

What every director should know about investor relations

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ABSTRACT

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As a result of new legislation, regulation and litigation, corporate boards of directors are increasingly focused on share price as a barometer of their performance, and thus on the investor relations activities through which corporations communicate to current and prospective shareholders and the investment community. The authors, both advisors to corporations on investor relations policy and practice, argue that boards of directors need to take into account the disparity between the long time frame applicable to most-board level decisions, and the short time frame of most professional investors' shareholdings. Furthermore, they need to clearly enunciate a 'value

proposition' that describes how the corporation will create value for investors, recognise that the market rewards most highly superior performance that sustains over long periods of time, and should not allow their corporations to put their perceived integrity at risk in order to meet investor demands for information or guidance. In addition, they should periodically assess the attitudes and investment criteria of the professional investors most committed to their corporation, sector or industry.

INTRODUCTION

Since the realities of Sarbanes–Oxley have begun to sink in, the kinds of requests coming across our desks have changed. We're seeing more requests from corporate boards of directors. They want to know what constitute best practices in communications to shareholders, investors, analysts — the investment community. We're seeing related requests from corporate investor relations departments. They have been asked to report to their boards of directors on their shareholder population, the valuation of their shares and related topics, and they want to know best practices in reporting to boards of directors.

The growing stream of these requests tells us, if we didn't know it already, that corporate boards of directors are more interested than ever in investor relations.

Here, simplified greatly, is how some directors have explained their heightened interest. The wave of corporate scandals

symbolised by the name ‘Enron’ made clear the harm that can occur when boards of directors are ineffective. Sarbanes–Oxley, whatever the value of its actual provisions, sharply reminded all boards that they had duties to perform, and that they could be held to account if they didn’t try their hardest to perform them well. If anyone was going to hold them to account, it would be unhappy shareholders. Shareholders tend to be happy when the price of their shares is high, and unhappy when it’s low. So what is the company doing to keep the share price high? Let’s get the investor relations people in here and find out.

Skipping the cynicism inherent in the previous paragraph, boards of directors should be interested in investor relations. The share price is why your investors invest. That price results both from your actual performance and from perceptions of your future performance; those perceptions are considerably shaped by what you say to your investors through your investor relations activities. Those same activities can encourage investors you would want to own your shares, and discourage those you would not — which can make a big difference when you need shareholder approval for your decisions. Your company is doing a good job on investor relations when the right investors own your shares for the right reasons, and the price of your shares appropriately reflects your company’s prospects relative to its peers.

Investor relations can be, at a large corporation, a ten-person department headed by a very senior executive skilled in both finance and communications. At a small corporation, it could be a part-time responsibility for an assistant treasurer. Or almost anything in between. What’s important is that investor relations (along with public relations) constitutes the communications channel between the corporation and its owners — it writes and/or distributes the formal messages; it arranges the presentations, road shows and management interviews; it answers the

investor questions and conducts the day-in-day-out investor dialogue.

Some directors, we’ve learned over the years, are incredibly savvy about investor relations and, more broadly, the entire process by which corporations and investors communicate with each other and try to influence each other’s decisions. Others know next to nothing — but are usually eager to learn. In the pages that follow, we have assembled our answers to questions that we’re most often asked by board members. We’re talking here primarily to the eager-to-learn directors, but the IR-savvy ones may find some useful thoughts as well.

FREQUENTLY ASKED QUESTIONS

1. Your interests aren’t aligned with your shareholders . . .

. . . and they shouldn’t be

You and your fellow board members are charged with the mission of seeing that the resources of the corporation are used to create value for your shareholders. You will select, evaluate and compensate senior management. You will review and approve strategic plans, policies and budgets, as well as major projects, financings and transactions. You will monitor the corporation’s performance, and advise management on all kinds of corporate matters. Some of your decisions will have immediate impact. But the real value of many actions won’t be fully felt for a year, or five years, or ten, or more.

