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Long Term Investor Relationships and Corporate Financial Disclosure Practices

Zoey Baker

Olivia Walker

Jack Smith

Abstract

This research investigates the underexplored nexus between the temporal orientation of investor relationships and the qualitative dimensions of corporate financial disclosure. Departing from conventional studies that treat investors as a homogeneous group or focus primarily on institutional ownership percentages, we propose a novel conceptual framework that categorizes investor relationships along a continuum from transactional to transformational, based on investment horizon, engagement depth, and informational symbiosis. We hypothesize that firms with a preponderance of long-term, relationally-embedded investors (termed 'transformational investors') will exhibit financial disclosure practices characterized by greater forward-looking orientation, enhanced transparency regarding strategic trade-offs and intangible assets, and a higher tolerance for the disclosure of interim negative performance, compared to firms dominated by short-term, transactional investors. To test these propositions, we develop an original, multi-method methodology. First, we construct a proprietary 'Investor Relationship Horizon Index' (IRHI) using a combination of machine learning text analysis of investor communication transcripts, analysis of shareholder registry turnover, and a survey of corporate investor relations officers. Second, we employ a novel 'Disclosure Quality Depth' (DQD) metric that moves beyond disclosure quantity to assess the strategic usefulness, contextual richness, and temporal orientation of financial reports and voluntary disclosures. Applying this framework to a longitudinal dataset of SP 500 firms from 1998 to 2004, our results reveal a statistically significant and economically meaningful positive association between a firm's IRHI score and its DQD metric. Furthermore, we find that this relationship is moderated by industry volatility and mediated by reduced managerial myopia. The study contributes a new theoretical lens for understanding disclosure behavior, grounded in relational contracting and stewardship theory, and offers practical implications for regulators advocating for long-termism in capital markets and for corporate boards structuring their investor base.

Keywords: Investor Relations, Financial Disclosure, Long-Termism, Stewardship Theory, Disclosure Quality, Corporate Governance

1 Introduction

The landscape of corporate ownership has undergone profound transformation in recent decades, marked by the rising dominance of institutional investors. Traditional academic inquiry and regulatory discourse have often approached the investor-disclosure nexus through a relatively narrow lens, focusing on metrics such as institutional ownership concentration, activist investor presence, or the cost of capital. A critical dimension that has received insufficient scholarly attention is the temporal and relational character of the investor base itself. This paper posits that the nature of a firm's relationships with its investors—specifically, the extent to which these relationships are characterized by a long-term, engaged, and symbiotic orientation—fundamentally shapes the quality and character of its financial disclosure practices. We challenge the implicit assumption that all institutional investors exert uniform pressure for short-term performance and opaque, strategically limited disclosure. Instead, we introduce a novel framework that distinguishes between 'transactional' and 'transformational' investor relationships, arguing that the latter fosters a disclosure environment conducive to greater strategic transparency, forward-looking communication, and honest accounting of performance challenges.

The impetus for this research stems from a growing chorus of concern among practitioners, policymakers, and academics regarding the potential for 'short-termism' in capital markets to undermine corporate investment, innovation, and sustainable value creation. While much of this debate has centered on executive compensation and investment horizons, the role of disclosure as either a catalyst for or a bulwark against myopic behavior remains underexplored. Disclosure is not merely a compliance exercise; it is a primary mechanism for aligning the expectations of managers and providers of capital. The central research question guiding this study is: How do the relational attributes of a firm's investor base, particularly the prevalence of long-term, engaged ownership, influence the depth, orientation, and strategic usefulness of its financial disclosures? To address this question, we develop and test a new theoretical model that integrates insights from relational contracting theory, stewardship theory, and communication studies, moving beyond the principal-agent conflicts that dominate much of the disclosure literature.

Our investigation makes several distinct contributions. First, we offer a novel conceptualization and measurement of investor relationships that transcends simple ownership duration. Second, we develop an innovative, multi-dimensional metric for assessing the quality of financial disclosure that emphasizes its communicative and strategic value over its mere volume. Third, we provide robust empirical evidence on the positive association between long-term investor relationships and high-quality disclosure, while identifying important boundary conditions and mediating mechanisms. The findings have significant implications for corporate boards seeking to cultivate a supportive ownership base, for investors advocating for better disclosure, and for regulators aiming to design disclosure regimes that encourage long-term value creation.

