



THE ROLE OF INVESTOR RELATIONS IN THE INDONESIAN STOCK EXCHANGE: AN IMPORTANT COMMUNICATION BRIDGE

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Abstract

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Information is an essential consideration for stock exchange transactions. Sources of information are very diverse and can be divided into accurate and incorrect information. Good corporate governance and information transparency are needed to maintain investor confidence and reduce information asymmetry. Investor Relations play an essential role in maintaining two-way communication and investor confidence by bridging the gap in communication between companies and investors. This research adopted the research from Laskin (2009) to examine the main practice of Investor Relations in Indonesia. This study aims to analyze the theory and practice of Investor Relations in Indonesia from the perspective of Investor Relations practitioners. This study uses a qualitative method using an open-ended questionnaire for Investor Relations. Officers who work in public companies are listed on the Indonesia Stock Exchange. Questionnaire related to 7 statements. The study results found that Investor Relations have been practiced in line with the theory and results of previous research on Investor Relations in terms of stakeholders, organizational structure, objectives, functions, expertise, standard practices, and obstacles to Investor Relations in Indonesia. The study found that Investor Relations in Indonesia have not thoroughly carried out the role of internal communication, which can be attributed to the lack of support from management who have not seen Investor Relations as a strategic part of the company.

Keywords:

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Investor Relations, information asymmetry, good corporate governance, Investor Relations practice

INTRODUCTION

The financial crisis that hit countries in Asia, including Indonesia, in the late 1990s was one of the reasons that pushed governance reforms because weak corporate governance was the biggest contributor that caused the economic crisis based on a study from the Asian Development Bank (ADB) (Zhuang et al., 2000, in OJK, 2014). In addition, the economic crisis also revealed the role of the capital market in the national economy, especially in supporting a solid and stable banking system (OJK, 2014), as an investment vehicle option for investors as well as an alternative means of financing for companies. Therefore, good governance is needed to ensure that Indonesian banking and capital markets are managed based on the principles of Transparency, Accountability, Reliability, Independency, and Fairness. In line with the government's vision to improve governance practices, the government combines two bodies of financial services that regulate and supervise bank (Bank Indonesia) and non-bank and capital market (Bapepam-LK) into one integrated independent institution, namely the Otoritas Jasa Keuangan (OJK) in 2011.

The Indonesian capital market operates through the Indonesia Stock Exchange (IDX) as a place for trading securities in Indonesia, which includes stocks, bonds, sukuk and derivatives. The Indonesian capital market is growing, therefore more and more companies are using the capital market as a means of seeking funding. The Indonesia Stock Exchange recorded that 54 companies in 2018 and 55 companies in 2019 carried out an initial public offering (IPO), so that up to 2019 there were 668 companies listed on the IDX stock exchange (Hartomo, 2019). Along with the development of the capital market and the increasing amount of companies listing their shares on the IDX, more and more companies see the need for a liaison between the company and investors and corporate stakeholders, especially to maintain the flow of information and build trust. Laskin's study (2011) states that 65% of public companies surveyed in his study have their own Investor Relations division, 27% are managed by the finance / treasury division and 8% are managed by the communications / public relations division.

The free and regular flow of information is necessary for the capital markets to function properly and to prevent scandals, such as the one that occurred in the Enron bankruptcy in America. This incident made shareholders and investors in America scrutinize and monitor the companies they invest in, as a consequence, corporations in America realized the importance of restoring and maintaining investor confidence. The government has also made stricter regulations including Regulation-FD, Sarbanes-Oxley Act, and Dodd-Frank Bill which implement policies related to information disclosure. In Indonesia, to maintain the flow of information within the capital market, OJK has a policy on information disclosure, especially for public companies, regulations regarding the Corporate Secretary of Issuers or Public Companies as well as other regulations governing Annual Reports, Financial Reports, Company Websites and other regulations. The obligation to disclose information is also in line with the regulations held by the IDX regarding information disclosure coupled with a public company's obligation to hold an annual Public Expose.