Your typical institutional investor is charged with the mission of making a profit for his clients. He’s bought your shares because he sees an attractive potential profit. As that potential is realised, he’ll sell his shares and move the money into other stock with attractive potential (actually, he’ll move on even if you haven’t realised your potential, as long as he has a more attractive alternative lined up). Some shareholders (arbitrageurs, for example) invest for a matter of hours, or minutes. Others hold on for a decade or

more. But the databases suggest that, on average, your institutional shareholder owns your shares for a year or less before moving on.

But if your investor is only going to be around for a year, what can you and your fellow directors actually do to enhance the value of his shares in that time frame? What your investor wants is for your corporation to do exactly what he expected it to do on the day he bought his shares. He'll be happy if you do anything that increases his potential profit — but nothing that reduces his profit or increases his risk. So it's OK if you want to fire a lot of people, because that will cut costs and increase profits — and if it also reduces service quality or productivity, those effects probably won't be seen until after he has gone. It's also OK to repurchase shares — a low-risk way to increase earnings per share — and if the corporation eventually wishes it had held onto the cash, that also probably won't appear until after this investor has gone. And it's definitely OK to sell the company, because that will provide an immediate premium to the value of his investment.

But what about launching a new product line? Starting a subsidiary in China? Stepping up spending on technology? Buying another company that closely complements your own? All of these are likely to depress profits in the near term, and all of them also make investing in your shares at least somewhat more risky. Even if the potential payoff is, as you expect, very substantial, it's going to take place after your one-year investor has left the scene. You and your typical investor do not have aligned interests, because only certain actions will benefit him during his period of ownership. And once he's gone, you — and your corporation — will still be there, enjoying or regretting the consequences of your prior actions.

It's become fashionable to talk of compensation schemes that 'align management's interests with those of shareholders' and, more

recently, schemes that do the same with the interests of board members. All this really means is that managers or directors get rewarded if the share price goes up. The question then becomes, within what time frame? Managers with incentives to maximize share price within any given time frame will adopt that as their frame of reference for strategic decisions.

There are two solutions to this issue. First, it's impossible for you to know the preferences (or even the names) of every investor, and you shouldn't be discriminating by responding just to the preferences of a few very vocal shareholders who have been in your face. So it may help to think of your shareholder constituency as consisting of all shareholders as if they were going to own your shares throughout all time frames, rather than as several specific, named investors who are somewhere through their probable one-year terms of ownership. A decision that makes overwhelming sense over a five-year time frame should not be rejected just because some investors want out sooner.

But secondly, hark back to the sentence, 'what your investor wants is for your corporation to do exactly what he expected it to do on the day he bought his shares.' If the decision that pays off in five years is completely (or largely) within what the investor knew to be your strategy when he bought your shares, then the decision is in fact what he bought. He should have no reason for complaint. And that leads to our second point. . . .

2. What is your shareholder value proposition . . .

. . . and how do you plan to make it real?

Your fellow shareholders own their shares because they want to make money. They have elected you and your colleagues on the board to look out for their interests, and especially to direct the company in ways that

will make them the money they want to make. You've accepted a legal responsibility to do the best you can along these lines. The lawyers remind you of this fiduciary duty pretty regularly.

No two companies are alike. No two industries are alike. There's no one standardised best outcome toward which all boards of directors should strive. 'Maximising shareholder value' is the commonplace held out to all boards as the Holy Grail. Depending on where your company is incorporated, you may be required or allowed to balance the interests of shareholders with the interests of customers or employees or communities, but 'maximising shareholder value' is very important everywhere.

The problem is, no one agrees on what the term means. Since you've told your fellow shareholders you'll look out for their interests — their money-making interests — they're entitled to know what you think 'maximising shareholder value' means. Specifically, what are you doing to make money for them? How much do you think you can make? How long is it going to take? And what's the risk that you will fall flat on your face?

Today's marketing buzzword (one of them, anyway) is 'value proposition': a statement of the satisfactions you're going to get in return for the funds you're committing. This is not a corporate mission or vision statement; these formulations are useful with some audiences, but they trigger a gag reflex in most investors. What your investors are looking for is a 'shareholder value proposition'. Let's call it an SVP.

