans should be based on and derived from the corporate strategy. Only by defining financial

communication objectives based on the corporate strategy can financial communication reasonably expect to contribute to corporate success and value. Deriving objectives and performance indicators from the corporate strategy allows the financial communication function to demonstrate to corporate leadership how it has contributed value to the organization.

- While communication management may sometimes seem cumbersome, even bureaucratic, especially in small IR departments, financial communicators should not underestimate the symbolic value of these management practices. By implementing and following a structured management process, the financial communication function signals its professionality, its maturity, and its determination to generate value for the organization.
- Similarly, communication management increases awareness for the importance and value of financial communication's inbound role. Monitoring capital market sentiment, identifying critical issues, anticipating criticism, and offering feedback and similar elements of corporate listening improve the quality of corporate governance and leadership. The inbound responsibilities of financial communication are therefore especially valuable to the C-suite as well as other departments and members of the corporation's dominant coalition.
- Financial communication is complex, involves various departments, and is thus characterized by numerous internal and external organizational interfaces (e.g. with accounting, controlling, sustainability, HR, legal, service providers, owners, and regulators). Communication management can help maintain these interfaces and coordinate across departmental boundaries – especially between the PR and IR departments. Clear strategic objectives, performance indicators, plans, and outcome/impact measures help increase transparency and convey departmental priorities and contributions.
- Finally, effective financial communication management should take internal tasks and responsibilities seriously. While the small IR department tends to be absorbed by necessities (e.g., disclosures and organizing the annual general meeting and roadshows), the aforementioned virtuous circle of increasing esteem, legitimacy, influence, and resources will be obstructed if there is a lack of attention to how the department is run. Optimizing processes and tools, developing talent, investing in digitalization, fostering knowhow and competencies, and optimizing interfaces with other functions and similar tasks may seem less pressing or relevant than the next release or meeting, but these tasks lay the foundation for the efficiency and effectiveness of the department. It is the responsibility of communication managers to pay attention to these internal tasks and to ensure that the financial communication team or IR department runs smoothly, professionally, and with an eye to continuous improvement, innovation, and growth.

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13

EVALUATING FINANCIAL COMMUNICATION

Evaluation is a key element of communication management. In some respects, it can even be considered a precondition for strategic communication. Evaluation is both the final step of the strategic management process – and the foundation for its subsequent iterations. In order to align budgets, processes, and measures with the chosen strategic objectives, it is necessary to assess whether previous such determinations were actually helpful in successfully attaining departmental and corporate objectives. More colorfully put: attempting to manage a communication function without conducting evaluation is akin to embarking on a hike to a specific destination without ever consulting a map or signpost; it is possible that the desired destination will eventually be reached, but that would largely be up to coincidence.

Despite theoretical insights into the importance of evaluation, the current state of empirical research in corporate communication tends to reveal a dearth of (systematic) evaluation in practice (Buhmann et al., 2019; Macnamara, 2015). In fact, data collected in Germany suggests that the investor relations (IR) function is among those least likely to regularly conduct a systematic evaluation (Binder-Tietz et al., 2021). At the same time, financial communication can actually be considered quite well-positioned for systematic evaluations (Ragas & Laskin, 2014; Ragas et al., 2014):

- the capital market arena is rich in data and highly transparent,
- the IR function is subject to both communication and business objectives (with the latter somewhat easier to assess),
- IR practitioners often have a business background, which makes them somewhat more open to the necessity of quantitative and qualitative evaluation,

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- numerous studies have established the existence and mechanisms of IR effects, clarifying the object of evaluation efforts (see Chapter 11).

This chapter will first outline the role and importance of evaluation in communication management. It will then propose a framework for the evaluation in the case of financial communication and IR. Next, an overview of the various tools available for financial communication evaluation will be provided. The chapter will end on a discussion of the empirical research into the state of financial communication evaluation.

The Role and Importance of Evaluation

The strategic management process is a staple in the business literature (see Chapter 12). Strategic planning emerged as a dominant theme in business research in the 1960s (Mintzberg, 1994). Rooted in the notion of scientific management, strategic planning prescribes a systematic, step-by-step process through which corporations define their strategy. This process builds on an analysis of the organization and its environment, its strengths, weaknesses, opportunities, and threats and then derives strategic options, which are weighed and evaluated, to finally settle on specific objectives, leveraging strengths, and exploring opportunities. Next, measures are chosen to attain these objectives – and subsequently implemented. Finally, in the evaluation phase, goal attainment is systematically assessed. This evaluation serves as a critical input for the next iteration of the strategic management process. The process is therefore sometimes described as a circle (Buhmann & Volk, 2022; Noble & Watson, 1999).

Strategic planning isn't without its critics (cf. Mintzberg, 1994). Research into the emergence and implementation of corporate strategies has shown that significant parts of the formal, explicit corporate strategy are never actually pursued and, conversely, that a major part of the observable corporate behavior simply emerges out of necessity, coincidence, or the initiative of agents within the organization (Mintzberg & Waters, 1985; Burgelman, 1983). To a degree, the observable corporate behavior is then retrospectively interpreted as strategic intent. Weick (1995) uses the concept of *sensemaking* to explain this phenomenon. Such retroactive sensemaking, however, can be tremendously valuable to an organization because it establishes a common understanding of the organization, its state and purpose, and thereby facilitates coherence and coordination (Weick & Bourgon, 1986). Mintzberg (1973), accordingly, distinguished between a prescriptive and a descriptive conceptualization of the corporate strategy, where the former is a more aspirational description of the company's objectives, the latter, instead, describes the actual development of the organization and its behavior. Despite (or because of) these insights, strategic planning remains a dominant mental

frame in corporate leadership. Few corporations do *not* follow a strategic planning process.

As noted in Chapter 12, communication management can be understood as the application of management models or practices to the corporate communications function. A critical element of communication management is the establishment of a planning process – which, in theory, should include an evaluation phase (Buhmann & Volk, 2022). The communication management literature is ripe with prescriptive analyses of the importance of evaluation in corporate communications (Macnamara, 2015; Cutlip et al., 1985; Grunig, 1983). However, empirical analyses again and again find that evaluation remains underappreciated and neglected in practice (Buhmann et al., 2019). Macnamara (2015) speaks of an "evaluation deadlock" (p. 371) and others of an "evaluation stasis" (Volk & Buhmann, 2019, p. 162). Gregory and Watson (2008, p. 337) identify a "gap between research and practice".

A number of reasons are cited for the lack of corporate communications evaluation in practice (Zerfass et al., 2017; Macnamara, 2015; Watson, 2012; Wright et al., 2009):

- Lack of time and resources,
- lack of knowledge or expertise,
- lack of applicable or useful tools, also lack of standards,
- lack of conviction regarding the usefulness or value of evaluation, also lack of interest by internal stakeholders,
- concerns regarding evaluation results.

At the same time, however, scholars point out that eschewing evaluation is a key obstacle to communications excellence, i.e., to corporate communications being considered a strategic function by the dominant coalition guiding the fate of the organization (Grunig et al. 2002). At the end of the day, every corporate function exists and is maintained to contribute to the success of the overall organization – *success* being defined as the attainment of strategic objectives. To be maintained and to be allocated sufficient resources, each corporate function needs to demonstrate its value, its strategic contribution (Zerfass & Volk, 2018; Watson & Noble, 2014). Being seen as a "strategic" function in this sense has been shown to be a precondition for receiving a "seat at the table" of critical decision-making within the organization (Tench et al., 2017; Grunig et al., 2002). It also positively relates to the level of resources allocated to the communications function. Both of these outcomes, in turn, are related to communications experts' job satisfaction and even salary levels (Dozier & Broom, 1995). Yet, Laskin (2011) argues that IR officers struggle to explain the value contribution of their function to corporate leadership.

Research into measurement and evaluation in corporate communications has resulted in a number of helpful models or frameworks that differentiate distinct levels, timespans, and objects of interest (see also the next section). The evaluation concept itself has been differentiated to include both *formative* and *summative evaluation* (Watson & Noble, 2014). Formative evaluation tends to denote a concomitant monitoring activity that helps guide and adjust communication measures as they are being implemented (e.g., observing social media analytics during a campaign). Buhmann and Volk (2022) apply a slightly different terminology, differentiating *process* and *formative* evaluation, with the latter includes situation analyses (for example a stakeholder analysis as an input into strategic planning). Summative evaluation, in turn, focuses on the *effects* and strategic contributions of communications (e.g., media response analysis, changes in customer loyalty, or employee satisfaction). To summarize, while an assessment of communication effects is often at the heart of evaluation, it also includes an analysis of resource requirements, quality control, and benchmarking (Macnamara, 2015).

Evaluation can be applied to different units of assessment. Buhmann and Likely (2018) list products (or activities), projects (or campaigns), programs, organizations, and society as potential units of evaluation. In other words, communications departments can evaluate the impact of an individual measure, such as an ad, a new app, and a poster, or a set of measures that serve a specific purpose (e.g., a product launch, a capital market transaction), the entire public relations (PR) or IR program, the overall perception of the corporation, or its impact on stakeholders and the environment. In the context of summative evaluation, especially, scholars point out the contingency of applicable measures, as communications objectives are – or rather, should be – derived from the corporate strategy and thereby tend to be situational, specific, and contextual (Zerfass & Volk, 2018). The "correct" unit of assessment and the "right" measure of assessment thus need to be derived from the objectives set during the planning stage of the management process. They should not blindly be copied from previous years, other departments, or current industry fads.

