

Investor Relations and Financial Communication

Creating Value Through Trust
and Understanding

ALEXANDER V. LASKIN



WILEY Blackwell

Investor Relations and Financial Communication

Creating Value Through Trust and Understanding

*Alexander V. Laskin,
Quinnipiac University
Hamden, Connecticut*

WILEY Blackwell

This edition first published 2022

© 2022 John Wiley & Sons, Inc.

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, except as permitted by law. Advice on how to obtain permission to reuse material from this title is available at <http://www.wiley.com/go/permissions>.

The right of Alexander V. Laskin to be identified as the author of this work has been asserted in accordance with law.

Registered Office

John Wiley & Sons, Inc., 111 River Street, Hoboken, NJ 07030, USA

Editorial Office

The Atrium, Southern Gate, Chichester, West Sussex, PO19 8SQ, UK

For details of our global editorial offices, customer services, and more information about Wiley products visit us at www.wiley.com.

Wiley also publishes its books in a variety of electronic formats and by print-on-demand. Some content that appears in standard print versions of this book may not be available in other formats.

Limit of Liability/Disclaimer of Warranty

While the publisher and authors have used their best efforts in preparing this work, they make no representations or warranties with respect to the accuracy or completeness of the contents of this work and specifically disclaim all warranties, including without limitation any implied warranties of merchantability or fitness for a particular purpose. No warranty may be created or extended by sales representatives, written sales materials or promotional statements for this work. The fact that an organization, website, or product is referred to in this work as a citation and/or potential source of further information does not mean that the publisher and authors endorse the information or services the organization, website, or product may provide or recommendations it may make. This work is sold with the understanding that the publisher is not engaged in rendering professional services. The advice and strategies contained herein may not be suitable for your situation. You should consult with a specialist where appropriate. Further, readers should be aware that websites listed in this work may have changed or disappeared between when this work was written and when it is read. Neither the publisher nor authors shall be liable for any loss of profit or any other commercial damages, including but not limited to special, incidental, consequential, or other damages.

Library of Congress Cataloging-in-Publication Data

Names: Laskin, Alexander V., author.

Title: Investor relations and financial communication : creating value through trust and understanding / Alexander V. Laskin.

Description: Hoboken, NJ : John Wiley & Sons, 2022. | Includes bibliographical references and index.

Identifiers: LCCN 2021024481 (print) | LCCN 2021024482 (ebook) | ISBN 9781119780458 (paperback) | ISBN 9781119780489 (pdf) | ISBN 9781119780472 (epub) | ISBN 9781119780496 (obook)

Subjects: LCSH: Corporations--Investor relations. | Financial services industry--Communication systems. | Corporations--Finance.

Classification: LCC HD2744 .L267 2022 (print) | LCC HD2744 (ebook) | DDC 659.2/85--dc23

LC record available at <https://lcn.loc.gov/2021024481>

LC ebook record available at <https://lcn.loc.gov/2021024482>

Cover image: © Nikada/Getty

Cover design by Wiley

Set in 9.5/12pt STIXTwoText by Integra Software Services, Pondicherry, India

Contents

[Cover](#)

[Title page](#)

[Copyright](#)

[Part I Profession](#)

[1 Introduction to Investor Relations and Financial Communication](#)

[2 Investor Relations and Financial Communication Industry](#)

[3 Stockholders and Stakeholders](#)

[Part II Disclosure](#)

[4 Communicating Financial Information](#)

[5 Communicating Nonfinancial Information](#)

[Part III Context](#)

[6 Legal and Regulatory Environment of Investor Relations and Financial Communication](#)

[7 Corporate Governance, Environmental Sustainability, and Social Responsibility](#)

[8 Shareholder Activism and Crisis Management](#)

[Part IV Work](#)

[9 Main Activities and Publications in Investor Relations and Financial Communication](#)

[10 Going Public and Going Private](#)

[11 Measurement and Evaluation of Investor Relations and Financial Communication](#)

[Part V Transformation](#)

[12 Globalization of the Financial Markets and Regional Distinctions](#)

[13 The Future of Investor Relations and Financial Communication](#)

[Bibliography](#)

[Index](#)

[End User License Agreement](#)

