

Investor Relations

Weaving Perception With Performance To Build Shareholder Value

If shareholder value is the key objective of a business entity, then positive perception is probably second most important value building block, performance being the first. A business, which generates positive cash flow year after year, still may not be able to create value if it does not manage its perception well. And it is information that forms perception.

In a world where business economics as well as investment preferences change at a tectonic speed, it is regular and reliable information flow that pacifies restive investors. This regular two-way communication between businesses and investors is what we know as Investor Relations.

From an optional corporate communication activity a few years back, Investor Relations is now much more serious and almost mandatory activity, conducted under CEOs' supervision. As publicly traded companies, it is a primary responsibility of companies to inform and update stockholders about their strategy, performance and future outlook. Doing it more proactively and systematically enhances credibility. Empirical evidence suggests that among US companies those who maintained high paced investor relations enjoyed better credibility among financial community.

Globalization of capital markets has also widened the investment managers' geographical horizon. Money flows across the continents and capital markets are no longer isolated. Dynamics of businesses and volatile socio-political scenario have made investors anxious and impulsive. Not just companies and industries but even countries are vulnerable to investment managers changing perception.

It is no wonder then that managing investor perception has become the most important corporate activity in recent times. Till some years ago, nearly two-third of the market value of a company came from the tangible assets it owned. Today, an analysis of the S&P 500 companies in the US shows that 85 percent comes from intangible assets. And these intangibles are not just value of brand or human resources but also corporate reputation built over years.

In times like this when we witness corporate reputation being destroyed and companies being wiped off from the business map, nobody can take value of intangibles lightly. Investors' key concern these days is not restricted to evaluating financial performance alone. What they are more interested in knowing is how credible these numbers are.

We believe every CEO of publicly listed companies must learn from one of the most acclaimed CEOs of our time, Jack Welch. Any discussion on Investor Relations is incomplete without mention of GE, the world's largest business enterprise by market capitalization. GE attributes much of its corporate success (of course, measured in terms of increase in market capitalization) to its highly proactive and responsible investor relations program.

In 1988, GE was facing perceptual problem with regard to its strategy and the stock price did not keep pace with the improved performance. Analysts dubbed GE as a conglomerate, which does not know where it wants to go.

This was ironical. GE had, over several decades, explained the financial community that despite its diverse businesses, the real essence of its business strategy is simplicity. And now the financial community had a feeling that GE does not have a clear picture of its own. Its strategic capabilities



were now being questioned. Despite that, from just US\$ 12 billion in 1988, GE's market capitalization soared over US \$ 250 billion in 1998.

Still, in 1988, to what the company believed was inaccurate perception, Jack Welch accepted the partial responsibility by admitting that the real problem for the misperception could be GE's communication failure rather than that of investors/media's understanding.

This acceptance by Welch was an exception to the norm, as corporate managers usually shy away from communicating strategic issues. Instead, they view Investor Relations as a financial communication exercise. While some fear of disclosing too much to competition while some feel it is not necessary to communicate strategic issues. The worst are those who assume that most investors already know their vision and strategy so there is no need to repeat them again.

Little do they realize that Investor Relations is more than just a financial communication exercise. It is a discipline that requires special design and rigorous implementation. And at each stage companies and managers have to reiterate their business and financial targets and update investors on progress made.

Investor Relations can have maximum impact if treated like a marketing activity targeted at investors as if they were customers. But this is possible only when a company has an intention to create shareholder value and a financial performance to back its intention. And of course, the intent and performance is communicated to investors.

With more and more companies embarking on technology driven relationship management, Investor Relations too is becoming net driven. Corporate websites, emails, web casting have become widely used tools to update and target investors. But, a word of caution here. Like in any relationship management, here too technology cannot replace human interaction. You may have the most informative website but interacting with investors and getting their vital feedback is paramount. And that is what investor communication is all about.

Thus, for Investor Relations to be successful a company first needs to identify its audience and know their current perception about the company. Only then can a company reach out to its audience with a consistent, credible story, which has a real measurable impact on its market capitalization.

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