At the same time, institutional isomorphism can be observed in the field, as measurement and evaluation standards are proposed by scholars, sometimes in collaboration with professional associations (Volk & Buhmann, 2019; Watson, 2012). An example would be the Barcelona Declaration of Measurement Principles (or "Barcelona Principles"), a generic framework for PR evaluation jointly developed by scholars and practitioners. Pragmatically, practitioners tend to share experiences among each other and copy measures or tools employed by colleagues. Applying common tools or standards comes with the advantage of comparability across organizations (Buhmann et al., 2019). Also, applying common standards can help convey and explain the value of the communications function to key stakeholders, such as the

C-suite, by establishing shared mental models (Macnamara, 2015). However, blindly applying widely used tools and measures runs the risk of overemphasizing operational tactics (Grunig, 2006) and neglecting contributions to the realization of strategic objectives (Zerfass & Volk, 2018).

The next section will explore how measurement and evaluation frameworks established in the context of corporate communication or PR can be applied to the evaluation of financial communication and IR.

A Framework for Financial Communication Evaluation

Corporate communications research as well as industry initiatives commonly differentiate distinct levels and units of measurement and evaluation (Macnamara, 2017). Many frameworks apply a similar terminology, describing levels (or stages) of evaluation as inputs, outputs, outcomes, and occasionally outflows, outtakes, or outgrowth (Buhmann et al., 2019). Confusingly, these various terms are not employed consistently across frameworks (Buhmann & Likely, 2018). Most consistency can be found with regard to three levels of measurement and evaluation (Buhmann & Likely, 2018; Laskin & Laskin, 2018; Macnamara, 2017; DPRG & ICV, 2011; Noble & Watson, 1999):

- *Input*: the effort and resources invested by the organization in preparing communications (events and artifacts),
- *Output*: the quality and quantity of communications by the organization,
- *Outcome*: affective, cognitive, and/or conative effects on target audiences attained by the organization's communications.

Since the outcome stage is both tremendously broad and the measurement of communications effects is notoriously difficult, some frameworks propose an intermediate level that focuses merely on the reach of communications, or the level of attention paid by target audiences. This level is termed outtake, outgrowth, external output, or, as will be used here, *outreach*. Differentiating this stage is helpful mostly for pragmatic reasons, as measurement at the outreach-level is both easier and more common than actual effects measurement at the outcome-level.

Some frameworks (Buhmann & Likely, 2018; DPRG & ICV, 2011) distinguish a fifth level, called *outflow* (or, occasionally, also outgrowth), that specifically focuses on the business impact of the outcome attained. Here, the ambition is to translate communications effects into key performance indicators derived from the corporate strategy or identify impacts on tangible and/or intangible corporate assets. In the 1990s, a number of initiatives attempted to identify and calculate a return on investment (ROI) in communications (Macnamara & Zerfass, 2017; Gregory & Watson, 2008). Most of these initiatives dwindled or

were aborted, though, as it proved difficult to identify standards for translating communications effects into monetary values. Finally, in the context of current debates on corporate responsibility and sustainability, a potential sixth level of evaluation emerges, called *impact*, that focuses on communications effects on society or even the environment (Buhmann & Volk, 2022).

There is a top-down and bottom-up circularity implied in the application of measurement and evaluation in financial communication, as the financial communication or IR functions derive their purpose from the organization they serve. Strategic communication management implies that communications functions contribute to the success of the overall organization (Zerfass & Volk, 2018), which is commonly understood as a contribution to the attainment of the objectives outlined by the corporate strategy (Guimard, 2013). As noted, communications objectives should therefore be derived top-down from the corporate strategy (Buhmann & Volk, 2022). Conversely, through their evaluation efforts, communications functions strive to demonstrate their value to the organization by showcasing how the resources invested into these functions (input) were transformed into outputs, engendering outcomes that ultimately support the attainment of organizational goals (summative evaluation at the outflow-level). This implies a bottom-up logic, by which communications investments or expenditures travel through a chain of effects to ultimately affect top-line business objectives.

Some attempts have been made to systematize the contributions of corporate communications to organizational success. Zerfass and Viertmann (2017) propose four mechanisms through which communications create value: (1) enabling operations, i.e., creating tangible assets, such as products and revenues, through publicity, customer preferences, and employee commitment, (2) building intangibles, i.e., fostering intangible assets by establishing strong, brands, reputations, and corporate cultures, (3) ensuring flexibility, i.e., creating room for maneuver through good stakeholder relations, trust, and legitimacy, and (4) adjusting strategy, i.e., opening up new opportunities for development by increasing crisis resilience, innovation potential, and thought leadership. In addition, Zerfass and Volk (2018) identify four core contributions of corporate communications to corporate success: conveying corporate strategy to key stakeholders, deriving communications objectives from corporate strategy (alignment), steering communications resources toward critical processes, and advising and coaching corporate leadership and other corporate functions accordingly.

Focusing specifically on the IR function, few such general contributions frameworks have been proposed. It is noteworthy, though, that in the IR context contributions to corporate success tend to be interpreted more narrowly as financial contributions. In other words: IR is expected to attain a fair corporate valuation (Hoffmann et al., 2018; Laskin, 2011). Achleitner and Bassen (2001) point out that contributions to corporate value can be achieved either through

TABLE 13.1 IR contributions to corporate success (based on Achleitner & Bassen, 2001)

Financial contributions	*Communicative contributions*
• Fair valuation	• Capital market visibility
• Access to capital	• Analyst and media coverage
• Optimal shareholder structure	• Reduced information asymmetries
• Low capital costs	• Trust and legitimacy
• Low volatility	• Reputation, images, shareholder interest, shareholder loyalty
• High liquidity	

a reduction of capital costs or through higher demand for corporate shares and bonds. The former argument is in line with agency theory, which holds that management, as corporate insiders, while only acting as agents, dispose of more knowledge on the state of the business than shareholders (principles) as corporate outsiders, resulting in information asymmetries (Fama, 1980; Jensen & Meckling, 1976; see Chapters 7 and 10). IR, thereby, serves to reduce information asymmetries, increasing transparency and limiting investment risks, which results in lower capital costs. At the same time, numerous accounting and finance studies show that investments in IR can increase a company's capital market visibility, coverage, shareholder base, liquidity, and valuation (e.g., Agarwal et al., 2016; Kirk & Vincent, 2014; Bushee & Miller, 2012; Bassen et al., 2010; see Chapter 11).

In the case of IR, accordingly, contributions to corporate success tend to be both communicative and financial in nature (see Table 13.1). Roughly, financial contributions are subject of evaluation at the outflow-level, and communicative contributions at the outreach- and outcome-levels. The logic of generic contributions frameworks is not that any given communications or IR department is supposed to pursue all of the listed objectives at once. Rather, specific objectives are to be chosen based on an alignment with the current corporate strategy (Buhmann & Volk, 2022). The same is true for the financial and communicative contributions of IR.

The aforementioned Barcelona Declaration of Measurement Principles (or "Barcelona Principles") as published by the International Association for Measurement and Evaluation of Communication (AMEC) has proposed a number of guidelines for the implementation of a PR measurement and evaluation program, last updated 2020 (AMEC, 2020). Some of these are:

- Setting goals is an absolute prerequisite to communications planning, measurement, and evaluation.
- Measurement and evaluation should identify outputs, outcomes, and potential impact.

- Communications measurement and evaluation should include both qualitative and quantitative analysis.
- Holistic communications measurement and evaluation includes all relevant online and offline channels.

Both the Barcelona Principles and numerous studies in the field draw a distinction between measurement and evaluation (Macnamara, 2017). Buhmann and Volk (2022, p. 476) define *measurement* as "the use of qualitative or quantitative (social scientific) research methods to generate data and insights as a central element of value assessments", whereas evaluation "is the systematic assessment of the value (quality and cost) of an object" (ibid.). Evaluation requires a standard by which to assess value. In strategic communication management, this standard is ultimately set by the corporate strategy. Evaluation, therefore, requires deriving communications objectives from the corporate strategy (Buhmann & Volk, 2022). Cutlip et al. (1985) point out that these objectives should be specific, measurable, achievable, realistic and time bound (SMART). Objectives, then, need to be operationalized, they need to be translated into specific measures, metrics, or KPIs which can be assessed through measurement (Figure 13.1).

The Barcelona Principles also recommend conducting measurement on more than one level, or at more than one stage of evaluation. This is of critical importance to counter one of the most common – and well-founded – objections to evaluation in corporate communications: "it's very difficult" (Watson, 2012, p. 393), not least because measurement at critical levels/stages is complex (cf., Macnamara, 2015, 2017). A key level of measurement and evaluation is the outcome-level. All levels "below" this level cannot really speak to the effects of communications: the input-level merely illustrates resource requirements or allocations, the output-level highlights efforts, and even the outreach-level, while focusing on target audiences, can only show if communications were perceived at all. It is the outcome-level that finally examines substantive communication effects (understanding, learning, attitudes, beliefs, behaviors, etc.). The outflow-level then attempts to translate these effects into business metrics.

