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Relationship between Companies Disclosure, Investor Relations Activities and Stock Prices Movements

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Abstract

An investor always wants to get a return from the stock market over the given time period. It often goes hand in hand with stock prices. A market can be strong when it has new information about stock prices and makes stock prices valued accurately and stable. This way, companies' disclosure provides a clear insight to stakeholders about sustainability in the long term and cuts down on information asymmetry and conflicts between investors and managers. This study is aimed to determine the association between voluntary disclosure of the companies, activities related to investor relations, and stock price movements. Demand and supply are the only one factor that influence stock price movements. There are several other factors discussed in this article. In addition, we have also discussed how investor relations influence movements in stock prices.

Keywords: *company disclosure, investor relation, stock price movements, stock market, stock prices, investor relation activities*

Introduction:- Disclosure is the process of giving common public information with all the details and facts about the company. Companies give proper disclosure to provide pertinent information to its investors, customers, and others involved in the business. Disclosures are at the core of the crisis of confidence for the public in the corporate world. Company's disclosures must be considered as a very deep and important part of business before investing. Companies issue disclosures for investment analysis with all the details that can influence their decision whether to invest in bonds or stocks of the company. The disclosure statement may reveal positive or negative news and fiscal details related to the organization [1]. The research reports for investors also reveal the type of relationship between the investment firm and their equity analysts, and the subject company, on which this report is based. It also consists of critical information that investors should know, including warning statements. According to the Securities and Exchange Commission (SEC), all research reports must have a disclosure statement. If there is no disclosure statement in a research report, investors can disregard the same as if it is not trusted. However, disclosure statements are usually drafted by lawyers and they are more focused on protecting the interest of the brokerage firm, instead of revealing any easy secret to the investors. They use legal clauses to make disclosures hard to read for an average reader. They are also printed in small fonts and they are more likely to be lengthy [1]. Investor relations are a widely used term to describe the constant investment activities of companies to work with investors. When the communication is a blend of voluntary and regulatory activities, investor relations is basically a part of the stock market that witnesses companies working with potential investors, shareholders, journalists, and analysts. There are different forms of investor relations, such as company press releases, investors' meet, websites, and annual reports. However, all the communication tools used by the companies are designed to provide stakeholders with details about the company in order to gain better knowledge of the company's governance, business, prospects, and financial performance. It goes without saying that there is a one-way communication. Investor relations are a conversation and a lot about companies having interactions with investors about their business and they are listening to the feedback and views of investors [2].Basically, investor relations is more than just creating understanding and awareness of the company in the investment community along with helping the companies to access capital for liquidity to achieve the right value of shares. The ability of raising capital and ease of doing it are often considered as the measures of successful efforts of a company's investor relations. Companies enter into a conversation to build relations with investors over time to make participants cognizant about the company along with its investment value. It is usually considered as a valuable exercise to achieve cost-effective and efficient access to working capital [3].Investor relations may play a vital role in company relationships and bottom line. The goal of investor relations includes building relationships by providing up-to-date information. Its scope is growing rapidly and is more than just about meeting and fulfilling the needs of shareholders [4]. Laskin [5] further explains that investor relations are about developing and keeping relationships, instead of building numbers. According to Minow [6], Corporate Library editor and co-founder, markets run on trust, not money. In addition, NASDAQ proposes building stronger relationships with portfolio managers, analysts, individuals, and brokers for modern businesses in the field of investor relations [7]. Though relationships are not easy to measure, they provide a great benefit to the company. According to Starkman&Kingball [8], a company which relies on its shareholders is usually rewarded for their investments. Its shareholders trust so much on the company that they don't sell off the company's stocks as soon as the company goes through a tough phase and goes down. According to Mahoney [7], there are significant rewards of this type of relationship. It is likely to diminish value gaps as investors have strong faith in management. Developments and positive events earn higher rewards of stock gain. A down or flat quarter is not a signal for automatic sell. When getting signals that fundamentals are still not growing and strong, investors seek explanations and hold their shares while raising their positions [5]. A company can have better investor relations by knowing their needs and expectations and it ultimately leads to higher stock prices. According to Mahoney [7], investors giving approvals to some actions and strategies may respond most likely by investing in shares and stock prices ultimately rise up. At the same time, the role of building shareholder relations might help in building relationships with investors. Companies and their investors attempt to co-manage, co-generate, and co-define the sense of relationship building [5]. The fluctuation of stock prices (whether rising or declining, in shocking amounts) often leave new-age investors wondering.

