The Evaluation of the Communication of the Romanian Listed Companies with the Investors

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Abstract

Investor relations and financial communication are an ongoing challenge for a company's governance. Good communication and a close relationship with the investors contribute to strengthening the company's image and confidence of all stakeholders. Research on this topic has identified the requirements underlying the effective communication of companies, namely the existence of a department on investor relations, communication strategy, practices used, the content of the communication and its effects. The purpose of the paper is to make an assessment of the level of communication registered by the Romanian companies listed on the main market at the Bucharest Stock Exchange, starting from the assessment made by the Romanian Investor Relations Association in correlation with factors that may influence communication, respectively the trading category in which the company is listed, profitability, dividends paid, form of ownership of the majority shareholder, existence of non-financial reporting. From the proposed econometric model, it resulted that all the variables tested influence the level of communication, of which the trading category and the existence of non-financial reporting are most closely related. The level of communication with investors of Romanian companies is still low, but it has an upward evolution over time, so that at the next evaluation it will be possible to ascertain the amplitude of this evolution and other influencing factors will be identified.

***Keywords:** investor relations, financial communication, performance, governance, evaluation*

***JEL Classification:** D83, G30, M14*

Introduction

Financial communication (CF) is a closely related area of corporate governance. The governance structure is adapted according to the size of the companies, as well as the number and structure of shareholders. Thus, listed companies are required by law to approve and publicly communicate their own governance codes. Good governance and good communication about a company's situation with all stakeholders leads to maintaining and increasing its reputation.

Investor relations (IR) involve complex activities that are based on several main issues, namely legal, financial and communication (Hoffman, 2018) that lead to more efficient communication in both directions, between the company and stakeholders, as states the National Investor Relations Institute of the United States of America (2003).

The importance of good communication by listed companies is based on the governance rules imposed on listed companies, internationally, as well as in Romania. In order to assess the level of communication and the compliance of the companies listed with the governance codes, the stock exchanges have developed practical guides and measured the level of communication through their own departments or turned to various organizations for this activity (Guan et al., 2016). Thus, in Romania, starting with 2019, Bucharest Stock Exchange (BVB) collaborated with the Romanian Investor Relations Association (ARIR) to evaluate the practices of communication with investors and compliance with the Corporate Governance Code of BVB.

Research on investor relations and financial communication is interdisciplinary in nature and has focused on topics in several areas: crisis management (Sisco, 2017) and strategic management (Kohler and Hoffmann, 2017); from legal sciences (Remun and Kuttis, 2017); in finance (Whitehouse, 2017) and in communication sciences (Laskin, 2017). In addition to the main areas, topics from other areas were treated, such as: from philosophy was addressed the role of argumentation in financial communication and investor relations (Palmieri, 2017) and the importance of ethics in communication (Bowen et al., 2017; Venette and Iverson, 2017), and from political science has studies aspects of democracy (Duhe, 2017) and shareholder activism (Chandler, 2017; Uysal, 2017).

The paper aims to evaluate the communication with investors by companies listed on the BSE and to identify what may be the main factors influencing the communication. In order to highlight the correlation between the communication indicator and the factors that influence it, an econometric model was built in which the following variables were included: the trading category in which the company is listed, profitability, dividend paid, majority shareholder ownership and existence non-financial reporting. The selected sample included the companies listed on the BSE on the main market and consisted of 78 companies, for which the evaluations performed by ARIR published in January 2020 were taken into account, as well as the financial information for the year ended December 31, 2018.

The contribution of the research to the literature consists in analyzing the available data on the level of communication and the degree of transparency of information published by companies listed on the BVB, which can be a source of data for comparability with the situation of companies listed on international markets.

The paper is structured as follows: the next section contains a synthesis of the relevant literature on investor relations and financial communication, followed by the second section, which describes the research methodology. The third section presents the research results based on statistical interpretations, and the last section includes the conclusions, the limits of the study and the future directions of research.

1. Literature review and regulatory framework

1.1. Literature review

Investor relations have a high degree of complexity, which has led to interdisciplinary research in several areas, namely finance, law, marketing, financial reporting and communication. Hoffmann et al (2018) conducted a review of international research on investor relations, published between 1990 and 2016, based on a selection in international databases by keywords *investor relations* and *financial communication*. The study showed that the number of published researches increased after 2009, after the onset of the financial crisis, and as areas of study most publications fell into the field *Business and management*, followed by the field *Communication* and *Accounting*. As research

methods, the most used was questionnaire-based research, followed by content analysis and experiments. The authors concluded that investor relations research is based on 5 components: (1) the organizational structure, i.e. the existence of an investor relations department, (2) the communication strategy, (3) the tools used, (4) the content of the communication and (5) its effects.