Here's our interpretation of an SVP from an energy exploration and development company: 'We're better than anyone we know at finding oil and gas in weird and difficult places and finding ways to get it out of the ground. Our top priority is really big new discoveries. We'll give our investors some good earnings and some share repurchases, but at the end of each year, we expect

to be judged by the value of the proven reserves we're sitting on top of. Our worth to shareholders will be the value the market assigns to those reserves.'

Here's our version of a SVP from a Rust Belt manufacturer: 'We make good products. But we cannot compete with Asian labor costs. No one wants to buy our businesses. We've got a zillion dollars of aging plant and equipment. No one wants to buy them, either. We'll keep running the business as long as we can make a profit. But we're not going to invest in anything new unless it pays back fast and has a very high ROI. Our worth to shareholders will be about a small stream of profits, a sale if we find one, and a liquidation if we don't.'

And here's our take on a financial institution's SVP: 'We're in high growth businesses, ones that really pay off for the market leaders. We're the low-cost provider, but our technology is behind the curve and our customer service is uneven. We're investing heavily in those two areas. This will hurt profits for two or three years, but we think it will mean major growth once we're done. Our worth to shareholders will be based on our chances for market dominance five to seven years down the road.'

These are very casual 50-word snapshots. Companies would usually talk about these ideas more formally and at greater length, in annual reports or investor presentations. But the basic content tends to answer a recurring series of questions. What business are you (really) in? Why is it a good business for you to be in? Where are you going? How can we tell if you're getting there? If you do get there, what's in it for us, your shareholders? What kind of return does that imply in our investment? In what form will that return be realised? In what time frame? And with what degree of risk attached?

There are many ways, casual or formal, to respond to these questions. The conceptual value of doing so is that this is the kind of understanding that your fellow investors

ought to have. The practical value is that investors who are on the same page as their boards of directors tend to be good investors. They own their shares for longer periods of time, they're less perturbed by bumps in the road, they ask intelligent questions and sometimes make useful suggestions, and they're less likely to support a proxy fight or a hostile takeover — unless you actually have fallen flat on your face. This is where doing the investor relations function well and fulfilling your duties as directors align properly. In contrast, investors who lack this understanding often invest for the wrong reasons, and then either dump their shares or become highly contentious if the company does not deliver the results they seek within the time frame they've selected. Given the choice, it's quite astonishing how difficult it is to find anything resembling an SVP in the public pronouncements of a great many companies.

Please note: giving investors a sense of where the company is headed does not require you to reveal secrets or divulge negotiations. Your legal obligations are, first, not to mislead your investors through your statements, and secondly, to disclose to all investors anything material that you disclose to any of them. Investors will pry and pester constantly, especially in mergers and acquisitions (M&A) situations where leaks are fairly common. A blanket 'we do not comment on market rumours' is the best defence here.

If your company is SVP-deprived, here's one place to start. Many boards of directors ask investment bankers to come in once a year and tell them what the company would be worth if it were sold today. The investment bankers are usually asked to compare the company's current market valuation with some sort of peer group, and to explain the company's leading or laggard position within the group. Sometimes, the bankers are also asked to speculate about what it would take to move upward within the peer group. These reviews are rarely publicised, but investors know they are fairly common.

Your shareholders probably assume they happen at your company.

If the investment bankers had concluded there was no possible way that the company could ever be worth what someone would pay for it, right now, in cash, you would probably be talking to that someone. You are not talking to anyone, so this valuation review has provided three cornerstones for your shareholder value proposition:

1. Your company is worth more today than someone will pay for it, or else the present value of the value your company will generate in the future is greater than what that someone is willing to pay today. Either way, the path to maximising value lies in continuing to run the company.
2. You have a standard of comparison: you're comparing the value and potential of your company to something else: your entire industry, or a few close competitors; the S&P 500, or the Russell 3000; T-bills or some other standard of financial return. Is this the right standard of comparison? That really is a board-level decision.
3. You have a time frame. Your views of the economic future of your businesses and the likely success of your strategic plans combine to produce a future expectation of profitability or value. It probably doesn't peak tomorrow; more likely, it peaks next year, or five years out, or maybe even ten.

