

Academic Research and Investor Relations

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ABSTRACT

In the current market driven economy, investors form one of the most important factors governing the scenario. In order to determine the success and future prospects of any organization, it is very necessary to assess the quality and quantity of investors which it possesses. It has become an implied necessity for the companies to attract more and more investors for establishing a strong market position as well as ensuring a fair valuation of its stocks. This research paper strives to study and examine the role of research in enabling the companies to establish a healthy investor relationship. It also studies the role of research in bringing about continuous innovation in this area. The paper is purely based on secondary data which has been collected from various research papers, magazines, company websites and online articles. The collected data has been studied and analyzed in order to examine the role of research in this area of business management.

Keywords- investors, investor relations, business management

ACADEMIC RESEARCH AND INVESTOR RELATIONS

INTRODUCTION

Investors are the backbone and determinants of the success and goodwill of any organization. The reliability of any company depends upon the investors' base of it and also to a great extent upon their perceptions about it. The importance of investors for any business can be understood from a study by *Business Investors UK*, which states that when investors invest in any small business, both the investor as well as the business gains from it as they provide not only the capital but their expert advice and business insight as well. In addition, borrowing from banks also becomes easier since a large investors base increases the capital invested in the business. According to *Justin Kuepper*, in his study on *The Roles of Traders and Investors in the Marketplace*, an investor is the market participant who purchases shares of a company for the long term with the belief that the company has strong future prospects. They are mostly concerned with the value and the success factor of the company, which can be seen through with the help of a careful analysis of the financial statements and the trends of the performance of the company. From the definition, a notable feature is that it is very important that the companies portray themselves as strong players as far as future prospects are concerned. This further means that the strong image of a company in the eyes of the general public gets converted into a large investor base. Major investing agencies which contribute mostly towards the capital of any company are investment banks, mutual funds, institutional investors and retail investors.

RESEARCH METHODOLOGY

The research is purely exploratory in nature and is based entirely on secondary data. The information collected from various sources have been analyzed and studied to draw the stated conclusion.

WHAT IS ACADEMIC RESEARCH?

According to *Virginia Tech*, academic research is a multi- step process which does not always go in a straight line. The process includes choosing a research topic, finding background information about it, finding sources which give information about the topic, finding the articles related to the topic, evaluating the information gathered and thereafter citing the information used in the research.

The sources which provide such information are categorized into various types, depending upon the types of information needed. These sources include information timeline, types of information sources, background information sources, libraries and internet, primary/secondary & tertiary sources and magazines/ trade journals & scholarly journals.

The research focuses on the creation of new ideas, perspectives and arguments. On the basis of the information collected through the above sources, certain questions are asked and their answers are developed through critical thinking, analysis and evaluation.

The steps involved in conducting the research are-

- Determining research topic/ question
- Understanding the difference between primary and secondary research
- Determining the scope of research
- Finding about how to find out the sources of information
- Collecting the possible sources of information
- Reading the information collected in detail
- Taking down notes of the read material
- Finding about more sources of information
- Evaluating the sources used
- Writing the tentative thesis
- Writing the first draft
- Adding quotes, paraphrases or summaries into writing
- Reviewing the draft written
- Preparing the final draft

ACADEMIC RESEARCH AND INVESTOR RELATIONS

This section of the paper will deal with the contribution of academic researches towards determining the scope, importance and methods of maintaining healthy investor relations. In order to facilitate the growth in any sector and area, research and development is very important to be conducted in that particular field. As the market is changing, the needs of the people are also changing rapidly. In order to meet these changing needs of the people, first of all it is very important to know these preferences of them and this is not at possible without the help of proper research, including surveys and interviews. These researches also reveal the methods and measures which should be involved to meet these needs and resolve the complaints and problems with the existing practices.

Investor relations are undergoing a vast change from merely financial reporting to building and maintaining relationships with the shareholders of the company (**Alexander V. Laskin, 2009**). This is quite similar to the Know Your Customer (KYC) practice adopted by the commercial banks, which involves knowing and building relationships with their customers.

In the following sections, contributions of various researches towards determining best practices for maintaining healthy investor relations will be discussed. This will further be instrumental in showing how important is the contribution of academic research in guiding the companies and policy makers towards determining the best practices which would be helpful in maintaining healthy investor relations of the companies.

It is said that the real work of maintaining and developing investor relations takes place before and after accepting capital from them. There are several methods which have devised by the experts, based on surveys and interviews with the customers, in order to create healthy relations with the investors. These methods include-

- Communication- this is one of the best ways to keep the investors happy and satisfied, as they have invested their money in the company and they should be made aware of how their money is being used by the company. They should be provided accurate and

real time information. This can be done through emails, periodicals issued for investors etc.

- Maintaining a contact list of the investors- the details of the investors should be maintained efficiently and updated at regular intervals. This list is used to provide relevant and customized information and services to them as per their needs and demands.
- Contribute to popular media outlets- this method includes finding out which media is most preferred and read by the investors. The company can build good investor relationships through being a contributor to these selected media sources.
- Help investors in finding out their most desirable deals- once information about the investors is gathered, their needs and demands are determined, it is the duty of the company to meet up with them frequently and discuss about the current position of the company and discuss about their needs and expectations from the company. If their needs have been found out, the company should try them to spot the most favorable deal which would suit their demand and interest.
- Sharing ideas with everyone- the company should communicate with the world about the present and future ideas of the business. This helps it to communicate its ideas with the rest of the world and attract new investors to invest in it.

Thus, on the basis of above points, it can be said that key to effective investor relations lies in effective communication and understanding and fulfilling the needs of the investors.