These business metrics, however, while of vital interest to corporate leadership, are highly contingent, they are affected by countless influences aside from the communications efforts of the organization (Laskin & Laskin, 2018). Due to the transparency and data-richness of capital markets, outflow-metrics are relatively easily accessible for financial communication (share price, volatility, trading volumes, etc.). However, evaluating financial communication purely on the basis of such outflow-measures would inevitably result in faulty and occasionally unfair assessments, as countless factors beyond the control of the financial communication function impact these metrics (financial performance, macroeconomics, peer group

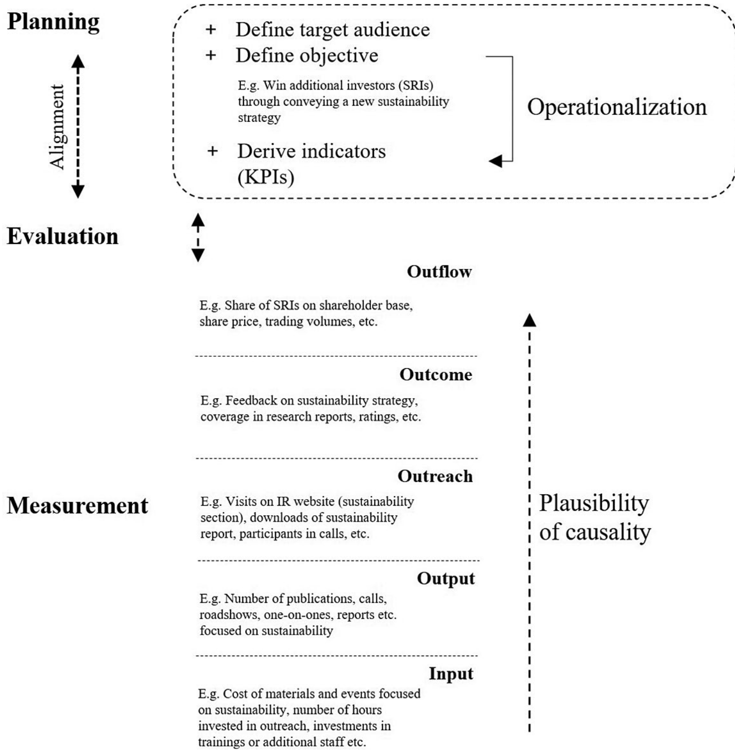

FIGURE 13.1 Framework for financial communication evaluation (Figure by the authors)

developments, etc.). Proving a causal relationship between specific IR measures and specific outflow metrics, therefore, is next to impossible (Laskin & Laskin, 2018). The communications context doesn't lend itself to the necessary quality of measurement required for causal inferences (such as experiments or randomized controlled trials, see Macnamara, 2017).

At best, the plausibility of causal relationships can be assessed. To that end, measurement at multiple levels of evaluation is critical, even if corporate leadership is ultimately most interested in outflow-metrics. Taking levels "below" the outflow-level into consideration also helps illuminate *how* financial communication and IR generate value for the organization: through stakeholder engagement, relationship management (e.g., trusting relationships with analysts and investors), ensuring compliance, transparency and an open flow of information, agenda setting and framing (equity), storytelling, coaching and advising the C-suite, etc. These various contributions of financial communication and IR, as discussed in Chapters 7 to 10, should be taken into consideration when drafting the causal relationship between inputs into

financial communication and IR and outflows – and the corresponding performance indicators and metrics.

Vexingly, each successive level of evaluation – from input to outflow or even impact – while perhaps more relevant (at least from the perspective of the C-suite), also becomes more difficult to implement. As a result, there is commonly a wealth of data at "lower" levels of evaluation (input, output, outreach), while generating quality data at "higher" levels of evaluation is both difficult and resource-intensive. Collecting measures on all levels, however, increases the plausibility of causal effects at higher levels of evaluation. In other words, if specific resource investments at the input-level resulted in an increased output, which has actually been perceived by target audiences (outreach), then it is more plausible that desired changes at the outcome- and outflow-levels can actually be attributed to the financial communication function. The next section will examine some potential tools of evaluation that are applied in financial communication practice at each level of evaluation.

Tools of Financial Communication Evaluation

As noted above, measurement is the precondition for evaluation. So, what are tools that are commonly used in financial communication and IR to measure the function's or department's output, outreach, outcome, or outflow? The literature offers a broad overview of evaluation tools used in PR or corporate communications more broadly (Buhmann & Volk 2022; Zerfass et al., 2017; Wright et al., 2009), less is known about IR measurement and evaluation tools specifically (Hoffmann & Binder-Tietz, 2021; Laskin & Laskin, 2018). On an abstract level, measurement is an exercise in social science, so measurement tools are adaptations and implementations of social scientific methods, such as interviews or surveys, content analyses, observations, or experiments (Buhmann & Volk 2022; Macnamara, 2017). This is most obviously relevant at the outcome-level, where actual communication effects are examined. Here, measurement attempts to get at target audiences' knowledge, beliefs, attitudes, or behaviors. It is therefore necessary to observe human behavior, to gain insights into human cognition and/or affect. This is precisely the purpose of social scientific methods.

Measurement at the output- and outreach-levels tends to be less complex. It is mostly a question of transparency and diligence to thoroughly document communications outputs and their resonance with target audiences. As noted above, while the outflow-level is generally considered terribly taxing and complex to assess in PR, this is less clearly the case in the context of IR. While not all tools of measurement can be clearly ascribed to one level of evaluation, the next sections will attempt to roughly apply such a categorization. First, though, a brief note on input-measurement: while input-measurement provides important insights into the efficiency and process

quality of communications, it will not be a focus here because input data is to a significant degree made available through accounting, human resource management, and project management, and input-measurement is not specific to corporate communications or the financial communication function.

Tools of Output-Measurement

Analysis of the number of publications, calls, events: The output-level offers insights into the productive capacity of a communications function. It explores how resources (inputs) were translated into efforts to reach and to affect target audiences. As noted above, measurement at the output-level is mostly an effort in diligence, as communications functions are merely required to clearly document all the releases, reports, and other publications they produced, and all meetings and events that they offered in a given timespan (Laskin & Laskin, 2018; Guimard, 2013). Of interest, for example, is the number of press releases sent out, presentations and factsheets published, calls made, or events organized, such as roadshows or capital markets days. It should be noted that the quantity of these outputs does not allow any judgment on their quality or effects. Therefore, while output-measures are a useful starting point of evaluation, they are of little use without complementary data (Laskin & Laskin, 2018). Given additional insights into changes at the outreach- and outcome-levels, however, it is of critical importance to understand how input was translated into output-adaptations during the planning process, which in turn may have contributed to higher level effects (causality plausibility).

Tools of Outreach-Measurement

Analyst coverage: At first glance, analyst coverage is a helpful metric to gage the attention paid to a corporation by capital market participants (Laskin, 2011). This applies in particular to sell-side analysts, who are important information intermediaries with potentially large audiences (Laskin & Laskin, 2018; Porak et al., 2007). Beyond mere reach, though, analyst coverage represents an indication of the information transparency and quality of IR. So, analyst coverage also provides some insights for measurement at the outcome-level. It is assumed that analysts prefer to report on companies for which the research effort is limited, i.e., the availability and reliability of information are considered to be sufficiently high (Agarwal et al., 2016; Kirk & Vincent, 2014; Bushee & Miller, 2012). Coverage, in turn, has been shown to be related to increased liquidity and valuation.

Participation in IR events: The number of analysts, investors, and/or media representatives attending events such as investor conferences, conference calls, or presentations also reflects the target audiences' interest in the

company, the attention they pay to the corporation and its communications. This includes the number of individual meetings with top investors. Similar to high analyst coverage, lively participation in financial communication events is considered by various authors to be the result of successful IR efforts (Porak et al., 2007).

Website usage: A company's IR website is one of, if not the, most important information source(s) for capital market participants. It provides a central and comprehensive access point to all information and materials provided by a corporation to the financial community. At the outreach-level, the use of the IR website is routinely measured, with analytics providing helpful metrics such as visits, page hits, bounce rates, and time on page (Macnamara, 2017). A differentiation by target group or even a quality assessment, on the other hand, is only possible to a limited extent. In addition, website usage can be assessed via usability tests and user surveys.

Media monitoring/clippings and media response analysis: Media monitoring or clippings show the frequency and extent of reporting on a corporation by financial and business media and thus provide outreach-level insights. Media response/resonance analyses go beyond this basic level of analysis and also explore journalists' understanding and interpretation of the information provided by the corporation. Such in-depth media analyses, therefore, may provide insights at the outcome-level. Of course, journalists are rarely the ultimate target audience in financial communication. The idea, here, is that media reporting will have a corresponding impact on the perceptions of capital market participants (Laskin & Laskin, 2018). Media monitoring and clippings are among the oldest, best-established instruments of PR evaluation (Watson, 2012).

Social media analytics: Another tool that can be applied both at the outreach- and outcome-level is social media analytics. At the outreach-level, this tool provides insights into the attention paid to corporate messages ("views", "shares"). However, metrics such as "likes", reactions, and the analysis of comments and responses allow for insights at the outcome-level, too, as they tap into the target audience's cognition and affect (Macnamara, 2017). It should be noted, though, that social media are still not considered among the most important instruments of financial communication, they are relatively rarely used by professional capital market participants. Social media analytics, therefore, only provide limited insights into key audience responses.

Tools of Outcome-Measurement

Feedback by analysts and investors: The most popular tool of IR evaluation is formal or informal feedback by analysts and investors to IR officers, which can be considered a qualitative outcome-measure (Ragas & Laskin, 2014; Laskin, 2011). Analyst and investor feedback can permit conclusions on the

quality of IR, e.g., with regard to investor satisfaction and understanding. IR should take the limited representativeness of informal feedback into consideration, though. It is possible, if not likely, that capital market participants with relatively strong ties to the corporation are more willing to provide feedback. This challenge holds even for more formalized feedback, such as surveys conducted at the occasion of IR events. Nonetheless, due to its qualitative nature, feedback can be very helpful to understand and contextualize quantitative evaluation metrics. Feedback from analysts and investors can be collected in very different ways – from short, specially arranged phone calls to informal conversations at the occasion of an IR event. Of course, feedback is also sometimes initiated by target audiences, most likely in the case of dissatisfaction.

Analysis of research reports: Sell-side reports are usually accessible to the corporation and can therefore be analyzed for how they incorporate information provided by the financial communication function. The analysis of research reports is somewhat comparable to a media response analysis, as it goes beyond merely documenting the extent of coverage but delves into which aspects of corporate releases are reflected and how. It therefore provides insights at the outcome-level. Coverage by analysts is closely linked to the attention and interest of institutional investors. This is especially true for buy-side analyses, most of which don't tend to be publicly available, though.