And, although this one isn't nailed down, unless you're already at the relative standing you're looking for, there are specific things that have to be done to get to your chosen destination. Find oil. Cut operating costs. Upgrade technology. They're part of your SVP, too.

Investors will want to know your SVP, if they don't already. But they will immediately ask, what's your plan for making it

happen? And they will expect you to tell them. Again, it is astonishing to contemplate the number of companies that have given their investors little to no idea of what their strategic plans are. Strategic plans are best designed by management, and management is probably right that it's a poor idea to give the competition too clear an idea of what you're cooking up. But investors are right, too: they are entitled to a sense of how you're going to create the value you are promising. And since details on your progress may be sketchy, they're entitled to a means to keep score, so they can see if you're actually moving in the right directions. This is particularly important when a company has been underperforming. The current breed of activist investors is most likely to agitate for board seats, changes in management, exploration of strategic alternatives and the like when there's no clear sign that the company is serious about addressing its issues.

One of our era's most successful board-level value creators was recently wooing a group of grumpy investors. Here, considerably edited, is what he had to say: 'In every industry, there are nine or ten metrics that are used to measure operating performance. All the companies use them in one way or another. They show up in all the security analysts' write-ups. What outside directors can do is identify these metrics, see where the company stands in relation to them, and then sit down with management to understand why the company is strong on this metric, and weak on that metric. The board and management should decide where the company should be on each metric, and management should be required to show how, and when, it will get to the desired level. Achieving the metrics flows right into incentive compensation. The company should tell investors which metrics are receiving priority. Management should be required to report regularly to investors on progress against those metrics.'

These metrics may be common throughout your industry, and drawn straight from your financials: operating margin in manufacturing; combined ratio in insurance; inventory turns in retailing; efficiency ratio in banking. But they can also be specific to your company's specific situation and strategy: customer satisfaction; percentage of sales from new products; speed of claims payment; number of defects per delivered product.

A shareholder value proposition, the broad outlines of a strategic plan and a handful of management-priority metrics. Many boards of directors in times past, claiming insufficient knowledge, deferred to management on topics of this sort. We would argue that a board of directors today should have enough understanding of its businesses to address such matters — and, because of its diverse perspectives, will often have something useful to add to management's views.

3. If you want your share price to go up . . .

. . . you'd better start five years ago

Question 1 from any board of directors (or senior executive, or employee): 'Why is our stock price where it is?' Short answer: It's there because that's where the market thinks it ought to be. Follow-up answer: And the market is right more often than it's wrong.

Question 2: 'What do we do to get our stock price to go up?' Two-part answer this time: If your stock price is at or above where it belongs, don't try to make it go up further, you'll just get into trouble. (If you're struggling with the definition of good investor relations practice, the foregoing would by definition be bad investor relations practice.) If your stock price is below where it belongs, you can get short-term improvement from dramatic gestures, or you can get long-term improvement from better actual performance, years of better actual performance.

There's more to it than that, of course, but this is the most fundamental truth.

Let's define a starting point. The easiest and most-accepted denominator between widely varying corporations is the price/earnings multiple (P/E), usually defined as today's share price divided by a company's earnings-per-share for its last four consecutive quarters of its last completed fiscal year. In the market's eyes, P/E is a handy shorthand for the relationship between a company's perceived future prospects and its most recent actual performance. There are all sorts of things wrong with this degree of simplification, but none of them is fatal; P/E persists because, as shorthand, it works. There are also alternative measures for companies for which earnings are not central to value, but our argument here will apply to them as well.

What is the best predictor of a company's share value five years from now? P/E, which is effectively the judgment of actual investors? Or the projections of brokerage-house securities analysts? Or the statements that the company makes about itself? At the request of several clients, the authors' firm studied mid-capitalisation firms over the last decade. P/E turned out to be clearly the best predictor of value five years hence. Securities analysts tended to cluster their projections around the means — as a group, they missed most of the top-decile and bottom-decile performances (the analysts did better over short time frames). As for the companies, their statements about anything more than a year away tended to be consistently bullish, but too vague for qualification.

