

# **FINANCIAL PUBLIC RELATIONS: ASSESSING PRACTITIONERS KNOWLEDGE IN COM- MUNICATING INVESTOR RELATIONS TO THE PUBLIC**

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## **Introduction**

Financial Public Relations or Investor Relations (IR) is another specialised part of the larger public relations function in many publicly held corporations. IR specialists work to enhance the value of a company's stock and to reduce the cost of the capital by increasing shareholder confidence and making the stock attractive to individual investors, financial analysts and institutional investors (Cutlip, *et al.*, 1994).

IR is the specialised part of corporate public relations that builds and maintains mutually beneficial relationships with shareholders and others in the financial community (*Ibid.*). The IR practitioners keeps shareholders informed and loyal to the company so as to maintain a fair valuation on the company's securities. It is a growing field that requires specialised legal knowledge (Cutlip, *et al.*, 1985). Under the Securities and Exchange Commission's "integrated disclosure system," corporations in which members of the public own shares must continuously provide information about the health of the company.

Public relations is a staff function, one of several which advise and support top officials. Thus, practitioners need to understand the staff role (*Ibid.*). Public relations practitioners are involved in issuing press releases, drafting speeches, conducting annual meetings and writing annual and quarterly reports. The three most powerful forces regulating the IR practice in Malaysia are the Companies Act of 1965, the Kuala Lumpur Stock Exchange (KLSE), and the Securities Industry Act of 1983. The law and regulations require that members adhere to the general policy of making full and timely disclosure of corporate information on behalf of clients or employers.

The Securities Industry Act of 1983 mandates disclosure to insure that investors have accurate information during the trading of securities. The Act requires companies registered with the KLSE to file annual, quarterly, other reports and solicitations of proxies with the KLSE.

For securities trading purposes, annual reports have become "the single most effective medium through which corporate information is disseminated to the investment

community” (Haft, 1974). However, there is no such regulation instituted by the Institute of Public Relations Malaysia (IPRM) regarding this matter. There are fourteen codes of professional conduct, but none is related to financial public relations or investor relations practices.

### Method

One hundred PR practitioners working in 100 listed companies were interviewed using structure questionnaire. A seven-point Likert scale was developed. Twenty opinion items were developed in order to assess their knowledge about investors relations. Respondents were asked to show their level of agreement and disagreement, which “1” indicates ‘strongly disagree’ and “7” indicates ‘strongly agree’. Data were computed, processed and analysed using Statistical Package for Social Sciences (SPSS).

Table 1

### Assessing PR practitioners knowledge in investor relations duties

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Item below shows the level of your agree and disagreement. “1” indicates ‘strongly disagree’ and “7” indicates ‘strongly agree’.

#### INVESTOR RELATIONS DUTIES

1. The investment community, whether investment analysts or institutional investors are critical to the success of the share price.  
1      2      3      4      5      6      7
2. City editors and their staff are important people to communicate with.  
1      2      3      4      5      6      7
3. Business reporters and their staff are important people to communicate with.  
1      2      3      4      5      6      7
4. Listed companies’ shareholders are the most important group since these companies are reporting and delivering results for them.  
1      2      3      4      5      6      7
5. Good communications with shareholders is critical to ensure that various messages are properly communicated to them.  
1      2      3      4      5      6      7
6. Focus for specific and general campaigns is in need for acquisitions, mergers and take-over targets in a growth oriented company.  
1      2      3      4      5      6      7
7. In a specific campaign for acquisition prime attention must be given to the shareholders, customers and staff of the target business.  
1      2      3      4      5      6      7
8. Customers and staff must always be seen as an important target group.

