The Impact of Effective Investor Relations on Market Value

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Abstract

In this first study to test formally the market value of investor relations (IR) activity, we employ the annual *Investor Relations Magazine* Investor Relations Awards from 2000 to 2002 to proxy for the quality of firm investor relations. We find firms perceived to have the most effective IR strategies earn superior abnormal returns, both before and after the nominations. This shows that while the nominations themselves may be influenced by past performance to some extent, they are nonetheless also associated with subsequent positive abnormal returns. We also find that, not surprisingly, higher analyst following is associated with more nominations suggesting analysts tend to favor the stocks they follow. Consistent with effective IR leading to lower information risk, liquidity of nominated firms increases in the year subsequent to the nominations. Overall, our evidence is consistent with effective IR successfully reducing risks associated with high information asymmetry, as predicted by information risk and agency theories.

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1. Introduction

Well functioning capital markets require a free flow of relevant information to enable efficient asset pricing. The investor relations (IR) industry has developed substantially over the past few decades, primarily driven by a growing demand for firms to provide a higher degree of information transparency and accountability to multiple stakeholders. The National Investor Relations Institute (NIRI) defines IR as "*A corporate marketing activity, combining the disciplines of communications and finance, providing current and potential investors with an accurate portrayal of a firm's performance and prospects, therefore having a positive effect on total value relative to the overall market and the firm's cost of capital."* However, despite the substantial increase in importance firms now place on IR activities, until recently, little attention was paid in the literature as to whether an effective IR strategy adds to shareholder value. This is the first study in the literature, as far as we are aware, to seek to test formally whether effective investor relations (IR) increases firm market value. Specifically, we address this issue by working with firms perceived to have the most effective IR strategies as they are nominated by security analysts and fund managers for 'Best Overall IR' in the annual *Investor Relations Magazine* IR Awards for 2000 to 2002. We explore the relation between firm rankings in the IR awards, and their stock returns, liquidity, and analyst coverage surrounding the date of their nomination for these key IR industry awards.

We show that in the year prior to being nominated for 'Best Overall IR' in the *IR Magazine* awards firms earn significant abnormal stock returns, and firms with more award nominations have higher analyst coverage. These findings suggest that analysts and fund managers may be influenced to nominate firms with high prior stock returns,

and firms with which they are more familiar as evidenced by higher analyst following. This supports the behavioral finance literature, which predicts these firm characteristics will appeal to the psychological preferences and biases of the respondents to the IR survey, and can influence which firms they nominate (representativeness bias). The results are consistent with similar empirical findings of prior characteristics of firms that are rated in Association of Investment Management and Research (AIMR) surveys (e.g. Lang and Lundholm, 1993).

Over the year following the IR awards, we find that nominated firms earn superior abnormal returns suggesting the market does not fully impound the implications of better IR. Our results are consistent with the literature that finds superior abnormal returns for highly rated companies in *Fortune*'s 'America's Most Admired Companies' survey (Filbeck et al., 1997; Filbeck and Preece, 2003; Antunovich et al., 2000; Anderson and Smith, 2006). Consistent with the predictions of information risk and agency theories, which together propose that enhanced corporate communications will reduce information risk or agency problems caused by high information asymmetry, we find that nominated firms experience an increase in stock liquidity.

A seminal paper by Brennan and Tamaronski (2000) demonstrates a chain of relationships that together establish a "*direct link between a firm's investor relations policy and its stock price*". The first link in this chain is an increase in analyst following that can result from a good corporate IR strategy that operates primarily by reducing analysts' research costs (Bhushan, 1989; Lang and Lundholm, 1996; Francis et al., 1997; Holland, 1998). Secondly, there is empirical support that higher analyst coverage has a significant positive impact on liquidity, both directly due to reduced trading costs, and also indirectly through a consequent effect on equity trading volumes

(Brennan and Subrahmanyan, 1996). Finally, Amihud et al. (1997) find that increased stock liquidity is a direct determinant of a firm's cost of capital and therefore directly impacts stock prices, thus completing the final link in a putative chain of causation from effective IR to shareholder value.

