

## National Investor Relations Institute

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June 1995



*Silver*

## *Anniversary*

*Issue* NIRI marks its 25th birthday with a silver anniversary issue of **Update**. Stories in this issue were written from a series of discussion sessions held in New York and Chicago with investor relations practitioners. Participants include a number of the founders of NIRI who helped establish the investor relations profession. We are indebted to these pioneers and current leaders of the practice and we thank everyone who took part in the discussions.

## Chairman's Report



Dear NIRI Member:

As we celebrate our 25th anniversary, it's worth recalling what a dynamic business we're in. Following are some trends which have brought major changes in how we conduct investor relations:

•**The focus from individual investors to institutional investors.** When Congress passed the Employee Retirement Income Security Act (ERISA), pension funds started to grow at a tremendous rate. Today, there are over \$3 trillion dollars invested in pension funds with a large portion in securities. Coupled with that growth has been a similar increase in mutual funds, the choice for most individual investors as a way of investing in the stock market. Today, 55% of companies represented by NIRI members are over 50% institutionally held with 10% more than 80% held by institutional investors. Individuals are still an important investor base for many companies, but we tend to communicate with them through the sell and buy side analysts.

•**From public relations to finance.** Though investor relations will always be a hybrid of communication, marketing and finance, we have seen a significant shift in the reporting relationship of the IR function from public relations in the early years to where over 60% of IR officers today report primarily to the CFO with some reporting to the treasurer. The institutionalization of the market has been largely responsible for this shift along with the desire of analysts to speak with someone in corporate finance about the company's financial performance and prospects.

•**From tactics to strategy.** IR has grown from the tactics of how best to communicate the company's message to the investment community to a more strategic role in developing strategies for capital formation. Identifying what drives value within the company and communicating that to the investors is part of that role. So is providing input on corporate development planning and proposed M&A activities.

•**From domestic to global.** We have entered the global market. This week, the U.S. will be on a T+3 clearance and settlement standard (stock trading transactions must be settled within 3 days after the trading day) so the U.S. will part of a uniform global trading system. More and more companies are looking to overseas investors to raise capital. Likewise, foreign companies are in growing numbers accessing the U.S. capital markets, the wealthiest and most secure in the world. Yet, all this means U.S. companies must recognize they are now in a global competition for capital.

•**IR is moving from primarily a "talking" function to that of "listening" function and gathering market intelligence.** That information is being fed to top management and the board of directors as they make major decisions about future directions for the company.

•**Investor relations officers that make a difference are moving from middle management to senior management** and are entering the board room bringing information and intelligence to top management and the directors as they deal with issues such as corporate governance, executive and board compensation vis-à-vis corporate performance and corporate development.

•**From paper to on-line.** As we enter the era of the "information super highway" and cyberspace, we are seeing a revolution in how we communicate. From mailing and "faxing" to on-line services and communication means are the wave of the future. Likewise, from face-to-face meetings to conference calls and video conferences are revolutionizing how we communicate.

All of these trends demonstrate not only the dynamics of the investor relations function but demand that NIRI be flexible and on the cutting edge to assist you in meeting the demands brought about by these changes.

Sincerely,

Mickey Foster,  
NIRI Chairman and Vice President, Investor Relations, Hanson Industries

## President's Report



Dear NIRI Member:

This special edition of *Investor Relations Update* commemorates the 25th Anniversary of NIRI. Editor Bill Mahoney compiled this edition based, in large part, on a series of three roundtable discussions involving a number of the people who started this profession and NIRI itself.

The origin of the practice of investor relations goes back to 1953 at General Electric Co. where its Chairman Ralph Cordiner urged that a new department called "investor relations" be established to formalize the company's relationship with its shareholders.

From that seminal event, we have seen a profession grow immeasurably over the 42 years that have followed. This edition, plus Dewitt "Dick" C. Morrill's "The Origins of NIRI," which is being released at the Silver Anniversary Conference in Scottsdale, AZ, tell the story of the evolution of the investor relations practice and the creation of NIRI. All members will receive a copy of Dick's publication.

We owe a great deal to the pioneers of this profession for their foresight into the need for investor relations and their advocacy for the principle that an orderly and efficient market needed a program and spokespersons who could relate to the investment community a company's performance and prospects in an accurate and timely manner.

And, we know that as advocates for such a goal, that it's not always easy to convince senior management of the need and importance to carry out this objective on a consistent basis — in good times and bad.

Hopefully, our efforts to bring you the history of our profession will give you greater insight into what those before you encountered as they steered their course and that their legacy will give you support as you deal with the uncharted waters ahead.