List of Illustrations

Chapter 1

[Figure 1.1 The oldest share: Stora Kopparberg original share, June 16, 1288...](#)

Chapter 2

[Figure 2.1 Monetary policy report. Source: Board of Governors of the Federal...](#)

Chapter 3

[Figure 3.1 EDGAR home page managed by the United States Securities...](#)

Chapter 4

[Figure 4.1 DuPont formula.](#)

Chapter 7

[Figure 7.1 Compensation to the Coca-Cola Board of Directors...](#)

[Figure 7.2 Coca-Cola 2020 Annual general meeting agenda....](#)

Chapter 8

[Figure 8.1 Reddit's 2021 Superbowl ad.](#)

Chapter 9

[Figure 9.1 Apple 2021 Annual meeting of shareholders...](#)

Chapter 10

[Figure 10.1 Facebook Form S-1. Source:...](#)

Chapter 11

[Figure 11.1 Levels of Evaluation model.](#)

Chapter 13

[Figure 13.1 SEC press release suspending trading in multiple...](#)

List of Tables

Chapter 4

[Table 4.1 Microsoft 2020 income statement.](#)

[Table 4.2 Microsoft 2020 balance sheets.](#)

[Table 4.3 Microsoft 2020 cash flows statements.](#)

[Table 4.4 Microsoft 2020 stockholders' equity statements.](#)

Chapter 5

[Table 5.1 The structure of Form 10-K, annual report.](#)

[Table 5.2 Classifications of intangibles and nonfinancials.](#)

Chapter 6

[Table 6.1 Dodd-Frank Wall Street Reform and Consumer Protection Act.](#)

Part I
Profession

1

Introduction to Investor Relations and Financial Communication

Definition

Many people rely on the stock markets and entrust their future to the efficiency of the investment system. Think about it: in the United States alone pension and retirement saving accounts constitute about US\$20 trillion in assets, with most of those assets being equities and bonds. Efficient markets require information in order to function properly - corporations disclose important details related to their operations and finances to ensure all market participants, from professional investors managing billions of dollars to a retired teacher in Iowa with a few hundred dollars invested, have the same access to the information they need to make an informed decision about their investments. Investor relations professionals are on mile one of this information highway, enabling timely and comprehensive disclosure in order to help all investors better understand the company's business and its value, and help investors better understand what they can expect from their investments in the future. In other words, the goal of investor relations becomes not just disclosure of information but educating investors and managing their expectations related to the accurate, or fair, value of the corporations.

The largest professional organization for investor relations, the National Investor Relations Institute (NIRI), proposes the following definition of investor relations: "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."

The key part of this definition is the fair valuation – this is what all investor relations activities should be targeted at according to the NIRI's definition. This focus on fairness is important. It means investor relations professionals, who are often referred to as IROs (investor relations officers), should be eager to disclose negative information as much as positive; information that can pull the stock price down as much as information that can push the stock price up. Indeed, if IROs focus only on positive updates and trying to hide or diminish the impact of negative developments, they may contribute to a phenomenon called *overvaluation*, which is when stock price is priced above its fair market level. The danger of overvaluation lies in overcorrection: if and when all information finally becomes available, market participants may overreact to the negative news as it would typically come as a surprise, as a leak, or as a discovery by a third party such as a business journalist or a financial analyst, and may send the stock price below even what would be the fair price. In addition, these events tend to undermine the credibility of the company, its management, and its investor relations department, compromising all future disclosures and putting the relationships between the company and the financial stakeholders at risk.

The concept of fair market valuation is based on the efficient market hypothesis, which defines an efficient market as "a market in which prices always 'fully reflect' available information" (Fama, 1970, p. 383). Such a market is in equilibrium: all securities are fairly priced, according to their risks and returns. No investors can consistently outperform, or beat, the market, and thus there is no

reason to constantly buy and sell shares of companies trying to outperform the average market return. The efficient market hypothesis, however, requires key assumptions to be met: all relevant information about the company and its performance is publicly available, all market participants have equal access to such information on a timely basis, and all investors are rational and capable of evaluating the information available to them.