Perception studies: The survey of analysts' and investors' opinions by means of perception studies is both a helpful and common evaluation tool applied at the outcome-level (Guimard, 2013). Numerous service providers offer perception studies to listed corporations. These service providers call analysts and investors and collect (more or less) brief feedbacks on their view of the corporation and its IR. Commonly, closed, multiple-choice questions are employed in these surveys, occasionally complemented by open-ended questions. Sometimes, survey results are condensed into scores that provide an overall rating of the financial community's view of the corporation. One important restriction of perception studies is the limited time and attention of respondents, so that the depth of the collected information also tends to remain limited.

Ratings/rankings/awards: IR ratings, rankings, and awards reflect, at the outcome-level, the opinions of analysts, fund managers, private investors, and other experts on criteria such as timeliness, credibility, transparency, continuity, and quality of financial communications (Guimard, 2013). Ratings, rankings, and awards tend to be contentious and regularly provoke the ire of those receiving low marks. Some ratings or rankings require a participation fee and therefore only accessible to larger corporations commanding sufficient resources. At the same time, those scoring highly tend to celebrate the recognition bestowed by the commendation. Certainly, no individual rating or ranking can provide a comprehensive assessment of the quality of

financial communication. As noted above, evaluation should be based on specific, contextual objectives derived from the corporate strategy, anyhow. So, while potentially providing some interesting insights, the value of rankings or awards to financial communication evaluation is limited.

Tools of Outflow-Measurement

Share price: The share price is likely the outflow-indicator of highest relevance to corporate leadership. IR can influence the share price by reducing the information asymmetry between the company and the capital market through the publication of relevant information (Laskin, 2011). Increased transparency leads to higher confidence, which reduces the risk discount on shares. Share price performance is an evaluation metric that is easily available and can be compared with competitors or with a leading index. Other factors influencing the share price include market sentiment, industry trends, the economy, or the state of competitors. In addition, the share price naturally depends on the business performance of the company itself. The share price as a measure of success in IR should therefore be supplemented by other measures of success in order to establish the plausibility of causal relationships (Laskin & Laskin, 2018; Guimard, 2013; Laskin, 2011).

Related to the share price, another important indicator at the outflow-level is the so-called consensus (Guimard, 2013). The consensus can be roughly understood as the average earnings expectation of analysts. The consensus is strongly related to the share price and is therefore closely monitored by IR departments. Service providers aggregate the consensus for listed corporations – some of which publish the consensus on their IR website. The information provided by the IR department serves to guide the consensus toward a realistic and coherent estimation of the corporate performance (Farraghe et al., 1994). Little deviation between the consensus and the actual performance is therefore seen as a mark of IR quality.

Volatility: Volatility describes the fluctuation of the share price – also in comparison to the overall market. A lack of transparency, insecurity, and low credibility all induce risk, increase share price volatility, and thereby capital costs. Continuous and credible expectation management should ensure that the volatility of the share price is kept as low as possible. Volatility is therefore an outflow-indicator that relates to both the share price and the cost of capital (Guimard, 2013; Porak et al., 2007).

Cost of capital: As noted above, lowering the cost of capital is a key contribution of financial communication to corporate value. When the cost of capital is low, future cash flows are discounted less in the company's valuation, which increases shareholder value (Porak et al. 2007). Cost of capital can be assessed both on the equity and the debt side of financing, with the latter being more evidently transparent (interest rates).

Trading volume/liquidity: The trading volume measures the total number of shares traded for a given security during a defined period. Higher trading volumes imply higher liquidity, better order execution, and a more active market for intermediation between buyers and sellers (cf. Laskin, 2011). Similar to share price and volatility, trading volume and liquidity are relatively easy to assess. However, the direct influence of IR on these variables is debatable. Liquidity relates to cost of capital, as the risk of investing in a highly liquid asset is lower (as is usually the volatility of the stock).

Shareholder structure: Shareholder identification can be used to evaluate the success of IR on a target group-specific basis (Laskin & Laskin, 2018). At the outflow-level, it can provide insights on the company's relationship with investor groups. The shareholder structure is often directly the object of communications planning (targeting), but it can also be used more indirectly as an indicator of the reception of communications among different target groups. By comparing periodically collected data, it is possible to understand how IR measures affect individual target groups – the shareholder structure can in turn have an impact on share prices and volatility (Guimard, 2013; Porak et al., 2007). For example, attracting additional investors is likely to raise share prices, especially if current shareholders intend to retain their shares. The latter tends to lower not only volatility but also liquidity.

To date, there are few widely used tools for measurement at the **impact-level**. This is likely to change in the future with the expansion of ESG reporting (see Chapters 7 and 14). In the European Union, a key element of ESG reporting based on the Corporate Sustainability Reporting Directive is a materiality analysis based on the notion of so-called *double materiality*. A materiality analysis serves to identify those sustainability issues with the largest impact both on the business *and* on society. These issues identified as material should be at the heart of ESG reporting, that is, companies should define targets and KPIs for these issues and provide regular, systematic updates to its stakeholders. If a communications function sets out to conduct evaluation at the impact-level, therefore, a materiality analysis and the resulting CSR reporting may be a good place to start. It goes without saying that identifying causal relationships between communications outputs and societal impacts is even more complex and challenging than evaluating outflows at the level of the corporation.

The State of Financial Communication Evaluation

Given the respective sizes of the PR and IR fields, it is unsurprising that previous research has delved much deeper into the use of measurement and evaluation tools in PR than in IR (cf., Buhmann & Volk, 2022). In a survey of more than 500 PR professionals worldwide, Wright and colleagues (2009) find that press clippings are by far the most frequently employed evaluation

tool, followed by internal reviews and advertising value equivalents (AVEs). The latter insight spurred a downright campaign by professional associations and academics against the use of AVEs in PR evaluation, citing a lack of the measure's validity (AMEC, 2020). Based on data collected among European communications professionals, Zerfass and colleagues (2017) also find that press clippings and media response analyses are most commonly employed, followed by Internet and Intranet analytics. Input measures (financial costs) are also quite common. Outcomes (such as understanding of messages or attitude and behavioral changes) are assessed less regularly. A similar study among communication professionals in Asia-Pacific reveals comparable tendencies, with a slightly lower focus on input metrics (Macnamara & Zerfass, 2017).

The seminal study on measurement and evaluation in IR was published in 2014 by Ragas and Laskin, based on a survey of more than 380 members of the US National Investor Relations Institute (also: Ragas et al., 2014). They found that a large majority (80%) of investor relations officers (IROs) employed both qualitative and quantitative measures to assess their programs. The tools ranked as most important tended to be qualitative, though, such as feedback from shareholders and members of the C-suite, or relationship quality with the financial community. Both share prices and the composition of the shareholder base were also rated as rather important, liquidity and volatility, instead, were ranked as more unimportant. Interestingly, 87% of respondents stated that the share price should not be used as a success measure (Ragas et al., 2014). The authors find that these results illustrate that IR is a relationship management function, focused on dialog. They also note that a disregard of quantitative metrics is somewhat surprising given the business background of many IROs and the availability of such data.

Hoffmann and Binder-Tietz (2021) surveyed 51 heads of IR of companies listed at the German stock exchange. They also found that qualitative measures relating to relationship quality and feedback from the financial community were considered most important (see Figure 13.2). Outflow-metrics, such as share price, liquidity, and volatility, were rated as somewhat less important. Awards and ratings were seen as least relevant. However, the survey also revealed that a fifth of participants didn't conduct any systematic evaluation of the IR program at all. Only about a quarter derived their program objectives from the corporate strategy. A subsequent study of both IROs and financial communication experts in the PR department, however, highlights stark departmental differences (Binder-Tietz et al., 2021). Measurement and evaluation were much more common among financial communication experts embedded in the PR department. Qualitative results indicate that this is mostly due to the use of clippings and media response analyses in PR.

Aside from a focus on relationship management, these findings also point to a lack of professionalization and standardization of evaluation

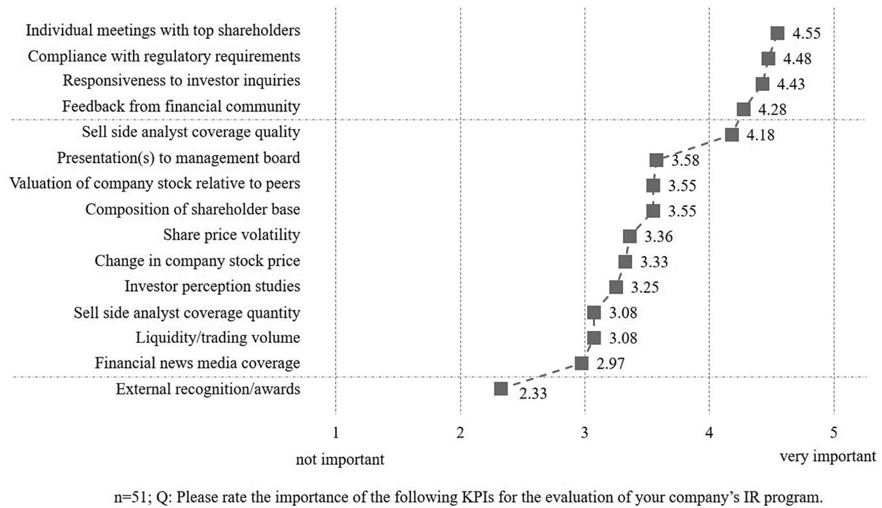

FIGURE 13.2 Perception of importance of measurement and evaluation criteria stated as mean values (Figure by the authors)

measures within the IR department. If objects are either not clearly defined or not derived from the corporate strategy, it is no wonder that IR evaluation relies on qualitative, sweeping assessments based on more or less informal feedback. It is also unsurprising that IROs struggle to explain their value contribution to the C-suite (Laskin, 2011). Resistance to a reliance only or primarily on outflow-metrics, such as the share price, is certainly well-founded and supported by the IR literature (Laskin & Laskin, 2018; Guimard, 2013). The mixed-methods approach, applying both qualitative and quantitative measures, commonly applied in the field is very much in line with prescriptive models and the evaluation framework introduced in this chapter. However, too many IR departments appear to eschew a clear definition and operationalization of IR objectives based on the corporate strategy. Also, the measures employed in practice do not yet systematically cover all relevant levels of evaluation, nor do they provide a sufficient argument for plausible causality.

