Investor relations – a systematic literature review

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Abstract

Purpose – The purpose of this paper is to present a comprehensive, interdisciplinary review of international investor relations (IR) research published since 1990. It highlights the development of IR research, its disciplinary foundations and key areas of inquiry. Research is shown to reflect the rising importance of IR as a corporate communications function, its interdisciplinary character, and the recognition of its contribution to strategic management.

Design/methodology/approach – Findings are based on an interdisciplinary systematic literature review focusing on peer-reviewed journal articles published in English since 1990.

Findings – The authors differentiate five strands of research focusing on the organization, strategy, instruments, content and effects of IR. IR research is shown to have strong roots in the business and management, accounting and communications literature. The authors document a rising interest in the topic and a steady development beyond descriptive accounts of the function to distinctive lines of inquiry. The authors summarize the state of the field and derive a number of suggestions for future research.

Research limitations/implications – The review is limited in scope to the applied research process, including the choice of keywords, databases as well as peer-reviewed journal publications published in English since 1990.

Originality/value – This study contributes to the necessary structuration and consolidation of the emergent field of IR research by identify salient perspectives and common subfields. It provides both a comprehensive overview of the state of research and specific suggestions for future endeavors.

Keywords Strategic management, Literature review, Strategic communication, Investor relations, Financial reporting, Financial information, Financial markets, Financial communication

Paper type Literature review

1. Introduction

Shareholders constitute one of the most important corporate audiences – due to their power, the legal substance of their stake and the strategic significance of capital access (cf., Mitchell *et al.*, 1997). Over the previous decades, the specialization, professionalization and globalization of capital markets have led to investors becoming more systematic in their approach to capital allocation, as well as larger and more powerful. Today, corporations are faced with well-informed shrewd and demanding investors not shying away from engaging executives and questioning their stewardship of the corporation.

These evolutionary changes in the investor environment have led to an equivalent advancement of the corporate function managing capital market relations: the investor relations (IR) function. The National Investor Relations Institute (NIRI) has defined IR 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" (National Investor Relations Institute Board of Directors, 2003).

Emerging from a reporting and disclosure function embedded in corporate governance requirements (cf., Fama, 1980; Jensen and Meckling, 1976), IR has quickly evolved into a strategic communication function charged with ensuring two-way symmetrical communication with shareholders (Grunig and Hunt, 1984; Kelly *et al.*, 2010), boundary-spanning and relationship management (Ledingham and Bruning, 1998; Rao and Sivakumar, 1999), up to and

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including corporate listening and executive consulting. Public relations concepts, such as sensemaking, image, or reputation, have successfully been applied to IR analyses (Kuperman, 2003; Hoffmann and Fieseler, 2012; Mazzola *et al.*, 2006).

As the definition proposed by NIRI suggests, IR is an interdisciplinary function rooted in finance, communications and law. IR research, accordingly, spans disciplinary boundaries with one substantial pillar rooted in corporate communications research. In this paper, we will present a systematic, interdisciplinary literature review of international IR research that will highlight the development of IR research, its disciplinary foundations and key areas of inquiry. As we will show, IR research closely mirrors the rising importance of IR as a strategic communication function, its interdisciplinary character and the recognition of its contribution to strategic management.

2. Methods

2.1 Systematic literature review

A systematic literature review requires the specification of conceptually guided keywords. These keywords are used to search pertinent databases to reveal a holistic corpus of the literature on a given topic. Out of this population, the authors select the relevant studies based on clearly defined criteria (Denyer and Tranfield, 2009; Webster and Watson, 2002).

The databases used for this literature review were ISI Web of Knowledge, EBSCOhost and GENIOS (Wiso) as well as databases of publishers, such as Emerald, Elsevier (Science Direct), SAGE Journals and Springer. The search was conducted in June and July of 2016. To complement the findings, a search of Google Scholar was conducted. Only peer-reviewed journal articles in English published after 1990 were considered for the analysis.

For the purpose of this research, we chose the most common terminology for the function as search terms: "Investor Relation(s)" and "Financial Communication(s)." All articles featuring these terms in their title, abstract or keywords were collected and evaluated regarding their topical relevance. In total, the search resulted in 430 articles in the first step of the analysis. Second, multiple entries were removed. In a third step, article abstracts were studied to remove publications not focusing on the IR function. This process resulted in 105 articles evaluated as relevant to the field: 82 articles under search term "Investor Relation(s)" and 23 articles under the search term "Financial Communication(s)."

The decision to confine the search process to peer-reviewed academic journals in English published no later than 1990 was based on the objective to provide an overview of the current international IR research, and to ensure the validity of the findings discussed in the following segments.