It is important and interesting to know that the Government Finance Officers Association has recommended that all the government bond issuers should consider developing an investor relations program. The underlying idea for this recommendation is to provide the investors with full disclosure of the significant details about the normal working in accordance with the relevant laws.

This term is mainly used to include the efforts of a business to keep the investors informed about the working of the company and the real usage of their funds. Many giant market players are excellent examples of the most effective practices which contribute towards building the most healthy investor relations by creating and enhancing the confidence of the investors in these companies. Some of the most relevant examples are listed below-

Apple involves in setting up a website especially for its investors, which shows the current stock prices of the company and also contains its press releases such that they can be easily accessed by the investors whenever they want to.

Royal Bank of Scotland and *Hewlett Packard* provide email and telephone contact information to the investors such that they can contact the company representatives whenever they want to. In addition, they enable their investors to email their requests for any assistance they need.

HSBC and *Santander* also provide similar services to their investors. In addition, they provide their investors with easy messaging option, which can be easily used by the investors by logging into their respective investment accounts.

Many companies have also started making use of the demographics of their investors in order to assess their needs. They have also started making use of the electronic media and latest technologies in order to hold meetings of the investors at their convenience. These methods include video conferencing, audio conferencing, recording and offering the meeting for replays. With the help of the above methods, it has become possible for the companies to

connect simultaneously with all its investors worldwide and with the help of the record and replay techniques, it has become possible for them to review the contents of the meeting at their own convenience.

Wikipedia defines investor relations as a strategic management responsibility which is capable of integrating 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 towards a fair valuation of the company's securities. This definition talks about integration of the various aspects of any company which would result into a close communication. This aims at achieving a fair value of the company's stocks in the market. In other words, it can be said that this communication aims at enhancing the market value of the company through bringing about a transparency in the minds of the outside parties with respect to the affairs of the company.

IMPORTANCE OF INVESTOR RELATIONS

The companies should try to know each investor who has invested his money in their concern. They should try to find out their real motives behind investment. Some of the investors like to take risks while others prefer safe and regular income. This gives rise to the needs of determining the risk bearing capacity of the investors.

The companies should also pay special attention to the institutional investors as it is they who bring the major chunk of the total investments in the company. However, this does not mean that the retail and private investors should be ignored. They are also equally important for the company as they are the ones who provide instant liquidity to the company. This difference in the roles arises due to the fact that the institutional investors bring in huge amounts of capital in the company while the private ones purchase the stocks in small quantities.

Healthy investor relationships help the companies in the following ways-

- Attracting capital- good investor relations are very instrumental in establishing the reliability and credibility of the company in the market. This is very helpful in attracting investors towards it.
- Enhancing liquidity- continuous exposure of the company to the market helps in creating awareness about it among the people. This enables the company in increasing its investors' base.
- Fair valuation of its stocks- efficient communication of the companies with the investors, helps it convey its future plans and strategies to the public at large. This helps in providing the investors with sufficient information to enable the company in reaching its stocks towards a fair value.
- Increased market presence- when a company informs the general public about its future prospects and policies, it is not only the investors who get affected by it but it also helps in attracting more and better employees and sales force. A good employee's strength and an efficient sales department are further helpful in making better market relations.

Thus, it can be rightly said that a good investor relation system is very important for a company to survive in the competitive market, where each and every player aims at attracting maximum possible number of customers and investors. Realizing the importance of this practice, more systematic and updated methods of maintaining such relations need to be

employed. These methods can be inspired by technology as well as human resource methods. But an ideal organization is the one which employs a perfect blend of the two. Technology can be helpful in bringing the people closer instantly. Thousands of people can be contacted at the same time with the help of various communication techniques; their queries can be resolved with a single click. This helps in creating an impression in the minds of the investors that their interests are been taken care of and they are important for the company in which they have put in their hard earned money. This satisfaction is very necessary to boost up the value and goodwill of the company in the market. In addition, the human resource policies help in determining the content of such communication. The matter included in the virtual and real meetings should be so convincing such that the investors are able to feel a sense of belongingness and attachment to the company. Also, it is very important that the personnel who are meant to resolve the problems of the investors provide adequate solutions to them in the minimum possible time, such that the customers do not get irritated. Hence, it is very necessary that more researches should be carried on in these areas such that more measures are discovered and created to attract and satisfy the investors of the companies.

CONCLUSION

It has been clearly seen in the above discussion that though not much talked about, investor relations form an integral part of the determinants of the success of any organization. Any company which stays isolated from its investors and the general public cannot succeed and compete in the cut throat competition of the market. The customer is regarded as the king of the market which involves such severe competition and the market players keep coming up with new and innovative techniques and schemes to attract and lure the investors. In such a condition, it is very necessary for each organization to keep its R & D department up to date and employ such people who keep coming up with such ideas which could prove to be heavier in comparison to those adopted by others.

In this context, academic researches play a very important role. A large number of researches are being carried out throughout India and throughout the world. As it is not possible to live in isolation with the rest of the world, it is very necessary for the companies to keep a track of the practices which are being followed by the international players and the academic researches worldwide which propose such measures which can prove to be instrumental for the company to stand the competition from the global market. The practices which are prevalent in major companies and the ones which are proposed in the paper are also extracted from some of those researches only and the results of such researches cannot be ignored as they are based upon the data collected from the real beneficiaries of such policies and by them who get directly affected by it. Thus, it would not be wrong to say that academic researches act as boons to the companies by making them aware of the needs of their customers plus the ways to fulfill them.

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