The existence of a department specialized in communicating with investors is necessary because the people within it can deal more intensely with the relationship with investors by constantly informing them about the activity of companies (Dindire, 2010). This department must work with the finance department to provide credible data to investors.

The communication strategy of a company is very important, its publication brings added value to shareholders, and the synergy between communication and financial elements of investor relations is necessary (Laskin, 2014).

The practices used in the relationship with the investors refer mostly to the accounting tools provided and consist of financial and non-financial reporting (Laskin, 2014). In addition to these tools, information is published on companies' websites and press releases are sent.

The content of the communications is closely linked to the instruments used, so that most of the information is taken from the accounting and the aim was to comply with the reporting of the regulations, as well as the voluntary reporting of non-financial information (Gelb and Strawser, 2001). Companies 'reporting practices are evaluated by capital market institutions in order to establish the degree of information transparency and voluntary compliance with capital market requirements (Doan and McKie, 2017), as well as for the development of sustainable financial markets and data to be can be used to conduct comparative studies between countries (Dumitru et al., 2017).

The effects of effective communication are reflected in increasing the visibility and liquidity of companies and in the profitability of the capital market (Adamska and Dabrowski, 2016), as well as their good reputation (Gackowski, 2017).

1.2. Regulatory framework for investor relations and financial communication assessment tools in Romania

The communication of financial information implies a high responsibility of companies, especially those listed on the financial markets. Thus, in order to limit the spread of the fake news about the activity of companies and their negative effects on investors, the European Union (2014) issued *Regulation no. 596*, which regulated the conditions of market abuse. In conjunction with this regulation, in Romania the Parliament (2014) adopted *Law no. 24*, which provides the legal framework for transactions in financial instruments on a regulated market.

Based on the mentioned law, The Romanian Financial Supervisory Authority (FSA) issued in 2018 *Regulation no. 5* establishing the conditions for its application. Regarding the communication aspects, the regulation provides the forms of regular and continuous information that issuers of securities must publish. Regarding the regular information, the regulation provides the obligation to publish annual, half-yearly and quarterly reports. Regarding the continuous information, there are 3 directions: (1) reporting the major holdings of the shareholders and their evolution, (2) continuous reporting containing reports on: inside information directly related to the company's activity; related party transactions in securities in excess of EUR 50,000, as well as additional reports requested from financial auditors and (3) information for holders of securities relating to general meetings of shareholders.

In recent years, BVB has been involved in evaluating the communication of issuers listed on the main market and launched "The Whitebook on Communication of Listed Companies", a measurement that was made during 3 editions in period 2016-2017. This referred to quarterly analyzes of the websites and e-mail communications of the companies listed on the main market, and at the end the results were included in a report that was made public.

In 2019, ARIR took over from BVB the previous evaluation, based on which it created the indicator of communication with investors for listed companies, called *Vektor*, based on a methodology for evaluating investor relations, in which 15 grouped criteria were selected. on six categories, giving each criterion a maximum score.

2. Research methodology

The research methodology consists in the analysis of the results of the evaluation of the communication with investors by the listed companies, performed by ARIR,

using logical and comparative analysis. The sample includes 78 companies listed on the main market at BVB that were evaluated by ARIR, and the data sources were represented by the financial and non-financial reports for 2018 of the listed companies and the information provided by ARIR on its website.

Based on the selected indicators, an econometric model was tested on the correlation between the value of the *Vektor* indicator and the possible factors influencing the level of communication with investors, using a linear regression.

3. Results

According to the information published by ARIR, a number of 8 companies (including BVB) and 3 individuals have joined this organization and it was established in November 2018 in order to offer current and potential issuers a platform for the development of professionals in relation to investors and to contribute to the implementation of best practices in investor communication. Since its establishment, the organization has 8 more associate members and 2 affiliate members. In December 2019, ARIR performed the qualitative evaluation of the criteria mentioned in **Table no. 1**, based on public information on the websites of the analyzed companies, and the results

obtained were published in January 2020 and re-evaluated at the beginning of March 2020.