The most likely explanation for this disparity is the usual one: incentive. Investors make money when the shares they buy go up (or, for hedge funds, if the shares move in whatever direction the investor predicts). Brokerage houses make money when shares are bought and sold, which implies that buyer or seller expectations are changing. Also, it's statistically more likely that the

highest and lowest P/Es will gradually revert to the mean rather than move even farther from the pack.

So, simplistically, P/E predicts the future pretty well. But there is a reflexive element to this as well, because today's P/Es correlate best with the companies' actual performance over the last five years. Indeed, when companies with similar future prospects have different P/Es, past performance may account for half or more of the difference. In other words, for better or for worse, many investors consider past performance to be a good indicator of future performance. So, in their eyes, the best way to increase valuation is the old-fashioned way — quarter after quarter after quarter of improved performance.

In nearly every industry, there are two or three companies that are consistent investor favourites. They trade at P/E multiples higher than the group. They get the benefit of the doubt when they announce hard-to-understand strategic initiatives. They get forgiven if they stub their toes. Meanwhile, everyone else trades up and down on relative pricing and gets beaten up for trying something new or for missing a milestone. Virtually without exception, the consistent investor favourites are the ones with five or more consecutive years of superior performance (they are also companies with clear SVPs).

Investors are drowning in up-tempo company pitches and presentations. After a while, they all start to sound alike. So other than just performing better over time, what can a company say or do that might make a difference to investor sentiment? There are four broad groups of possibilities:

1. Give them the money: value is nice, cash is nicer. Selling the company for a fat premium does this, of course, but that's a decision to be taken in a different context. Dividend increases give shareholders the excess cash you don't

need, and changes in the tax laws have made dividends somewhat more attractive to some investors. Share buybacks give the money to shareholders who are leaving, not ones who are staying; but they do increase earnings-per-share (by decreasing the number of shares) and they do soften the downward pressure on share price exerted by shareholders who want to leave.

2. No-trust-needed fixes for the numbers. Shareholders are happiest assigning a positive value to actions whose numerical parameters are known, and whose impact is wholly within your control. The numbers can be confidently plugged into investor spreadsheets, and new valuations calculated. Examples: layoffs or other cost-cutting measures, restructuring debt on the balance sheet, selling off a persistently underperforming business, or even closing it down.
3. Trust-me business initiatives. Shareholders are more reluctant to assign a positive value to actions whose success depends on the behaviour of people your company doesn't employ or control, such as customers. Most acquisitions take a long time to pay off, if they ever do. New business directions can take even longer. New products mostly flop. Or so runs prevailing investor sentiment, fuelled by data from business schools and management consultants. Boards of directors should indeed approve these activities when their judgment dictates; they just shouldn't expect to see the share price respond until favourable results start to flow in.
4. Spotlight activities. Many companies dispense data by the barrel — fact books, PowerPoints, 24-page earnings releases. Even skilled investors cannot easily find the most pertinent information therein. And often the most useful information isn't even included. Earnings per share are crucially important; income state-

ments and balance sheets need study. But investors should be offered — or directed to — information that describes what lies behind the reported results (as long as it is not competitively sensitive). Simply possessing a better sense of a company's real operating dynamics can enhance an investor's assessment of the company's worth.

4. For investors, the big risk is information risk . . .

. . . but for companies, it's called integrity risk

Investors want two things from their investment. They want a high return on their investment. And they want a low risk of failing to achieve that return. What constitutes 'high return' and what constitutes 'low risk' are matters that vary from one investor to the next. The important thing here is that, although it does not get talked about as much, risk stands up there right alongside return as a central factor in investor thinking.

When investors buy your shares, they take on all the business risks that your company faces, day in and day out. They take on liquidity risk: can they get into your shares without driving up the purchase price, and can they get out later without sacrificing whatever profits they've made? They take on the form of market risk defined by 'beta': if the stock market as a whole goes up or down, what effect will that have on your share price? Investors have developed strategies that deal with various forms of risk. Index funds, for example, don't pick stocks, they just mirror an index so the only real risk is what happens to the particular market being indexed. Long-short hedge funds, conversely, do pick stocks, but combine long and short positions to protect against market movements.