Thus, investor relations, a function charged with providing information about the company to shareholders, financial analysts, and other market participants, is at the very foundation of the efficient markets. In fact, investor relations becomes a key activity not just for a particular company but for the whole modern economy. The survival of modern capitalism depends on how well IROs perform their task in ensuring equal access to information for various financial market participants. IROs are tasked with ensuring that the key assumptions of the efficient market hypothesis are met through extensive and timely disclosure of all relevant information pertaining to the company and its securities.

It is not enough for IROs just to disclose the information, however, for the share price to arrive at its fair value. Disclosure in itself may not be enough for a successful investor relations program. The efficient market hypothesis requires not just access to information but also understanding of the information and developing reasonable expectations based on such information. It is possible for somebody to have access to accurate information but still make incorrect conclusions based on it or have unreasonable expectations based on that information. A big part of an IRO's job is similar to the job of a teacher: IROs must educate investors, shareholders, financial analysts, business journalists, and others on what this information actually means for the company - what the

implications of the information are for the future of the company.

Today's businesses are complex structures making money on advanced technological developments, intangible reputational assets, and unique processes they develop over multiple years. For example, it may not be sufficient for the investor relations department of a pharmaceutical company to disclose information about the discovery of a novel chemical compound - for many in the investment community this information may not mean much. Instead, it may be important to explain what the potential of that chemical compound is - maybe it can lead to a new type of medication that will completely revolutionize how certain types of health conditions are treated. Without such in-depth knowledge of this discovery, it may be impossible to know how this compound may make extraordinary profits for the company in the future. Yet, it is important not to oversell and to talk about the challenges as well - how much time it may take before this discovery can become a marketable product, what are the potential roadblocks along the way, and what are the chances of success or failure. Again, people in the financial community, outside of the company, may not have a good understanding of all these details even if they have been disclosed to them. They require more than just an information dump; they require explanation and guidance in order to understand how this discovery can affect the business and value of the company. Thus, it is impossible for anybody to arrive at the fair value of a company without some help from the investor relations professionals doing their job of disclosing the information and educating the investment community.

When the definition talks about fair value, it talks about the fair value of the company's *securities*. So, what are securities? In the simplest terms, securities are tradable financial instruments. There are generally two types of

securities: equity and debt. Equity securities represent an ownership in a corporation stock. These are usually called shares of stock. People can buy shares in many publicly traded companies - for example, Microsoft, Tesla, or Snap - each share has a price that fluctuates based on all the information available about the company and the resultant supply and demand for the shares of this company. If somebody were to buy every single share of, for example, Tesla, they would own the whole company. Owning shares of companies makes you a shareholder - you become eligible to participate in shareholder meetings and vote on various issues around how the company is run, including the election of the Board of Directors. The more shares you have, the more votes you have. Not all shares are the same and not all give the same rights and privileges; in addition, corporations may introduce their own unique type of equity securities as well.

Debt securities do not represent ownership in a company - instead, it is just a debt, a loan that must be repaid. As a result, debt holders do not get to vote on issues related to how a company is run, but they get their money back as the loans are paid back by the borrower and usually with interest. Both of these types of securities, equity and debt, may be traded; for example, if a debt holder does not want to wait till the loan is due for repayment, they may sell their debt securities on the secondary market to somebody else.

The same is true for equity. However, shares do not have any repayment or expiration date - once you buy a share of a company, you have a share in the ownership of this company forever. If you decide at some point that you would rather part with your shares, you can sell them on the secondary market to somebody else. Although the corporation that originally issued those securities does not typically participate in these transactions on the secondary

market, it has a big effect on the price of its securities. Consider somebody who bought a share of Apple stock in 1990 when the shares were traded on a secondary market for about 30 cents. Today, the same share is worth about US\$120. Investing a few thousand dollars in Apple stock 30 years ago would have made a significant contribution to the investor's retirement account balance today. This increase in value is also good for a corporation: if a company decided to raise additional funds and sell more securities, it would be evaluated based on its current price not based on the 30-cent value from 30 years ago - it makes it easier for corporations to finance big projects.