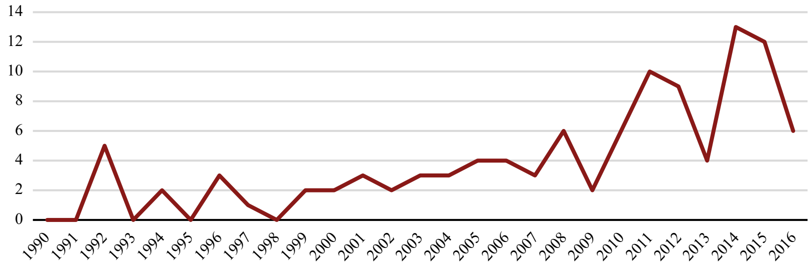
2.2 Initial overview

Some descriptive analyses were conducted for an initial overview of the body of IR research. Figure 1 shows the development of research in the field over the analyzed timespan (1990-2016). We find a marked increase in research interest over the years – which can be said to mirror the development and professionalization of the field. There is continued interest in the field since 1992, which could have been encouraged by the deregulation and globalization of capital markets and the ensuing rising requirements for professional financial relations. Academic interest slowly but steadily increases from 1998 to 2007 with a notable upswing in the volume of research in the following years. This coincides with the recent global financial crisis, which possibly further intensified attention to challenges of financial communication. In that respect, relevance and interest in practice appear to be well aligned with research interest and effort.

To analyze the disciplinary composition of the field, we grouped publication outlets by discipline as stated in the journal descriptions. Figure 2 shows the disciplinary orientation of the journals publishing articles in the field. Findings confirm: IR is truly an interdisciplinary field of study. The majority of studies on IR are embedded in a business and management context, which could indicate that the function has proven its strategic relevance. Interestingly though, communication journals have published a sizeable share of IR studies – roughly on par with accounting outlets. We also find some publications focused on IR instruments published in the information systems and science fields.

Accordingly, there is a wide variety in depth and choice of theoretical approaches to the field. While business and management studies, particularly in finance, commonly reference agency theory (cf., Fama, 1980; Jensen and Meckling, 1976) and, to a lesser degree, institutional theory (DiMaggio and Powell, 1983) to explain the role of the IR function and its evolution, studies in the field of communications tend to reference PR frameworks, most notable excellence theory (Grunig and Hunt, 1984) to explain the strategic contribution of IT. We also identify a distinct research strand based on linguistic perspectives, though. Studies in the field of accounting tend to apply common accounting models that are difficult to qualify in terms of theoretical perspective. Some studies in this field do apply market efficiency theorems, though, frequently referencing Merton's (1987) work on imperfect information.

Next, we identified the methodology applied in case of empirical studies. Figure 3 provides an overview of the most common research methods in the field. Clearly, both quantitative and qualitative surveys dominate the field, followed by content analyses focusing on various IR instruments. Interestingly, there is also a considerable number of experimental studies – mostly exploring the effects of IR activities.



Note: n=105

Figure 1.
Number of publications per year

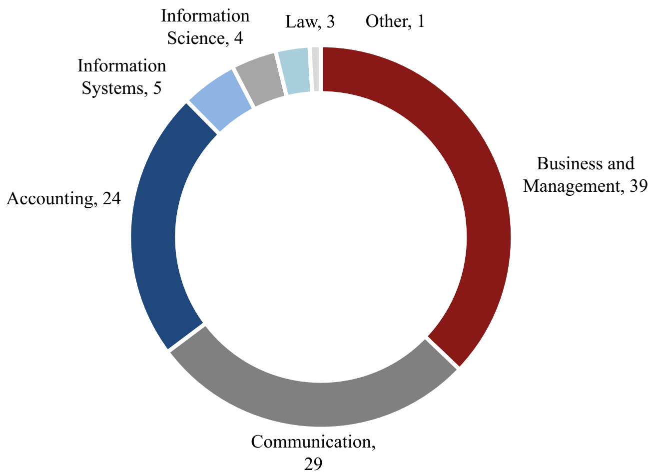


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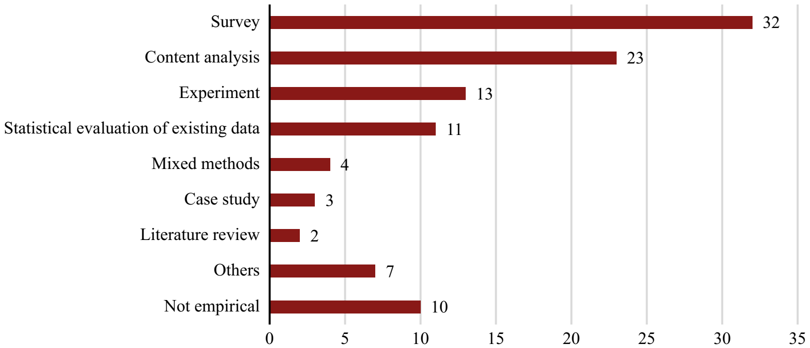
Figure 2.
Number of publications per discipline



Note: n=105

Figure 3. Number of publications per research method

Finally, all 105 articles were closely studied to identify and differentiate research topics and to structure the emergent field. Overall, five distinct lines of IR research were identified (see Figure 4): studies focusing on: the organization of IR within the company (11 articles); communication strategies (16 articles); instruments applied in IR (39 articles); the content of financial communication (12 articles); and audiences and communication effects (27 articles). The next sections will summarize key findings within each of these strands of research.