On a personal note, I have had the privilege of serving as your president for half of the life of NIRI. This has provided me an opportunity to work with many of the wonderful people who have helped shape the future of investor relations and with many of you who will play that role in the years ahead.

I would hasten to add that two other staff members, Linda Kelleher and Sue Nunn, have been with NIRI about equally as long. When we joined the NIRI staff, there were four of us and the membership was less than a thousand. We held two conferences a year and one seminar. Today, your staff of 10 dedicated people serve a membership of about 2,700. We conduct an annual conference and about 20 seminars a year. Moreover, we have greatly expanded our member services.

The signs of this being a truly growth profession are indisputable. Our membership continues to grow at record levels. Last year, we had a record member retention rate of over 90%, and since moving to an annual conference four years ago, we have experienced record attendance for each succeeding conference. This year will surpass last year's considerably.

On behalf of the NIRI staff and your Board of Directors, we greatly appreciate the opportunity to serve you, and we look forward to an even brighter and rewarding future.

Most sincerely,

A handwritten signature in dark ink, appearing to read "Louis M. Thompson, Jr.", written in a cursive, flowing style.

Louis M. Thompson, Jr.  
President & CEO, NIRI

ideas, make or strengthen pronouncements, or set up dictums. "When the SEC had something to say, it used us as a platform," says Chatlos. "Otherwise, you didn't dare approach them."

Among the major ideas floated by the SEC at NIRI conferences were segment reporting and earnings predictions. At the time, segment reporting was a new idea, with SEC commissioner Allen Levenson recommending it. "Companies saw it as giving away inside information on the business," says Peter Osgood, head of Osgood Global Group, who previously led Newsome & Company, "but now it is routine and no one was ever hurt by it that I know of."

TRW used segment data successfully to build analyst coverage, comments Arlen Southern, with TRW at the time and now a consultant. It was 1964 and the company decided to put segment information in its annual report and unveil the information at an analysts' meeting, with a writer for Fortune magazine in the audience. "It got us the cover story of Fortune and a step up in the drive to become a billion dollar sales company," says Southern. The key for TRW was using segment data to build credibility with the investment community as a conglomerate, he explains.

The issue of earnings forecasts was far more controversial and still is today. "The SEC was enamored by the idea," says Chatlos, but companies were reluctant, to say the least. Several investor relations people met with the SEC over the issue. It was the early 1970s. "We said a forecast made on January 1 was practically useless by the end of the year."

Companies were trying to do a good job of managing expectations, recalls Osgood, but high trading was the game at the time, especially by the regional houses. "Managements were trying to do a better job of communicating, but they had no control over what was going on," Osgood says.

Analysts' forecasts added to the problem. They were seldom accurate. "There were so many year-end adjustments and there was so much unpredictability among the flow of businesses that to try to project out into the future was ridiculous," says Dick Morrill.

In addition to meeting with the SEC, NIRI got about 40 CEOs to write letters expressing their concerns in making forecasts even in light of a safe harbor. No one felt that the safe harbor was very safe, adds Morrill. While the issue wasn't pursued by the SEC then, it certainly is back in the spotlight today. (See April and May Updates and page 15 of this issue.) **IR**

## GE sets up first IR department: AMA sponsors conferences

General Electric gets credit for coining the term, investor relations, and for establishing the first investor relations department. The year was 1953. CEO Ralph Cordiner recognized the importance of establishing relationships with investors and hired Lowell E. Petit to study the feasibility of setting up a department. It was to be headed by Glenn Saxon, and during the first few years, staff members included John Gearhart, Peter Converse, Dick Broderick and Fred Robinson.

All but Robinson quickly moved into investor relations positions with corporations — Gearhart at RCA, Broderick at TWA, Converse at Sperry Rand, and Saxon first as a consultant, then at Singer. Saxon would return to GE as manager of investor relations services.

Meanwhile, the investor relations practice was gaining recognition. The American Management Association wrote a guide to conducting effective stockholder relations and began sponsoring conferences on investor relations in 1958. The AMA would continue its educational program for a decade.

With the market dominated by individual investors, the National Association of Investment Clubs (NAIC) was started in 1951 in the Detroit area by George Nicholson and Thomas O'Hara. A decade later, NAIC joined with nearby Wayne State University in sponsoring a conference on investment philosophy and education.