NIRI's definition of investor relations also talks about the way the fair value is built - specifically, it talks about *two-way communication*. What makes communication "two-way"? When the company sends out a news release or posts information on its website, it communicates in a one-way fashion - from the company to the outside world. There is nothing wrong with one-way communication - it is an appropriate communication technique in many situations, but it has its drawbacks, and it does not work all the time. For example, the company may be disclosing torrents of information about cost-cutting measures and new business development ideas, but without feedback from shareholders the company cannot know if shareholders actually understand how these new business ideas affect the company's business model. This feedback becomes the return loop in the communication process and the communication becomes two-way communication.

In other words, in two-way communications both parties have a chance to speak and to be heard, and the information travels both ways - from the company to the stakeholders and from the stakeholders to the company. This puts an extra responsibility on the IROs - they are responsible not just for disclosure, or sending the messages

out, but also for listening. IROs must be not only the mouthpieces of their organizations, but also their ears and eyes. Two-way communication is an essential part of investor relations if the goal of investor relations is educating investors and others in the financial community on the value of the company - education calls for two-way communication and dialogue. Investors must have the opportunity to ask questions and ask for clarifications in order to improve their understanding; in fact, IROs should welcome these investor inquiries as they help IROs understand where investors stand and what their expectations of the company are.

But there is more to two-way communication than enhanced understanding. Ultimately, investors are the owners of the corporation and the company's management has a fiduciary duty to them, a duty to act in the best interest of the investors. Part of this process is for IROs to listen to investors and then to communicate the messages from the investors to the company's management. Indeed, if the company's management works for the shareholders, the management should know what shareholders think of their performance. It is the responsibility of IROs to collect this information and communicate it to the company's management. As a result, investor relations departments must focus on building two-way communication channels to enable dialogue between corporations and a financial community.

The definition of investor relations talks about various skills that IROs must possess in order to do their jobs successfully: finance, communication, marketing, and securities law compliance. In fact, it may sound like four different professionals should be doing this job! Indeed, as an IRO you have to be knowledgeable in all these four areas - you need to be an expert communicator, after all, two-way communication is a foundation of the profession as

we have just learned. But the topic of the communication often revolves around financial content – IROs’ communications are often financial communications – meaning communications about sales, profits, expenses, earnings before interest, taxes, depreciation, and amortization (EBIDTA), earnings per share (EPS), rate of return, and other financial terms. It may be challenging even for the best communicators to talk about subjects they know nothing about. So, understanding of accounting and financial concepts in investor relations is important. In addition, all these communications are occurring in a highly regulated environment – there are many rules on what information must be communicated, when it must be communicated, and what channels must be used to communicate it. There are rules against selective disclosure and against trading on privileged information. All these rules require IROs to be knowledgeable about laws and regulations governing the securities markets and make IROs agents of enforcement of these regulations. Investor relations is also part marketing. Investor relations professionals are expected to engage in and build relationships with the financial community – identify investors who may be a proper target for the company’s stock, increase the coverage of the company by the financial analysts, and even promote stock to retail shareholders.

As a result, it is quite common for IROs to have multiple educational degrees. A study that analyzed educational backgrounds of IROs at Fortune-500 companies found that almost 60% of IROs had a second, graduate-level degree. It is not uncommon that if an IRO’s first degree is communication-based, they would earn a second degree in finance or accounting to complement their communications expertise; in some cases, maybe even a law degree. If an IRO has an undergraduate finance or accounting degree,

however, then they may complement it with graduate studies in communication or marketing. In addition, NIRI has a variety of professional development opportunities available for its members to enhance their knowledge and skills.

The two remaining terms in the definition of investor relations are “strategic” and “management.” The strategic part of investor relations refers to the proactive nature of the profession. Investor relations is not just reacting in response to the outside world – to the request for information from shareholders, for example. Instead, IROs set goals and objectives, and develop a plan for how to reach these goals. For some companies, IROs may set a goal to increase the financial analyst coverage of the company stock and they would work proactively to identify financial analysts who cover similar companies or companies in the same industry and reach out to them to generate interest. In another case, IROs may set a goal of influencing the company’s shareholders mix – for example, they may try to increase the number of retail shareholders, and would develop a plan for how to achieve this target.

