

Evaluation of the Impact of Corporate Communication on Investment Decisions (A Case Study of Chemical and Mining Firm, Chile)

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Abstract

This study evaluates the impact of Corporate Communication on investment decisions using Chemical and Mining Firm, Chile. Descriptive research design approach was adopted. The company's representatives were interviewed to get empirical data. The researchers adopted simple random sampling technique to sample the target population of study. This method gives every units or department equal opportunity to be selected and fully represented in the survey. The study population involved managers and operational staff from; investors relations department, business development department, internal audit, safety, health and environmental departments, and legal Department. Data was analyzed using categorization process to get empirical result. Study noted that, corporate communication played positive significant effect on investment decisions. To improve effectiveness of communication process, study therefore recommends that firms should designate investor relations officers to serve as information linkage between company management and information seekers (shareholders and investors). Finally, study also recommends that an interpreter or help desk should be appointed to handle all technical issues arising from communication barrier especially when doing business with foreign partners or associates.

Keywords: Corporate Reputation, Corporate Communication, Categorization Process, Investor Relations, Stakeholder.

INTRODUCTION

This study evaluates the effect of Corporate Communication on investment decisions using a case study of a case study of Chemical and Mining Firm, Chile. Financial stakeholders especially investors need information from communicating channels

such as; company's websites, annual report, newsletter, and balance sheet for investment decisions. Although, the above communicating channels are not enough to relied upon due to poor connectivity that may arise from network provider such as internet problems which may cause delay

from accessing information on time by the end-users (investors). Good linkage between the company's management and information promotes good communication (Nielsen, & Bukh, 2011).

Majority of companies have understood the significance of communication; while others have not. Then, the question that calls to mind is that, is a newsletter enough to communicate with investors? Obviously, the answer is no, because the financial stakeholders need more than this information such as (an investor relations) to make an analysis and support of their decisions (Srivastava, McNish, Wood & Capraro, 1997; Dolphin, 2003). In addition, some firms are designating investor relations officers to oversee aspect of firm's communication with potential investors through phone calls and face-to-face meetings (Mallin, 2004). Investor relations professionals could serve as the information linkage between company management and information seekers such as; analysts, specialists, investors' relation and communicate accurately firm's performance and prospect (Murad, 2006). Several firms have recognized the need for an investment relations department as a strategic management that integrates company's finance, marketing, communication and security law compliance (Hong & Ki, 2007).

Investor Relations (IR) department is a term used to portray the current activity of companies communicating with the investment community (Marston & Straker, 2001). It specializes in information and handles inquiries from shareholders and investors who are interested in a company's

stock market. The authors argue that IR department plays significant impact on creating value vis-à-vis to both the company (such as, profitability or return of capital or investment) and its investors. National Investor Relations Institute (NIRI, 2003), noted that IR performs both financial function and communication function. Communicating with investors can be basically through the following; company news-releases, annual reports and websites (Nielsen, & Bukh, 2011).

Sometimes, information that investors may expect can be different from what the company have and communication is required for proper targeting of investors interest to avoid failure in investing in a publically listed company (Srivastava et al. 1997). For this reason, communication should involve two-way process, by proper targeting of the target audience and investing in the right company. Song and Thakor (2008) put it that, the risk of investing in a publically listed company is reduced. The distribution of information through communication channel helps to serve as meeting the investors' needs as well as assessing the return of their investment. Therefore, investor relations department should serve as a platform to link investment community to evaluate organizational performance and decide whether to invest on it or not.

Definition of Key Terms

This section defined operational terms or key terms in this study.

National Investor Relations Institute, NIRI (2003), Investor Relations is defined

as a strategic management approach that integrates finance, communication marketing and security law compliance to enable effective communication between a firm and financial community or resource holder. It involves communication of information and insight between a company and investment community according to Investor Relation Society (IRS, 2016). Investor Relations perform financial functions through the use of; annual reports and quarterly reports, corporate fact sheets to attract potential investors to make investment into the organization.

Cornelissen (2008) defined corporate stakeholder as any group or individual who may be affected by what an organization does or does not do. They have interest in the achievement of the organizational objective. They are also known as resource holders or investors. They have larger stake on firm return of investment or asset. Stakeholders are concerned about firm's performance and reputation. Chun (2005) defined corporate reputation as aggregate perception of multiple stakeholders about firms' performance over time. It affects the way in which stakeholders behave towards an organization (such as investors' satisfaction and customer loyalty). It is often used synonymously with image. Corporate image is associated with logo or brand. It often reflects how others (investors) view the organization. Integration is defined as the art of coordinating communication process so that corporate image is effectively and consistently communicated to both internal and external group.