In his history of the early evolution of investor relations, Dick Morrill calls this conference a "landmark event," because it brought together companies and investment professionals "to explore trends and needs." The following year (1964), Wayne State repeated the conference, calling it "Significant Developments in Investor Relations." A third conference, in 1966, attracted some 25 attendees, all essentially full-time corporate investor relations practitioners or consultants. The group included Saxon, Broderick, Converse, Gearhart, O'Hara and Ken Jenke from NAIC, Chatlos at Georgeson, Crosby Kelly at Litton Industries, Morrill at Indian Head, Bob Savage at ITT, Bob Johnson at Chrysler, Carl Claussen at American Natural Gas, Ken Norton at AT&T, Eldridge Scott at Detroit Edison and Roland Williams at Ford.

Continued on page 10

### *Meeting to deal with ethics issues*

Before the practice began to be formalized, a small group of pioneer IR managers were meeting on an ad hoc basis at the Harvard Club, Overseas Press Club, Wings Club, and other New York locations. It was the early 1960s. Morrill says Dick Broderick was the instigator. "He was interested in having someone to talk to, and there wasn't anyone else in the airline industry doing investor relations."

The group included Chatlos, Morrill, Broderick, Savage (then at Chrysler), Gearhart, Converse and Saxon. In addition to exchanging ideas on the practice, they were concerned about the lack of integrity involved in touting stocks.

The IRA can be called the forerunner to NIRI. Both organizations were started by the same group of practitioners. Those ad-hoc lunches led to forming the Investor Relations Association in 1966.

### *First IRA, then NIRI*

The decision to form the IRA was made at a meeting in late June. It became official at a second meeting on July 7, with nine original members, Morrill recalls — Morrill, Chatlos, Robinson, Savage, Saxon, Converse, Gearhart, Broderick and Jeff Bradley from TRW. Chatlos was picked as first president to serve until the first annual meeting after some debate since he was a counselor. His selection was based on his important contributions to the practice as writer of the "Trends" newsletter, experience at Georgeson and the "tough mindedness" needed at this time in leading the professionalizing of the practice, Morrill comments in his history of the development of investor relations. Gearhart became the second president.

Eleven members were added within a year, including Crosby Kelly, Jack Hammel at GTE, Matt Kane at Standard Oil, Bill Brackman at Gillette, Harold Riggs at AT&T, and John Kelsey at W.R. Grace.

From the start, IRA saw itself as a small group of corporate practitioners, probably no more than 30, mostly based around New York or spending extensive amounts of time there meeting with analysts. However, the IR practice was growing nationally, aided by an abundance of initial public issues, and scandals aplenty in the markets, with potential impact on every public company.

Talk began among IRA members of establishing a national association. A few members objected, while some felt IRA should be the founding chapter. The issues were resolved by early 1970 with the formation of NIRI. IRA would remain a separate organization. "We felt the value of dialogue by a small group was productive," says Morrill. "Thirty was an ideal number, with about 20 showing up for any meeting. It was designed for effective communications and participation, not to keep people out."

A Constitution was written, circulated and signed by founding NIRI members between February and April. By March, NIRI was officially launched, with 22 charter members. Interestingly, the complete list has been lost in history and NIRI has asked the few who weren't identified in the files to step forward.

Identified as charter members are Gearhart, Morrill, Chatlos, Saxon, Broderick, Converse, Bradley, Kelly, Jim Stier at W.R. Grace, Truman Henley at 3M, Allen Singer at Graphic Controls, John Silver at City Investing, Howard Bradley at Houdaille Industries, Richard Axten at Raytheon, Richard Barnett at Goodyear, Robert Eisenhower at Textron, Richard Fuller at Bendix, Gerald Parsons at U.S. Plywood, and Murray Sanders at Martin Marietta.

A question apparently not debated very long or intensely was whether to call the new organization an association or institute. AT&T's Charles Kuehner was persuasive. From his experience with George Gallup who had formed the American Institute of Public Opinion, Kuehner readily saw the advantages of being identified as an educational organization, recalls Morrill.

Because NIRI initially was managed by an association management company in Washington, headquarters were established there.

Saxon was named first president, with Gearhart, Morrill, Singer and Chatlos completing the charter group of officers. Gearhart and Chatlos would also serve as president in succeeding years.

NIRI began with a set of guiding principles set out by Saxon. The first was to represent the shareowners, consistent with the marketing notion of "considering the customer's interest as paramount."

Next was providing more well-trained people, and third was avoiding the problems that "touting and cutting ethical corners would create." Fourth was to include counselors in NIRI to "be able to set standards for the whole profession."

Companies were quick to respond to the opportunity to join this first national investor relations organization. By June, NIRI had over 200 members in 27 states and was about the business of establishing 17 chapters.

### *Real issues to battle*

The "fire in the belly" of NIRI collectively in the 1970s was lighted by insider trading scandals, an age of stock tips and so-called "story" stocks, some perceived missteps at the SEC, overly aggressive companies and consultants, and heavy commission-driven trading by brokers. "The markets were wild and woolly," recalls Morrill.