Of course, these investor relations goals and objectives must benefit the company as a whole – all these decisions are rooted in the overall corporate strategic vision. This makes it essential for IROs to be part of the top management and to have a seat at the proverbial table where the top-level discussions are happening. This is where the term “management” comes from. IROs are part of the top management team of a company. It would be virtually impossible to be successful as an IRO without having access to the executive *C-suite*, also called the *dominant coalition* – people who run the company. It is important for IROs to be well versed in short- and long-term corporate strategy in order to be able to educate investors on the short- and long-term corporate value. It is

also important for IROs to be able to relay investor feedback to the C-suite directly and in a timely fashion. All this makes access to the C-suite a must. There is also another way to look at the concept of management responsibility in the definition of investor relations. The term management also means a certain autonomy and ability to control its own domain. IROs are recognized as having an expertise in the investor relations tasks and thus they have a certain autonomy over managing these tasks. They have an autonomy over how to better communicate with financial analysts or how to better relay negative news to the market, for example. This expertise is recognized and appreciated. This autonomy is not absolute - almost every task in a corporate world is done within a team. The same is true for many investor relations processes - the legal team, treasury, accounting, marketing, public relations, and other departments often get involved - but each is recognized as having their unique perspective and their unique expertise.

This is the meaning of NIRI's definition of investor relations. It is, of course, not the only professional organization and it is not the only definition. For example, *IR Society*, the professional organization for investor relations in the UK, has a slightly different definition: "Investor relations is the communication of information and insight between a company and the investment community. This process enables a full appreciation of the company's business activities, strategy and prospects and allows the market to make an informed judgement about the fair value and appropriate ownership of a company." It is easy to see the parallels between these definitions - fair value is the key goal in both of these definitions. And this fair value is achieved through full appreciation or understanding of the company and what it does. The main process, the main activity of investor relations is communication between a

company and the investment community. So, both definitions, although they use different words, basically talk about the same concepts.

These definitions are not set in stone - they evolve with changes in society. For example, several books on investor relations from the 1990s define investor relations as aimed at increasing the share price instead of aimed at fair value. Even the definition of investor relations that NIRI used in the 1990s calls it a marketing function aimed at creating a positive impact on the company's value. Thus, to better understand the profession it is important to take a glance at its history.

History

Financial communication, as a function of communicating financial information, has existed since the emergence of finance - if there was money, it was important to communicate about it. In fact, one of the oldest surviving documents of human civilization, The Code of Hammurabi, a Babylonian code of laws of ancient Mesopotamia, dating back to about 1745 bce, has references to such key concepts of financial communication as minimum wage, interest rates, contractual obligations, and inheritance rules.

Investor relations, however, developed later as it is inextricably connected with the separation of ownership and management. In the past, when blacksmiths or other craftsmen conducted their business they did not need to communicate their financial information or build relationships with investors because they financed themselves. They were investors, managers, and employees of their enterprises. As the industries progressed, they started hiring more employees, but the original investors

were typically the managers themselves. There was still no separation between ownership and management.

At some point, instead of one manager, it became more common to see a family - fathers, sons, uncles, mothers, daughters, aunts, and so on - as investors and managers of family businesses, which started to replace singular craftsmen. But still family relations were used instead of investor relations in such family enterprises. Finally, the demands of the human enterprises became larger than one person or even one family could satisfy. It required pulling resources together from many different individuals. It was the time for many people to come together and contribute a share of resources to the overall organization - hence the birth of a shareholding company.

It is fitting that the first shareholding company is alleged to be a mining operation. Extracting resources from the earth is a massive undertaking that indeed requires efforts and resources of many people to come together. The copper mine in the Swedish town of Falun is believed to have been operational since the year 1000 based on archeological studies in the area (Rydberg, 1979). However, the first official document of the Stora Kopparberg Bergslags Aktiebolag, a corporation responsible for mining the Falun mine, dates back to June 16, 1288, when 12.5% of Stora Kopparberg shares were sold ([Figure 1.1](#)). Thus, we can say that the history of shareholding companies dates back to the thirteenth century.



Figure 1.1 The oldest share: Stora Kopparberg original share, June 16, 1288. Source: Archives of Sweden.