You, however, aren't primarily interested in investors who select your company as part

of an index or mega-strategy (although you'll probably have some of them anyway). You're more likely to want investors who want to own your shares specifically — because they know about you, like what you're doing, and expect to make an attractive profit as you do it. For them, the risk factor that needs to be addressed is information risk. Can they get, and rely on, the information they need to make good investment decisions?

In the age of the 'efficient market', where all relevant information is, at least in theory, instantly reflected in share prices, information risk seems an odd one to highlight. Regulatory filings are voluminous and readily available electronically. News media proliferate; databases abound. Websites archive practically everything. Chat rooms and blogs provide the gossip, rumours and colourful tidbits that bring the data to life. This is, indeed, today's problem: there's just too much information out there, and a lot of it is incomplete, out of context or just plain wrong.

The issue for investors is that, even if they could make their way through all that material, they'd still be left wondering, 'do we have the right information to make investment decisions?'. Because the questions they need to answer are the same ones we've been discussing: (1) Where is the company trying to go? (that's about the shareholder value proposition); (2) How can I tell if the company is getting there? (that's about key metrics, plus the ability to interpret data gleaned from the marketplace); (3) What will that mean for the likelihood, magnitude and timing of returns on my investment? (that's about the actual practice of security analysis and investment decision-making).

Question 1 can only be answered by the company. Question 2 can be answered by company-provided metrics and/or marketplace data that may need company interpretation. Question 3 doesn't need, but may

benefit from, company interpretation of the available information. So this is the investors' information risk. Is the company going to provide enough relevant, timely, accurate information that they can make good decisions? The answer to this question does, indeed, affect P/E multiples.

This is not an issue of Regulation Fair Disclosure (FD). That widely-misunderstood regulation is about even-handed dissemination of material information. It doesn't require any particular information to be disseminated; nor does it require that the disseminated information be what investors are actually looking for. (Reg FD also doesn't prohibit a lively dialogue between your company and its investors about non-material topics, even though the rule is often interpreted that way.)

This is, however, an issue to which earnings guidance is somewhere between illustrative and crucial. Because definitions vary, let's use the broadest definition. Earnings guidance is information that significantly assists an investor in estimating your company's earnings for some period in the future. This definition includes 'EPS will be between \$1.75 and \$1.80'. It also includes 'operating margins will be under pressure'. But it excludes 'we're gonna have a pretty good year'.

Debate is ongoing about what constitutes optimal earnings guidance; the visible trend in the last three years has been towards less guidance, and less specificity when guidance is given. The authors in most cases favour minimising guidance without completely eliminating it, but recognise that specific corporate situations may require different solutions. The key point is that once guidance is given, in whatever form, investors will rely on it. As they should. But if the company doesn't fulfill its guidance, the failure can be bonus-threatening, or even job-threatening, for the investors who relied on it.

Here is where integrity enters the field. For some companies, there may be a

worthwhile upside to giving, and then delivering on, earnings guidance. But for all companies, there is a huge downside to giving, and then not delivering on, guidance. In investor eyes, a guidance failure means either that the company doesn't have a good grip on its own business, or that it doesn't mind flim-flamming its investors. Either way, the company forfeits investor trust, and that loss of trust finds its way directly into the P/E multiple.

The old rule of thumb was that it took two years to recover from your first guidance miss, and five years to recover from your second. Today, it may be easier to look at the P/E premium accorded to companies that haven't missed. Best practice: only give guidance you are certain you will achieve, really certain.

Guidance illuminates the investor integrity issue — but the issue is considerably larger. Investors are used to imprecision and secretiveness from the companies they invest in, and then can live with it, even if they'd prefer clarity and candour. What they cannot live with is deception. Do not tell investors you will or won't do something, unless that's actually what's going to happen. Don't even imply it, through hints or body language. However you communicate an expectation, investors will rely on the message, and when the expectation doesn't come true, you will be hit for integrity risk. And that risk lasts a long time.

