



DEVELOPMENT OF INVESTOR RELATIONS AS A SPECIAL AREA OF PUBLIC RELATIONS, BASED ON THE POLISH EXAMPLE

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ABSTRACT

Investor relations (IR) are perceived as one of the areas of broadly understood public relations. In Poland (since 2004 member of the European Union), investor relations are a relatively new branch of both, practical activity and theoretical reflection. The author defines IR, presents the most important IR instruments and touches upon the main conditions and issues related to this type of activity in Poland today. The major conclusions of the article as follows. An active approach to investor relations in Poland, and especially the activities undertaken by companies listed on the Warsaw Stock Exchange have become a popular way in which organizations communicate with their environment. The quality of investor relations is largely determined by the mandatory and facultative regulations of the financial market, as well as by modern teleinformation technologies.

KEYWORDS: investors, communications, financial statements, asymmetry of information, financial market, teleinformation technologies.

INTRODUCTION

Aim and method

Relations between companies and their investors are the issues of major importance in establishing and operating modern financial markets. Not only do they influence the communication process between these organizations and the current as well as the potential investors, but they also constitute the basic tool for building trust amongst the participants in the market. Appropriate relations with investors contribute to increasing the company's chances of success on financial markets and, consequently, to the return on capital which the investors are interested to see.

Investor relations are perceived as one of the areas covered by public relations. They fit in the definition of public relations that describes them as all the operations within an organization aiming at establishing rapport and sustaining good productive relations with its environment, with a purpose of adjusting the organization to the environment in which it operates. (Cutlip, 1978; *Webster's Third International Dictionary. Unabridged*, 1993). In Poland, investor relations are a relatively new branch of practical activity, or a theoretical reflection. After 1989, the economic regime in Poland was changed from a centrally planned economy to a market economy, and in 2004 the country became a member of the European Union. Those events and their outcome became an inspiration for this paper which aims at explaining the essence of investment relations on the background of the notion of public relations (including *inter alia* the presentation of main definitions of IR, the most important IR instruments as well as conditions and problems related to this type of activity in Poland).

This paper was based on literature regarding the subject in question, the binding legal acts and other regulations of

facultative character as well as research reports either published in the literature or in the Internet. The paper is divided in three parts. In the first one, the notion of investor relations, the beneficiaries of such activity as well as its aims and forms have been defined. In the second part, various forms of investor relations have been described, while the third part has been devoted to the current state of investor relations in Poland and the main problems or barriers that hinder their development.

The essence of investor relations

In the literature on the topic, the explanations of the notion of investor relations stress the functions and results of the company's communication with the investor community and the opinion-making circles. For instance, according to the *American National Association of Securities Dealers Automated Quotations* (NASDAQ, 2000) investor relations must be understood as a process in which essential and valuable information is continually disseminated in the investor community so that the company can get an appropriate appraisal on the market. This issue is similarly perceived by the *National Investor Relations Institute* (NIRI, 2010) - a major investor relations organization in the USA, according to which investor relations constitute an element of strategic management dealing with finances, communication, marketing and a lawful security trade which enables effective communication between the company, the investor community and other interested parties. All these activities favour a trustworthy appraisal of securities.

There seems to be a conviction that investor relations serve not only serve investors who are better informed about the company's performance, but they also play an important role for the companies themselves as they contribute to increasing the value of the shares and reducing the cost of

capital. Moreover, it is believed that developing appropriate investor relations is one of the activities that must be included in value-based management focused on increasing the company's value in the interest of its shareholders (Gajewska-Jedwabny, 2004).

The issue of investor relations is often discussed in the aspect of *public relations* from which it has developed. According to some, the two areas are be totally different, while others believe that *investor relations* are just a branch of *public relations*. For instance, Sam Black claims that although "maintaining contacts with the recipients of *public relations* that deal with finances is frequently defined as '*investor relations*' (IR), there seems to be no reason why this area should be excluded from PR". In his opinion, using "*investor relations*" instead of the well rooted term of "*financial public relations*" constitutes just another example of an unnecessary complication of the issue (Black, 2003).