In 1347, as the largest copper supplier in Europe, the company was granted a charter by King Magnus Eriksson “setting up a corporation of master miners” (Anon., 1963, p. 98). The company is still in operation today with 2019 sales of over €10.1 billion. It is still a shareholding company with shares traded at the Stockholm and Helsinki stock exchanges. It employs about 26,000 people in 30 countries and its focus has shifted from copper to “renewable solutions in packaging, biomaterials, wooden

constructions and paper on global markets” (Stora Enso, n.d.).

Although Stora Kopparberg is the first example of a shareholding corporation, initially it was not a publicly traded company. In other words, not anyone could purchase a share in Stora Kopparberg. In fact, the shares were reserved for either professional miners or noble people of the area - people whose contributions were essential for the mine to operate. On the other hand, the first publicly traded company, where shares could be purchased by anybody who was willing to pay the price, is believed to be the Dutch East India Company. The company, founded in 1602 for the primary purpose of trading between Asia and Europe, is claimed to be not just the first publicly traded company, but also the first multinational corporation. The first publicly traded company also required the first stock exchange: “The Amsterdam bourse was founded in September 1602 within six months of the company’s formation [Dutch East India Company] and was an integral component to its success” (Chambers, 2006, p. 1).

The revolutionary idea of opening company ownership to the people allowed the company to bring in more than 6 million guilders, with share price jumping about 15% in initial trading, and a subsequent increase of 300% over the next 20 years. As a result, the Dutch East India Company was able to finance its growth to unprecedented heights: “50,000 civilian employees, with a private army of 40 warships, 20,000 sailors and 10,000 soldiers and a mind blowing dividend flow... With a market for its stocks and bonds, the Dutch East India Company became probably the most powerful business in the history of the world” (Chambers, 2006, p. 1).

In the United States, investments in the securities of companies became popular at the end of the nineteenth

and beginning of the twentieth centuries. Macey and Miller (1991) explain this development as being a result of a variety of factors happening at the same time:

The growth of large industries such as railroads and heavy manufacturing stimulated unprecedented demands for capital. At the same time, increases in wealth among the middle classes created a new source of capital that could be tapped effectively by means of public securities issuance. Developments in transportation and communication technology made widespread promotion and distribution of securities practicable. Realizing the potential purchasing power of the rising middle class, bond issuers began to offer securities in denominations of \$100 instead of the traditional denominations of \$1,000 or even \$10,000. A surge of new investment followed.

(pp. 352-353)

In addition to traditional blue chips, shares in large and well-known corporations, many speculative securities appeared that promised get-rich-quick opportunities: gold mines or oil companies - usually something distant and at the very early stages of development. "The speculative securities in the early 1900s were typically equity securities issued by mining and petroleum companies, land development schemes (such as irrigation and tract housing projects), and patent development promotions" (Macey & Miller, 1991, p. 353). Many investors lost money in these schemes. The securities markets at the time had a severe informational problem - it was difficult, if not impossible, to verify the claims made about the securities, especially if the shares were part of a distant gold mine in the Wild West.

These speculative securities were also promoted and sold outside of normal distribution channels - often by door-to-

door salesmen and in other face-to-face solicitations. The securities salesmen were also among the first ones to utilize mailing lists – which traditional brokers referred to as “sucker lists” – where securities were hyped beyond any measure: “one-third of which [letter] is devoted to an extravagant flattery of the intelligence of the recipient, and the remaining two-thirds to the extolling of the excellent merits of the Gold Hammer Mines and Tunnel Company, from the investment standpoint; after which this most valuable stock is offered at the amazingly low price of seven and one-half cents a share” (as cited in Macey & Miller, 1991, p. 354).

As a result, thousands and millions of dollars were lost to fraud: “pure fake” and “near fake” enterprises. Other enterprises may have been legitimate and not an outright fraud, but too overhyped, too risky, and too speculative. The end result for investors was the same – loss of money. Investors could not rely on the truthfulness of statements made in connection with securities transactions and that put the whole securities market in jeopardy. A banking journal at the start of the twentieth century wrote, “So many people have lost their money on ‘fake’ investments that they seem to be incapable of distinguishing the false from the genuine, and hence are distrustful of all” (as cited in Macey & Miller, 1991, p. 394).