3. The state of IR research

As Laskin (2009) points out, challenges emanating from the separation of corporate management and ownership can be traced back the 17th century. However, the notion of specializing communication efforts to serve IR did not attract significant attention before the 1960s. Accordingly, IR has only been a distinct corporate function for some 50 years in the USA and for about 30 years in Europe. It took until the middle of the 1990s, though, to establish a more widely shared understanding of the corporate function and role of IR. In many parts of the world, IR can still be considered a young, emergent function today – continually questioning and aligning its responsibilities and key tasks. The state of IR practice differs quite significantly among countries, with the professionalization of IR frequently mirroring the maturity of local capital markets. Most studies to date have been conducted in established western markets, such as the USA, UK or Germany. Hence, the business practices in these markets set the tone both for the state of practice and research of IR.

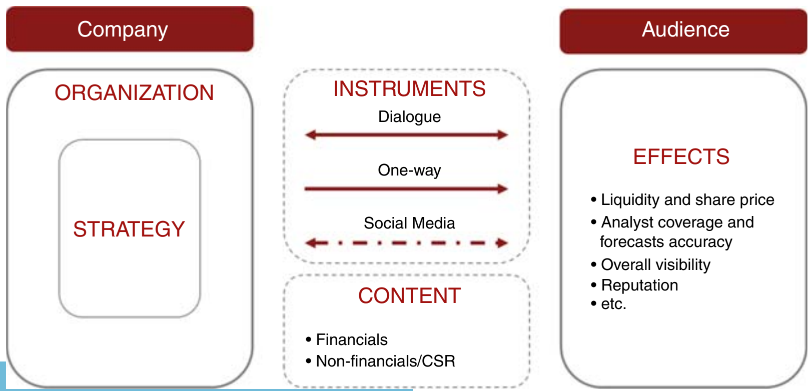


Figure 4. Overview of findings

3.1 Organization

Only a small number of studies provide insights into the establishment, structure and organization of IR departments (11 articles). Some even question the purpose of IR departments, based on the efficient market hypothesis holding that all available information is costless and, most importantly, provided for all potential investors. Accordingly, from an economic perspective, it is far from self-evident why corporations should employ professionals to repackage, explain and contextualize information specifically for the financial community.

At the same time, a number of studies find that the IR function is driven and shaped by investor demands: applying institutional theory (DiMaggio and Powell, 1983), Rao and Sivakumar (1999) argue that IR act as "boundary-spanning units" rooted in corporate governance and management. Their analysis of the establishment of IR departments among Fortune 500 industrials during 1984-1994 shows that external stakeholders significantly contributed to this process. While social movement activists framed shareholder rights as a key challenge, professional analysts urged companies to signal their commitment to investor rights by creating boundary-spanning units. A study of IR practices in Japan arrives at similar conclusions: the authors suggest that changes in the ownership structures and corporate finance practices in increasingly globalized capital markets impact governance system. Driven by agency theory, companies tend to focus on market value to align the interests of shareholders and management (Yoshikawa and Gedajlovic, 2002).

Kollmann and Kuckertz's (2006) conjoint analysis of German venture capital companies finds that IR is largely organized in accordance with investors' preferences. In unlisted companies, information requirements are as set out in the shareholders' agreement by the investors. In contrast, the IR activities of listed companies are driven largely by legal reporting requirements. This may result in a disconnect between IR effort and shareholders' needs. Companies insufficiently aware of investors' information needs would tend to underestimate the IR role, running the risk of a lack of commitment in future financing rounds (see also Sapienza and Korksgaard, 1996). Based on the assumption of incomplete market information, Hong and Huang (2005) develop a model of investor support for costly IR initiatives in small, newly-public companies. Their findings reveal divergent interests: while insiders tend to favor high liquidity in the stock to facilitate divestment, dispersed shareholders are less concerned about market illiquidity due to their relatively small holdings.

To summarize, counter economic theories of market efficiency, organizational studies indicate that the IR function developed in accordance with stakeholder requirements. Corporations recognizing and adapting to these requirements are able to reap benefits in terms of capital endowment and investor loyalty. Yet despite relatively uniform investor requirements, the organizational setup of IR within companies differs: a number of studies confirm that, in most instances, IR has become an autonomous function, but the financial director, communication executive or even the company secretary can yield significant influence within the department (Dolphin, 2003, 2004; Laskin, 2014a; Marston, 1996; Marston and Straker, 2001; Rao, 1997). While reporting lines within companies differ, the IR function tends to constitute a central function reporting to the CEO and/or CFO. Overall, though, there is only little research on organizational development of the IR function and a notable lack of comparative analyses.