As is true for corporate communications evaluation in general, IR evaluation standards may improve with the digitalization of stakeholder interactions (Watson, 2012). Digital platforms generate a wealth of data and metrics that can usefully be employed in the assessment of IR output, outreach, and increasingly also outcome. Macnamara (2017, p. 145), however, warns of a "measurement inversion", where easily available metrics are used in evaluation – rather than meaningful metrics. Internet and social media analytics may create a temptation to employ "vanity metrics" (p. 147) that sound impressive (such as number clicks or downloads) due to high counts

but need to be contextualized or compared for useful insights. So, while digitalization may be a boon to IR measurement, it will not absolve IROs from the necessity to develop a more systematic approach to IR evaluation, as evaluation remains a key element of successful strategic IR management.

Implications for Effective Financial Communication

- One critical purpose of financial communication evaluation is to assess the contribution of the function to corporate success. To that end, financial communication evaluation needs to build on the corporate strategy (e.g., international expansion, focusing on the business model, M&A transactions, innovation, and growth). It derives specific, situational, and contextual financial communication objectives from the corporate strategy. This assures alignment of corporate and departmental or functional goals. Financial communication objectives can describe both communicative and financial contributions to corporate success. In either case, these objectives are then operationalized, they are translated into measurable metrics – ideally at all levels of evaluation.
- Defining indicators and metrics at all levels of evaluation (input, output, outreach, outcome, outflow, possibly even impact) serves to develop an argument of plausible causality. High-level metrics (outflow) tend to be of particular relevance to corporate leadership, the influence of communications measures or programs over these metrics, however, is limited and difficult to prove. Outflow-metrics can and should therefore be one element of an evaluation program, but not the only one.
- Setting up a well-rounded, specific, strategically informed, clear, and manageable evaluation program is the duty of the financial communication function or IR department, not the C-suite. It is upon the communications experts to develop, present, and defend the evaluation program. First, this signals a well-reflected and proactive approach to communication management. Second, it protects the communications function from ill-chose, unfair, or unrealistic measures of success.
- Aside from summative evaluation aimed at analyzing financial communication's contribution to corporate success, formative and process evaluation also need to be taken seriously. They play an important role as an input to the development of sound financial communication plans and in monitoring their execution. Quality management, continuous improvement, and flexible resource (re)allocations require up-to-date data and analytical insights generated through evaluation.
- Generally, metrics at the input-, output-, and outreach-levels are relatively easy to collect. In the case of financial communication, critical outflow-metrics (e.g., share price, volatility, and liquidity) also tend to be readily accessible (in contrast, for example, to outflow-metrics in the

realm of PR). It is the outcome-level, therefore, that poses the most difficult challenge when implementing a comprehensive evaluation program for financial communication. Aside from quantitative metrics – which tend to be popular among corporate leaders – qualitative indicators should also be taken into consideration, especially when gaging outcomes (e.g., informal feedback, shareholder sentiment, and quality of analyst coverage).

- Often, rather than investing in additional measurement efforts, financial communication evaluation requires choosing the most meaningful indicators to operationalize communication objectives – and to compose an indicator set that covers all levels of evaluation. Digital communication, especially, tends to be rife with data and metrics, many of which are either not meaningful or not relevant to a specific financial communication plan. For evaluation in the digital realm, less can indeed be more. Practitioners need to ensure that an evaluation program is meaningful, manageable, and relevant from a strategic perspective. This requires a great deal of selection among the available data and metrics, and the occasional complement by targeted analyses filling specific measurement gaps.
- Not all, but numerous indicators employed in evaluation lend themselves to benchmarking, as identical metrics can be collected on competitors or peers. Benchmarking adds richness to measurement and evaluation by not just assessing the attainment of specific, contextual, and situational objectives but the relative efficiency and/or effectiveness of the financial communication program.

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14

THE FUTURE OF FINANCIAL COMMUNICATION

Having established the foundations of effective financial communication in Part 1 of this book, it then proceeded to analyze key responsibilities and contributions of the financial communication function in Part 2, to finally explore the strategic management of financial communication. This chapter will wrap up the presented account of effective financial communication with an exploration of (potential) future developments in the field of financial communication and investor relations. Of course, such prognostications are unavoidably speculative to a degree. However, some trends are already clearly visible today, raising the question of how they will affect the conditions, tasks, purpose, and organization of financial communication.

Two such trends will be at the heart of this chapter: sustainability and digitalization (including artificial intelligence). Both clearly already shape the work by financial communication experts and investor relations officers (IROs). Both are likely to continue to leave a mark. A third trend, already touched upon in Chapter 5 on Audiences, revolves around the rise of passive investing – and its connection to shareholder activism. Finally, a fourth trend – somewhat vaguer, but still visible in a myriad of changes and influences – is the recurring shocks to capital markets (multiple crises) in an interconnected, globalized economy. This final chapter, too, will end on some implications for the practice of effective financial communication.

Sustainability

As noted in Chapter 7, aspects of sustainability have long been the subject of voluntary corporate disclosures (Laskin, 2016; Bassen et al., 2010). More specifically, many listed corporations have long voluntarily provided some

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information on non-financial aspects of the corporation that may affect its value. Such non-financial information includes qualitative and quantitative data on corporate strategy, management, innovation/R&D and products, human resources, industry relations, and the like (Hoffmann & Fieseler, 2012). Social and environmental concerns have also played a role here – mostly because they may imply risks and could make corporations susceptible to regulations. Aside from a risk management perspective, capital market participants are primarily interested in sustainability if it is a relevant or *material* element of a company's strategy and business model (Fieseler, 2011).

The past decades have witnessed not only a tremendous rise in societal and political concern over sustainability but also a concomitant evolution in (postmaterial) values and norms (Henn et al., 2022). These shifts in public sentiment have also resulted in a massive expansion of policy initiatives and regulatory efforts to strive for environmental, social, and economic sustainability (Pizzi et al., 2020). It is difficult to overstate the impact of these developments on corporations, their products, business models, strategic options, growth opportunities, and financing. As a result, sustainability topics have gained in prominence both in mandatory and voluntary corporate disclosures, and they are also becoming ever more salient among financial audiences (Arvidsson, 2011). As noted in Chapter 7, a majority of companies listed on Western markets today publish a sustainability report (Governance & Accounting Institute, 2021). In some markets, these reports are no longer voluntary.

The European Union (EU) has positioned itself as a forerunner in the sustainability regulation of capital markets. As part of its Green Deal, the EU is pushing financial service providers to recommend sustainable investment products to its customers. Asset managers, in turn, need to provide information on the sustainability of their products (Sustainable Finance Disclosure Regulation SFDR). To enable asset managers to choose sustainable investments, the EU has devised the EU Taxonomy, which defines and operationalizes sustainable business activities in detail. Corporations are mandated to report their alignment with the Taxonomy based on the Corporate Sustainability Reporting Directive (CSRD). To clarify for corporations how to compose their sustainability reports, the European Financial Reporting Advisory Group has developed a new reporting standard, the European Sustainability Reporting Standards (ESRS). In the EU, sustainability reporting requirements are thus just a small element of a major plan to overhaul the European economy.

In 2020, Binder-Tietz and colleagues (2020) conducted a large-scale study among German-listed corporations to explore how they approached the implementation of these novel sustainability reporting requirements. They found that all surveyed corporations published sustainability reports – in most cases (59%) a report separate from the annual report (Figure 14.1). In 19%

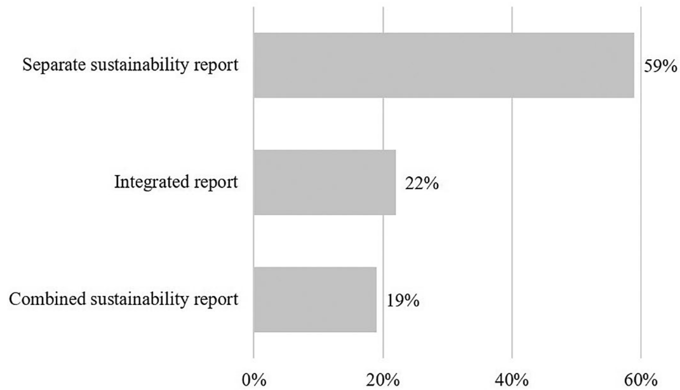

FIGURE 14.1 Types of sustainability reports (Figure by the authors)

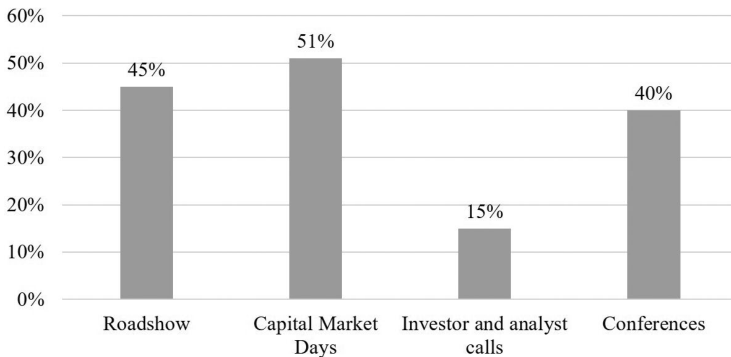

FIGURE 14.2 Share of IR instruments addressing sustainability aspects (Figure by the authors)

of cases, sustainability information was published as a dedicated chapter in the annual report. About a fifth of corporations published a so-called integrated report, which is characterized by an attempt to showcase how financial and non-financial data relate (Value Reporting Foundation, 2021; Köhler & Hoffmann, 2018). It should be noted that current EU regulations aim at some form of integrated reporting, giving sustainability topics a similar weight in corporate reports as financials, and showcasing how both are intertwined.