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|---|---|---|---|---|---|---|---|
|   | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 9. I am not aware of regulations affecting investors relations.   |   |   |   |   |   |   |   |
|   | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 10. I think KLSE regulations regarding information disclosure is hard to understand by IR practitioners.                      |   |   |   |   |   |   |   |
|   | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 11. I do not believe that regulations on information disclosure are helpful to curb insider trading.                          |   |   |   |   |   |   |   |
|   | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 12. I understand the requirements of the Companies Act to annual report.  |   |   |   |   |   |   |   |
|   | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 13. The annual general meeting is not an important to in communicating IR.  |   |   |   |   |   |   |   |
|   | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 14. The proxy process is not regulated by the Registrar of Companies.   |   |   |   |   |   |   |   |
|   | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 15. Acquisitions and mergers are important concepts for my company.   |   |   |   |   |   |   |   |
|   | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 16. I can understand and deliver financial information very well.   |   |   |   |   |   |   |   |
|   | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 17. I believe, knowing and understand financial reports is vital in IR duties.  |   |   |   |   |   |   |   |
|   | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 18. Investors, investment analysts and fund managers depend on IR reports and information to buy and sell my company's stock. |   |   |   |   |   |   |   |
|   | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 19. IR information is important to monitor share price volatility.  |   |   |   |   |   |   |   |
|   | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 20. My company should spend more in IR to sustain growth.   |   |   |   |   |   |   |   |
|   | 1 | 2 | 3 | 4 | 5 | 6 | 7 |

Respondents were also asked to indicate total hours spent in investors relations duties.

**Table 2**

**TIME SPENT ON INVESTOR RELATIONS COMMUNICATION**

(Please indicate total hours spent per week)

1. Total hours spent :	Media relations (press interviews/ tv & radio interviews/ press releases/ press conferences/ video preparations)
2. Total hours spent :	Annual report/ quarter report & account
3. Total hours spent :	Dealing with legislative and government bodies

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4. Total hours spent :	Meetings and trade fairs/ road shows with investment analyst and institutions
5. Total hours spent :	Promotional events
6. Total hours spent :	Industry groups (industry associations or groups as a member of such associations which enables you to persuade the group to present your own view point)
7. Total hours spent :	General and specific campaign for acquisition, mergers and target take-over

**Table 3**

**EXPENDITURE SPENT ON INVESTOR RELATIONS COMMUNICATION**

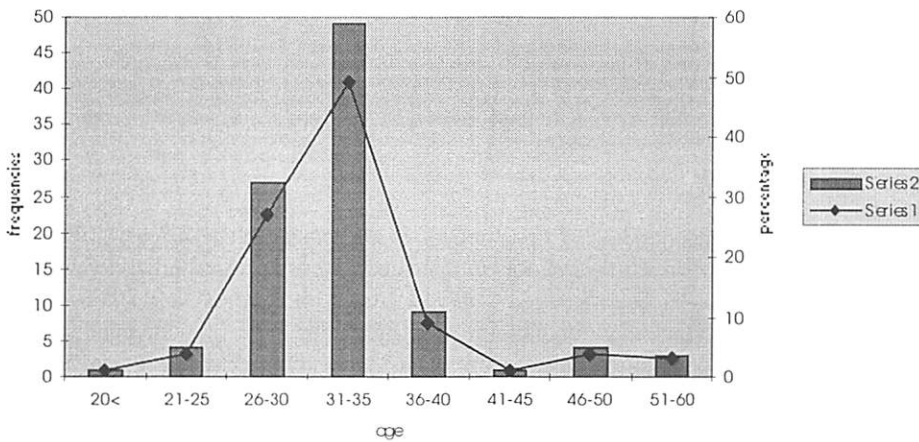
(Please indicate amount of money spent on each communication strategy)

1. Total amount spent : RM	Media relations (press interview/ tv & radio interviews/ press releases/ press conferences/ video preparations)
2. Total amount spent : RM	Annual report/ quarter report & account
3. Total amount spent : RM	Dealing with legislative and governmental bodies
4. Total amount spent : RM	Meetings and trade fairs/ road shows with investment analysts and institutions
5. Total amount spent : RM	Promotional events
6. Total amount spent : RM	Industry groups (industry associations or groups as a member of such associations which enables you to persuade the group to present your own view point)
7. Total amount spent : RM	General and specific campaign for acquisition, mergers and target take-over.