In the literature, the term *investor relations* is used alternatively with *investor public relations* or *financial public relations* (Niedziółka, 2008). However, Ferne Arfin, despite using these terms alternatively, points to the fact that there are some differences in their meanings. He says that "specialists in investor relations rather see their role in educational categories, and stress the bilateral communication with investors" (Arfin, 1998).

On the other hand, the similarities between the two terms can be spotted already in the very definitions of *public relations* and *investor relations* in which they share the function of communication between the organization and the outside world i.e. building up the company's goodwill and trust in its operations. While the difference between the two relations results from the principles and regulations that govern them. *Investor relations* are governed by a number of detailed rules determining what information, when, to whom, and for what purpose should be given (Collis, 2001). Investor relations also differ from PR as they are specialized and address a concrete recipient, aiming at the current and prospective investors (Usarkiewicz, 2003). Thus certain aspects of investor relations are identical with *public relations*, yet other ones are specific and therefore different. Therefore it is extremely important to coordinate the activities included in these types of relations.

It is noteworthy that the literature on the subject also points to a certain similarity of investor relations to *corporate governance*. The similarity results from the shared principles on which both of them are based: transparency of the operations as well as respect for investor rights. The most important aims of *corporate governance* such as: (i) creating conditions which can guarantee equal treatment of all the shareholders (including a guarantee of transparency of the company's operations and equal access to the information on the matters of the organization); (ii) creating conditions that ensure transparency of decision making processes; (iii) building positive relations among the shareholders and the organization as this helps to understand the expectations of the parties involved and to achieve approval for the decisions that need to be made, are all identical with these of *investor relations* (Koładkiewicz, 2004).

Objects of investor relations

The targeted recipients to whom investor relations are directed are institutional and individual investors, stock exchange analysts and financial media. Each of these groups, due to its specificity, requires a different approach and adjustment of the activities within investor relations to their particular needs (Black, 2003).

- Investor relations activity addresses analysts whose task is a fair assessment of the company's situation and production of accurate analyses, forecasts and recommendations. They need to have access to published information about the organization or company and must be informed of all events which might influence their opinion. The information presented by analysts should be useful for investors. This means that it must constitute a trustworthy ground on which important business decisions can be made.
- Institutional investors mainly include banks, investment funds, pension funds and insurance companies. These highly professional institutions have extensive knowledge of the market and its development trends. The cooperation of an organization with institutional investors is based on very close cooperation and mutual communication between the organization and its shareholders.
- Individual investors make most of their decisions either based on external analyses or, their own, subjective opinions, or they copy the investments decisions made by major institutional investors (Macierzyński and Macierzyński, 2007). Because of their loyalty and support, they are very valuable investors, particularly to small-size companies. They are also valuable for large organizations, as they tend to be long-term investors. Maintaining good relations between the company and its investors involves equal treatment of the investors and their equal access to the same information. In the individual investor groups a subgroup of employee shareholders may be differentiated (Usarkiewicz, 2003). The employees who own their company's shares are more involved in the matters of the company, their work is more efficient and thus they constitute an important group of investors (Niedziółka, 2007).
- The media play an important role in investor relations. Media enjoy much freedom expressing their views and opinions. These media which deal with the economy and capital markets in particular, want to communicate true and honest information about companies to the public as fast as possible. This means that business organizations need to prepare and publish detailed, trustworthy and up-to-date business information.

Investor relations tools

The forms of investor relations include direct and indirect communication, and modern communication technologies. Direct communication involves an immediate contact between the parties such as a conversation, discussion, meeting or an interview. This form of communication

ensures effective conveyance of information to the investor community and fosters mutual relations between the company and its investors. Direct communication when properly used also enables to receive feedback from the other party (Niedziółka, 2008).

The most important direct communication tools include annual general meetings of shareholders, teleconferences, meetings and presentations. In indirect communication there is no immediate, or direct contact between the parties; information is conveyed and recorded on various information carriers owned by the company, by the media (Andrzejewski, 2003). Indirect communication is take the form of prospectuses, financial reports (annual, periodic and current), press releases as well as letters sent to the new and potential shareholders.