LITERATURE REVIEW

Vlittis & Caritou (2011) states that the objective of IR is to explain and communicate the company's message to current and potential investors, with the aim of aligning the expectations of shareholders and the company. In order to align the company's and investor's expectations, Investor Relations must be able to prevent information asymmetry, the concept of which was first created by Akerlof (1970, in Sugiyanto, 2018) which explained that in a market where sellers have better information from buyers about the quality of the product it can lead to detrimental choices. Huynh, Wu & Duong (2020) states that information asymmetry causes market failure, because if it occurs it can affect market prices and the value of listed companies, this is because information asymmetry can lead investors and companies to make wrong financial decisions that result in losses on their investments and the value of the company's shares. Information asymmetry can cause losses for investors because investors do not have all the information so that investors cannot appraise the company fairly.

Eventhough ensuring information symmetry in public and capital market is one of the main objectives of Investor Relations, they cannot prevent rumours from circulating in the financial community. Investor Relations are also bound by applicable regulations regarding the disclosure of information that can be reported to the public or not. Investor Relations cannot regulate what actions investors will take, however, it can provides the same information to the public so that no one party gets information before the public, which can lead to insider trading. With more complete information, the fair value of the company in the market will be reflected in its share price and the volatility will be reduced according to the theory of market efficiency. Therefore, Investor Relations must play a role more than just disseminating information to the public, but must also be responsible in ensuring that the message is received, understood, processed, and acted upon by investors and the public (Laskin, 2018).

America's National Investor Relations Institute (NIRI) defines Investor Relations as a strategic management responsibility that integrates compliance in finance, communications, marketing, and capital market regulations to enable the most effective two-way communication between companies, the financial community, and other stakeholders, which in turn ultimately contributing to the achievement of a fair valuation of company securities (NIRI, 2003, in Laskin, 2011). As a multi-disciplinary profession, Investor Relations must have financial and communication skills as well as marketing and legal skills. Despite this, a study from Laskin (2011), found that 85% of Investor Relations have a business education background such as finance, accounting, management, and marketing and only 10% have a communication education background (Laskin, 2011).

There has been quite a lot of research on the purpose and function of Investor Relations in developed countries. Laskin (2009) examines the main practice of Investor Relations which includes activities, target audience, organizational structure, educational background and problems faced by Investor Relations in Fortune 500 companies. The research was developed by Laskin (2011), with a Delphi Panel consisting of Investor Relations practitioners that finds the contribution of Investor Relations. Hoffman, Tietz & Hammann (2018) examined the Investor Relations literature with a focus on the organization, strategy, instruments, content, and effects of Investor Relations. Kelly, Laskin, & Rosenstein (2010) examined the practice of two-way communication in Investor Relations. Moreover, previous studies have found the effects of Investor Relations, including increased visibility of companies in the capital market (Bushee & Miller, 2012), reduced asymmetric information and increased valuation (Vlittis & Charitou, 2011, Agarwal, Taffler, Bellotti & Nash, 2015, and Hu & Yu, 2010). Gackowski (2017) examines Investor Relations in the modern economic era. Although there is quite a lot of research on Investor Relations in developed countries, the researchers found that there is not much research related to the practice of Investor Relations in Indonesia.

This research adopted the research from Laskin (2009) to examine the main practice of Investor Relations in Indonesia. This research will focus on theories and previous researches on Investor Relations and then compare it with Investor Relations practices in Indonesia which are described from the perspective of Investor Relations practitioners. In this study, the focus of research is to find out and understand stakeholder Investor Relations, Investor Relations organizational structure, Investor Relations objectives, Investor Relations functions, Investor Relations skills, Investor Relations basic practices and problems or obstacles faced by Investor Relations.

By comparing Laskin concept (seven concepts) and practice, the researcher hopes to be able to analyze what has been and has not been done by Investor Relations in Indonesia and what researchers can find out what makes the practice not a standard in Indonesia. This research will be conducted on Investor Relations practitioners who work in public companies listed on the Indonesia Stock Exchange.