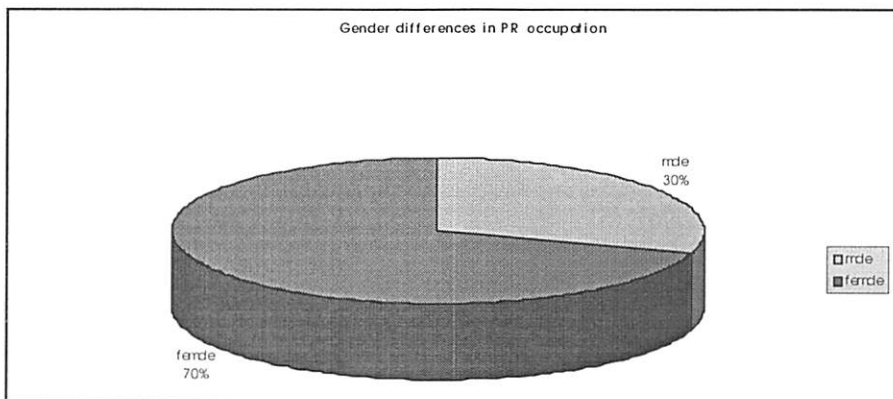
**Results**

The median age for Malaysian PR practitioners fell between 31 and 35 and 50.5 percent of them were no older than 35 years old. This indicates that public relations practitioners in Malaysia are relatively young. Two-third of the respondents were female. By comparison, only about half of all American PR practitioners are now female. The Public Relations Society of America (PRSA) announced a few years ago that women practitioners outnumbered men on its membership list.

**Table 4**  
**Mean Age for Malaysian PR Practitioners**  
**Mean age**

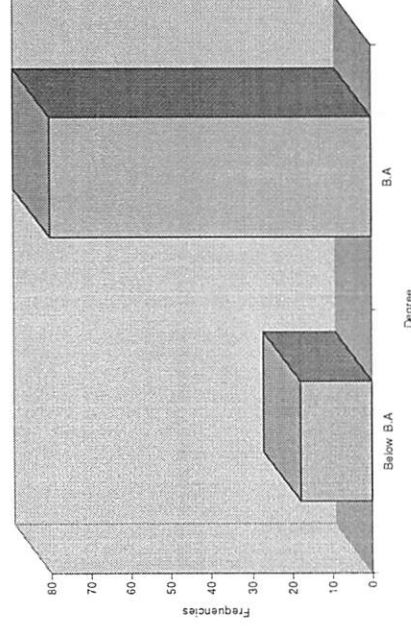


**Table 5**  
**Gender Differences in PR Occupation**



With regard to work experience in PR, the average was 4-6 years. About 39 percent of sample had worked in the field for no more than three years, about 23 percent worked between 7-9 years and about 11 percent worked for 10 years or more.

**Table 6**  
**Percentage of PR Practitioners With At Least a B.A degree**



Of the 97 respondents, 67 percent described themselves as officers. Less than 30 percent were assistant directors, directors or managers. This implies a higher level of education, because at least a bachelor's degree is needed for any officer post in Malaysia. It can be said that, public relations practitioners serve primarily at the lower management level.

Only 7 percent of the respondents considered themselves as top management. Very importantly, 75 percent defined themselves as lower management, or staff level only. Thus, Malaysian public relations practitioners appear to cluster in the lower division of the management. This is a very significant finding since practitioners at that level may lack the power to argue persuasively with the top management.

The number of PR practitioners in a department is relatively small since 79 percent of companies have only 1-3 staff. Only 3 percent have 10 or more public relations staff members.

Interestingly, more than 80 percent of the respondents have at least bachelor's degrees. It is reasonable to say that entry requirements for PR occupation in Malaysia is a bachelor's degree. Though there is no definitive data concerning American practitioners, it is widely believed that, until recently, may have lacked bachelor's degrees. Thus, comparatively speaking, Malaysian public relations practitioners are rather well educated.

About two-thirds (67 percent) of the respondents received salaries of between RM 2,001 and RM 4,000. Only 12 percent of them received salaries below RM 1,000 and can be assumed to be a non-degree holders. Thus, it is rather appropriate to say that Malaysian people places a heavy emphasis on high education for workers. Higher education symbolises advanced knowledge and greater potential for success. Those who have received an advanced schooling often are rewarded with prestige and self-esteem. Public relations practitioners are no exception, as degree are expected to qualify them for public relations officers' posts.

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Looking at the respondents' educational background, researcher found that 48 percent of them had majored in public relations/mass communications. In contrast, 52 percent had majored in other field such as social sciences, humanities, physical sciences, accounting and business management. However, 19 percent of the respondents confirmed that they had never received any public relations training.

Some U.S scholars, such as Culberston (1985) and Grunig and Hunt (1984), argue that a strong liberal-arts background is essential for modern PR practitioners, and the future of public relations rests largely on its status as an applied social science. They believe that a successful PR practitioners of today must be a broadgauged social scientist. Relative to this argument, Malaysian practitioners appeared to be well-positioned as to educational background.