These developments required Kansas in 1911 to enact legislation to protect its citizens from these con artists. As Kansas Banking Commissioner J. N. Dolley explained, these fakers were duping unwitting investors by selling worthless interests in fly-by-night companies and gold mines along the back roads of Kansas. Yet, no actual assets backed up these securities; nothing but the blue skies of Kansas (Gelber, 2013). The first actual usage of the term *blue sky* dates back to June 5, 1895, when an article in the Colorado newspaper, the *Castle Rock Journal*, said: “When a

promoter by artful persuasion succeeds in getting money for something which has no value except in the mind of the credulous purchaser he is said to have been selling 'blue sky'" (Gelber, 2013). As a result, these types of securities were called blue sky and hot air securities (Wooldridge, 1906), and later just blue sky securities.

Soon after Kansas, other states followed with their own regulations and, as a result, a network of comprehensive securities legislations developed at the state level. These state laws are commonly referred to as blue sky laws:

The name that is given to the law indicates the evil at which it is aimed, that is, to use the language of a cited case, "speculative schemes which have no more basis than so many feet of 'blue sky'"; or, as stated by counsel in another case, "to stop the sale of stock in fly-by-night concerns, visionary oil wells, distant gold mines and other like fraudulent exploitations."

(Hall v. Geiger-Jones Co., 1917, p. 539)

These laws created the first requirements for disclosure and securities registration. The issuers were required to file periodic reports of financial conditions of the company; before selling the securities in a state, the company was required to provide a business plan and a copy of the securities offered for sale. The state had the right to ban the company from doing business in the state if it did not "promise a fair return on the stocks, bonds or other securities" (as cited in Macey & Miller, 1991, p. 361).

So, as a result, the first type of securities regulations that could have started the development of investor relations and financial communication in the United States, blue sky laws, were created as

a means to thwart the schemes of a class of people who were denigrated repeatedly as fly-by-night operators, fraudulent promoters, robbers, cancers, vultures, swindlers, grafters, crooks, gold-brick men, fakirs, parasites, confidence men, bunco artists, get-rich-quick Wallingfords, and so on. Against this class of bad operators was counterpoised a class of victims, usually portrayed as innocent, weak minded, vacillating, foolish, or guileless, and usually cast in the roles of widows, orphans, farmers, little idiots or working people.

(Macey & Miller, 1991, p. 389)

The legislation was needed not just for their protection, however. In fact, “if consumers could not discover accurate information about the quality of securities offered for sale, a loss of confidence in securities markets generally might result” (p. 394). It was needed for the protection of society as a whole. “The functioning of capital markets in facilitating capital formation would be severely impaired, to the detriment of issuers, buyers, and the economy at large” (Macey & Miller, 1991, p. 390).

Blue sky laws were not universally praised, however. Some issuers had concerns regarding how these laws could affect their ability to raise capital and the extra burden the regulations imposed on them. But probably the biggest opponent of blue sky laws was the Investment Bankers Association (IBA). IBA saw these laws as an attempt to keep money within state borders and prevent, or at least impede, inter-state security trade – and perhaps not without reason. One of the local Louisianan financial professionals was quoted as saying: “the sooner we learn the lesson of keeping our money at home and patronizing home industry, instead of putting it into the hands of the New York Stock Exchange speculators and gamblers, the better it will be

for our State and the South” (as cited in Macey & Miller, 1991, p. 361).

World War I and the Great Depression slowed down the development of financial markets as well as investor relations and financial communications. However, the most important federal regulations appeared at that time, in large part in response to the stock market crash of 1929 – the Securities Act of 1933 and the Securities Exchange Act of 1934. These laws paved the way for professionalization of investor relations and continue to influence the practice of financial communications today.

The history of the professional period of investor relations and financial communication begins after the end of the World War II. The professional period saw the creation of professional associations, the appearance of the titles of investor relations officers, vice-presidents, and specialists, the arrival of big and small financial communication agencies, and the advent of stand-alone corporate investor relations departments. This period can be divided into three historical eras: the *communication era*, when investor relations and the financial communication landscape were dominated by people with communication backgrounds; the *financial era*, when the pendulum swung the other way and the field became dominated by professionals with financial and accounting degrees; and, finally, the current era, the *synergy era*, where the industry is looking for the balance between communication and financial fields of expertise.