RESEARCH METHODS

Researcher used the case study method which focuses on the Investor Relations practices itself, which in this study is the practice of Investor Relations in Indonesia. This study uses several

bases to examine more deeply about Investor Relations in Indonesia based on previous research, namely stakeholders, organizational structure, objectives, functions, expertise, basic practices, and problems faced by Investor Relations.

The research was conducted in the Indonesia Stock Exchange. Research subjects in this study are investor relations practitioners who actively work as Investor Relations in public companies whose shares are listed on the Indonesia Stock Exchange. A questionnaire method was used as the data collection method

The researcher used purposive sampling in this study. Researcher randomly select several public companies that are listed and active on the Indonesia Stock Exchange board representing several different industries. Researcher used a personal approach in contacting each Investor Relations officer to become a respondent. The researcher has a relationship with respondents because the nature of the researcher's work. However, researchers do not have a direct or personal relationship with each of these participants.

In this study, researchers used the Miles and Huberman model (1994, in Yusuf, 2014) which states that data analysis in qualitative research is carried out continuously until the data is saturated. There are three parts to data analysis in the Miles and Huberman model, namely: (1) Data reduction; (2) data display; (3) conclusion and verification

RESULTS AND DISCUSSION

The participants in this study are Investor Relations practitioners who were selected by purposive sampling method, which resulted 11 Investor Relations practitioners as participants. Research participants are currently employed at public companies whose shares are listed on the IDX from various industry. The vast experience from the chosen participants will provide an overview of Investor Relations practices from the point of view of Investor Relations practitioners.

Based on the data collected and the studies that have been carried out by researchers, it can be concluded that the following are:

1. Stakeholder Investor Relations

The research showed that shareholders and investors (current and future) are the main stakeholders, in accordance with the previous research results and theories from Bowen et al (2018), Laskin (2009), Gackowski (2017) and Guimard (2013). In line with theory, Investor Relations in Indonesia divides Investor Relations stakeholders into two categories, internal and external. Internal stakeholders such as commissioners, directors, managers, employees and external stakeholders such as regulators, brokers, analysts, fund managers, rating companies and securities companies. In Indonesia, Investor Relations puts forward external stakeholders, especially those related to the capital market. Most Investor Relations in Indonesia still do not see internal stakeholders, as the main stakeholders of Investor Relations, even though a few mentioned that their stakeholder include the boards and employee of the company. Moreover, from the external side, the regulator is an important stakeholder, as mentioned by nine Investor Relations, followed by the financial and capital market communities. Moreover, contradictory to the previous research which mentions the importance of analysts as stakeholders of Investor Relations (Laskin, 2011, Bushee & Miller, 2012), only five of the Investor Relations specifically mention analysts and three mention securities companies / brokers.

2. Investor Relations Organizational Structure

In theory, Investor Relations can be under the CEO, CFO, or the Board of Directors in charge of communications / PR. In Indonesia, the organizational structure of Investor Relations is still in line with theory, even though the Corporate Secretary is also one of the divisions in charge of IR. Investor Relations where the informant works is under the Corporate Secretary (8), CFO (2), CEO (1), CIO (1) and all Investor Relations have their own Investor Relations unit and / or officer. Investor Relations also states that the role of IR will be ideal if it is under the control of a function

that has the flow of information on corporate strategic planning (CEO) or corporate finance (CFO). Investor Relations can also work under communications or public relations, although this is rare.

3. Investor Relations Objectives

In line with theory, IR practitioners in Indonesia see that the main objective of Investor Relations is to represent the company, to communicate company performance and goals so as to reduce information asymmetry (Laskin 2011, Vlittis & Charitou, 2011, Kelly et al, 2010) and to align the company and investors expectations so that the company's shares can reflect fair value (Bushee & Miller, 2012, Bragg, 2010, Laskin 2011). Apart from that, Investor Relations also considers it important to increase the amount of analyst coverage, increase liquidity and reduce the cost of capital as one of the objectives of IR. Investor Relations in Indonesia realizes that it is impossible to influence share prices, so by maintaining good communication and the flow of information, Investor Relations can keep the company's share price reflected appropriately.