As was mentioned before, 19 percent of the respondents had never received any public relations training before or after taking public relations job. This is quite alarming since the training is still regarded as highly desirable. Public relations now includes employee communications, organisational communication, research, issue management, and so forth. Further more, Grunig and Hunt (1984) estimated that slightly more than half of the American practitioners practiced public relations according to the publicity argent and public-information models. And practitioners following these career paths need public relations training especially media experience.

In conclusion, the prototype picture of a Malaysian public relations practitioner is a 35-year-old female who has a college degree, earning between RM 2,000 to RM 4,000 and has been working in the public relations field for about 4-6 years.

### **Assessing PR Practitioners Knowledge in Investor Relations Duties.**

About 31 percent of respondents had a very strong agreement with the statement that the investment community, whether investment analysts or institutional investors, is critical to the success of the share price and a proper rating for shares and should be seen as almost important audience for a company. More than 80 percent reported strong agreement with the statement that city editors and their staff are important people with whom to communicate. A total of 43 percent of respondents had strong agreement that business reports and their staff are important people with whom to communicate.

A substantial number of respondents, 38 percents agreed moderately strong that listed companies' shareholders are the most important group. More than 34 percent agreed strongly that good communications with shareholders are critical to ensure that various messages are properly communicated to them. On the other hand, 31 percent of the respondents reported moderately strong agreement that, in a growth-oriented company looking for growth partly through acquisitions or merges, there is need to focus both general and specific campaigns of financial public relations on prospective take-over targets.

More than 38 percent strongly agreed with the statement that, in the specific acquisition of a target, a lot of attention must be paid to the shareholders, customers and staff of the target business. More than 60 percent of the respondents agreed quite strongly that customers and staff always must be seen as important group for this area of activity.

Very important, 49 percent of the respondents had very strong agreement with statement "I am not aware of regulations affecting investor relations". In total, 34 percent of

the respondents agreed very strongly that Kuala Lumpur Stock Exchange (KLSE) regulations regarding information disclosure are hard for public relations practitioners to understand.

However, almost 27 percent had moderately strong agreement with the statement, "I do not believe the regulations on information disclosure are helpful to curb insider trading". More than 25 percent of the respondents disagreed with the statement, "I understand the requirements of the Companies Act in regard to annual report". However, 50 percent of the respondents had very strong disagreement with the statement that the annual general meeting is not an important tool in communicating financial public relations.

On the other hand, 44 percent of them were found had a very strong disagreement with the statement that proxy process is not regulated by the Register of Companies and Companies Act. This would indicate PR practitioners were not knowledgeable enough about proxy regulations.

There were not neutral responses to the statement "Acquisition and mergers are important concepts for my company" than to other statements. Very importantly, a total of 40 percent of respondents agreed that they cannot understand and deliver financial information very well. A total of 18 percent of them do not believe that, knowing and understanding financial reports is vital to financial public relations or investor relations activities.

More than 32 percent had respondents of strongly agreed with the statement, "Investors and investment analysts depend on financial public relations reports and information to buy and sell stocks in my company". A total of more than 80 percent agreed strongly that investor relations information is important in monitoring share price volatility. Quite a substantial number of respondents disagree if their company should spend more money on investor relations in order to sustain growth.

### **Amount of Time Spent in Investor Relations Activities**

The amount of time spent in the seven categories of investors relations varied. Table 7 shows the mean working hours spent per week practicing investor relations. On average the respondents spent 16.4 hours per week. Therefore practitioners spent the rest, 23.6 hours devoted to non-IR duties.

**Table 6**  
**Mean of Time Spent per week Practicing Investor Relations Duties**

	Mean
1. Media relations	6.7
2. Annual report/ quarter report & account	1.6
3. Annual general meeting	1.1
4. Legislative and government bodies	0.8
5. Trade fairs road-shows	1.4



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6. Promotional events	3.7
7. Industry groups	0.5

The mean time spent on media relations was 6.7 hours per week. The mean time spent on annual report or quarterly reports and accounts is only 1.6 hours per week. It is important to note that 34 percent of all respondents did not work on annual reports as a primary communications vehicle for company, a surprising number of respondents were not involved in this duties.

Arguably PR practitioners should be entrusted with the preparing the annual reports or quarterly reports and accounts for the company. It is a way for them to project the company's objectives. This is especially important because of the ever increasing number of mergers, divestitures and acquisitions which have alerted the business course of many corporations.

In particulars, practitioners must be given the trust to maintain audience orientation in preparing a position brief for management when starting the annual reports in order that the corporate message may be believed by the audience. It has become fashionable lately to attack the credibility of annual reports. It is believed that they don't tell the entire truth. Annual report resides low on the lists of individual investors' sources (Denmarsh and Esteban, 1989) as compared with newspaper, stockbrokers and friends. The Wall Street Crash of 1987 was studiously ignored in most annual reports.

Thus, it is very important for the practitioners to be given trust in preparing the annual reports as it is primary method of communication for companies. On the other hand, PR practitioners must be understand the needs to reach communication goals effectively through the annual reports.

A mean of 1.1 hours spent per week in connection with the firms' annual general meeting. However, 40 percent of respondents had no involvement in this particular duties. The mean time spent on trade fairs and road-shows was 1.4 hours per week. On the other hand, 42 percent of respondents had never done any work of such events.

The mean time spent on promotional events is quite high, 3.7 hours per week. However, it is worthy to note that 20 percent of respondents did not spend any working hours on such events. A substantial percentage, 71 percent of respondents had no working hours dealing with industry groups. This is quite surprising as Malaysian labour and industrial organisations are quite powerful. In contrast, American industrial groups present viewpoints which benefit their members.

### **Amount of Expenditure Spent in Investor Relations Activities**

Expenditure on media relations vary from one company to another. More than 50 percent of the companies spent less than RM 100,000 thousands in this area of activities. The mean amount spent was RM 14,200. More than 50 percent of the companies spent less than RM 30,000 on annual reports and quarterly reports and accounts. The mean amount spent was RM 15,150. The annual general meeting showed a mean of RM 9,620. It might be worth

noting that annual report and annual general meeting normally are tied together.

**Table 8**  
**Mean of Expenditure Spent Annually on Investor Relations**  
**(in thousands)**

	Mean
1. Media relations	RM14,200
2. Annual report/ quarter report & account	RM15,160
3. Annual general meeting	RM 9,620
4. Legislative and governmental bodies	RM 1,368
5. Trade fairs road-shows	RM18,800
6. Promotional events	RM19,890
7. Industry groups	RM 1,997

In all, 45 percent of the respondents reported that their companies spent nothing on legislative and governmental bodies. Quite a substantial number of the companies (28 percent) spent nothing on trade fairs and road-shows. However, a few companies spent more than RM 250,000 a year on these activities. Significantly, listed companies spent more Ringgit on promotional events than any other events. Almost 50 percent of the listed companies spent between RM 150,000 and RM 47,558 for promotional events in 1992.

### **Conclusion**

This study revealed that a significant number, i.e., 80 percent of the respondents had never done any work related to investor relations. Comparatively, American practitioners have practised investor relations since way back in the 1950's. IR has become more challenging in America as a host issues, have confronted the field. Thus range from the complexity of global capital markets and congressional anti-take-over legislation to the restlessness of insider trading, have confronted the field too (Safer, 1985).

After the stock market crashed in 1987, many American IR professionals, along with their other corporate brethren, hoped and prayed that take-over mania had finally reached an end. But the hope proved to be short-lived. Not only did take overs resume after the uncertainty period of a few months, but they resumed with a vengeance. In fact, the crash turned out to be good for the raiders. It beat down the price of many companies to the point of making them bargains. If a company is undervalued, it often becomes a take-over target.

To help the companies get their stock priced fairly, IR must communicate clearly

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about the goals of top management. This means communicating in both good times and bad. Companies have a tendency to clam up when times are tough. Instead, they need to explain to their investors, to the market, what they are doing to change things.

The companies should not be in a situation where investors hear from them only when the crises occur - for example, investors are needed during a fight for control. Insufficient communication, not the market itself, is a fault when a company is undervalued. The market evaluates a company based on its understanding of that firm's communicable assets and liabilities and its prospects. Moreover, IR is very important to check the types of stockholders the companies have. Companies must understand not only who owns stock, but their true expectations and objectives.

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