The corporate communications principle of the "one-voice policy" has inspired several studies focusing on the interdependence of IR and public relations. IR is described as a "facilitating process" within corporate communications, enabling the organization to relate to its investor audiences (Dolphin, 2004). Petersen and Martin (1996) argue that IR and PR are bound together under the organizational umbrella of communication management. However, in their survey of CEOs of nonbanking public companies in Florida, the authors refute public relations' claims over IR – primarily because CEOs do not perceive IR to be part of the public relations function. Hence, IR is most frequently treated as a financial function due to its responsibility within the company as well as common qualifications required for the job.

A similar picture emerges from studies on IR professionals and their respective skill sets. Analyses from the USA, UK and continental Europe reveal that IR is a largely finance-dominated function with a large share of IR officers featuring a business, accounting or finance background (Marston, 1996; Marston and Straker, 2001; Laskin, 2009, 2014a). Thereby, IR can be understood as a corporate communications function related to, but distinct from public relations.

However, little is known about the demographics and educational background of IR professionals. Hoffmann *et al.* (2011) analyze the relationship between educational diversity among IR teams, IR quality (measured by scope of communication channels) and shareholder activism. The analysis confirms that educational diversity (especially marketing and communication expertise) is related to improvements of IR quality and a decrease in shareholder activism. This is explained by a stronger emphasis on relationship management in communications disciplines.

3.2 Strategy

The bulk of studies focusing on communication strategies (16 articles) are rooted in public relations or strategic communications research. Many of these studies reference excellence theory (Grunig and Hunt, 1984), or derivations of this theory, such as the relational approach (Ledingham and Bruning, 1998). Still, there is a notable lack of strategic communication research focusing on the IR function. In particular, little is known about planning, common organizational objectives and evaluation in IR.

Based on a Delphi study by NIRI and the Financial Communications Section of the Public Relations Society of America (PRSA), Laskin (2011) argues that IR contribute value to their respective organization in four ways: fair share prices, due to improved transparency; improved liquidity of stock through an extension of the investor base; enhanced analyst coverage due to outreach efforts; and building and maintaining investor relationships by maintaining a dedicated corporate function. While evidence for the first-three aspects is readily available, evaluating relationship quality proves quite challenging in practice.

In an exploratory survey of Fortune 500 companies, Laskin (2006) argues that fostering relationships with investors through two-way symmetrical communication (Grunig and Hunt, 1984) provides direct financial benefits for publicly owned corporations. A follow-up survey of NIRI and PRSA members confirms that the two-way symmetrical model can indeed be considered the predominant practice in the field. Its underlying dimensions of symmetrical effects and – to some degree – two-way communication are shared both by practitioners oriented toward finance or public relations (Kelly *et al.*, 2010).

Hoffmann *et al.* (2011) present a framework applying marketing perspectives to analyze and manage investor relationships, which are framed as market-based assets. Based on an online survey measuring IR quality, the authors find a high congruency among trust, commitment and relationship orientation and argue that IR should further be developed into a dynamic, forward-looking, two-way relational activity.

In a conceptual study, Adorisio (2015) proposes a "linguistic turn" for narrative research in the realm of financial communication. By conceptualizing IR as narrative processes, the author aims to challenge a mechanistic and functionalist understanding of communication, in general, and financial audiences, in particular. Similarly, Beattie (2014) provides a conceptual framework for the role of narratives in the increasingly rich and complex information environment of external reporting. Accounting narratives are seen as poly-authored multipurpose communications with multiple recipients distributed via traditional media or social media. Both authors argue that an interpretive paradigm for financial communication would position narratives as strategic resources enabling collective sensemaking and persuasion.

Overall, only few studies apply strategic communication theory or models to IR. Research based on the PR theory, marketing frameworks and linguistic perspectives all indicate the importance of relationship management in IR, establishing a strategic role that goes beyond the mere provision of current data to financial audiences. Yet little is known about planning, objectives, incentives or evaluation in IR.

Survey results presented by Ragas and Laskin (2014) and Ragas *et al.* (2014) provide initial insights, showing that IR officers prefer to apply a combination of quantitative/financial and qualitative/nonfinancial methods to measure the success of their IR efforts. Notably, managers place greatest value on metrics that are qualitative, nonfinancial and relationship-oriented. This would suggest that IROs agree that evaluation should focus on their success in relationship management.

3.3 Instruments

Studies on instruments applied in IR are frequently found in the accounting literature. They tend to be quite descriptive and are rarely rooted in a particular theoretical perspective. However, since the two-way symmetrical communication model enjoys widespread acceptance in the field (cf., Laskin, 2006, see "Strategy"), dialogic communication, especially personal interaction, can be argued to be of particular importance to IR. According to Marston (2008), top British companies considered one-to-one meetings with analysts and investors the most important communication channel in 1991 and 2002. Green *et al.* (2014) argue that companies invest more resources in personal interaction when preparing the ground for capital markets transactions.