Communication Era

The communication era of investor relations was characterized by the domination of strategic communication, public relations, marketing, and other communication professionals in performing the duties of IROs. Thus, this era is labeled the *communication era*.

The earliest mention of the investor relations function is traced back to Ralph Cordiner, a chairman of General Electric, who in 1953 created a department in charge of all shareholder communications. The first consulting agencies also began offering investor relations services. Most of the investor relations work focused on putting the word about organizations out and on attracting attention to the stock – perhaps not that different from the exploits of P. T. Barnum. Silver (2004) recalls that in its early years, investor relations was often associated “with the so-called dog and pony shows for sell-side analysts and retail investors, usually held at the offices of securities brokerages” (p. 70).

These developments were a response to the post-World War II economic boom that generated wealth for private Americans and at the same time encouraged business growth in order to satisfy the constantly growing needs of consumers. The corporations needed money to grow and develop; people needed a way to invest surplus income. In this situation, the meeting of the two worlds was inevitable.

Among the first corporations to strategically target private shareholders–consumers were car companies, such as Ford, GM, and Chrysler. It was no surprise that car companies figured out that if you give at least one share to a person who buys a car that person would never buy a competitor’s vehicle from that point on, and vice versa! Product marketing, as a result, merged with stock marketing. Increasing the demand for stock became an important part of the corporate agenda: “Occupants of the executive suites were quick to see, that all of this demand for stock was helping to push prices up and up. This helped immensely to finance growth, enhance empires” (Morrill, 1995). The companies accustomed to competing on the product market brought similar tactics to their competition on the financial markets. Thus, the investor relations function was charged with the task of grabbing investors’

attention and selling them the company in fierce competition with other corporations.

This was, however, a new experience for many corporations, a competition they were not prepared for. And, thus, most corporations looked outside for help. Unfortunately for them, investor relations agencies did not exist yet. In this vacuum of investor relations expertise, someone had to fill the void. Morrill (2007) explains that in this situation management turned to the recognized experts in communication - public relations and marketing: investor relations was often viewed as an extension of the public relations function.

In the 1950s, however, public relations was not a well-established practice itself. Only the largest companies had internal public relations staff and the functions and roles of public relations were quite limited. Cutlip (1994) suggests that in the first half of the twentieth century many viewed public relations as a simple adjunct to advertising to stimulate better sales. In addition, the end of World War II and the booming economy left little time for public relations, which was sliding to the bottom of the priority list. In fact, "many companies were undergoing radical change, often in the form of mergers and acquisitions, with new businesses and new executive personnel appearing on the scene. In these fluid situations, public relations often fell to the person nearest at hand" (Morrill, 1995). In other words, when corporations turned to public relations to manage investor relations, public relations was not yet ready to take on this challenge.

As a result, the new and not-well-established public relations function was suddenly charged with the additional duties of the investor relations job - a job for which most practitioners on the corporate or agency sides were not qualified. So, they approached this new task in the same

way they approached other public relations tasks - relying on press agency and publicity:

In concrete terms, shareholder relations became transformed into publicity, promotion and pageants... The annual reports suddenly blossomed as a 48-page, glossy sales brochure for the company's products. The financial were there, mandatorily, but the sell was in the sizzle, not the steak... The annual meeting became a huge, gala free-for-all. A large eastern railroad put together a special train for stockholders and carried them first class to a company-owned hotel in the southern Appalachians for the meeting... An international telecommunications company held a large gathering under two large tents in central New Jersey. A bountiful lunch was served, and there were several open bars. Members of the press were delivered in limousines from New York and returned the same way. Products were richly displayed. The chairman, himself a noted gourmet and bon vivant, addressed the gathering. Reactions were enthusiastic - but absolutely nothing of substance was done... Companies made gifts or gift boxes of products available to shareholders, sometimes free. Liquor companies also provided their products under advantageous purchase agreements... The way companies treated their shareholders resembled more entertaining a blind date [rather] than developing a relationship.

(Morrill, 1995)

In addition, public relations practitioners who suddenly found themselves in charge of investor relations often "had little or no understanding of finance or of financial markets" (Morrill, 1995); they did not understand how the markets work and who the players are. The public relations practitioners were not ready to manage investor relations: