

Investor Relations and Investment Decisions

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Abstract. Disclose corporate information are crucially important in a corporate world to win investors confidence. Corporate information includes records of historical and financial data, companies' activities of current situation and future project that can influence investor expectations on company performance. This paper is aims to examine the effect of investor relations on investment decisions. For this purpose, the perception of investors on investor relations is obtained. This study revealed that investors agreed that investor relations program help them in making their investment decisions. These findings can contribute to some knowledge in assisting companies in designing effective investor relations programs in accordance with investors' point of view.

Keywords: Investor Relations, Investors, Investment Decision, Public Listed Companies

1. Introduction

In today's competitive environment, attracting investors is recognized as a strategy for growth. It was reported that United States was the pioneer in making investor relations one of the management disciplines (Marston, 2004). The National Investor Relations Institute (NIRI) found in 1969 defines investor relations as a strategic management responsibility using the disciplines of finance, communication and marketing to manage the content and flow of a company's information to financial and other constituencies to maximize relative valuation (National Investor Relations Institute, 2002).

The old way of communication between shareholders and a company through once a year AGM can become a painful affair in today's markets. Managing investors' expectations through an effective on-going investor relations program is crucial for any public listed companies (Bursa Malaysia, 2007). Therefore, it is important for companies to have an effective and well planned investor relations program as one of the key components for successfully creating a positive perception of a company within the investment community, so that they may accurately make investment decisions.

The Malaysian Code on Corporate Governance included the principal responsibilities of the Board in developing and implementing an investor relations program or shareholder communications policy for the company. Further, the revised Malaysian Code on Corporate Governance 2007 (MCCG, 2007) emphasizes the relationship between the board and the shareholders. This study examines perceptions of investors on companies' investor relations programs. It is important for companies to have an effective and well planned investor relations program as one of the key components for successfully creating a positive perception of a company within the investment community, so that they may accurately make investment decisions.

2. Literature Review

Disclosure is a method of communication between a company and its investors and stakeholders at large who have interest in the value of firm (Kothari, 2001). After the collapse of Enron, investors become more vigilant than before by looking deeper into companies and demanding full disclosures. Useful information improves investors' decision making leading to a better allocation of resources in the economy. Lack of proper information to investors leads to an information problem between insiders and outsiders of the company (Healy and Palepu, 2001). This is considered as information asymmetry.

Essentially, fund managers rely on a number of sources of information when they are looking for potential investment. These include company announcements, published accounts and the use of internet as means of communications. The role played by fund managers is becoming more active and increasingly

more complex as they try to evaluate and determine the firm's actual performance and seek further investment opportunities so as to act for their client's best interest. Therefore, an adequate disclosure of relevant corporate information is an essential element for investors in making their investment decisions, and enhances investors' confidence in capital markets (Abdelkarim, Shahin and Arqawi, 2009).

Investors use investor relations programs as medium of communications with a company. Entering dialogue with company's executive could assist fund managers in getting clear picture of company direction and future prospects. A study conducted by Richardson and Walker (2001) revealed that different fund managers tended to described their overall approaches of investment differently. They have different needs of information to support their investment analyses. Fund managers were looking for reassurance that they understood the companies' information that assists them to revise and update their views. Thus, a meeting could be satisfactory if it simply confirmed prior views. The meetings could be successful if it provided extra information that could provide greater confidence in fund managers' investment assumptions.

3. Data and Methodology

This research is following the pattern of quantitative research where questionnaires were used to get feedback from fifty fund managers with regard to investor relations programs. The design of the questionnaire was adapted based on a survey carried out by Marston and Straker (2001) on the practice of investor relation in Europe and has been modified to suit with the nature of investor relations practice in Malaysia based on the Investor Relations Policy of Bursa Malaysia and guideline of investor relations program published by Malaysian Investor Relations Association (MIRA).

Questionnaires were distributed to 50 fund managers, and 46 questionnaires were returned with the response rate of 92%. Table 1 show that the total response rates for fund managers are considered as sufficient sample (Field, 2009).

Table 1: Groups and Questionnaire Response Rates

	Distributed	Received	Total Response Rate (%)
Fund Managers	50	46	92

The table below shows the demographic profile of fund managers:

Table 2: Demographic Profile (Fund Managers)

Attributes	Numbers	Percentage (%)
Gender: Male	20	43
Female	26	57
Age:		
20-29 years	20	43
30-39 years	22	48
40-49 years	4	9
Years of experience:		
Within 2 years	5	11
Over 2-5 years	26	56
Over 5-10 years	6	13
Over 10 years	9	20

Based on the table 3, the sample of the fund managers consist of 57% females and 43% males. There is unequal distribution of gender for the fund managers as the percentage of male is less than that of female. Moreover, from the table, it can be seen that 43% of staff the ages of between 20 to 29 years old, 48% in the ages between 30 to 39 years and 9.8% are between 40-49 years. Thus, most of the respondents are between

the ages of 30-39 years. Furthermore, more than 50% of the respondents have an experience in investment analysis for 2-5 years, 20% of them have more than 10 years experience and the rest of them within two years experiences in investment analysis.

4. Result and Findings

Table 4.13 Perceptions of Fund Managers on the Importance of Investor Relations Programs on Investment Decisions.

	Fund Managers Mean
The benefits of investor relations exceed the costs.	4.1739
Investor relations reduce the cost of capital.	3.4348
Investor relations help to increase share price.	3.6522
Investor relations help to ensure that the market price of securities is fair.	3.6739
Investor relations help to improve liquidity in the market for the company's securities.	3.2174
Investor relations programs help to provide investors with financial transparency and timely disclosure.	4.2609
Investor relations act as a bridge between management of the company and its shareholders.	4.2174
Investor relations help to provide information on future dividends of the company.	4.1087
Investor relations help to provide information on expected income and earnings per share.	3.9130
Investor relations provide information to investors in making investment decisions.	4.2174

Response categories are: 5 = strongly agree, 4 = Agree, 3 = Uncertain, 2 = Disagree, 1 = strongly disagree

Table 4.13 shows a numbers of statements about the agreement of fund managers on the effect of investor relations program on investment decisions. The result shows that fund managers have strong agreement that investor relations programs were important and could assist them in making investment decisions.

5. Conclusion and Recommendation

Overall, from the findings it appears that fund managers agree that investor relations programs have a positive effect on fund managers' investment decisions. . Since this study only focused on fund managers' perceptions representing only one type of investors for companies, there are also other various types of investment communities such as individuals and institutional investors and analysts that could be included. Future studies on other groups of investors will determine whether they have the same perceptions on investor relations programs.

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