Aside from the sustainability report, sustainability topics were only addressed in some IR instruments, however (Binder-Tietz et al., 2020). A content analyses of publications found on the IR websites of 90 listed German corporations (ibid.) showed that only 45% of roadshow presentations, 51% of capital market days presentations, 15% of presentations prepared for investor and analyst calls, and 40% of other conference presentations contained sustainability data (Figure 14.2). Only about a third of surveyed

corporations reported that they had integrated sustainability into their equity story. What's more, only a fourth had integrated sustainability objectives into executive renumeration policies. Overall, the study showed that many listed corporations still have a long way to go to establish sustainability disclosures as a regular investor relations task.

Binder-Tietz et al.'s (2020) study also uncovered an interesting contradiction: when asked for the main addressees of sustainability reports, respondents named institutional investors and analysts – the key target audience of investor relations. However, when asked which corporate function was responsible for compiling and publishing the sustainability report, the same respondents pointed to the sustainability department, not the IR department. Thereby, a corporate department apart from the IR department was responsible for preparing a (mandatory) report addressed at the IR department's core audience. This finding points to a future challenge for financial communication: integrating resources and competences for sustainability disclosures into the financial communication function. Of course, in the case of financial disclosures, it is the finance function, not the IR function, that actually collects, aggregates, and provides the necessary data – but the IR department is then responsible for compiling the annual report.

Today, many IR departments have neither the manpower nor the necessary expertise to put together a sustainability report. In these cases, IR basically faces two options: either training or hiring staff to build sustainability expertise within the IR team or engaging in ever more complex cross-departmental cooperation. It is easy to foresee that IR will lose in importance if it does not embrace sustainability disclosures as a core responsibility. First, sustainability is a strategic challenge that is increasingly top-of-mind for corporate leaders. A function competently observing, monitoring, explaining, and communicating these issues will be regarded as particularly valuable by the C-suite (see Chapter 12). Second, with the rise of sustainable finance, more and more investors are requesting sustainability information. If an IR department cannot adequately address these requests, it will lose trust among the financial community – which will be forced to collect this information somewhere else. Part of the IR task, therefore, is also monitoring third-party sustainability data providers, including sustainability rating agencies, to intervene if fallacious data is published.

Conversely, it is possible that the annual report will increasingly be viewed as a responsibility of the corporate communications department, rather than IR. Once sustainability is seen as an equivalently important element of the annual report as financial data, the target audience of this instrument may shift away from investors and analysts toward wider stakeholder audiences. As Binder-Tietz et al. (2020) show, aside from investors, the sustainability report is addressed at civil society organizations, customers, employees, journalists, etc. (Figure 14.3). If corporate reporting does indeed move ever more toward a model of impact reporting (Adams et al., 2021) or public value

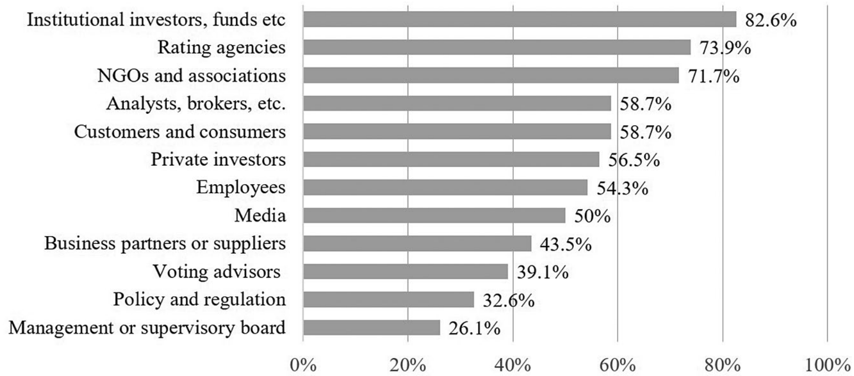

FIGURE 14.3 Target audiences of the sustainability report (Figure by the authors)

reporting (Meynhardt & Bäro, 2019), that is: explaining the impact of the business on society rather than on the bottom line, it may be better positioned as a corporate communications task.

To summarize, the increasing importance of sustainability disclosures may affect investor relations in distinct ways: on the one hand, IR may embrace the sustainability challenge, build up domain knowhow, take responsibility for sustainability reporting, expand its resources, and thus grow more influential within the corporation's dominant coalition. On the other hand, IR may hand over responsibility for sustainability reporting to corporate communications, as these reports address a broad corporate audience beyond the purview of IR. This will increase the need for IR to closely collaborate with other departments, relying on their input into IR publications and events. It should be noted, however, that the EU's determined path toward sustainable finance may turn out to be an insular phenomenon not adopted by other markets. In fact, the US is currently experiencing a strong, organized pushback against sustainable finance. To some conservative activists, environmental, social, and governance ("ESG") has become a code for left-wing ideology that threatens to distract executives from their fiduciary duty (Washington & Jones, 2023). Some US states have begun to ban investments with asset managers that take ESG metrics into consideration. It is entirely unclear yet if this ESG backlash will prove durable or not. However, it does show that much is still in flux when it comes to the role of sustainability in financial communication.

Digitalization and Artificial Intelligence

It may be a bit daring to list digitalization as a future trend in financial communication. Of course, financial communication already is to a large degree

digital today. As noted in Chapter 6, the IR website is among the most important IR tools, reports and releases are usually published in a digital format, even meetings are increasingly conducted online, transcripts or recordings of these meetings are then posted on the IR website (Laskin & Hoffmann, 2023; Ettredge & Gerdes, 2005). While the use of social media by listed corporations for investor communication is permitted in many jurisdictions, few IROs consider social media very relevant for their work. Some analysts and investors do take social media into consideration when analyzing a company (Alexander & Gentry, 2014), but social media are mostly popular among retail investors (cf., Zerfass & Köhler, 2017). As the now infamous GameStop short squeeze (Laskin, 2022) organized by disgruntled investors on Reddit shows, social media can be a platform for information sharing and even coordination within the financial community.

A study by Hoffmann et al. (2018) among German-listed corporations tried to differentiate distinct approaches IR teams take toward digitalization (Figure 14.4). The study describes four types of IR digitalization, with smaller IR teams mostly geared toward meeting regulatory requirements and adopting digital tools that are widely used or considered standard practice. A plurality of IR teams instead is quite eager to adopt new digital tools that increase efficiency and help optimize current processes. Many of these tools tend to be internally used and not necessarily visible from the outside, such

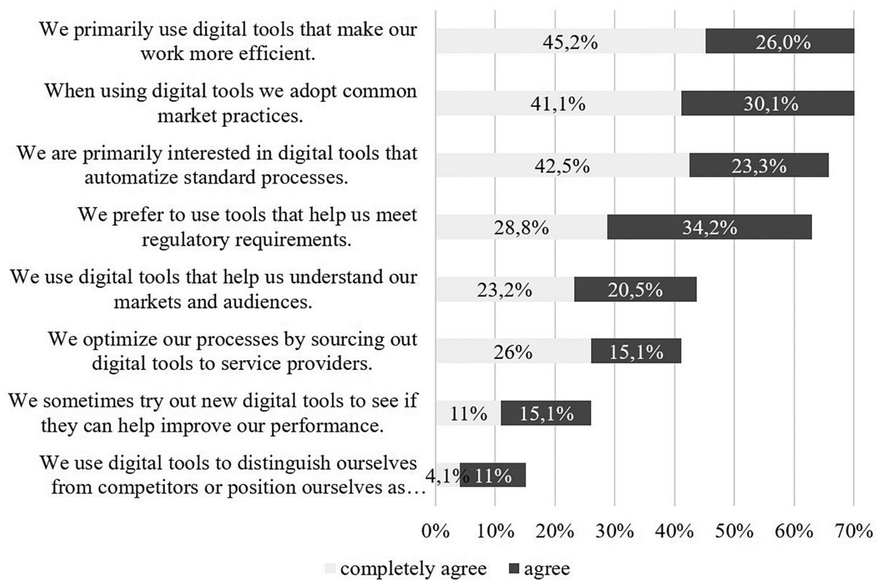

FIGURE 14.4 Motives for use of digital IR tools (Figure by the authors)

as customer relationship management (CRM) software. A few surveyed companies of various sizes employ digital tools to distinguish themselves in a crowded market and to position the company or its IR team as thought leaders and innovators. And finally, a very small subset of surveyed IR teams proactively engages in developing new digital tools, largely for the purpose of automatization of processes.

When looking toward the future, automatization and artificial intelligence are of particular interest for changes to the resources, processes, and structures of IR departments. IR teams tend to be limited in size and command few resources, which are largely dedicated to recurring projects, such as the annual report, the annual general meeting (AGM), or roadshows. In this context, automatization and artificial intelligence is a chance to free up resources that can be used in a more impactful way – for example in personal dialog with analysts and investors. That is why digital tools facilitating internal processes, such as CRM software or shareholder ID services, tend to be popular (Laskin & Hoffmann, 2023; Hoffmann et al., 2018). AI-based technologies also hold promise for financial communication, as data management tools as well as text and image or chart generation can speed up processes such as the preparation of reports, releases, or slide decks. Chatbots can be embedded in IR websites to answer basic and recurring questions by shareholders. Both in the US and EU, XBRL (eXtensible Business Reporting Language) or iXBRL (inline XBRL) is increasingly employed to render corporate reports machine-readable. In sum, a scenario in which IROs are relieved of some cumbersome standard tasks by automatization to focus more on relationship management seems highly realistic.