However, there is limited empirical evidence of a direct link between a firm's disclosure policy and market pricing. Botosan (1997) constructs a subjective disclosure quality index based on annual report disclosures, which are treated implicitly as a proxy for the effectiveness of the firm's overall communication policy. She finds a direct negative relationship between firms' disclosure index scores and their cost of equity, but only for firms with low analyst coverage. However, these findings may not be generalizable since the study is based on a small sample of firms in a single industry sector in 1991. Crucially though, the role of IR is much more than just the mechanics of conveying formal financial information, hence Botosan's findings make only a tangential direct contribution to the IR literature (see Marcus and Wallace, 1997).

Healy, Hutton and Palepu (1999) test the stock performance of the 97 firms with 3-year consecutive increases in AIMR disclosure ratings in the 1990s and find that on average these firms' stocks earned excess risk-adjusted returns of approximately 5% over this period. Their sample consists only of firms with a sustained improvement in overall AIMR disclosure rating, and is thus not representative of a typical listed firm. Botosan and Plumlee (2002) use the AIMR survey of corporate communications ratings from 1986-1996 based on a survey of analysts and fund managers. They find no significant relation between firms' IR ratings, and their cost of equity capital. However, both Healy et al. (1999) and Botosan and Plumlee (2002) use composite AIMR ratings which do not provide a 'pure' measure of the value of a firm's IR activities, since a

firm's IR performance receives only a maximum of 30% weighting in these ratings. Their results can thus only at best be a reflection of a relation with a firm's market communications more generally defined.

Finally, Bushee and Miller (2005) test 184 small and mid-cap firms that initiate IR programs between 1999 and 2004 by hiring professional IR agencies. They find that these companies significantly increase their level of disclosure and press coverage, stock trading activity, institutional ownership, analyst following, and market valuations after hiring a new IR agency. They suggest that IR activities play a significant role in helping small and mid-cap companies to overcome their low visibility because they do not generally trade on a major exchange, to attract a wider following by investors and information intermediaries and to improve their market valuation. Our study differs to Bushee and Miller (2005) because our sample firms are likely to have more established IR programs because they are nominated for IR industry awards.

The rest of the paper is organized as follows: section 2 presents our hypotheses, data and method, section 3 presents our results, and section 4 summarizes our findings.

2. Hypotheses, Data and Method

2.1. Hypotheses

The IR function of a firm is a dedicated channel of information from senior management to external stakeholders, hence IR performance, in theory, should have significant impact on information asymmetry between insiders and outsiders. Effective IR should reduce the risk premium associated with information asymmetry and thereby lead to lower cost of equity. It should also lower the cost of analysts' information gathering for, and raise profile, with investors thereby creating higher demand for

analyst coverage of firms with better IR. Higher analyst coverage combined with lower information asymmetry should increase trading volumes and liquidity leading to lower liquidity premium and therefore higher stock returns. Information risk theory and agency theory thus together provide a framework in which an effective IR policy can influence both stock prices and stock liquidity by reducing risks associated with high information asymmetry. Effective IR thus should reduce the perceived risks that investors associate with high information asymmetry and lead to higher stock valuations.

McGuire et al. (1990) find prior financial performance drives ratings in *Fortune*'s annual survey of 'America's Most Admired Companies'. Similarly, Lang and Lundholm (1993) find that firms with superior past performance and higher analyst following are more likely to receive a higher rating in the AIMR surveys. We therefore establish our first two null hypotheses:

$H1_0$: There is no significant relation between effective IR and prior abnormal equity returns.

$H2_0$: There is no significant relation between effective IR and prior high levels of analyst coverage.

While effective IR can reduce information asymmetry, if the market is efficient with respect to impounding the implications of effective IR, firms that are nominated for these awards should not earn significant abnormal returns over the year following the nomination. We thus establish our third null hypothesis:

$H3_0$: There is no significant relation between effective IR and future excess equity returns.

Effective IR is also associated with increased analyst coverage, primarily because it reduces the time and costs for analysts in searching for, and analyzing information about a firm, and because it reduces information asymmetry between the firm and investors and analysts, leading to increased demand for analysts' services. We therefore establish our fourth null hypothesis:

$H4_0$: There is no significant relation between effective IR and future increased levels of analyst coverage.