REVIEW OF RELATED LITERATURE

Definition of Corporate Communication

In all organizations, communications flows vertically and horizontally, internally and externally, formally and informally linking between management and financial stakeholders. Corporate Communication is important in the following ways; to establish and disseminate the goals of an organization; to develop the plans of their achievement; to direct, motivate and create a climate in which people want to contribute for investment and to control performance (Wehrich & Koontz, 2005). It is categorized into; oral, written, sign and electronic communication. Oral communication includes face to face discussion, telephone conversation and formal presentation of speeches. It is very fast and saves cost. Written communication includes memos, letter, and invitations. It creates room for permanence of the records which can be retrieved and used whenever the need arises. Although, written communication does not give room for immediate feedback, it may not be properly disseminated to the right person. Sign communication involves used of non-verbal communication and is commonly used by the deaf and dumb. Electronic communication involves use of improved technology such as electronic mails (e-mails), instant messaging and video conferencing. Video conferencing allows group of people to interact with each other by means of video or audio media. It is used to hold meetings and people are seen moving as they do one thing or the other.

The success of any organization depends on how it is viewed by firms' stakeholders,

and communication is a critical part of building, maintaining and protecting organizational reputation. Corporate Communication is a management function that offers a framework for effective coordination of all internal and external communication with the overall purpose of establishing and maintain favorable reputations with stakeholder group upon the organization is dependent (Cornelissen, 2008). To improve effectiveness of communication either, written and oral communication, the following guidelines is suggested; ensure clarity of the message, use of appropriate language, simple words, avoid phrases, use of familiar words and avoid unnecessary words. Again to improve effectiveness of electronic communication, organization should delegate an interpreter to handle all technical problems resulting from language barrier as well as a technical person who can handle technical problems resulting from breakdown of equipment (Davis & Newstrom, 1995).

Corporate Communication plays a very important role in keeping everyone informed in every event within an organization. It involves transmission of information from the sender to the receiver without any feedback (Van-Riel, 1997). Organizations consider Corporate Communication important in developing corporate image (Van-Riel, 1992). In order to achieve firm objective, it is useful for firms to communicate effectively in order to send strong messages across to every stakeholder. Corporate Communication creates the desire of promoting firms image and reputation with the help of effective communication process (Karadeniz, 2009).

Organizational stakeholders are usually contacted through oral, written or electronic processes. Corporate Communication is therefore defined as a “term that encompasses all the ways in which the organization communicates with its various stakeholders” (Balmer & Gray, 2000; Melewar & Karaosmanoglu, 2006a).

The origin of corporate investor relations began in the 1960s in the United State of America (USA). An investor relation is the term used to portray the current activity of companies communicating with the investment community (Melewar & Karaosmanoglu, 2006b). Obviously, it is the part of stock market life that focuses mainly on interaction with existing shareholders, potential investors, analysts and journalists (Tracey, 2010). Meetings with investors can be basically through the followings; company news-releases, annual reports and websites. Again, most firms are designing their communication tools in such a way to incorporate information that financial investors require about the company, so that they can gain a greater understanding about its business, governance, financial performance and prospects. Therefore communication is not just one-way, but also used to get feedback from investors on areas that require attention.

According to Jones (2002), investors are expected to be communicated regularly, so that they can have frequent updates of company’s information at ease. Information should be composed and restructured in such a way that it will have a clear title, sub-headings, glossary, table of contents and a quick-read summary at the start for better understanding (Report Leadership Group,

2006). This will help to give the investors a clear focus and easiness to find the definite information, with high accuracy. This will help to eliminate the chances of investor getting mixed messages, making the information clear, direct and informative which boosts his confidence, admiration and relation of the company the investor is interested in. Finally, investors need to be communicated through the right channels. Similarly, investors are communicated through different channels such as; web portal, internet, e-mails, radio, television and newspaper to motivate them evaluate investment opportunities (Negris, 2006). The internet helps to provide affordable easy way of communicating with the investors and business information such as; mission, vision and performance metrics online to furnish investors with the necessary information they need for their investment decision.

Empirical Review on Corporate Communication

Very few studies have been conducted in this area. This has generated both positive and negative arguments in the literature. Some of these studies conducted from different parts of the world are reviewed below. In developed country like Chile, Ugwu et al. (2014) studied Corporate Identity and Communication, a key Component for Investors' Relation. Data was collected using interview. The population of study consists of managers and employees of Sociedad Quimicay Mineral (SQM) de Chile. Data was analyzed using Categorization process.

Study found that Corporate Identity played significant positive role in building investors relationship.