While NIRI is driven today by education and professional development, it was driven then by restoring integrity to the practice. "We believed we were kind of saviors of investor relations as a practice," says Phil Webster, then at Damon Corp. and now a consultant. "We would root out evil and insure that our corporations and clients behaved properly."

"Can you imagine," suggests Bill Chatlos, "going down to the SEC and telling them they were dead wrong? No one had done that, and I almost think they found it refreshing."

"The SEC realized we were serious about what we were doing, and that we meant well by it, that we were trying to do the right thing," adds Peter Osgood.

Chatlos describes the situation then this way: "There were the high binders on Wall Street, the opportunists in the press, the bad guys in the back office, and our own competitors. They were all there. We asked the question is this capitalist system worth saving? If this is worth saving, let's find a way to root out the bad and encourage the good."

Issues of the day? What constitutes material information may have been the biggest one. It was debated in NIRI conference after NIRI conference, with the SEC participating but never quite spelling it out for anyone. The SEC's credo, often repeated to this date: When in doubt, disclose.

Meanwhile, landmark cases were breaking such as Texas Gulf Sulphur in 1964, and the National Student Marketing and Equity Funding cases in the 1970s. The latter launched the continuing debate between Ray Dirks and the SEC. Dirks, the analyst who blew the whistle on the alleged insider trading Equity Funding, has long since been exonerated. In a complex situation, Texas Gulf raised the question of whether officers and directors had traded on inside information.

Stock tips were hardly the province of brokers; you could get them from cab drivers and barbers. What stocks to buy seemed to consume conversation at parties, in the office, everywhere, Morrill suggests in his history. "Story stocks" were born from the boom in technology that spawned public offerings by companies, he adds.

Investor relations also was fighting its perception as public relations. "We were still seen as public relations people rather than being financially oriented," says Webster. "We were mainly dealing with individual investors, because institutions were just beginning to get involved. So, we were focusing on the brokers who could bring in 100 or 200 individuals."

### *First conference a blockbuster*


In the face of what some considered turmoil, the young NIRI group was determined to make its national conference in 1970 in Washington a blockbuster. It succeeded in its goal of attracting "the largest array of high-quality speakers ever assembled to this time," says Morrill, including well known members of Congress, regulatory and judicial bodies of government, the investment and academic communities.

The meeting set NIRI on a track of successful, highly popular conferences that continues today, witness the record 900-plus attendees at the 1995 event.

It also helped spur membership growth. By the end of 1971, NIRI had over 250 members.

NIRI's crusading zeal didn't go unnoticed either. An April 1970 story in Business Week was titled "Chilling touts with cold facts" and featured a photo of Saxon and Gearhart, with the caption, "Gearhart and Saxon aim to drive stock touting out of investor relations work," notes Morrill in his history.

While still focused on individuals, the seeds for sowing the institutionalization of the market were being planted with the establishment of ERISA in 1974 — the Employee Retirement Income Security Act. "It, in effect, motivated companies to turn the management of their pension funds over to professional investment firms," says Mark A. Steinkrauss, vice president of investor relations for Fruit of the Loom.

Enter a new chapter in the growth of investor relations. "As large pools of money were being professionally managed, the demand began to be created for information services," says Ralph Allen, vice president of investor relations for ITT Corp. 



## Annual reports have come a long way, baby

Annual reports were skinny little documents printed in black with no photos offering minimal appeal to investors beyond the numbers.

Give General Electric credit for modernizing the report, says Bill Chatlos. The company did an extensive survey of shareholders to find out what they wanted by way of information and help in getting more out of the reports. The survey results moved GE to enlarge type size throughout the report, especially in the graphs and charts, according to Chatlos. "GE had many older shareholders."


GE also was first to start the report with financial highlights followed by the letter to shareholders. Until then, annual reports were like books, filled with blank and title pages before any information was provided.

GE discovered the value of including a photo of the CEO with the letter. "It increased readership several fold," says Dick Morrill.

Before then, reports looked stock certificates folded four times."

Of course, companies can go too far with their use of photos and fanciness. Some of us remember when the annual reports of car companies looked like a product parade. And Eastman Kodak turned its report into something resembling "a high school yearbook," recalls Ralph Allen. "There were pictures in there that no one cared about except their mother," Allen said of the film supplier.

Progress in annual reports has not come without glitches. Chatlos recalls the report (company unnamed) that reversed the names of the chairman and president under their photos.