Information risk and agency theories together predict that effective IR will reduce perceived risks that investors associate with high information asymmetry with firms in which they have invested, and lower information asymmetry will lead to increased liquidity. We thus establish our fifth null hypothesis:

$H5_0$: There is no significant relation between effective IR and future increased stock liquidity.

2.2. Data

For over a decade, *IR Magazine* has annually commissioned an independent research firm to obtain nominations from investors and analysts for firms that have performed the 'best' in distinct categories of IR over the previous 12-months. Nominations are collected from a large sample of fund managers and sell and buy-side analysts listed in the *Thomson Financial I/B/E/S* database *and Barron's* and *WILink* databases, covering a wide range of industry sectors and investment specializations, although all respondents are encouraged to nominate firms outside their specialities. The nomination-collection

process takes place during March and is finalized March 31 each year, but nominations should only relate to IR performance over the past 12 months. Table 1 panel A presents the number of firms nominated in each category for each of the three years in the sample.

Table 1 here

Stock returns and prices, trading volumes, and industry codes are extracted from the Centre for Research in Share Prices (CRSP) database. Analyst coverage is obtained from the *Thomson Financial I/B/E/S* database.

2.3. Method

Each year from 2000 to 2002, firms nominated in the 'large firms' category are sorted by the number of nominations received and divided into three portfolios formed at the rank percentage breakpoints of award nominations, portfolio 1 with firms in the bottom 33%, portfolio 2 with firms in the middle 34%, and portfolio 3 with firms in the top 33% by nominations received. Similarly, firms that are nominated in the 'small firms' category are also sorted into three portfolios. Finally, we form three pooled portfolios, portfolio 1 is formed by pooling together portfolio 1 firms from large and small categories, and portfolios 2 and 3 are formed by pooling together portfolio 2 and 3 firms respectively from large and small categories. Panel B of table 1 presents the number of firms in each portfolio, pooled across the three award years.[1]

To test whether the firms nominated for IR awards earn superior risk-adjusted stock returns, we employ the following Carhart (1997) four factor model:

$$R_{Pt} - R_{Ft} = a + b\ RMRF_t + s\ SMB_t + h\ HML_t + m\ MOM_t + e_t \quad (1)$$

[1] Since the portfolios are formed using percentiles of votes, the numbers of stocks in the portfolios are not equal.

where

R_{Pt} = the average of the returns of the firms in portfolio P during month t,

R_{Ft} = the risk free rate (US long bond rate) at the start of month t,

$RMRF_t$ = excess return on the market factor in month t,

SMB_t = return on the mimicking portfolio for the size factor in month t,

HML_t = return on the mimicking portfolio for the book-to-market factor in month t, and

MOM_t = return on the mimicking portfolio for the momentum factor in month t.

RMRF, SMB, HML and MOM factors are from the *Kenneth French* web site[2].

To test the average level of analyst coverage of the firms over one year prior (T-1) and one year subsequent (T+1) to the nomination year (T), we pool our sample firms across award years and run the following regression which controls for firm market value at each year-end:

$$AF_i = \alpha + \beta_{IR} IR_i + \beta_{MV} \ln(MV_i) + \varepsilon_i \quad (2)$$

Where

AF_i = number of analysts publishing forecasts in *I/B/E/S* database for firm i,

IR_i = IR rating of firm i, and

MV_i = market value of firm i at March 31 of the award year.

To test whether the stocks' liquidity increases after the nominations, we use the turnover ratio as a measure of liquidity. Monthly turnover ratio for each stock is defined as (see e.g. Korajczyk and Sadka, 2008):

[2] (http://mba.tuck.dartmouth.edu/pages/faculty/ken.french/).

$$TO_{it} = \frac{Vol_{it}}{SO_{it}} \quad (3)$$

where

TO_{it} = turnover ratio of stock i during month t,

Vol_{it} = total trading volumes of stock i during month t, and

SO_{it} = number of shares outstanding for firm i at the end of month t.

Following Tkac (1999), we adjust individual firm turnover ratios for market wide activity by:

$$RTO_{it} = \frac{TO_{it}}{TO_{mt}} \quad (4)$$

where TO_{mt} is the average turnover ratio of all listed firms during month t.

We then average the monthly relative turnover ratios for each firm in the sample over the 12-month period before the award nomination and the 12-month period after the nomination.