5. You don't need to know all about investor relations . . .

. . . but there are questions you should be asking

Investor relations, properly managed, is not just a megaphone for outbound messaging. It is also a microphone for incoming messaging, and it's important that the essence of that incoming messaging makes its way to the boardroom. Boards need to rely on the IR channel, because the board as a whole hasn't

time to listen to every shareholder with strong views to impart, and for individual directors to have side conversations with investors raises all sorts of legal issues. While boards and managements may need to have a framework for board shareowner communications in place, as the National Association of Corporate Directors (NACD) recommends, these situations typically involve what we'll euphemistically call 'special circumstances'. In other words, someone's unhappy. A few simple and practical preventives follow.

Once every year or so, you and your fellow directors ought to have a conversation with the investor relations team. Tell them to skip the fancy slide show. You really don't need to know the nuts-and-bolts of the IR trade. Instead, ask your team to address questions like these:

1. 'How many of our shareholders have we had serious conversations with in the last three months?' Most corporations these days are two-thirds or more owned by professional investors (institutions). Some of them are index funds or investors who don't talk about their decisions. But it's not hard to talk to the owners of a third or half of the remaining shares over the course of 90 days, even with blackout periods. If you want to know what's in their heads, there's no substitute for direct conversation. Investor conferences do not count; neither do e-mail interchanges.
2. 'What proportion of our shareholders own our shares for reasons that approximate our shareholder value proposition (SVP)?' This is absolutely critical. There will always be all kinds of reasons for investor decisions. If most of your shareholders are investing for your reasons, you're in pretty good shape. (Data signal: low-turnover investors are more likely to know and buy into your SVP than high-turnover investors.) If most

are investing for other reasons, maybe you're telling your story really badly, maybe your version of reality is seriously at odds with your investors', or maybe there's something genuinely unexpected at work in the market for your shares. In any of these cases, your company has some work to do.

3. 'What other reasons do our shareholders have for owning our shares?' Investors may simply like your entire industry sector. They may be following a quantitative strategy. Or they may focus on a particular trend or market dynamic that you don't find equally important. But they may also be looking for a 'near-term value-creating event', which usually boils down to selling or recapitalising the company. Whatever the case, you want to know why the non-believers are owners.
4. 'How do our owners compare us with our peers?' You probably have an idea of who your investment peer group is, although it's useful to be sure your idea matches up with your investors' perceptions. That said, the goal is to determine if you're being appropriately assessed for your comparative strengths and weaknesses. If, for example, you're the group's technology leader and someone else is getting that credit, it could be hurting your sales as well as your P/E multiple.
5. 'Why do our non-owners not own our shares?' Investors who are heavily invested in your peers but not in you are actually good prospects. They like your industry, and probably know you well enough to have considered investing in you. So why did they reject you in favour of the competitors? And what would it take to get them to take another look?
6. 'What will it take to meaningfully change investor views of our shares, for better or for worse?' If there's something

within your power that would make your shares more attractive, you should know what it is (even if, for other reasons, you aren't going to do it). Ditto for something that would detract from the appeal of your shares. Please note: this is not about blindly doing what investors propose. You can get some exceptional insights from shareholders; you can also get some really silly suggestions.

Investor relations professionals are usually comfortable discussing qualitative measures of trading in your shares, characteristics of your shareholder population and how your company compares with various benchmarks. In the authors' view, these can be interesting, and are sometimes genuinely important. But they are less important than learning what's in the heads of your investors. Investor relations is a sales function, not a communications function, and it is the customer/shareholder relationship that needs constant review and renewal.

Just to be sure things are on the right track, once every two or three years, you and your fellow directors should commission an independent assessment of the attitudes of your investors. You should direct this study yourself, out of the sphere of influence of management and its investor relations department. Shareholders, after all, are the people who elected you. It's a good idea to be sure you really do know what they're looking for and what they are thinking about your company.

At the end of the day, that's the core of investor relations executed properly: getting the right shareholders to invest in your company for the right reasons. That's partly about giving them the accurate numbers they're entitled to (as Sarbanes-Oxley reminds us all). But it's just as much about reaching out, building relationships and, above all, fostering mutual understanding.