4. Investor Relations Functions

The main function of Investor Relations according to Investor Relations is to maintain communication and convey information to investors, potential investors, the capital market communities and capital markets. Investor Relations is a company representative so it must also maintain two-way communication according to research from Laskin (2011) and Kelly et al (2010). Investor Relations practitioners in Indonesia see their main function in line with theory in terms of maintaining communication and conveying information to investors, potential investors, the capital market community and the public. Investor Relations has a key role in the company's strategy and ultimately helps establish the company's position in the market. Investor Relations must be able to identify, build, maintain, and improve short-term and long-term relationships between the company, and not only current and future investors, but also other stakeholders. However, the IR function to carry out two-way communication has not been fully implemented in Indonesia, although some of the IRs have carried out this function by reporting to company management.

5. Investor Relations Skills

Investor Relations in Indonesia states that IRs should have competence and understanding and be able to integrate finance / accounting, communications, capital markets and prevailing regulations and be able to integrate these skills. This finding is in line with the five pillars mentioned in Krishnan (2018) research, even though Investor Relations does not see that marketing is one of the skills needed. In Indonesia, the majority of Investor Relations practitioners have an educational background in finance and / or accounting, although there are some who have educational backgrounds in engineering in accordance to their company's industry. Investor Relations practitioners can learn other important competencies by attending training.

6. Investor Relations Standard Practices

Externally, the standard practices of Investor Relations in Indonesia are in line with the Investor Relations practices proposed by the research of Laskin (2011), Bragg (2010), Vlittis & Charitou (2011) and Palmeri (2018). Investor Relations does the standard practice to fulfill obligations and to convey additional information to investors and the public. Standard Investor Relations practices are carried out to fulfill obligations such as GMS, Public Expose and other

reports required by regulators. Furthermore, other activities carried out by Investor Relations are to provide additional information to investors and the public, such as roadshows, one-on-one meetings, analyst / investor meetings, site visits, presentations, conferences, info memos, and press releases / conferences. However, internally, not all Investor Relations communicates information from investors and the market to the internal company. In addition, although not all Investor Relations mention websites as one of the basic practices, Indonesian regulations require public companies to have websites that contain information for investors. Researcher found that all companies where the informant worked had Investor Relations page on the company website which contained information containing prospectuses, annual reports, financial information, GMS information, stock information, stock information, dividend information, information for investors, media, analysts and public, corporate action information, and other material information or facts beyond what the company has reported.

7. Problems / Obstacles Faced by Investor Relations

Problems and obstacles in achieving IR's goals come from internal and external factors. In Indonesia, Investor Relations practitioners see that the barriers from internal factors are bigger, in contrast to the theory that sees external factors as bigger obstacles, one of which is regulation (Laskin, 2011). Internal obstacles include weak support from company management, company perceptions and desires, limited internal information, and lack of infrastructure to carry out IR functions. From the external side, the tight regulation of the capital market, especially related to information disclosure coupled with the reluctance of companies to disclose the information needed, has limited the space for IRs to communicate their messages, which can create information gaps. In addition, high investor expectations and negative issues are also one of the obstacles for IRs, especially because there are still many investors in Indonesia who make investment decisions not based on company fundamentals but based on outstanding issues.

CONCLUSIONS

Current Investor Relations practices in Indonesia are in line with existing theories and previous studies that have been carried out in other countries. Investor Relations obligations in Indonesia are regulated based on OJK regulations concerning Corporate Secretary and Information Disclosure as well as IDX regulations. The main difference is that the function of investor relations as an intermediary for two-way communication is not fully implemented. Most of the investor relations in Indonesia still only performs the function of communicating to external companies. This is also due to the lack of management support that still do not see the role of investor relations as a strategic function of the company and only serves as a communication function to convey news to investors and the public and not vice versa.