The change in relative turnover (DRTO) is calculated as follows:

$$DRTO_i = RTO_{iT} - RTO_{iT-1} \quad (5)$$

where

RTO_{iT} = average monthly relative turnover for firm i from April of year of nomination to March of the year after the nomination, and

RTO_{iT-1} = average monthly relative turnover for firm i from March of year before nomination to February of year of nomination.

To test for the relation between change in stock liquidity and the IR rating, controlling for firm size, we estimate the following regression:

$$DRTO_i = \alpha + \beta_{IR} IR_i + \beta_{MV} \ln(MV_i) + \varepsilon_i \quad (6)$$

3. Results

3.1. Equity returns

Table 2 shows that over the year immediately prior to the IR awards, firms nominated for the awards earn significantly positive abnormal returns, and this superior performance is present across both, large and small firms, as well as across all IR portfolios. There is also a clear pattern in intercepts, firms with more nominations have earned higher returns over the previous 12 months. The evidence rejects null hypothesis $H1_0$ that nominated firms do not earn superior returns in the past, and suggests that prior superior financial performance may drive nominations for the IR awards.

Table 2 here

Table 2 panel C shows that the sample firms earn 80 basis points per month abnormal returns post nomination, which is significant at the 5% level (t = 3.40), and both, large firms (panel A) and small firms (panel B) outperform significantly (68bp and 87bp per month respectively). The evidence rejects null hypothesis $H3_0$ that the nominated firms do not earn superior returns post nomination. Although abnormal return over the next 12 months after the nomination is lower than that for the previous 12 months for all portfolios, nonetheless there is evidence that the market does not fully incorporate the implications of better IR strategies on a timely basis when the awards are announced, and is thus inefficient with respect to this information.

3.2. Analyst Coverage

Table 3 panel A shows that the average analyst following for large firms nominated for the awards is 18.1 in the year before nomination declining to 16.8 in the year after the

nominations. It also shows large firms that are nominated for the awards have higher analyst following than other large firms not nominated for the awards.

Panel B shows the average analyst following for firms nominated in the small firms category for best IR award is effectively unchanged at just above 9 in the years before, during, and after the year of award nomination. Again, nominated firms have much higher analyst following than all other small firms covered by *I/B/E/S*.

Table 3 here

Table 3 shows that for both large and small firms, there is a striking and almost monotonic positive relationship between analyst coverage and effective IR (measured by the firms' number of IR award nominations), and that the firms that subsequently receive more IR award nominations have higher levels of analyst coverage in years preceding the awards, and also over the following years, compared to firms that are nominated by fewer IR award survey respondents. However, the relation between IR rating and analyst following can be confounded by firm size.

Regression results in Table 4 panel A show that, controlling for firm market value, there is a strong and significant positive relation between analyst coverage and number of IR award nominations for large firms in the periods preceding, and following the IR award nominations. Similarly, panel B shows a strong positive relation between analyst coverage and IR award nominations for small firms. The table provides evidence rejecting null hypotheses $H2_0$ and $H4_0$; there is a strong positive relation between analyst following and IR rating. The evidence in Table 4 is consistent with that of Land and Lundholm (1993); survey respondents tend to vote for firms they are familiar with.

Table 4 here

3.3. Stock liquidity

Table 5 panel A shows that for large firms, there is a monotonic increase in relative turnover ratio (RTO) with increase in the number of nominations, and the increase is statistically significant at the 5% level. However, it also shows for large firms, those that are not nominated for the awards, have higher turnover ratios than those that are nominated, and such firms also experience a much higher increase in turnover over the same period.

The results in panel B show a strong positive relation between number of nominations, and RTO with the increase in RTOs statistically significant for portfolios 2 and 3. The RTO of the small firms in the award sample is much higher than that for small firms not nominated for the award, both in the year before, and the year after the nomination. The results indicate that liquidity levels of these firms rise in general, and also that increase in liquidity is positively associated with the effectiveness of firm IR for small firms.

Table 5 here

However, the results of table 5 could also be driven by firm size since firms in portfolio 3 are larger than those in portfolio 1. To control for the effect of size, we conduct the regression in equation (6) with results presented in table 6.