Table no. 1. Grouping evaluation criteria by categories	
Categories	**Scores**
Investor relations office governance	1,5
Corporate governance disclosure	1,5
Engaging investor relations approach	3,0
Interactive investor relations tools	3,0
Analyst coverage	0,5
Non-financial reporting	0,5
Total	**10,0**

Source: Author's work, based on ARIR data, 2020

From **Table no. 1** notes that particular emphasis was placed on criteria for promoting pro and interactive investor practices (60%), followed by criteria for the existence of an investor relations office and the presentation of corporate governance information (30%), and a lower share was given to the criteria for conducting financial analyzes and non-financial reporting (10%). The results of the evaluation are presented in *Figure no. 1*, where it is found that only 4 companies obtained a maximum score, and 10 companies had a minimum score, which negatively influences the average of the Vektor indicator.

Figure no. 1. Evaluation results – Vektor indicator
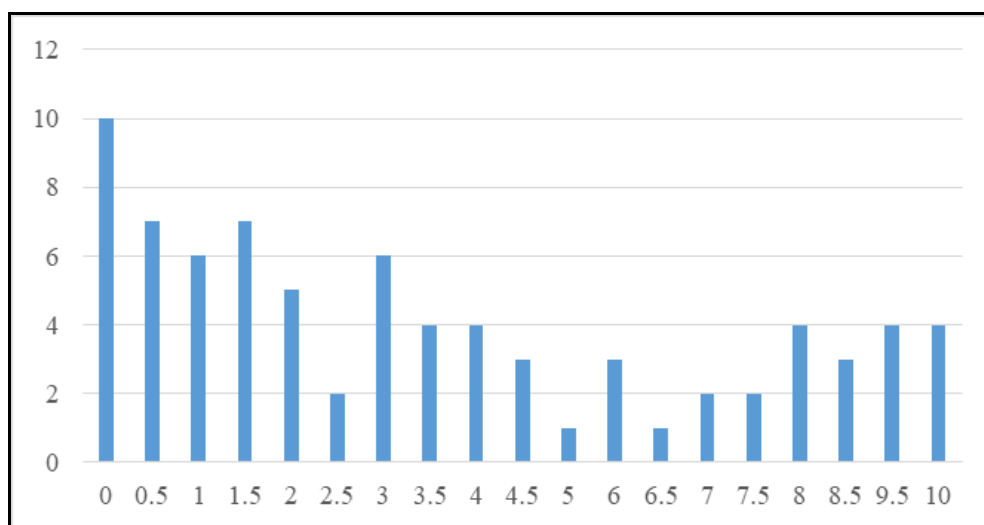
Source: Author's work, based on ARIR data, 2020

The question is what would be the main factors influencing communication with investors, which of them would lead to better communication. In order to answer this question, financial and non-financial indicators were selected, the summary of which is presented in **Table no. 2**. The table shows that only 31% of the companies had a score higher than 5 (with an average of 8.08), while 69% of the companies registered a score lower than 5, with an average of 1 82.

An important indicator is the trading category to which the company belongs, i.e. whether it is a liquid company in the Premium or International category or a company that is included in the Standard category. If we analyze this criterion, we notice that 74% of companies in the Premium or International category were evaluated with a score higher than 5, and in the Standard category only 8.5% of companies recorded a value greater than 5.

Another indicator analyzed was profitability, of the profitable companies one third were rated over 5, but over 90% of them fall into the Premium category. The indicator that reflects the dividends paid is closely correlated with profitability, so among the companies that paid dividends, 44% recorded a score higher than 5.

The obligation to prepare non-financial reports is closely linked to the number of employees. Thus, according to the European Directive no. 95/2014 companies with more than 500 employees are required to publish non-financial reports. Therefore, a quarter of the companies analyzed had this obligation, most of which were valued at more than 5. Given that the number of non-financial reporting is higher than the number of companies with more than 500 employees, it was found that voluntary reporting was also done, which is to be appreciated, so that more than half of the companies that reported non-financial information scored greater than 5.