Rooted in the linguistic approach to IR, Palmieri *et al.* (2015) study earnings calls to identify how corporate representatives and analysts engage in dialog. 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. Complementing this view, Roberts *et al.* (2006) conduct qualitative interviews to analyze meetings between finance directors or IR managers and investors, showing that power relations tend to be asymmetrical as corporate representatives initiate meetings and travel to meet fund managers in order to present recent developments.

Brown (2011) applies the elaboration likelihood model to an experimental study on the use of financial webcasts, showing that streaming audio with slides is creating significant advantages in understanding performance and the ability to draw inferences, as well as user satisfaction. Hassink *et al.* (2008) analyze the quality of information provided in e-mails to journalists compared to those to investors. It turns out that journalists receive significantly fewer replies with less relevant information.

Overall, research on the use of indirect, formalized and predominantly one-way communication instruments is much more comprehensive. Of the identified 39 articles, 19 analyze the use of IR websites (e.g. AbuGhazaleh *et al.*, 2012; Bagnoli *et al.*, 2014; Bollen *et al.*, 2006, 2008; Esrock and Leichty, 2000; Ettredge *et al.*, 2001; Ettredge and Gerdes, 2005; Feng and Wan, 2013; Gajewski and Li, 2015; Geerings *et al.*, 2003; Marston, 2003; Pozniak 2010, 2013; Pozniak *et al.*, 2016; Rowbottom *et al.*, 2005), seven focus on annual reports (De Groot *et al.*, 2011; Ditlevsen, 2012; Hutchins, 1994; Jeanjean *et al.*, 2015; Kohut and Segars, 1992; Lehavy *et al.*, 2011; Leibbrand, 2015) and three analyze press releases (e.g. Guillamón-Saorín and Sousa 2010, 2014).

Focusing on the readability of annual reports, Lehavy *et al.* (2011) find that analysts' behavior is related with the readability of companies' communication: analysts covering firms with less readable communication take longer to issue reports. Also, analyst judgments based on less readable 10-K reports have greater dispersion and are less accurate, which is ascribed to linguistic complexity (cf., Fakhfakh, 2015). In a content analysis of internet press releases of Spanish IBEX 35 companies, Guillamón-Saorín and Martínez-López (2013) identify seven potentially misleading disclosure practices that reduce the reliability of financial information presented on the internet.

Most studies of IR websites focus on determinants of web-based financial communication. Based on a website analysis of 60 Swedish listed companies, Hedlin (1999) shows that there are three stages of development in using the internet as a vehicle for investor information: establishing a web presence; using the internet to communicate investor information; and using the full interactive possibilities of the medium for IR purposes. At that time, the majority of companies were at the second stage, with only a few companies exploring the full potential of interactive online IR (cf., Đorđević *et al.*, 2012; Patel, 2012). Geerings *et al.*'s (2003) comparative analysis finds that French and Dutch companies use IR websites more widely and intensely than Belgian companies, yet do not provide an explanation. Larger companies tend to invest more in online IR due to resource availability and international isomorphism. 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 performance negatively affects online disclosure, which is interpreted as a defensive tactic (see also Pozniak, 2010).

In a study on the adoption of Web 2.0-based social media for IR in the middle eastern context, von Alberti-Alhtaybat and Al-Htaybat (2016) determine various antecedents of adoption bases on institutional theory, including mimetic isomorphism, guidelines and regulatory restraints. In a conceptual paper, Alexander and Gentry (2014) discuss future trends and provide recommendations to implement social media in IR initiatives (see Halim *et al.*, 2015, for a similar research framework on interactive IR).

3.4 Content

Traditionally, the corporate disclosure strives to ensure transparency in terms of the financial soundness of a business to instill trust in its long-term viability (Merton, 1987). Accordingly, a significant part of IR tasks can be understood as compliance efforts. Listed corporations are required to publish earnings reports as well as ad-hoc disclosures of significant corporate developments. As a result, a large body of research on financial disclosure can be found in the accounting literature. However, this stream of research was not included in this literature review as it does not focus on the IR function, but rather on accounting principles and techniques. Some studies, though, address the content of financial communication to reflect the function, audiences and strategic role of IR. Much of this research focuses on voluntary disclosure and nonfinancial reporting.

Gelb *et al.* (2008) analyze the effect of varying international regulatory environments on voluntary disclosure, finding that IR is especially sensitive to differences in regulatory standards. Hence, companies' efforts toward engaging the financial community, corporate accessibility and responsiveness to analysts' queries can be more or less extensive and forthcoming. Their analysis finds a negative effect of multi-nationalism on voluntary disclosure, and particularly IR efforts. The authors speculate that providing extensive voluntary disclosure could result in competitive disadvantages in markets with relatively low average levels of transparency. Similarly, de La Bruslerie and Gabteni (2014) find that the introduction of IFRS in France led to an increase in voluntary disclosure due to an alignment of reporting practices (cf., Rensburg and Botha (2014) on the introduction of integrated reporting in South Africa). Niedziolka (2007) examines the level of disclosure in Poland's relatively young capital market and finds that IR departments so far do not meet investors' needs in terms of nonfinancial information or availability of the online information.

The management literature extensively discusses the limited ability of financial disclosures to fully capture corporate value (cf., Lev, 2001). As companies struggle to account for their "intangible assets," financial communication is increasingly complemented by nonfinancial disclosure. Bescos *et al.* (2007) describe efforts to increase the quality of nonfinancial information disclosed by French IR departments. In a review of previous research on language applied in disclosures, Mayew (2012) points out that the depth of disclosure is contingent upon the instruments or outlets applied, with interactive formats facilitating more differentiated disclosure.

Based on a qualitative and quantitative survey of analysts and investors active on the German market, Hoffmann and Fieseler (2012) identify eight salient nonfinancial factors: the stakeholder relations of an organization, its corporate governance, corporate social responsibility (CSR), reputation and brand, the quality of its management and its strategic consistency. One of the most important factors identified, however, is the quality of a company's communications, which underscores the strategic role IR function should play in fostering positive capital market relations. Laskin (2014b) surveyed IR professionals in the USA on the frequency and importance of disclosing nonfinancial factors and found that data on strategy, products, services and markets are most frequently reported, while data on CSR and employee relations are provided least frequently – in line with their respective perceived importance.

The latter finding is in line with studies focusing on the role of CSR issues in IR – a number of them rooted in business ethics research. Both, Fieseler (2011) and Schiereck and Königs (2004) find that, while still only at relatively low levels, mainstream investors are increasingly considering CSR-related data in their analyses – mostly to gain a more comprehensive understanding of the business model and strategy as well as for better risk assessment. Based on the survey data collected in Sweden, Arvidsson (2011) argues that, while still lagging behind other nonfinancials, sustainability and CSR data attract increasing attention among IR managers as well.

Gelb and Strawser (2001) argue that CSR disclosure is driven by strategic imperatives rather than shareholder demand: as companies ramp up their CSR efforts, they strive to reflect this positioning to all stakeholders, including investors. This line of argument illustrates the importance of content research to the understanding of IR. Beyond mere compliance, IR proactively addresses corporate issues deemed strategically relevant. The IR function engages in sensegiving (cf., Kuperman, 2003). Hockerts and Moir (2004), therefore, describe CSR reporting as an element of boundary-spanning or relationship management, with companies attempting to insert strategic issues into the investor dialog.

3.5 Effects

A major area of both academic and practical interest is the effects of IR activities on key audiences, including analysts, journalists, institutional and retail investors. Our analysis revealed 28 studies, predominantly in the accounting and finance literature, focusing on IR effects. Critical voices suggest that merely "repackaging" information to capital markets should not engender positive returns (Agarwal *et al.*, 2016). Given efficiency assumptions, share prices should reflect the substance of the available information independent of its presentation. Yet several empirical studies impressively document the effectiveness of IR, as both quality and intensity of IR efforts are shown to increase capital market visibility, liquidity and returns. Explanations proposed for these findings vary, though – ranging from higher visibility and liquidity, reduction of information asymmetry and risk, to fostering relationships and trust among the financial community.

Bushee and Miller (2012) examine the effect of IR initiatives, particularly the hiring of IR firms, on shareholder composition and overall visibility. The authors argue based on Merton's (1987) investor recognition hypothesis that given the assumption of imperfect information, targeted information efforts can increase a company's capital market visibility and expand its shareholder base. They find that the hiring of IR firms significantly increases analyst and press coverage, and successfully expands the investor base. Based in this study, Kirk and Vincent (2014) focus on internal investments, but also find that ramping up IR efforts improves disclosure quality, lowers analysts' cost of information gathering, and thereby increases analyst coverage, institutional ownership, liquidity and valuation (cf., Ly, 2010; Dong-Soon *et al.*, 2009; Kim *et al.*, 2009). Similarly, Vlittis and Charitou (2012) find evidence of increased liquidity, visibility and abnormal returns following either the appointment of a new IR officer or the hiring of an IR firm. The authors also ascribe these effects to the amelioration of imperfect information, but also to a reduction of information asymmetries in the vein of agency theory. Also building on Bushee and Miller's (2012) work, Agarwal *et al.* (2016) find that higher IR quality, as measured by a survey-based ranking, is associated with increased analyst coverage, liquidity and valuation multiples.

Brennan and Tamarowski (2000) summarize several studies on the link between IR and liquidity, analyst coverage and forecast accuracy. They argue that IR could contribute to a coherent and credible understanding of the company's strategy and opportunities among key financial audiences (for a counterexample see Yorozu, 2015). On a more instrumental and operational level, Chang *et al.* (2008) find that more extensive online disclosure through IR websites increases analyst coverage and institutional following, and may even improve share prices and liquidity (but not, unsurprisingly, financial performance – see Pozniak *et al.*, 2013).

Farragher *et al.* (1994) examine the guidance task of IR finding that IR departments rated as high quality by analysts do manage to reduce the dispersion of earnings forecasts (but find no effect on accuracy). Focusing on smaller, Australian firms, Chang *et al.* (2014) do find a positive effect of voluntary online disclosure on forecast accuracy, but not dispersion. These somewhat conflicting results may be due to effects of company size, with more public information being available on large companies, which reduces forecast dispersion. In the case of smaller companies, analysts rely more on private information; therefore, additional information primarily affects forecast accuracy. Another study addressing guidance examines the length and effect of conference calls after the announcement of negative deviations from forecasts. Frankel *et al.* (2010) find that conference calls get longer with larger deviations, but they manage to affect share prices positively.

Given the breadth of data documenting the effectiveness of IR efforts, some studies point out that the old saying also applies to IR: with power comes responsibility. Bassen *et al.* (2010) summarize the state of research on IR effects and propose a causal model based on agency theory, by which effective IR increases depth of analyst coverage and enhances stock market liquidity, thereby reducing cost of capital. They argue that aggressive IR activities are likely to push share prices beyond justified levels, leading to overvaluation. Similarly, De Jong *et al.* (2007) illustrate the role of aggressive IR practices in ensuring positive analyst coverage. Based on a prominent Dutch case of accounting fraud, the study shows how their IR initiative influenced analyst expectations by pushing an optimistic equity story, actively pursuing analysts and investors and aiming for public recognition of the IR program.

Focusing on journalists as an IR audience, Solomon (2012) examines the effect of IR firms on their clients' news coverage. His analysis reveals that IR firms successfully manage to spin corporate news, creating greater coverage and increasing share prices – yet this effect is counter balanced during earnings announcements, where positive spin is matched against performance. This highlights the danger associated with aggressively pushing for overly optimistic perceptions of the corporation. Based on a review of the behavioral economics literature, Libby *et al.* (2002) call for more experimental studies to delve deeper into the determinants of strategic communication/voluntary disclosure effects (up to and including market distortions).

Overall, there is relatively little research on retail investors as an IR audience. Penning (2011) focuses on the information requirements of retail investors, based on the uses and gratifications approach. He finds no demographic antecedents, yet the survey analysis shows that shareholders primarily rely on annual reports and the annual meeting to learn about management, while news releases and advertising are primary sources for information on products and CSR. Nyce (2005) finds that more extensive financial communication can increase employee participation in 401(k) plans. Based on a study of Tong (2015), it could be hypothesized that retail investors may be especially susceptible to organizational reputation and trust effects.

Some studies focus on the role of reputation in capital market communication. Peasnell *et al.* (2011) explore whether effective IR departments shield listed firms from the fallout of corporate scandals, but find that investor mistrust spills over even to corporations rated highly during normal market conditions. The authors warn that aggressive IR efforts may engender adverse effects, such as cynicism or mistrust, in times of investor disappointment. Hoffmann *et al.* (2016) find that a strong corporate reputation serves to shield corporations from shareholder activism, both in terms of frequency and success of intervention. Rose and Thomsen (2004) argue that when it comes to reputation, causal relationships are complex, or even circular, as a strong financial performance improves the company's capital market reputation, while previous studies tend to argue that reputation is a driver of corporate performance.

Finally, in a theoretically innovative study, Basse Mama and Bassen (2016) turn their focus on internal IR audiences. Applying Foucault's (1979) work on discipline, they argue that high-quality IR will increase management's visibility in the investment community and thereby increase pressure to align policies with shareholder interests. Based on an analysis of German companies, they confirm that high-quality IR firms tend to reduce cash holdings, while low-quality IR firms tend to squander cash through value-decreasing expenditures. It follows that IR quality may be an indicator of good corporate governance. Stern and James (2016) argue that positive voluntary disclosures lead to a more positive perception of firms and their management and improve the management's job opportunities (as measured by voluntary turnover). Hence, from management's perspective, there are bright and dark sides to high-quality IR.

4. Summary and discussion

Our systematic literature analysis reveals a dynamic field of research focusing on IR and financial communication – spanning a number of disciplines. The rise of IR research appears to mirror public and professional interest in the discipline, particularly in the West. As the IR function establishes itself, grows and experiences an increasing professionalization, it also attracts ever more pronounced research interest. Today, IR research has moved beyond defining the function, exploring its establishment and analyzing its justification. Studies in the field become more diversified, focusing on a number of specific elements as outlined in this review – including organizational questions, strategies applied in the field, instruments, content and effects.

We find that the IR research has strong roots in the business and management, the accounting and communication science literature, particularly PR/corporate communications research. Most studies in the field are empirical, frequently based on surveys, but also content analyses and even experiments. There is relatively little conceptual and qualitative work, though, which might be due to the topicality of the field. We also find that many studies are rather thin on theory – there is a pronounced bias toward descriptive and pragmatic perspectives. Interestingly, the disciplinary perspectives identified in this review frequently correspond with distinctive theoretical lenses, for example applying agency and institutional theory in management and finance research, excellence theory or linguistic approaches in communications studies, and market efficiency theorems in the accounting literature.

As the field evolves, we do see increasing cross-referencing between these domains, though. Still, conceptual and theoretical studies would still provide a valuable contribution to structuring the field and its various strands.

Some key findings can be derived from this literature review:

- IR constitutes a distinct corporate function positioned at the nexus of public relations and finance. While a number of studies explore IR from a PR perspective, many important insights also come from analyses rooted in accounting and finance research. Similarly, many IR practitioners have a background in finance or accounting. It is important, therefore, to distinguish IR from adjoining functions, such as PR, finance or even marketing, and to proceed with care when applying theories from established disciplines to the emergent field of IR.
- A number of studies indicate that IR developed in response to stakeholder demand or requirements – counter to what market efficiency assumptions might suggest. Providing transparency and accountability through reporting and disclosure, today, is mirrored by dense regulatory frameworks and compliance requirements. Studies show that IR practices differ internationally due to distinct regulatory requirements, with common standards facilitating more forthcoming communication practices.
- IR have quickly moved beyond basic reporting and compliance requirements and, today, constitute a strategic communication function focused on creating value through relationship management. Strategic leeway and potential differentiation has been identified in the application of rhetoric, voluntary provision of instruments as well as voluntary, particularly nonfinancial disclosure.
- An impressive range of studies document the strategic value of IR, particularly by examining the effect of IR intensity and quality on capital market visibility, stock liquidity and relationship management – including image, trust and reputation management. There can be little doubt that high-quality IR can facilitate access to capital, reduce capital cost and may even generate access returns – the latter seen as both a temptation and danger in most studies.

To further flesh out IR research and continue on the path of developing a distinctive field of inquiry, a range of research opportunities can be derived from the present review:

- Given ample research on the foundations of the IR function and the establishment of IR departments (cf., Rao and Sivakumar, 1999), more research is necessary on IR agents, focusing, for example on biographies, disciplinary backgrounds, career paths or critical skills. The practice of IR is as interdisciplinary as its research – as the field develops, it remains worthwhile to monitor the state of the profession. While in the PR domain, the excellence theory was quickly supplemented by models of practitioner roles, no such research has yet been applied to IR. Accordingly, there are no studies yet explaining how micro-level antecedents contribute to the development and influence of the IR function.
- On a meso-level, future research could delve deeper into the organizational antecedents of IR. While responsibility for financial communication is dispersed across departments, including executive and supervisory boards (cf., Dolphin, 2004; Laskin, 2014a; Marston, 1996), little is known about how IR departments interact with PR, legal, accounting or finance, nor do we have a substantive understanding of the role of the CFO, CEO and supervisory board in IR. To date, studies on the IR function focus on how external influences (i.e. shareholder expectations) shape IR practices – largely due to the theoretical perspectives applied in finance and accounting research (cf., Hong and Huang, 2005). Yet a number of studies indicate that management

priorities or organizational imperatives do affect IR strategies (Bassen *et al.*, 2010; De Jong *et al.*, 2007).

- As stated above, we found only relatively little research on strategic communication in the field of IR and financial communication, but anticipate that the subject is especially amenable to analyses of objectives, planning and evaluation – given the strong roots of IR research and practice in strategic management (Ragas and Laskin, 2014). While a range of studies focus on specific instruments or content, few take a step back to identify and differentiate communication strategies and their effects.
- While studies indicate that specific corporate situations or challenges, such as capital market transaction or activist shareholder interventions, affect IR practices (Green *et al.*, 2014), we find that IR research is rarely contextualized. More research on contextual strategies, shifts in content, instruments and objectives during specific scenarios would be worthwhile to move beyond blanket descriptions of the function and highlight the dynamics and complexity of the financial communication task.
- Finally, we identify a lack of international, comparative IR research. Current research focuses on mature capital markets, such as the USA, UK and Germany. The few available studies from Eastern Europe and Asia indicate that common practices may differ significantly according to market maturity and culture (i.e. Almaşi *et al.*, 2015; Niedziolka, 2007). Comparing distinct markets may provide a better understanding of the development/professionalization of IR over time, and systematic regulatory and cultural influences on IR practices.

To summarize, this review outlines a dynamic and diversified research field that mirrors its corresponding field of practice. Just as the IR and financial communication function offers a challenging and interdisciplinary work environment, the research of IR provides much room for interdisciplinary research combining management, finance, accounting and communications theories and concepts, a wide variety of applicable methods and the chance to shape an emerging field by creating strong theoretical contributions. We hope that this review will inspire colleagues from around the globe to participate in this endeavor.

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