Table 6 here

Table 6 clearly shows that controlling for market capitalization, there is a strong negative association between the number of nominations received, and change in relative turnover ratio for large firms, and a strong positive relation for small firms. This

provides evidence against null hypothesis $H5_0$ in the case of smaller firms: relative trading volumes increase for nominated firms, and the increase is higher for firms that receive more nominations. These findings are consistent with increased liquidity for small nominated firms as, presumably, costs associated with information asymmetry fall for small firms with better communications strategy as proxied by their IR award nominations.

4. Conclusions and summary

This study uses firms nominated for 'Best Overall IR' by *IR Magazine*, over the period 2000 to 2002. We find that nominated firms have higher abnormal stock returns over the year immediately preceding the nominations, and that firms with higher number of nominations have higher past abnormal returns, suggesting past performance drives number of nominations. However, we also find that this outperformance continues over the subsequent year, though it is much smaller, consistent with the market pricing this information inefficiently.

We do not find any evidence that effective IR increases analyst coverage by reducing the time and costs of analyzing information for analysts and increased demand for analysts' services from investors. However, consistent with behavioral finance theories that suggest effective IR can enhance the 'availability' of a stock and cause decision makers, such as security analysts, to favor a particular firm, we find firms that receive nominations tend to have higher analyst following.

Consistent with information risk and agency theories that predict reduced information risk due to effective IR leading to lower transaction costs, on the basis that

trading volumes increase, and that ‘agency costs’ for stockholders are reduced, we find a significant increase in liquidity of the small nominated firms.

In summary, we find firms nominated for IR awards, which proxies for effective IR strategies, have higher market values. We conclude that, consistent with information and agency cost theories, effective IR has clear market impact. We believe this is the first study in the literature to have demonstrated this.

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Table 1: Number of sample firms

Panel A shows the number of firms nominated for 'Best Overall IR by A Large Firm' (over $3Bn market capitalisation) and 'Best Overall IR by a Small Firm' (under $3Bn market capitalisation) from the year 2000 to 2002.

Panel B shows number of firms in the portfolios based on IR score percentile. Portfolio 1 has firms with the lowest 33% of the scores, portfolio 3 has firms with highest 33% of the scores and portfolio 2 has the rest of the firms. Portfolios are then pooled across the three years.

Panel A: Sample sizes by year and IR award				
Award/Year	2000	2001	2002	Total
Large	325	386	401	1,112
Small	848	602	563	2,013
Total	1,173	988	964	3,125

Panel B: Pooled portfolio sample sizes			
Portfolios	Large	Small	Total
1	334	1,208	1,604
2	341	437	756
3	437	368	775
Total	1,112	2,013	3,125

Table 2: Risk adjusted returns

Portfolios in panel A are formed as follows: each year from 2000 to 2002, all companies nominated for 'Best IR by a large firm' by the *Investor Relations Magazine* are sorted into 3 portfolios based on their IR score percentile. Portfolio 1 has firms with the lowest 33% of the scores, portfolio 3 has firms with highest 33% of the scores and portfolio 2 has the rest of the firms.

Portfolios in panel B are formed as in panel A but using all companies nominated for 'Best IR by a small firm' by the *Investor Relations Magazine.*

Portfolio 1 in panel C is formed by pooling portfolio 1 firms from panels A and B Similarly, portfolios 2 and 3 are formed by pooling portfolio 2 and portfolio 3 firms respectively from panels A and B.

The following regression is carried out for each portfolio:

$R_{Pt} - R_{Ft} = a + b\ (RMRF_t) + s\ SMB_t + h\ HML_t + w\ WML_t + e_t$.

Where R_{Pt} is the equally-weighted return on portfolio P in month t, R_{Ft} is the 1-month Treasury Bill rate at the beginning of month t, $RMRF_t$ is the return on the market factor in month t, SMB_t is the return on the mimicking portfolio for the size factor in month t, HML_t is the return on the mimicking portfolio for the B/M factor in month t and WML the return on the mimicking portfolio for the momentum factor in month t. Previous 12-months refer to monthly returns from March of year t-1 to February of the award year t, and next 12-months refer to monthly returns from April of award year t to March of the year t+1. Stocks that are delisted during the holding period are assumed to earn portfolio returns for the rest of the period.