Table no. 2. Indicators analyzed

Val	Aver.	Total	Category		Profitability		Dividends		Non-fin rep		No. employees	
			Pr/Int	Stand	Yes	No	Yes	No	Yes	No	< 500	≥ 500
≥ 5	8,08	24	20	4	22	2	19	5	19	5	13	11
< 5	1,82	54	7	47	41	13	24	30	15	39	45	9
	Total	**78**	**27**	**51**	**63**	**15**	**43**	**35**	**34**	**44**	**58**	**20**

Source: Author's work, 2020

Another indicator considered was the form of ownership of the majority shareholder, because the shareholder is the one who decides on the company and it is known that there are differences in the management and administration of the business depending on the behavior of the shareholders. From **Table no. 3** shows that 74.40% of companies are owned by individuals and private companies, followed by companies owned by financial investment companies in proportion of 11.50%, those owned by state with 10.25% and those held by employee associations following privatization processes

in a percentage of 3.85%. It was observed on each type of majority shareholder that, state-owned companies had better ratings than the other types in proportion of 75%, while private companies only 30% were rated with over 5 points. The companies owned by the investment companies, as well as those of the employees' associations, registered poor results. One of their motivations would be that the decision-making power being massively concentrated, they did not consider it appropriate to communicate publicly with the majority shareholders or other interested parties.

Table no. 3. Forms of organization of the majority shareholder

Type of shareholders	Code	No. of comp.	From which, Vektor value	
			≥ 5	< 5
State	1	8	6	2
Investment companies	2	9	1	8
Private	3	58	17	41
Employees' association	4	3	0	3
Total		**78**	**24**	**54**

Source: Author's work, 2020

From the correlation of the information from **Tables no. 2** and **no. 3** results the profile of the companies that registered acceptable valuations, these being mainly from the Premium category, obtained profit, paid dividends, prepared non-financial reports and three quarters of them had private capital.

Therefore, in order to highlight statistically which are the main factors that reflect the correlation between the dependent variable – the value of the Vektor indicator and the independent variables represented by the characteristics of the companies presented in **Tables 1, 2** and **3**, an econometric model will be tested by a linear regression equation multifactorial, based on the following formula:

$$V = \alpha_{it} + \beta_1 C + \beta_2 P + \beta_3 D + \beta_4 A + \beta_5 N + \varepsilon_{it} \qquad (1)$$

In order to determine the explanatory power of the proposed model, the testing of the hypothesis will be performed by several models in which all independent variables will be included, as well as testing only with variables whose statistical significance will be more relevant.

In **Table no. 4** is presented the description of the indicators.

Table no. 4. Description of variables	
Variable	**Description**
Vektor (V)	0 to 10 according to the ARIR methodology
Trading Category (C)	1 – if it is included in the Premium or International category 0 – if it is included in the Standard category
Profitability (P)	1 – if the company recorded profit 0 – if the company recorded losses
Dividends (D)	1 – if the company pay dividends 0 – if the company not pay dividends
Majority shareholders (S)	1 – if the majority shareholder is the state 2 – if the majority shareholder is an investment company 3 – if the majority shareholder is private (individuals and private companies) 4 – if the majority shareholder is the employees' association
Non-financial reports (N)	1 – if the company has prepared non-financial reports 0 – if the company has not prepared non-financial reports

Source: Author's work, 2020

The descriptive statistics of the analyzed indicators are presented in **Table no. 5**, which shows that the dependent variable Vektor has an average value of 3.72, a low value, which is due to the fact that a large number of companies did not obtain a score greater than or equal to 5 and 69%, respectively, according to data from Table no. 2. The average score of the companies listed in the Premium category is 7.34, which shows that the companies of this category are concerned to have a better relationship with investors.

Table no. 5. Descriptive statistics			
Variables	**Average**	**Standard error**	**Standard deviation**
V	3.7244	0.3698	3.2660
C	0.3462	0.0542	0.4788
P	0.8077	0.0449	0.3967
D	0.5513	0.0567	0.5006
S	2.7179	0.0793	0.7006
N	0.4359	0.0565	0.4991

Source: Author's work, 2020

For the variables that were evaluated with values of 1 or 0, it is observed that out of the total number of observations, of 78 companies, a share of 35% of them falls into the Premium or International category, and 65% into the Standard category. Also, in proportion of 81% the companies registered profit in 2018, but only 55% paid dividends from the profit obtained. Regarding the preparation of non-financial reports. 44% of companies made public these reports, which influenced the obtaining of a higher score.

Regarding the indicator of the form of ownership of the majority shareholder, it is observed that the largest share is held by the private sector, confirmed by the coefficient 2.72, close to 3, but also due to the fact that

the state is the majority shareholder only in a proportion of 10% of the analyzed companies.