In Britain, (Dolphi, 2000) also examined the role and task of Corporate Communication. Descriptive research design was adopted. The population of study consists of 20 British organizations in the United Kingdom. Data was collected using both questionnaire and interview to generate findings. Result showed that Corporate Communication was applied in the formation and implementation of management strategies to sustain firms' image. Similarly, Cornelissen (2010) investigated Corporate Communication in Contemporary Organization. Secondary data was sourced using secondary sources. Study showed that Contemporary Organizations organize communication activities in order to plan strategically and coordinate the release of messages to different stakeholder groups.

Given methodological limitations in use of analytical tool, theoretical limitations, timing of research and geographic coverage of previous study conducted by Cornelissen (2010); a research gap has been identified. Concerning theoretical limitations, previous study by Cornelissen (2010) did not present empirical review of previous study by other scholars related to main study. Secondly, on methodological limitations, the same authors did not indicate choice of analytical tool applied to get empirical result. Based on theoretical and methodological limitations identified in previous studies, a gap in literature has been identified. Based on this, study is necessitated and investigates the evaluation of the impact of Corporate

Communication on Investment Decisions using a case study of Chemical and Mining Company of Chile Incorporated. Descriptive research design was adopted and data was analyzed using Categorization Process. Categorization process compares empirical source with the literature to make conclusion.

RESEARCH METHODOLOGY

Chemical and Mining Company of Chile (SQM) was founded in 1968. The company's activities comprises of agricultural products such as; fertilizers, fruits, vegetables among others. The logotype shows that, the company's vision was built on production of natural fertilizer with main purpose of meeting with customers demands (SQM. 2008a). The company's mission and vision focuses on producing better fruits and vegetables to satisfy their target customers. After so many years of doing business, the

market for its products dropped down and this affected the company performance adversely. To this effect, ownership structure of the firm was restructured in order to penetrate the competitive market, improve market share and performance concurrently. The company's name became shorter, and was modified as 'Soquimich'. Subsequently, the company expanded its market and develops new products not only for the agricultural sector, but also for industrial markets purposes (SQM, 2008b).

Population of the Study

Study adopted descriptive research design. The study population involved managers and operational staff of Chemical and Mining Company of Chile. Table 1 summarizes the rank and departments of the respondents. Total population of the study was given as 28 staffs of the selected organization.

Table 1 Description of Respondents or Staff of Chemical and Mining Company of Chile.

Name of Organization	Rank/Designation	Department
Chemical and Mining Company Chile		
	Head of Department	Investors Relations Department
	Chief Financial Officer	Business Development Department
	President or Chief Executive Officer (CEO)	Chairman of Board of Director
	Financial Consultant	Internal Audit Department
	Safety Officer	Safety, Health & Environmental Departments
	Legal Practitioner	Legal Department
Total Population		28 Staffs

Source: (Personnel File of Chemical and Mining Company, Chile).

METHOD OF DATA COLLECTION

Primary data were sourced from the interview. The participants were interviewed on April, 2008, at Chile. The participants were termed as “respondent” A, B, C, D, E and F. The interviewers’ represents students of Jonkoping University Sweden (Ugwu, Maina, Silva and Vargas). The selected organization is a Chemical and Mining Company, Chile. One of the researchers comes from Chile, and it was why the firm was adapted to satisfied researcher’s interest.

SAMPLING TECHNIQUE

The researchers adopted simple random sampling technique to sample the target population of study. This method gives every units or department equal opportunity to be selected and fully represented in the survey. Therefore, the choice of selecting one unit or department does not affect the choice of selecting other units or departments in the survey.

PRESENTATION OF DATA ANALYSIS

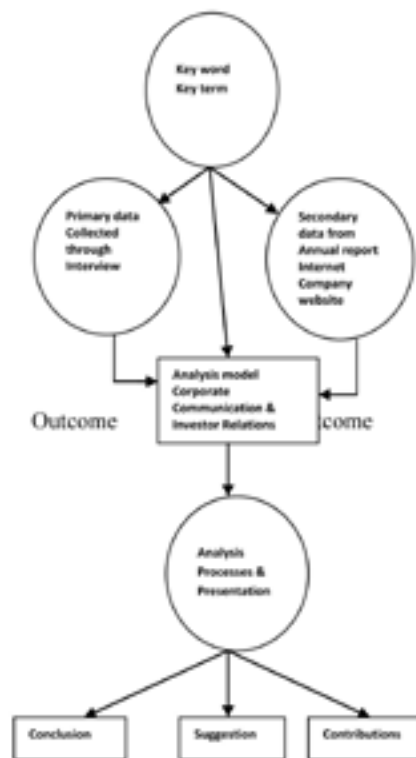
This section presents approach for data analysis. Data was analyzed using Categorization Process. The authors developed a model (Table 2) used in analyzing and displaying data. It involves organizing and categorizing data into the following steps;

- I. ‘Key words’ or ‘key terms’ was extracted from empirical source (interview).
- II. ‘Key words’ or ‘key terms’ was extracted from empirical literature.
- III. Result was established by comparing

extracted information between literature and empirical source.