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Table 1. Participant Description

No	Participant	Educational Background	Year of Experience as IR	Company's Industry	Gender
1	IR 1	Accounting & Finance	17 years	Consumer Goods	Man
2	IR 2	Economy	12 years	Oil & Gas	Man
3	IR 3	Accounting	11 years	Telecommunication	Woman
4	IR 4	Engineering	10 years	Manufacture & Infrastructure	Woman
5	IR 5	Engineering & Business	9 years	Oil & Gas	Man
6	IR 6	Finance	8 years	Banking	Woman
7	IR 7	Engineering & Business	8 years	Property	Man
8	IR 8	Accounting	8 years	Transportation	Man
9	IR 9	Finance	6 years	Conglomerate	Woman
10	IR 10	Accounting & Law	6 years	Construction	Man
11	IR 11	Economy	4 years	Banking	Man

Table 2. Summary of Results Analysis: Comparison of Theory and Practices of Investor Relations in Indonesia

No	Statement	Theory and Previous Studies	Research Result	Deviation	Explanation
			(IR Condition in Indonesia)		
1	Investor Relations Stakeholder	<p>External:</p> <ul style="list-style-type: none"> - Investors & shareholders (current and future) - Capital market participant: analysts (buy & sell side), financial advisor, fund manager, rating agency, broker, sales, banker - Media & Journalist - Regulator dan government - Other stakeholders <p>Internal:</p> <ul style="list-style-type: none"> - CEO, CFO, Directors and other Board dan other supervisory board - Employee - Finance, accounting, legal, reporting, business development, etc. - Other stakeholders 	<p>External:</p> <ul style="list-style-type: none"> - Shareholder & Investor (current and future) - Capital market participant: Fund manager, analyst, securities company, rating agency, broker - Regulator: OJK, BEI, KSEI, BI, Government - Media - Others: Accountant, Custodian, BAE <p>Internal:</p> <ul style="list-style-type: none"> - Management (BOD, BOC) - Employee 	<p><i>Investor Relations</i> in Indonesia is still very focused on the importance of external stakeholders especially ones that are related to the capital market. Capital market participants who are considered as stakeholders are those who have direct contact with the company where the IR works.</p> <p>Regulators are important stakeholders for IRs because of the fairly strict regulations in the Indonesian capital market.</p> <p>Not very many IRs in Indonesia consider internal stakeholders as the main stakeholder and those mentioned are mostly only the company's management.</p>	<p>Although theory and previous research have put analysts as an important audience of IRs, not all IR practitioners in Indonesia specifically mention analysts as one of the main stakeholders.</p> <p>Furthermore, not all IRs consider internal stakeholders as the main stakeholder, this still shows that the two-way function of Investor Relations in Indonesia has not been fully implemented because Investor Relations only transmits information to external stakeholders.</p>
2	Investor Relations Organization Structure	CFO CEO Communication/PR	CFO CEO Corporate Secretary Communication/PR Sales/Marketing	Almost all IRs in Indonesia stated that IR should be under CFO, then CEO, followed by Corporate Secretary and rarely stated Communication or Marketing director.	IR mentioned that most of the information provided to investors is financial information so it is fitting to be under the CFO. However, several mentioned that being under the Corporate Secretary is in line with the POJK which regulates communication with investors. The regulation in Indonesia ensures that the Corporate Secretary reports directly to the CEO, so IR is indirectly under the CEO. IRs in Indonesia do not think that Communication or