The correlation between the 6 variables analyzed is presented in **Table no. 6**, which shows that the dependent variable *Vektor* (V) is in a close positive correlation with the *trading category* (0.73) and *non-financial reporting* (0.54) and in a moderate correlation with *dividends* (0.41) and *profitability* (0.31).

Among the independent variables, the most relevant positive correlations identified are between *profitability* and *dividends* (0.54), which is a logical correlation, but also between the *trading category* and *non-financial reporting* (0.34) and *dividends* (0.33).

Table no. 6. Correlation matrix

	V	C	P	D	S	N
V	1					
C	0.7345	1.0000				
P	0.3094	0.2183	1.0000			
D	0.4079	0.3313	0.5408	1.0000		
S	-0.2274	-0.2085	-0.0575	-0.1804	1.0000	
N	0.5368	0.3386	0.2321	0.2732	-0.1638	1

Source: Author's work, 2020

The econometric model was tested with all independent variables, and in **Table no. 7** the regression results are presented.

Table no. 7. Results of regression for Model 1

Regression Statistics	
Multiple R	0.9203
R Square	0.8469
Adjusted R Square	0.8248
Standard Error	1.9979
Observation	78

ANOVA

	df	SS	MS	F	Significance F
Regression	5	1611.8602	322.3720	80.76	0.0000
Residual	73	291.3898	3.9916		
Total	78	1903.25			

	Coefficient	Statistical error	t Stat	P-value
Intercept	0	#N/A	#N/A	#N/A
C	4.0680	0.5223	7.7886	0.0000
P	0.7203	0.6590	1.0930	0.2780
D	0.6758	0.5657	1.1946	0.2361
S	0.1603	0.1617	0.9910	0.3250
N	2.0036	0.4916	4.0760	0.0001

Source: Author's work, 2020

From **Table no. 7** results that there is a significant link between the variables, respectively the modification of the independent variables influences in a proportion of 85% the modification of the dependent variable. The model is validated only for variables C and N, concluding that the Vektor indicator can be influenced only by these variables.

In order to verify the dependence between variables, models with 3 independent variables were tested, in which the 2 validated variables from Model 1 (C and N) were kept, to which are added variable one by one, that

was not statistically validated, respectively those that have had subunit regression coefficients.

Next, in Model 2, the variable P is added to the two validated variables. The statistical processing showed that the change of the three variables influences in a proportion of 84% the change of the dependent variable, and Multiple R shows a very strong link between them (**Table no. 8**), so considering the increase of statistical coefficients compared of Model 1, it can be considered validated.

Table no. 8. Results of regression for Model 2

Regression Statistics

Multiple R	0.9178
R Square	0.8423
Adjusted R Square	0.8248
Standard Error	2.0004
Observation	78

ANOVA

	df	SS	MS	F	Significance F
Regression	3	1603.1234	534.3745	133.54	0.0000
Residual	75	300.1266	4.0017		
Total	78	1903.25			

	Coefficient	Standard error	t Stat	P-value	
Intercept	0	#N/A	#N/A	#N/A	
C	4.1951	0.5106	8.2156	0.0000	
N	2.1045	0.4874	4.3178	0.0000	
P	1.5140	0.3621	4.1807	0.0001	

Source: Author's work, 2020

In Model 3 is added the variable D, which also shows a close connection between the 3 independent variables

and the dependent variable, of 83% according to the data in **Table no. 9**.

Table no. 9. Results of regression for Model 3

Regression Statistics

Multiple R	f
R Square	0.8324
Adjusted R Square	0.8146
Standard Error	2.0626
Observation	78

ANOVA

	df	SS	MS	F	Significance F
Regression	3	1584,1894	528,0631	124,13	0,0000
Residual	75	319,0606	4,2541		
Total	78	1903,25			

	Coefficient	Standard Error	t Stat	P-value	
Intercept	0	#N/A	#N/A	#N/A	
C	4.2185	0.5356	7.8765	0.0000	
N	2.4007	0.4828	4.9723	0.0000	
D	1.5185	0.4385	3.4627	0.0009	

Source: Author's work, 2020

In Model 4, variable S is added and there is also a close link between the variables, because changing the type of majority shareholder can influence the dependent variable by 83% (**Table no. 10**).

Table no. 10. Results of regression for Model 4					
Regression Statistics					
Multiple R	0.9137				
R Square	0.8348				
Adjusted R Square	0.8171				
Standard Error	2.0473				
Observation	78				
ANOVA					
	df	SS	MS	F	Significance F
Regression	3	1588.8955	529.6318	126.36	0.0000
Residual	75	314.3545	4.1914		
Total	78	1903.25			
	Coefficient	Standard Error	t Stat	P-value	
Intercept	0	#N/A	#N/A	#N/A	
C	4.4572	0.5073	8.7854	0.0000	
N	2.3280	0.4841	4.8093	0.0000	
S	0.3934	0.1079	3.6459	0.0005	

Source: Author's work, 2020

The results of the statistical processing, centralized in **Table no. 11**, confirms the hypothesis that Vektor is most influenced by the *trading category* of companies (C) and by the preparation of *non-financial reports* (N). The other 3 variables (P, D and A) do not have an influence together with the other variables on Vektor, but from Model 1 it resulted that they give a greater explanatory power to it. However, from the regressions with 3 independent variables it is found that these variables are also statistically significant, the value of the statistical coefficients being significantly increasing. Also, for variables C and N there is an improvement in the regression results, for variable C the best results were recorded in Model 4, and for variable N in Model 3. Therefore, the Vektor indicator is an indicator that can be correlated with all the variables tested in the models presented above.

Table no. 11. The results of statistical processing									
Indicators	**Regression with 5 dependent variables**				**Regression with 3 dependent variables**				
	Coefficients	**Statistical Error**	**t Stat**	**P-value**	**Coefficients**	**Statistical Error**	**t Stat**	**P-value**	**Model**
C	4.0680	0.5223	7.7886	0.0000					
P	0.7203	0.6590	1.0930	0.2780	1.5140	0.3621	4.1807	0.0001	Mod 2
D	0.6758	0.5657	1.1946	0.2361	1.5185	0.4385	3.4627	0.0009	Mod 3
S	0.1603	0.1617	0.9910	0.3250	0.3934	0.1079	3.6459	0.0005	Mod 4
N	2.0036	0.4916	4.0760	0.0001					

Source: Author's work, 2020

Conclusions

Investor relations and communication of financial and non-financial aspects resulting from the activity of listed companies are carried out on the basis of a regulated framework and in compliance with the requirements of financial supervisory bodies. In order to prevent and sanction the fake news about the situation of a public interest company, regulations have been approved to protect the investors and ensure their confidence that

the information published by companies has a real basis.

The objective of the paper was to assess the level of communication conducted with the investors by companies listed on BVB and to identify the main factors that influenced the communication: the trading category in which the company is listed, profitability, dividends paid, shareholder ownership majority and the existence of non-financial reporting.

The analysis showed that the level of communication was quite low in the amount of 3.72 on a scale from 0 to 10. The companies with the best ratings were mainly in the Premium category, made a profit, paid dividends, they prepared non-financial reports and three quarters of them had private capital.

The proposed econometric model showed that there is a direct relationship between the communication indicator and all identified factors, but the closest connection exists between the trading category in which the company is listed and the existence of non-financial reporting.

The results of the research carried out were also confirmed in other research in which it was shown that a good communication of non-financial aspects contributes to the increase of the companies' reputation and implicitly of the company's evaluation index (Adamska and Dabrowski, 2016; Brennan and Merkl-Davies, 2018).

The main conclusion of the paper is that good communication leads to a good reputation of companies, and increasing the level of communication must be a continuous and permanent concern of corporate governance that will increase their market value and attract as many investors as possible. The preparation and publication of non-financial reports also greatly contributes to greater transparency of communication with investors.

Practical implications of the paper are based on the presentation of the correlation on the interdisciplinary link between the field of communication and public relations and the financial field. Also, the realized econometric model can be a source for future research in order to test or improve it.

The paper contributes to the knowledge of the reality in the field of public relations and financial communication of companies, being a source for researchers in the field of communication and public relations, as well as for practitioners of the accounting profession, through information on the importance of complete and relevant financial communication.

The limitations of the research consisted in the fact that manual data collection was used, the analysis was performed only for the existing situation at a given time and on a single financial market. Future research directions may materialize in identifying other variables that may influence the level of communication, as well as an analysis of the evolution of the level of communication after the publication of the next evaluation to be performed by ARIR. The study can also be extended by comparative analyzes on the degree of financial communication of companies listed on several financial markets.

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