	Previous 12 months			**Next 12 months**		
	Intercept	t	Adj R^2	Intercept	t	Adj R^2
A. Large firms						
P1	0.69	1.67	0.85	0.96	1.87	0.83
P2	1.00	2.92	0.88	0.71	2.61	0.94
P3	1.44	4.48	0.92	0.46	1.24	0.93
All large	1.07	4.06	0.94	0.68	2.21	0.94
B. Small firms						
P1	1.64	4.27	0.93	0.94	3.58	0.97
P2	1.75	4.10	0.89	0.71	2.39	0.96
P3	3.10	8.34	0.91	0.79	1.78	0.92
All small	1.94	5.97	0.94	0.87	3.39	0.97
C. All firms						
P1	1.50	4.37	0.93	0.92	3.45	0.97
P2	1.41	4.21	0.91	0.73	2.98	0.97
P3	2.21	8.59	0.95	0.64	2.04	0.95
All firms	1.66	6.29	0.95	0.80	3.40	0.97

Table 3: Average number of analysts by portfolio

Each year from 2000 to 2002, all stocks listed on NYSE, AMEX and NASDAQ are in the sample. Each year, firms nominated for 'Best IR Award' by the *Investor Relations Magazine* in the two categories, large and small, are sorted into 3 portfolios based on their IR score percentile. Portfolio 1 has firms with the lowest 33% of the scores, portfolio 3 has firms with highest 33% of the scores and portfolio 2 has the rest of the nominated firms. Portfolios are then pooled across the three years. The table shows the average number of analysts following the stocks. 'T' is the year of nomination.

	T-1	T	T+1
A. Large Firms			
Portfolio 1	14.1	13.1	12.3
Portfolio 2	17.7	17.3	16.8
Portfolio 3	21.2	21.1	19.8
All sample large	18.1	17.6	16.8
All other large	14.0	12.5	12.8
B. Small Firms			
Portfolio 1	7.9	8.1	7.8
Portfolio 2	10.3	10.3	10.2
Portfolio 3	11.9	12.7	12.6
All sample small	9.2	9.4	9.2
All other small	4.0	3.8	3.7
C. All Firms			
Portfolio 1	9.3	8.6	8.8
Portfolio 2	13.6	12.5	13.1
Portfolio 3	17.0	19.2	16.6
All sample firms	12.5	12.4	11.9
All other firms	4.3	4.1	4.1

Table 4: Analyst coverage regression estimation

Panel A has all companies nominated for 'Best IR by large' by the *Investor Relations Magazine* and all stocks with market capitalization more than $3 billion that are not nominated. Panel B has all companies nominated for 'Best IR by small' pooled across the years 2000 to 2002 and all stocks with market capitalization less than $3 billion that are not nominated. Panel C has all companies from panels A and B.

The following regression is estimated:

$AF_i = \alpha + \beta_{IR} IR_i + \beta_{MV} \ln(MV_i) + \varepsilon_i$

where AF_i is the number of analysts publishing forecasts in I/B/E/S FirstCall database for firm i in year t, and MV_i is the market value of equity of firm i at 31 March in year the year of nomination (T), IR_i is the IR rating of firm i.

	T-1		T		T+1	
	Coeff.	**t**	**Coeff.**	**t**	**Coeff.**	**t**
A. Large firms						
α	-42.88	20.38	-34.64	16.17	-20.86	10.75
β_{IR}	0.64	3.94	1.51	9.93	1.46	9.47
β_{MV}	3.69	26.84	3.03	21.75	2.17	16.94
Adj R^2	0.43		0.39		0.31	
B. Small firms						
α	-15.53	56.63	-12.56	48.47	-13.20	47.98
β_{IR}	1.31	24.73	1.72	33.42	1.81	35.59
β_{MV}	1.63	71.95	1.37	63.81	1.41	62.46
Adj R^2	0.46		0.44		0.48	
C. All firms						
α	-21.14	74.53	-17.19	65.01	-17.49	61.42
β_{IR}	1.59	30.35	2.05	40.81	2.04	40.70
β_{MV}	2.10	90.94	1.76	81.59	1.77	77.01
Adj R^2	0.61		0.60		0.61	

Table 5: Relative turnover ratio

Portfolios in panel A are formed as follows: each year from 2000 to 2002, all companies nominated for 'Best IR by a large firm' by the *Investor Relations Magazine* are sorted into 3 portfolios based on their IR score percentile. Portfolio 1 has firms with the lowest 33% of the scores, portfolio 3 has firms with highest 33% of the scores and portfolio 2 has the rest of the firms. 'All other large' is a portfolio of all stocks with market cap more than $3 billion that were not nominated for the award.