There are market indicators that force stock prices to fluctuate every day. Supply and demand are highly responsible for sharing change in prices. The price moves upwards when more and more people show interest in demand (buying a stock) rather than supply (selling it). On the other hand, the supply would be higher than demand if more and more people started selling stock instead of buying it, causing its price to drop. It is simple to know the concept of demand and supply. But it is not easy to find out what makes people dislike one stock and like another. Some people may want to know what news is good for an organization and what is not. Different investors have different strategies and ideas and so are the answers [9]. Profits of the company are the major factor affecting its value. No company can survive in the long run without profits. A company cannot stay in the market without making institutional investors and its volatility in stock returns. With higher AIMR rankings, the findings suggest that the companies have a higher rate of institutional money. Public companies have to report their revenues at least once in a quarter. Earnings projection is the factor that analysts consider to evaluate the potential value of a company. The price jumps up if its results are better than projected. The price falls if it performs worse than expected. But earnings are not the only factor to change the market sentiment for a stock. There are so many companies witnessing a rise in the market without making any profit. There are hundreds of ratios, indicators, and variables that investors have developed, such as P/E ratio, Moving Average Convergence Divergence (MACD), and others [9].

Background :-This study is aimed to help investors to understand the main reasons behind stock market fluctuations. The major implication is that there are so many studies about change in stock prices. Some experts believe that determining the best time to sell and buy can be easy by drawing charts and tracking the past price fluctuations, while some believe that no one can predict the change of stock prices. Here, we are going to determine whether investor relations, companies' disclosure and stock price movements are interconnected.

Review of Literatures :- Co-movement in stock prices theoretically reflects fluctuations in basic factors covering the stock values. Recent findings suggest that the co-movement in stock prices can be based on informational opacity of the company and information markets. **Haggard et al. [10]** predicted the decline in stock price co-movement with improved voluntary disclosure to the extent that intended disclosure enhances transparency in the company and reduces the cost of information acquisition. The authors provide supporting evidence for this prediction with analyst evaluation. The evidence from the study is in support of the effectiveness of disclosure while raising the amount of information related to the firm in stock returns.

The profession of investor relation is based on the interaction between the company and management on one side, and on the other side, with its shareholders. The stock price of a firm is set considering all the information available in the ideal setting of the market and the firm or its advisors cannot do anything much about the price beyond its financial and investment policies. Ideal conditions for validity of the ideal markets are that the company's information is priceless, publicly available, and importantly, can be easy to understand for all investors. **Brennan and Tamarowski [11]** discuss the role of investor relations as disclosure of information. The authors briefly describe the growth of investor relations in the US.

Bushee&Noe [12] discuss whether disclosure practices in a company have any impact on its ownership of ownership, but the specific institutional investors have higher disclosure without any return volatility impact. However, annual rankings are often related to the rise in ownership in disclosure rankings, especially through transient institutions.

Ho& Wong [13] discuss a theoretical framework in a study about four important attributes of corporate governance about voluntary disclosure in listed companies in Hong Kong. These attributes are the part of total number of board directors and independent directors, existence of CEOs, Chairman, voluntary audit committee, and percentage of board members. With a relative weighted disclosure index to measure voluntary disclosure, the audit committee has a positive and significant existence in voluntary disclosure. The authors suggest regulators and policy makers in East Asia with empirical evidence to fulfill the needs of new board governance on family control and audit committee.

Research Question :- What is the relationship between company disclosure, investor relations activities and stock price movements?

Research Objective :- To Study the relationship between companies disclosure, investor relations activities and stock price movements

Methodology :- Company disclosure means a lot to maintain investor relations and to ensure proper operations of securities. Without proper allocation of resources in the market, investors should look for the best opportunities to understand added values while hoping to have enough returns for making profits. Company disclosure is important to fill the gap between management and investors. The primary objective of this study is to find the relationship between investor relations, company's disclosure and stock market returns. In order to meet this objective, we have to rely on secondary data collected from other studies about stock market and investor relations, such as research journals, research papers, reports, websites, magazines, and other sources.

Q-What is the relationship between companies' disclosure, investor relations activities and stock price movements?