- IV. The result obtained was analyzed in three categories such as: Corporate Communication, Investor Relation Objective and Investors Satisfaction.
- V. Conclusion was drawn at a point where organized data and empirical source (interview) converge or diverge with the literature (Saunders et al. 2007; Cited in, Ugwu et al. 2008).

Table 2: Data Analysis Process and Presentation Model



Source: (Authors Own Creation).

RESULTS AND DISCUSSION

This section presents the responses of respondents on Corporate Communication and Investor Relations.

1. Instrument: Corporate Communication is defined as an instrument which sustains the image of an organization (Melewar & Karaosmanoglu, 2006a). According to respondent A, Personal Communicator (2009) “Corporate Communication is a “necessary instrument used to communicate information to company’s stakeholders”. Respondent B, Personal Communicator (2009) argued that “our company communicates with investment community with the aid of instrument such as; annual report, webcast and website”. Respondent C, Personal Communicator (2008) also stated that, Chemical and Mining Company uses Bank of New York and Banks in Chile as an instrument to communicate information regarding the issues that will be discussed in stakeholders meeting through proxy cards. Comparing the empirical source (interview) with the literature, the researchers agreed that the firm communicates with the investment community with the aid of instrument to promote its messages or information.

2. Investor Relations Department: Investor Relations Department is a department that links firm’s communication, marketing and finance with investment community or resource holders (National Investor Relations Institute, NIRI, 2003). Respondent D, Personal Communicator (2009) stated that, “there is a growing trend in today’s financial community for certain investors to analyze not only

financial and strategic fundamentals, but other, less concrete variables, including corporate social responsibility, sustainable development, and corporate governance practices”. Respondent E, Personal Communicator (2009) emphasized that, “it is important for investor relations and corporate identity to be fully integrated, in order to achieve consistency in information delivered to the target investors and company’s stakeholders”. Comparing empirical source with the literature, the researchers agree that investment relations department links firms’ communication with investment community.

3. Investor Satisfaction Index: Is an instrument to evaluate firms’ aspect that satisfies investors’ interest. These include; company profitability, stability, regulations and well-being (Lee et al, 2006). Respondent C, Personal Communicator highlighted that, “sales, products and services will generate financial results, and investors are concerned about these”. According to the same respondent, profitability is one of the considerable factors for investing in a company and it is important that the company is attractive in this aspect”. Comparing empirical source with the literature, the researchers therefore agree that, investor satisfaction index is considered as essential instrument to evaluate investors’ interest and firms’ performance.

CONCLUSIONS

Conclusion is drawn from the analysis of findings. This study evaluates the effect of Corporate Communication on investment decisions. Selected organization for this study is Chemical and Mining

Firm, Chile. Reflecting on the literature, Cornelissen (2008) affirm that Corporate Communication plays a very important role in keeping everyone informed in every event within an organization and the success of any organization depends on how it is viewed by firms' stakeholders or investment community, and communication is a critical part of building, maintaining and protecting organizational reputation. Findings of this study showed that; instrument (such as, annual report, webcast and website), investor relations department and investment satisfaction index promotes Corporate Communication and Investment Decisions. Corporate Communication is therefore essential for firms' success. Some investors evaluate financial reports of a company before making investment decisions, while others evaluate company's image or name. Use of Annual report, webcast, website, investor relation department among others helps to keep investors informed about firm performance and investors are concerned about these. Based on this, study concludes that Corporate Communication played positive significant impact on investment decisions.

RECOMMENDATIONS

Based on conclusions, the following recommendations are made.

1. To improve effectiveness of communication process, study therefore recommends that firms should designate investor relations officers to handle or coordinate all communication channels both internal and external stakeholders. Investor relation officer should serve as information

linkage between the company management and information seekers (shareholders and investors). Effective communication is important to promote firm performance and the success of any organization depends on how their reputation (profitability) is viewed by firms' stakeholders or investment community.

2. Poor connectivity or internet problems can cause major delay when accessing information by the end-users (investors). Study also recommends that a technical person (such as, interpreter) should be appointed or selected to handle all technical issues arising from communication barrier especially when doing business with foreign partners or associates. Information seekers should visit the company's website regularly for updates of newsletter on corporate website to get relevant information needed for investment decision.

3. Language barrier can affect communication process especially information seekers and company management. Study also recommends that company management should incorporate different language version on corporate website for easy access of information by end-users or resource holders.

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