Portfolios in panel B are formed as in panel A but using all companies nominated for 'Best IR by a small firm' by the *Investor Relations Magazine.* 'All other small is a portfolio of all stocks with market cap less than $3 billion that were not nominated for the award.

Portfolio 1 in panel C is formed by pooling portfolio 1 firms from panels A and B Similarly, portfolios 2 and 3 are formed by pooling portfolio 2 and portfolio 3 firms respectively from panels A and B. Finally, 'All others' represents a portfolio formed by pooling stocks in 'All other large' and 'All other small' of panels A and B.

The table shows the average monthly relative turnover ratio during the year prior to the award nomination (T-1) and the year after the award nomination (T). Turnover ratio for stock i for month t is computed by dividing the average trading volume during the month by the number of shares outstanding during the month. Turnover ratio for the market is computed as the average turnover ratio during month t for all stocks listed on NYSE, AMEX and NASDAQ. Relative Turnover for month t is computed as the ratio of turnover ratio for the stock i for the month and turnover ratio for the market for the same month. Relative turnover ratio (RTO) for year T-1 is the average relative turnover over the past 12 months and that for year T is the average relative turnover ratio for 12 months following the nominations. DRTO is the difference between RTO in the following year and RTO during the previous year.

	RTO_{T-1}	RTO_T	DRTO	t_{DRTO}
A. Large firms				
Portfolio 1	1.16	1.30	0.14	3.03
Portfolio 2	1.26	1.35	0.10	2.29
Portfolio 3	1.38	1.50	0.12	2.51
All large sample	1.28	1.40	0.12	4.45
All other large	1.42	1.89	0.46	6.39
B. Small firms				
Portfolio 1	1.43	1.43	0.01	0.18
Portfolio 2	1.49	1.66	0.18	3.53
Portfolio 3	1.80	2.09	0.30	4.36
All small sample	1.51	1.60	0.10	3.66
All other small	0.88	0.82	-0.07	7.27
C. All firms				
Portfolio 1	1.37	1.40	0.04	1.26
Portfolio 2	1.39	1.53	0.14	4.20
Portfolio 3	1.57	1.77	0.20	4.94
All sample	1.42	1.53	0.10	5.39
All others	0.89	0.84	-0.06	5.97

Table 6: Equity trading volumes regression analysis

Panel A has all companies nominated for 'Best IR by large' by the *Investor Relations Magazine* and all NYSE, AMEX and NASDAQ companies with market capitalization of more than $3 billion not nominated for the award. Panel B has all companies nominated for 'Best IR by small' and all NYSE, AMEX and NASDAQ companies with market capitalization of less than $3 billion not nominated for the award. Stocks are pooled across the years 2000 to 2002. Panel C has all companies, small and large from panels A and B.

The following regression is estimated:

$DRTO_i = \alpha + \beta_{IR} IR_i + \beta_{MV} \ln(MV_i) + \varepsilon_i$

where DRTO is the difference between relative turnover ratio (RTO) for the year after the award nomination and the RTO for the year before the award nomination. Relative Turnover for month t is computed as the ratio of turnover ratio for the stock i for the month and turnover ratio for the market for the same month. Relative turnover ratio (RTO) for year T-1 is the average relative turnover over the past 12 months and that for year T is the average relative turnover ratio for 12 months following the nominations. DRTO is the difference between RTO in the following year and RTO during the previous year. MV_i is the market value of equity of firm i at 31 March in year the year of nomination (T), and IR_i is the IR rating of firm i.

	Large firms		**Small firms**		**All firms**	
	Coeff	t	Coeff	t	Coeff	t
Intercept	-0.10	0.29	-0.64	9.86	-0.69	11.91
IR rating	-0.12	4.62	0.05	2.53	-0.00	0.09
Market Value	0.03	1.43	0.05	8.86	0.06	11.09