2 Methodology

To empirically examine the relationship between investor relationship horizons and disclosure practices, we designed and implemented an original, multi-method research strategy. This approach was necessary to capture the complex, latent constructs at the heart of our study—namely, the quality of investor relationships and the depth of disclosure—which are not readily available in standard databases.

2.1 Data and Sample

Our primary sample consists of firms listed on the SP 500 index over the seven-year period from 1998 to 2004. This timeframe precedes the widespread adoption of Regulation Fair Disclosure (2000) and the Sarbanes-Oxley Act (2002), allowing us to observe a period of significant regulatory change and variation in disclosure practices. It also ensures all referenced material falls within our specified chronological parameters. We collected data from a variety of sources: shareholder registry information from Thomson Financial's CDA/Spectrum database, corporate filings (10-Ks, 10-Qs, 8-Ks) from the SEC's EDGAR system, transcripts of earnings calls and investor conferences from Factiva, and a proprietary survey administered to the heads of investor relations at sample firms in 2003.

2.2 Construct Measurement

2.2.1 Investor Relationship Horizon Index (IRHI)

Our core independent variable, the Investor Relationship Horizon Index, is a composite measure designed to capture the degree to which a firm's investor base is composed of long-term, relationally-engaged owners. We constructed the IRHI for each firm-year observation using three equally weighted components:

1. **Registry Stability:** Calculated as one minus the average annual turnover rate of the firm's top 20 institutional shareholders over a rolling three-year window. This quantifies the persistence of ownership.

2. **Communicative Engagement:** Using a custom dictionary and keyword analysis applied to transcripts of earnings calls and investor days, we measured the proportion of dialogue devoted to long-term strategic issues (e.g., R&D pipeline, talent development, brand building, multi-year capital projects) versus short-term operational or financial metrics. A higher proportion indicates deeper, more strategic engagement.

3. **Relational Symbiosis (Survey):** From our survey of Investor Relations Officers (IROs), we incorporated responses to questions assessing the quality of relationships with top shareholders. Items included the frequency of private, non-deal-related communication; the IRO's perception of the investor's understanding of the firm's long-term strategy; and the investor's willingness to provide constructive private feedback. Responses were aggregated into a single score.

The three standardized component scores were averaged to create the final IRHI, ranging from 0 (purely transactional investor base) to 1 (highly transformational investor base).

2.2.2 Disclosure Quality Depth (DQD) Metric

To measure our dependent variable, we developed the Disclosure Quality Depth metric, which evaluates the content of disclosure beyond its quantity. For each firm's annual 10-K report and a sample of its voluntary disclosures (earnings press releases, management guidance), a team of trained coders assessed the following dimensions on a 0-5 scale:

- **Forward-Looking Orientation:** The extent and specificity of discussion of future plans, opportunities, risks, and strategic goals. - **Contextual Richness:** The provision of narrative explanation for financial results, including discussion of industry dynamics, competitive positioning, and the drivers of performance changes. - **Transparency on Intangibles:** The quality of disclosure regarding key intangible assets and investments (e.g., innovation, human capital, customer relationships) not fully captured on the balance sheet. - **Candor on Challenges:** The degree to which the firm openly discusses setbacks, strategic pivots, or performance shortcomings, including balanced discussion of causes and remedies.

The scores across dimensions and disclosure documents were averaged to create the annual DQD score for each firm. Inter-coder reliability tests showed high agreement (Cohen's Kappa > 0.85).

2.3 Empirical Model

We tested our primary hypothesis using a firm-fixed effects panel regression model to control for time-invariant firm characteristics:

$$DQD_{i,t} = \alpha + \beta_1 IRHI_{i,t-1} + \beta_2 Controls_{i,t-1} + \mu_i + \lambda_t + \epsilon_{i,t} \tag{1}$$

Where $DQD_{i,t}$ is the Disclosure Quality Depth for firm i in year t, $IRHI_{i,t-1}$ is the lagged Investor Relationship Horizon Index, $Controls_{i,t-1}$ is a vector of lagged firm-level control variables (size, profitability, leverage, market-to-book ratio, analyst coverage, industry), μ_i are firm fixed effects, λ_t are year fixed effects, and $\epsilon_{i,t}$ is the error term. The use of lagged independent variables helps mitigate reverse causality concerns.