Importantly, automatization doesn't end at the corporation's boundaries. Rather, capital markets as a whole are increasingly subject to automatization. Based on XBRL, corporate reports can be transferred to analysts and investors automatically, where AI tools can pull out and analyze relevant data, and even prepare outputs such as reports and recommendations. Capital markets today are digital spaces, where orders are input and processed, and assets are transferred and stored digitally (Laskin & Hoffmann, 2023). A critical result of this development is that capital markets have reached unprecedented levels of speed and liquidity. High-frequency trading (HFT) is characterized by the processing of orders within milliseconds, allowing for tremendous trading volumes as well as the exploitation of miniscule asset price spreads (Chen et al., 2021). The speed of trading is so great that even the physical distance between servers can result in speed advantages for individual investors. The NASDAQ stock market estimates that about 50% of stock trading in the US is currently conducted through HFT (NASDAQ, 2022).

There are various voices that advocate against or in favor of HFT. One of the leading arguments for HFT is that it provides liquidity to the market (Chen et al., 2021) and decreases market volatility (Chaboud et al., 2014).

However, critics see instances such as the *Flash Crash* on May 6, 2010, that led to the largest ever intraday point loss of the Dow Jones Industrial Average (DJIA) (declining 1,000 points in 20 minutes) due to spiraling effects (Kirilenko et al., 2014), as proof that HFT poses a risk for market stability. Some empirical research supports the positive relationship between HFT and stock volatility (Zhang, 2010). Another common critique is that HFT only benefits large companies that have specialized in this sort of trading, leaving less room for traditional traders to make use of the liquidity that is assumed to be provided through HFT (Chen et al., 2021). Retail investors can obviously not keep pace with traders employing HFT, which may systematically burden them with less favorable asset prices.

At the same time, however, the emergence of digital technologies has rendered capital markets more accessible for retail investors and the average citizen. Particularly in the past years, and especially during the COVID-19 pandemic (Massa & Ponczek, 2020), the widespread popularity of trading apps, such as *Robinhood*, have revolutionized trading markets and made it very cheap and easy for retail investors to take part in stock market trading and to experiment with small investment amounts. Following *Robinhood*'s mission statement, the company's goal is to "provide everyone with access to the financial markets, not just the wealthy" (Robinhood, 2022). In fact, about 80% of assets under management at Robinhood are held by millennials (Massa & Ponczek, 2020). At the same time, this development poses questions regarding the necessary financial and investment literacy to engage in capital markets as well as the danger of addiction that gamified digital investment tools bring about.

For investor relations, these trends have a number of important implications: first, IR teams need to keep abreast of technological trends and tools to understand their use both by fellow IROs and by members of the financial community. Tech knowhow is an increasingly important requirement for IROs. Second, IR outputs need to be not only digital but machine readable to meet investor needs. At the same time, data security has become a critical issue as market participants attempt to scrape for information that has not been officially released yet. In a digital and increasingly automated environment, listed corporations need to keep their IT up to date to maintain control over the disclosure process and timeline. Third, traders employing HFT have little interest in engaging in dialog with IR, they are almost impossible to reach and engage – despite their tremendous contribution to trading volumes and market liquidity. Instead, retail investors may actually gain in importance as an IR audience.

Active, Activist, and Passive Investors

A trend that has already shaken up IR practice, but is likely to continue to do so, is a massive shift in investment strategies over time. For the longest time,

the most common investment strategy among mutual funds can be described as *active investing*. Accordingly, a mutual fund usually conducted (buy-side) analyses of potential investment objects and employed a portfolio manager or investment committee that decided which assets to invest in, and which to avoid. Picking and choosing assets, in the case of the stock market, is called stock picking. Stock picking is the core value added to an actively managed investment fund. Those investing money in the fund delegate the responsibility of choosing the most promising assets to the fund management. From an investor perspective, successful investing implies choosing the right fund to invest in, i.e., choosing the smartest, most competent, or simply luckiest fund management to trust with their money. Investors reimburse fund managers for their services by paying a fee, usually a percentage of the investment – for example 1.5%. Fund managers, in turn, compete among each other, each trying to outperform the next, to attract more capital and thereby generate more fee income.

Investing in an actively managed fund can be quite attractive from an investor's perspective. Of course, the fund's performance needs to exceed the fund's fees in order to generate a positive return. But beyond that, the fund's performance needs to exceed that of the market to become competitive. Why is that? That is because investors have the alternative choice of *passive investing* (Chapter 5). Passively managed funds do not engage in stock picking, but rather replicate a stock market index in their portfolio – for example the DJIA, the Deutscher Aktienindex (DAX), or the Financial Times Stock Exchange 100 Index (FTSE 100). Service providers compile these indices to track the development of entire stock markets or sectors. Managers of passive funds simply copy the composition of the index. Thereby, they forgo the need to analyze and make investment choices, significantly reducing the operative cost of the fund. Accordingly, the management fees of passive funds are very low, as low as 0.2%. From an investor's perspective, these passive funds constitute a benchmark against which to measure the performance of the more expensive active funds. To be attractive, the active fund needs to outperform the market benchmark by at least the size of its management fee. For example, if during one year, the DJIA has a performance of 7%, the return of a passive fund (at the cost of 0.2%) to the investor would be 6.8%. An active fund focused on US stocks demanding a management fee of 2% would thus have to at least outperform the DJIA by 1.8%, also resulting in a return to the investor of 6.8% (7% + 1.8% -2%), to be competitive. Of course, the disadvantage of a passive fund is that it can by definition never outperform the market that it replicates – while an actively management fund can actually outperform the market if it is lucky or successful in its stock picking.

Now over time, more and more large-scale studies have found that actively managed funds struggle to consistently outperform the market (Shushko & Turner, 2018). In fact, over a five-year period, the likelihood of an active fund

outperforming the market is close to zero (ibid.). Obviously, for investors with a mid- to long-term perspective, that raises the question of why they should choose an active over a passive fund. In fact, since the 2000s, capital markets have witnessed a huge outflow of capital from active funds and a concomitant inflow of capital into passive funds (Economist, 2006). Among the four largest asset management firms globally, each managing assets in excess of 3 trillion USD, three specialize in passive investing: BlackRock, Vanguard, and State Street. All asset managers, over the past two decades, had to scramble to significantly expand their portfolio of passive funds, as investors flee the actively managed products. Now from an investor relations perspective, this tectonic shift in investment strategy preferences has had at least three major implications:

First, the rise of passive funds and the decline of active investing have disrupted and, to a degree, impeded the relationship management function of IR. After all, analysts and portfolio managers are the most important target audiences of IR. IR departments invest a major part of their time and resources into keeping in touch with, providing information to, and collecting feedback from portfolio managers. In the case of passive funds, however, portfolio managers play only a minor role as these funds' strategies are so simple that investment decisions can be largely automated. Simply put, in the case of passive funds, there is almost no one to talk to for IROs. Also, there is little use in fostering relationships with those administering passive funds, as these "fund managers" really have little to no decision latitude. The manager of a passive fund cannot deviate from the underlying index. So, for a listed corporation, the only decision that counts is the inclusion in or exclusion from an index, which is not the prerogative of fund managers. As soon as an index recomposition occurs, the passive fund will either invest or divest. That raises the question: what is IR even good for in an age of passive investing?

The second major implication provides an answer to that question – and relates back to the first trend discussed in this chapter, sustainability. Asset management firms specializing in passive funds, such as BlackRock or Vanguard, do not have analysts and investment committees for each fund, but they do have so-called engagement or stewardship teams. Engagement or stewardship describes the attempt to influence the ESG policies of companies the asset manager is invested in. This is partly driven by sustainability commitments on the part of asset managers. Partly, there is a pragmatic calculus by which asset managers cannot monitor or influence the financial performance of each individual portfolio company, but they can ensure good governance practices across entire industries and markets due to their tremendous size and reach. The implication for IR is that IROs need to engage in dialog with the engagement and stewardship teams of major asset managers and provide transparent information on their company's ESG performance. In practice, this involves substantial reporting obligations and a close collaboration with ESG rating agencies. The rise of

passive investing, thus, does not lead to a decline in IR duties, but rather to a shift in focus (and partially tools, such as ESG roadshows).

Third, the rise in passive investing and the concomitant decline in active investing open a window of opportunity for shareholder activism. As there are fewer fund managers actively engaging corporations on questions of strategy and financial performance, and, instead, passive investors tend to focus on higher level questions of governance and sustainability, this leaves ample opportunity for hedge funds that not only engage in stock picking but actually very specifically identify and target underperforming corporations or those with strategic and/or tactic weaknesses to exert pressure on (see Chapter 5). Shareholder activism is not a new phenomenon (Hoffmann & Fieseler, 2018). Capital markets have seen waves of activism, sometimes pursued by pension funds, later more by hedge funds, and occasionally even by civil society actors. The focus of shareholder activism tends to be on governance concerns but can also address questions of strategy and performance (Kahan & Rock, 2009; Brav et al., 2008; Del Guercio & Hawkins, 1999). Some activists focus specifically on capital market transactions, intervening in takeover bids, for example. Civil society actors, in particular, tend to focus on sustainability issues.

Recently, an interesting collaboration appears to be emerging between shareholder activists and passive investors, as activists vie for support from passive funds commanding major shares in a corporation, while at the same time passive funds seem quite happy to occasionally throw their weight behind an activist attack as this keeps executives on their toes and results in financial performance gains that the passive fund itself would not be able to effect. To summarize, the rise of passive investing may come at the cost of active investing but appears to be a boon to shareholder activism. Again, from an IR perspective, this speaks to a rise in the importance of IR, rather than a decline, as shareholder activism is a major challenge for corporate leaders. Hoffmann and Fieseler (2018) argue that shareholder activism increases the salience of four IR tasks, in particular: (1) shareholder intelligence, i.e., maintaining a tight grasp of the shareholder composition and shareholder sentiment, (2) shareholder dialog, i.e., regularly collecting feedback from shareholders, (3) shareholder advocacy, i.e., representing shareholder interests and perspectives in corporate decision-making, and (4) shareholder engagement, i.e., the proactive targeting, attraction, and retaining of sympathetic and loyal shareholders. These tasks speak to a strong strategic contribution of the IR function.

Multiple Crises and Resilience

These days, companies must deal with a multitude of crises that are characterized by various degrees of direct and indirect implications for their

business models and operations. For example, the COVID-19 pandemic has pushed companies to switch to remote working in a short period of time, re-organizing workflows, and integrating new technologies. Similarly, the climate crisis requires businesses to rethink their operational processes, the entire supply chain of products and services, and strategies for how the business can be transformed toward a net-zero future. Furthermore, international wars and conflicts, such as the Ukraine war or the Chinese-US trade war, pose political, economic, and societal insecurities that companies must consider in their strategic management and communication with stakeholders and financial markets. The trend of *multiple crises* is not easy to clearly delineate. It is really more of an amalgamation of various overlapping trends.

One major, long-term driver of these developments is globalization, which includes the globalization of capital markets. An old saying holds that "markets never sleep". This is especially true in the context of globally interconnected markets, where some stock market is always open and active – in Europe, America, Asia, and the Middle East. Many larger companies have multiple listings, so that their shares remain tradeable throughout the day. Globalization has also incentivized highly diversified supply chains, where disruptions in one part of the world reverberate throughout the global economy (Wieland & Durach, 2021). These disruptions can be of an economic, a political, or natural nature, such as the bust of a housing bubble, a diplomatic crisis, or a natural disaster. The number of armed conflicts – domestic and international – has been on the rise throughout the past decade (Roser et al., 2016). Greater weather variability in conjunction with economic growth has led to a steady increase in damage costs due to natural disasters (Our World in Data, 2023). Overall, the likelihood of disruptions in the global economy is rising.

A second driver of the multiple crises trend is an increase in financial instability. Empirical analyses reveal that the frequency of financial crises has dramatically risen during the 20th century (Reid et al., 2017). A major reason for this development appears to be monetary policy, as accommodative policies have become the norm since the fall of the gold standard (Grimm et al., 2023). Every financial crisis triggers calls for accommodative financial policies to quickly overcome current turmoil. Loose monetary policies, however, while helpful in quickly recovering from a current slump, increase the likelihood of a subsequent crisis. Recurring boom and bust cycles have thus become the norm. In a globally interconnected economy, financial crises rarely affect only one market – as the recent bankruptcy of Silicon Valley Bank in California illustrates, which ultimately triggered the collapse of Credit Suisse in Switzerland.

Changes in media systems and technology can be identified as a third driver of the multiple crises trend, as they increase the observability and salience of crises. In some respects, the increase in crises may be psychological, as citizens find it easier to gain access to information about events happening

throughout the world (Coombs, 2018; De Goede, 2009), thus developing the subjective impression that crises are occurring more frequently. Also, these events are becoming more visible due to the availability of images and video. They are also becoming more immediate and personally affecting due to eye witness reports. This development is due to, first, the emergence of private broadcasting services, including 24-hour cable news networks, later the emergence of the Internet, and most recently the rise of social media. All of these media innovations have increased the accessibility of information, the visibility and immediacy of news events. Pinker (2018) and Rosling et al. (2018) have argued forcefully that in many respects humanity is better off today than ever before in history, but positive trends and developments simply do not attain the same level of attention as bad news. Both journalism and audiences tend to focus more on threats and crises.

The (perceived or real) conflagration of multiple crises in a globally interconnected economy has given rise to calls for *resilience*. Organizational resilience "involves both the ability to withstand systematic discontinuities as well as the capability to adapt to new risk environments" (Burnard & Bhamra, 2011, p. 5583). Resilience encompasses a large variety of settings, instruments, or characteristics, such as organizational trust, adaptive learning, knowledge management, agility, forecasting, and scenario techniques. It includes elements at the organizational, departmental team, and individual levels (Hartmann et al., 2020). At the individual level, psychological dispositions such as optimism, positive thinking, focus, self-efficacy, or solution orientation come into play. There are, thus, many measures that an organization can take to increase its resilience. With an eye toward financial communication, however, it needs to be noted that the resilience of IR teams or individual IROs has not yet been the subject of research.

Of course, resilience touches upon some of the topics discussed above. Aligning the governance of corporations with the objective of economic, social, and environmental sustainability (sometimes called *integrated thinking*; Köhler & Hoffmann, 2018) should render their strategies, business models, and also corporate disclosures and reporting more resilient, as multiple perspectives, performance indicators, and impacts are taken into account. Digitalization can also help increase the resilience of organizations, as team structures and business processes become quicker and more flexible. The same applies to external financial communication, as disclosures and releases can be compiled and distributed faster, they can be explained and discussed in online meetings at any time, globally. This renders organizations more reactive to stakeholder needs. The shareholder activism trend, especially, pushes IR to focus more on shareholder intelligence and engagement, which should also bolster the resilience of corporations and their financial communication.

In reviewing the literature on crises and resilience, it is noteworthy that while crisis communication is a major research topic in the field of public

relations (Coombs & Holladay, 2010), there is barely any empirical research on crisis communication in the context of investor relations (Whitten & Coombs, 2018). Most evidence has been collected in accounting and finance research, where event studies show that high-quality investor relations can dampen the effect of external shocks on corporate valuation (Neukirchen et al., 2023; Zhang, 2023). However, Peasnell et al. (2011) point out that high-quality IR can contribute to a capital market reputation of reliability and transparency that can induce additional punishment by shareholders in case of a corporate scandal or a crisis caused by/within the organization. These findings indicate that effective financial communication is, in fact, an important element of organizational resilience – if it is factual, accurate, and reliable, and aligned with the corporate strategy and performance.

Implications for Effective Financial Communication

- IR departments should consider their desired role in communicating sustainability to capital markets. Either IR takes ownership of this topic, builds up expertise, and demands additional responsibilities – or it will have to further optimize its interfaces with other departments that provide the necessary data and expertise. The latter course will unavoidably diminish the power and standing of the department, as it becomes increasingly dependent on other corporate functions. Taking charge and embracing the sustainability trend, instead, is likely to increase IR's standing within the corporation and executives' esteem for the function.
- Of course, some degree of inter-departmental collaboration is unavoidable when addressing an issue as broad as sustainability that cuts across corporate functions from finance, to strategy, HR, legal, and marketing to corporate communications. Integrated reporting, for example, is a highly collaborative exercise that requires tight cooperation and efficient collaboration across departments. If IR takes the lead in integrated reporting, intra-organizational networking, clear communication, and effective leadership are required for high-quality results.
- As not all markets will pursue the same sustainability legislation, regulatory approach, or reporting requirements, financial communication will need to remain vigilant and flexible: understanding differing local approaches and obligations, maintaining compliance, and ensuring sensitivity to local values and discourses are critical success factors in sustainability communication, especially for IR departments with a large international reach.
- Effective financial communication increasingly requires resilience. As shocks keep reverberating throughout the global economy, IR needs to invest in shareholder intelligence, keeping its finger on the pulse of international markets, and continuously engaging in dialog with core financial stakeholders. Digital tools, such as online meetings and conferences, can

help in maintaining a global reach. IR teams with diverse skills, international diversity, agile workflows, and distributed offices (the US, Europe, East Asia) are likely to be better equipped to master a turbulent global economy.

- IR departments should also invest in the resilience of its team members, focusing on self-management, motivation, team spirit, and a healthy work-life balance. As most IR teams are small, they tend to discount internal management tasks such as talent development and resource management. Aside from a need for resilience, however, the war for talent is likely to increase the salience of good HR practices in financial communication.
- Effective financial communication increasingly requires technological expertise. Ever more automated capital flows challenge IROs to identify those trigger points where targeted financial communication can actually still affect results. To target IR efforts on those interactions and relationships that matter, small and resource-poor IR teams need to identify and invest in digital tools that speed up, simplify, or even automatize routine tasks. AI technologies hold much promise in this regard (e.g., for data analysis, visualization, text, image and chart generation).
- Effective digitalization does not mean squandering money on the most flashy new digital platform. Smaller IR teams are well-advised to stay in close contact with colleagues from larger corporations that command more resources to try out new digital tools. Learning from best practices is a sound strategy for those struggling to keep up with the most recent technology.
- Data security is a top priority for digital financial communication. When using digital tools for preparing releases or reports, corporations need to ensure that all processes remain safe and secure and are protected against data breaches, hacking, scrapping, or leaking.
- At best, digitalization empowers financial communication to focus on its strengths and its contributions to corporate success, such as relationship management, dialog, intelligence, advise, and coaching. These contributions are more valuable than ever in capital markets characterized by shareholder activism. Due to its disruptive potential, shareholder activism is actually a boon to the internal standing of IR. IR departments should therefore actively position themselves as the first line of defense against shareholder attacks.
- Some recent trends, such as HFT or passive investing, may at first glance appear like challenges to the importance or standing of IR, as there is little room for relationship management with these types of traders or investors. However, these challenging trends also open new windows of opportunity for IR to reassess its value contribution. For example, by focusing more on governance and sustainability engagement, IR can actually positively affect relationships with passive investors. Digitized capital markets have

attracted larger numbers of retail investors that require additional attention by IROs in the future. A strong loyal retail shareholder base can be a valuable asset in times of turbulence.

- Above all, understanding the contributions of financial communication – compliance, storytelling, reputation management, relationship management, and executive advisory – is a critical first step in aligning the financial communication program. Implementing a sound communication management process, based on the corporate strategy and applying a differentiated evaluation framework, ensures that financial communication remains effective and continues to add clear, visible, and tangible value to the organization – and to its stakeholders.

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