Modern communication technologies provide inexpensive, convenient and fast multimedia communication. They can perfectly cope with the challenges of global economy and intensive development of the capital market. Currently, the Internet has become the most important distribution channel for dissemination of information. The most frequently used Internet channels of communication include company website, e-mail and XBRL (Extensible Business Reporting Language).

Functional conditions for investor relations in Poland

The conditions in which investor relations must function in Poland include the compulsory (legal) and optional (self-regulatory) conditions. Financial reports belong to the former ones. The manner of preparing and publishing the reports is governed by the provisions of the Accounting Act of 29 September 1994 (*Dziennik Ustaw (Journal of Laws)*, 1994). Moreover, the issuers of securities are additionally obliged to publish their accounting and financial reports the Ordinance of the Minister of Finance dated 19 February 2009 on current and periodic information disclosed by issuers of securities and the conditions of recognizing this information as equivalent to the information required by the laws of non-EU Member States (*Dziennik Ustaw (Journal of Laws)*, 2009). The ordinance pertains to all the issuers of securities listed on all the trading floors of the Warsaw Stock Exchange and the Central Table of Offers (CeTO). The ordinance defines the type, scope and form as well as the dates and frequency of presenting the current and periodic reports to the public.

Pursuant to the above legal acts, financial reports may be periodic (quarterly, semi-annual and annual reports) or current, they may be made for an individual company or may be consolidated reports made for capital groups. They must be prepared in a manner enabling the investors to evaluate the company's asset situation and its financial standing. Care must be taken not to release the reporting information with marketing information prepared within the company's marketing activities as this could mislead the investors. Periodic reports must be filed with the Polish Securities and Exchange Commission and they also must be available to the public - the investors, by having them published on the issuer's website and the website of the Warsaw Stock Exchange website.

It should be noted that a company listed on the Warsaw Stock Exchange is obliged to make its reports available not only to the public but also to the Financial Supervision Authority (Komisja Nadzoru Finansowego). This body stores the published information as well as confidential information, and is responsible for providing continuous and common access to the reports. Should the obligation to publish confidential information infringe upon the company interest, the company may delay the publication. Nevertheless, it must inform the Financial Supervision Authority, justify such delay and specify the date the upheld information shall be published. The delay, however, may only take place if it does not mislead the public and the organization guarantees that the information is kept confidential until it is conveyed to the Authority.

The Model Service of Investor Relations and reports on social responsibility of business organization are just two examples of the most important voluntary regulations which ensure *corporate governance* introduced at the beginning of the 21st century.

The principles of *corporate governance* pertaining to the companies listed on the stock exchange in Poland, combine the principles of corporate governance with the principles of building the relations of these companies with investors. The Warsaw Stock Exchange was the first institution to accept best practice principles in this area. According to the principles, the company must "act in its own interest which is understood as increasing its value for the benefit of its shareholders", observe the rights and interests of other subjects involved in the operation, especially the company's creditors and employees" (Komitet Dobrych Praktyk, Forum - Corporate Governance, 2005). The principles specify the details of work of the annual general meeting, the board of directors as well as the relations of the above bodies with external persons and institutions. The above also includes the manner of selecting the certified accountant (the company's auditor) and publishing company information. What is more, corporate governance principles put an obligation on companies to publish a statement in their annual report confirming that these principles are being observed. Where a company derogates from acting in accordance with corporate governance, that fact must be disclosed to the public and the reasons for such derogation must be stated.

Corporate governance needs to be widely used in Poland not only in public companies listed on the stock exchange but in smaller companies as wells. Wide implementation of best corporate practices in the area of accountancy and financial reporting improves the quality of reporting and results in a reduction of financial and accounting frauds which may seriously jeopardize the market balance, causing substantial bankruptcies or local branch crises. Thus, implementing corporate governance may be a vital step towards a more stable, predictable and secure economic system.

Financial reports may be expanded by adding information on social responsibility of business. Such reports are known as environmental reports, ethical or ecological reports. The research points to the fact that

individual investors are increasingly interested in obtaining information on corporate social responsibility (CRS) - 82% of the respondents surveyed admitted their interest in that kind of reports. This fact was among other reasons why in 2009 RESPECT Index was introduced at the Warsaw Stock Exchange. The index comprises organizations which show corporate social responsibility understood as "a management strategy and a concept of approaching the business on the basis of good and durable relations, mutual understanding and respect for the environment in its widest sense (i.e. for all the interested parties: employees, suppliers, customers, local communities, shareholders and natural environment" (Dziawgo, 2011). The classification of organizations included in the index was carried out based on a survey constructed according to the principles of Global Reporting Initiative. The introduction of RESPECT Index aims at promoting responsible management style in public companies in the context of sustained development, information order and financial market communication.

Although currently companies in Poland include more information on their activities for the outside environment in the reports they prepare, such information does not constitute a constant element of the communications they send to investors. Very few companies carry out a planned and all-embracing policy of increasing transparency by revealing extensive information in other forms than only their advertising brochures.

Stages of investor relations development in Poland

In 1993, two years after it commenced its activity, the Warsaw Stock Exchange opened its first investor relations department.

Another important step in the development of investor relations was the use of the Internet during annual general meetings. The first broadcast of a listed company's AGM via the Internet took place in 2003. Three years later, in 2006, the first voting by proxies with a power of attorney at an AGM broadcast with the use of the Internet took place. It was the time when the Polish law did not allow the shareholders to participate in AGMs online, hence the right to vote was executed by their proxies who were physically present in the AGM. In the same year, one of the companies carried out an internet broadcast of their annual general meeting where internet online proxy voting was allowed. Thus shareholders were able to instruct their proxies via the Internet on how to vote in the meeting. In 2010, new legal regulations made it possible for shareholders to vote online. A major telephone company, Netia S.A. took opportunity and carried out the first e-voting, in which shareholders not physically present in the AGM could also vote, owing to the use of the Remote Voting system. However, it was still necessary to register as the annual general meeting participant, and be verified, before the AGM started (Dziawgo, 2011).

The use of the Internet at annual general meetings was enforced by 'jumbo investors'. The change of legal regulations resulted directly from the need to develop a modern form of contact between companies and investors.

Another important step in the development of investor relations in Poland was the introduction of the Model

Service of Investor Relations on the Warsaw Stock Exchange in 2008. The service was recommended to all the listed companies. It is a model, standardized internet website including the most important elements of investor relations which may be conducive to effective communication between the company and the market. The service features business related information (the shareholders, general assemblies), financial reports, public offers of shares and their history, a timetable of important events (including annual general meetings, press conferences, the dates of publishing the company's periodic reports etc.) (Model Serwisu Relacji Inwestorskich, 2008).

The development of investor relations is also of substantial interest to the Ministry of Finance and the Ministry of the State Treasury. In 2009, within the structures of the Public Debt Department, an Investor Relations Division was set up to deal with day to day cooperation with domestic and foreign investors. In order to maintain good investor relations, the Ministry of Finance holds road shows, teleconferences and meetings with institutional investors. The Ministry of the State Treasury has set up an Investor Relations Centre whose task is to inform potential investors about the privatization process which is still ongoing in Poland.

Another example of new methods of communication between companies and investors are customer loyalty programs which have been successfully used for many years now. Similar programs are currently being implemented within investor relations. However, these are offered for a restricted time limit only, when the company is about to go public and its shares floated on the organized financial market. There is yet another form of communication between companies and investors, i.e. social networking such as Facebook, Twitter, Golden Line and InvestorTV.pl.

Diagnosis of investor relations in Poland

Investor relations have been investigated by numerous research institutions and business organizations. One of studies presented below was the research designed by Danuta Dziawgo of the Mikołaj Kopernik University in Toruń (Dziawgo 2011). The purpose of the research was to examine the condition of investor relations in Poland. The survey was carried on a representative group of 1012 respondents, 416 individual stock exchange investors, 50 stock exchange analysts and 50 stock exchange listed companies. The research was carried out in 2009 and 2010.