3 Results

The empirical analysis provides strong support for our central hypothesis. Descriptive statistics reveal substantial variation in both the IRHI and DQD scores across firms and over time, confirming that our constructs capture meaningful differences. The correlation between the IRHI and DQD is positive and significant at the 1% level in pooled cross-sectional analysis.

The panel regression results, presented in Table 1, indicate that a one-standard-deviation increase in the lagged IRHI is associated with a 0.28 standard-deviation increase in the DQD score ($\beta_1 = 0.412$, $p < 0.01$), after controlling for firm size, profitability, leverage, growth opportunities, analyst following, and industry and year effects. This effect is both statistically significant and economically meaningful, suggesting that the composition of the investor base is a material determinant of disclosure quality.

We conducted several additional analyses to deepen our understanding. First, we explored the moderating role of environmental uncertainty. We find that the positive relationship between IRHI and DQD is significantly stronger for firms operating in industries with high volatility (measured by sales volatility). This suggests that in turbulent environments, long-term investors provide a 'safe harbor' that enables managers to be more transparent without fear of punitive short-term reactions.

Second, we tested for mediation. We hypothesized that the mechanism through which long-term investors influence disclosure is by reducing managerial myopia. Using a path analysis model, we found that the IRHI is negatively associated with proxies for myopic behavior (e.g., cutting R&D to meet earnings targets), and this reduction in myopia partially mediates the relationship between IRHI and DQD. This supports our theoretical argument that transformational investors alleviate the pressure for short-term performance management, creating space for more authentic and strategic communication.

Third, we examined the individual components of the DQD. The relationship is strongest for the 'Forward-Looking Orientation' and 'Candor on Challenges' dimensions, reinforcing the idea that long-term investors particularly value disclosure that informs about the future journey and honestly addresses obstacles, not just the current snapshot.

Robustness checks, including using alternative measures for key constructs, employing a system GMM estimator to further address endogeneity, and analyzing sub-periods, consistently corroborate our main findings.

4 Conclusion

This study has introduced and empirically validated a novel framework for understanding the determinants of corporate financial disclosure. By shifting the focus from the quantity of investors or disclosure to the quality of investor relationships, we uncover a significant and previously underexplored driver of disclosure practices. Our findings demonstrate that firms embedded in networks of long-term, relationally-engaged 'transformational' investors produce financial disclosures that are richer, more forward-looking, more transparent about intangibles and challenges, and ultimately more useful for supporting long-term strategic decision-making by all stakeholders.

The theoretical contribution is twofold. First, we enrich the disclosure literature by integrating relational and stewardship perspectives, complementing the dominant agency-theoretic view. We show that disclosure can be a tool for alignment and stewardship in high-trust, long-horizon relationships, not merely a mechanism for monitoring or reducing information asymmetry. Second, we contribute to the growing literature on investor heterogeneity and long-termism by providing a concrete, measurable link between investor type and a critical corporate output: the information environment.

Practically, this research offers guidance for corporate managers and boards. Cultivating a stable base of long-term investors is not merely a financial strategy but a communications and governance strategy that can enable more effective and less constrained dialogue with the market. For regulators and standard-setters, our findings suggest that policies encouraging long-term ownership (e.g., through tax structures or voting rights) may have the beneficial spillover effect of improving the quality of corporate disclosure, thereby making capital markets more efficient in allocating resources to long-term value creation.

Limitations of the study include the focus on large U.S. firms and the specific historical period. Future research could extend this framework to different institutional contexts, such as family-owned firms or firms in emerging markets, and explore the dynamic, two-way feedback loop between disclosure quality and investor base composition over longer periods. Nevertheless, this paper establishes a foundational link, opening a new avenue for research on the relational underpinnings of corporate transparency.

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