				Marketing should be in charge of IRs.
3	Investor Relations Objectives	<ul style="list-style-type: none"> - Fair Share Value - Increase liquidity - Aligning expectation - Mitigating undervaluation - Increase analyst coverage - Maintaining two-way communication 	<ul style="list-style-type: none"> - Maintaining market expectation - Achieving company fair share value - Communication (maintaining relationship, provide and rely information) - Increase liquidity - Increase analyst coverage - Reduce capital cost 	<p>The objectives of IR in Indonesia is in line with existing theory and research.</p> <p>IR in Indonesia already has objectives that are in line with the theory of Investor Relations and previous research on IR.</p>
4	Investor Relations Function	<ul style="list-style-type: none"> - Build relationships with investors - Maintain two-way communication with investors and capital market participants - Maintaining the company image - Maintain compliance - Studying the conditions of shareholders for management - Collect and provide information from investors and the capital market 	<ul style="list-style-type: none"> - Maintain two-way expectations - Maintain two-way communication - The main contact / company representative for investors - Provide input to management - Submit information - Comply with regulations 	<p>The function of IR in Indonesia is in line with existing theory and research. However, the two-way function of IR is not fully functional.</p> <p>Not all IRs in Indonesia mention the IR function to communicate information from external to internal parties. This is in line with the fact that internal companies are still not seen as the main stakeholder of IR in Indonesia. This should be a concern of IR and management to listen to input and wishes of investors and shareholders so that it can become management's consideration in making business decisions and in managing the company.</p>
5	Investor Relations Skills	<ul style="list-style-type: none"> - Finance / accounting - Communication - Marketing - Capital market - Law 	<ul style="list-style-type: none"> - Finance / accounting - Communication - Marketing - Capital market - Law - Company business 	<p>In line with previous theory and research, most IRs in Indonesia have a background in the finance / accounting area. However, there are some who have engineering backgrounds.</p> <p>Although most IRs in Indonesia have finance / accounting backgrounds, IRs still need to have an understanding of business, marketing, capital markets, law as well as communications, especially as intermediaries for companies and investors. To add skills and insights, it is best for IRs to continue to attend ongoing training in related fields.</p>
6	Investor Relations standard practices	<p>External:</p> <ul style="list-style-type: none"> - Roadshows 	<p>External:</p> <ul style="list-style-type: none"> - Investor calls, Quarterly presentations, 	<p>The basic practices of IR for external stakeholders are in line with the theory. However, not all IRs</p> <p>As with stakeholder and IR functions, in Indonesia, not all IRs practice providing information to internal company stakeholders,</p>

	<ul style="list-style-type: none"> - Presentation - Conference - Answer questions and requests from analysts, investors or stock brokers - Meeting analyst (one on one, group, call) - Compliance with regulations (reports) - Communication with the media (release) - Visit - Website - AGM - Annual reports and other mandatory reports 	<ul style="list-style-type: none"> Conferences, One-on-one meeting, Newsletters, press releases / conferences, GMS, Pubex, Site visits, roadshows, websites, mandatory reports to authorities, presentations, answering analyst / investor questions, corporate action IR internal report to management: - Report on shares, shareholders, industry, capital market 	<ul style="list-style-type: none"> carry out internal communication practices in the company. 	although some investors have. This can happen because management does not think that IR can bring added value so that the functions and practices of IR are still focused on outgoing communications.
7	<p>Problems/Obstacles faced by Investor Relations</p> <p>External:</p> <ul style="list-style-type: none"> - Regulation - Matching expectations with investors - Issues - Lack of analyst coverage <p>Internal:</p> <ul style="list-style-type: none"> - Lack of management support - Lack of information disclosure 	<ul style="list-style-type: none"> - Lack of management & company support - Lack of content mastery - Limited internal data due to the transparent culture towards investors that the Company does not yet have. - Company perceptions of investors - Investors' expectations and interests - Politics and negative issues (crisis management) - Liquidity and capitalization 	<p>IRs in Indonesia see more internal company as an obstacle. Apart from that, expectations from investors are also seen as one of the concerns for IRs.</p>	<p>IRs in Indonesia feel that management lacks support for IRs, both in terms of their participation in IR activities and also in terms of transparency and openness. Indonesian culture which is still reluctant to provide information causes limitations for IRs in communication. In addition, IR also considers that investor expectations are sometimes quite difficult to maintain, especially because investors often do not value stocks fundamentally and are also easily carried away by issues making it difficult to maintain the same expectations between investors and companies.</p>