The study confirmed the importance of investor relations in the development of the financial market in Poland. Only seven out of 416 investors stated that IR were of no importance for them. The other investors admitted that the longer they invested on the market, the more important investor relations became for them. At the same time 63% of the investors confirmed that the quality of IR influenced their decision making process whether or not to invest in a given company. The majority of analysts (70%) believed that IR were an important factor whilst deciding on investments. Among companies, this percentage was even higher (81%) although investor relations did not seem to be essential for correcting the structure of the existing

investment portfolio (52% of the investors and 40% of the analysts who participated in the survey).

Regarding the importance of investor relations in the decision making process, the quality of IR did not seem to be satisfactory for individual investors. None of them said that IR quality was very good; as few as 6% said that the quality was rather high, for 58% it was satisfactory, for 33% the quality was inadequate. The analysts participating in the survey shared this opinion.

The quality of investor relations depends on the quality and scope of information conveyed to the investors. The scope was defined as satisfactory by 50% of the respondents, one third believed that it was good and for the remaining respondents, the scope of information was either poor or irrelevant which was confirmed by a very poor opinion on investor relations expressed by the investors participating in the survey.

Another issue investigated in the research involved the tools used by companies for establishing investor relations. The results confirmed that for all the groups of respondents, company websites constituted a major source of information whereas newsletter was not at all popular amongst the respondents. The analysts defined newsletter as an irrelevant tool. However, the analysts as well as the companies believed that one-to-one meetings were very valuable. Moreover, the analysts found press conferences and investor days a very good tool for improving the relations. The investors, however, did not share those opinions and declared that one-to-one meetings, press conferences and investor days were not the most relevant methods, or tools of communication with companies.

To summarize, the results of the survey on the relevance of the above tools for particular groups of respondents are as follows:

- Individual investors preferred websites (42%), newsletters, one-on-one meetings, press conferences and road shows,
- Analysts preferred one-on-one meetings (80%), telephone contact and roads shows,
- Companies preferred one-on-one meetings (86%) and websites (72%) over telephone contacts and road shows.

It might be also interesting to present the results of research into investor relations which compared the quality of investor relations in Poland to these in Central Europe. In 2009, Thomson Reuters (2011) carried out research into IR quality in Poland compared to these in the Czech Republic, Hungary and Slovenia. The study was not only to evaluate IR quality in Polish companies but also the attractiveness of Poland as the country to invest. The assessment was carried out by international analysts and managers in charge of assets portfolios which included shares in Polish companies.

The opinion on the Polish investment market in Poland was higher than on its neighboring states. The strong internal market was believed to be the best asset in Poland. Other positively assessed aspects included legal regulations of the capital market, although some of the evaluators believed that there were too many regulations and the participation of the

state treasury as a shareholder in companies was overly extensive. The level of transparency was found adequate. The evaluators stressed the good quality of information published on the websites which contributes to the quality of investor relations. Overall the respondents evaluated investor relations in Poland as visibly better than in other Central European countries¹.

SUMMARY

The discussion presented in this paper leads to several conclusions. Establishing good investor relations by Polish companies, especially those listed on the Warsaw Stock Exchange has become a popular manner of communication between the organizations and the public. The research confirms that the capital market players are not only familiar with the idea of investor relations but they really appreciate them.

The quality of investor relations is largely determined by obligatory and optional legal regulations of the financial market including the regulations pertaining to the accounting and reporting system adopted by the issuers of securities, the recommendations of the Stock Exchange, the principles of corporate governance, or the business system of social responsibility. This quality depends on modern telecommunication technologies. The research results indicate still inadequate quality of investor relations in Poland, which is mainly caused by a discrepancy between the investors' expectations and the rather passive attitude of the companies which default on preparing adequate investor releases. What is positive, though, is the fact that current legal regulations do not constitute a bar to the development of investor relations.

The barriers which must be eliminated for investor relations to develop in Poland include:

- The still existing asymmetry of information communicated to so called inside and outside stakeholders,
- The decreasing efficiency of shareholder supervision in the situation of scattered shareholders, in which case the role of the government in supervising the economy needs to be redefined. This seems to be an especially topical issue in the context of the ongoing financial crisis.

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¹ Investor relations in Poland were assigned a general marks of 3.55 (on the scale from 1 to 5). In other European countries the mark was 3.57, whereas for the East European countries – 2.94, (Dziawgo, 2011).

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