Stock price movements are analyzed to determine the overall financial health of the company. Similarly, they depend on price-to-earnings (P/E) ratios, earning performances, etc. which signal whether the share price of a company presents its earnings adequately. All such data helps investors and analysts to determine the viability of the company in the long term. It is important for a company to be vigilant when it comes to issue new shares as bulk of shares in the market may reduce demand and there will be a lack of buyers to get the shares and it will depress the price of stocks in the end. In addition, creditors prefer companies having expensive shares, which usually match with profits of the company. Companies with good financial health are more likely to pay off the debt in the long term. It ultimately means they can attract loans with lower interest rates and it ultimately improves their balance sheets. Timeless, adequacy, and availability of company disclosure about securities are vital for both investor confidence and pricing efficiency. Investors should be completely informed about the facts to make informed decisions. According to Abdelkarim et al. [15], company disclosure is important for sound operation of securities and regulators are highly focused on the quality of non-financial and financial disclosure of information of companies. Companies are complex organizations with plans, strategies, personal policies, commitments, managerial succession issues, competitive threats, patents, technically sophisticated products, and research programs. A company has all these aspects that drastically impact the valuation of stocks and it is not possible to determine each of them accurately by tracking financial statements and even the commentary and footnotes that come with them. It takes a lot of financial and technical experience to know the issues to determine the overall share value [16]. An investor obtains the yield in the form of stock market returns over the given period of time. It is often known to be similar to that of stock prices. A stock market consists of new info about stock prices and helps in accurate valuation of stock prices for making the firms stable. Managers provide the details they know to the capital markets in case capital markets misvalue the firms as stock prices rely on data. In the same industry, organizations are likely to imitate each other. Hence, other firms may imitate voluntary disclosure from one company and it leads to the release of more information in the market. The disclosure of important corporate data is important for keeping track of companies.

Investor relations and company disclosure are very important factors to improve stock performance and boost investors' confidence. The disclosure must be accurate, timely and informative to be sensible for the investors. It is important for the companies to comply with international auditing and accounting standards and assure the value of the auditing process in order to ensure the reliability of disclosure. It is important to disclose accurate details related to company matters to protect shareholders' interest. Shareholders need information about company-related matters to make informed decisions. In addition, company disclosure means a lot for them to keep dominant shareholders and managers from engaging in illegal activities.

Corporate disclosure was once focused only on financial information excerpted specifically from the financial statement of the companies. These days, corporate disclosure is widely used as a tool for making risk management strategies and to create value for the business. Comprehensive strategies are created with all aspects of the overall performance of a company to broaden both the scale and scope of the company's information. Social, economic, and environmental details and disclosure strategies are important aspects of investor communication programs of many companies. This development seems to be well planned in corporate practices as there are many benefits of company disclosure [15]. Interest rate, voluntary disclosure, exchange rates, and inflation are some of the major factors affecting stock performance of the company. Meek, Roberts &Gray [17] explain company disclosure as voluntary decisions made by the management to provide all the accounting-related and other details that are important for making investment decisions. Voluntary disclosures are classified as non-financial, strategic, and financial information. The disclosures are classified as per what is needed and the elements of such disclosures. Financial disclosure is important to allocate limited resources and choose the right investment option [17]. Usually, there are two important standards for the companies to report – International Financial Reporting Standards and General Accepted Accounting Principles. However, there is still a lack of important information even with these standards from investors' point of view [18].Voluntary disclosures reduce asymmetry and improve transparency. When a company is undervalued by the investors because of lack of information, it causes information asymmetry which leads to high agency costs [19]. Improved transparency is the sign of actual value and trust among the investors. Voluntary disclosures are mainly aimed to inform common investors about the firm. Its management hopes for a favorable response from the company's stakeholders in return. According to Meek et al. [17], voluntary disclosures (be it financial or non-financial) ultimately help organizations with improved trust. Some organizations provide more information than expected to the shareholders who are supposed to invest for the company. Usually, disclosures are not periodic. But some companies issue periodic disclosures which are related to voluntary ones and annual reports.

Findings :-Managers are mostly encouraged for economic benefits by providing the public with more information using company disclosure. It also helps in maintaining investor relations and improves their confidence to keep investing in the company and being with it in tough times. Company disclosure is not a sign of management performance. As a result, stakeholders get more information about the company while saving capital expenses. It is economically beneficial to the capital market as it saves the cost of raising capital. In addition, investors can also cope with information asymmetry by staying informed. These factors are very favorable for the investors to be in the market for higher stock returns.

There is a direct impact of foreign currency rates on the value and price of stocks in foreign nations and any change in exchange rate will cause decline or rise in the cost of operating business which will have a great effect on the price of companies' stocks. Fundamental forces of demand and supply and parity in purchase price affect the long-term exchange rates. Events, news, and futures trading affect short-term investments and they are also not simple to predict [20]. Rise in interest rate affects the cost of debt in a company and it also affects the dividends and company profits paid to the shareholders. It may also affect share price. With the rise in interest rates, a lot of investors trade or sell high risk shares for securities backed by the government, such as bonds, to make the most of higher rates and to protect their investments.

Conclusion :-This paper studies the association between investor relations, company disclosure and stock market performance. We analyze how company disclosure positively impacts a company's presence and investors' confidence while improving stock prices in the long run. There is an indirect relation between stock price movements and investor relations activities. These activities are more likely to improve the disclosure accuracy and degree of investor agreements. It is also true that further research is needed on particular industries to get more detailed insights to respond accordingly to certain companies' disclosures. It also helps determine the impact of other types of disclosures on ROI for the investors.

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