But more disturbing was the report he wrote entirely from his imagination. Because the client had no idea how to prepare a report, Chatlos agreed to make up a sample report as a guideline. "I dreamed up the entire thing," he says, "complete with a sales meeting in Florida, and sent it off to him. I never heard a word, then I got a copy of the report. He had printed it. I made the whole thing up and the company printed it." 

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## Sell side analysts become prime IR audience

What a difference 30 years makes.

In the mid 1960s, individuals dominated the market, institutions had a small percentage of the holdings, and the clout of brokerage analysts was yet to be felt.

Then institutions began the process that would lead them to taking control of the market by growing the size of their holdings, and analysts started directing their research to the institutions as brokerage income from commissions became a major source of revenues, and individuals decided it was safer to invest through mutual funds.

For companies, the investor relations focus shifted from individuals and brokers to institutions and analysts. Today, many companies write off individual investors as a waste of precious IR budget dollars. Tomorrow? See page 22.

First, sell side analysts became the prime target of companies' financial message. The relationship was love/hate. The analysts became part of the company's sales team in reaching institutions (and individuals) when they liked the company and the stock's prospects. Thus, they were courted, and as companies set out their IR objectives, getting more analyst coverage topped the list. CEOs began to believe that the essence of an investor relations program centered on analyst contact and relationships.

But companies also realized analyst interest was a 2-edged sword. The analyst who didn't like the company could be trouble. And since brokerages are fundamentally interested in generating commissions, analysts weren't about to begin coverage of a company that didn't offer much of a buying opportunity because of a small share float or lack of growth prospects.

With coverage in process, the company remained under the analyst's watchful eye. That meant a "buy" recommendation could be a "hold" or "sell," both of the latter feared by corporate managements and IR practitioners.

In the 1960s and early '70s, the research primarily served individuals and the brokerages' retail reps. After ERISA, as institutions began to manage the large and growing pools of pension money, banks and insurance companies grew, and mutual funds sprang on the scene, analysts found an emerging, information starved, and highly lucrative market for their research.

### *Analysts get rich on institutions*

Retail brokers benefited even more from the explosion in research/analysis available from their firms, but the big money was being made in commissions returned by institutions for the valuable information, recommendations and transaction trading that was taking place.

The role of analysts became even more important for companies. The sell side became the number one audience for investor relations people, followed by retail brokers, then the institutions, and finally, individuals.

As money management proliferated, competition to earn a better return became stiffer. Pension managers contributed to the race for returns by becoming less patient with the performance of their investment managers. Investment firms were trading more in trying to improve

returns. Brokerages didn't mind; trading creates commissions.

Sell side analysts began focusing more on quarterly results and started estimating the next quarter's earnings as well as those for the year. Companies were helping by making their own forecasts. For small companies especially, the predictions were a way of getting attention. The quarterly and annual forecasts of analysts, with comment from companies, were organized and published by a number of firms. Soon, the institutions and consultants were building investment models around predictive earnings growth and revisions.

Computerization began to revolutionize the investing process. It encouraged institutions to create and fine tune their own models, gathering information from electronic databases, companies, and value-add portfolio management computer services. Consultants began offering advice on investment modeling, value-add information, and portfolio management software. Many institutions grew their own inside research capabilities.

In this scenario, sell-side research was still important, especially for smaller money management firms, but it clearly was slipping in stature, if not usage. The bigger, more sophisticated institutions were relying on brokers more for their trading skills than research. Trading was ranked first among brokerage services, research second and analysis third.

Institutions also began to question the quality and integrity of sell-side research. Quality came under scrutiny as competition for conducting transactions from new services and direct electronic methods of trading shrunk brokerage income from commissions, motivating firms to reduce research staffs and require analysts to cover more companies and even more industries in some cases.

Integrity of the research also worried institutions who saw a weakening of the Chinese wall that separates brokers' research from their corporate finance activities. Fees from handling mergers, acquisitions, initial public and secondary offerings became even larger sources of revenue than trading commissions for many brokerages. Research reports were written on companies taken public or issuing additional stock. The question became are the reports objective or influenced by the deal.



### *Analysts' role today actively debated*

The trends continue today, leaving questions for companies on how to work with the sell side. The issues apply to companies of all sizes, involving the impact of earnings estimates, how much so-called guidance to give analysts in making their forecasts, how best to divide time and resources in pushing for analyst coverage versus focusing directly on institutions with their investing models.

How hard small companies should pursue sell side coverage remains under debate. Coverage for small companies is minimal. Only about 2,700 companies, from an estimated 10,000 plus that are public, have two or more analysts following them, says Lou Thompson, NIRI president, citing research from Nelson Publications. About 5,500 companies have any coverage, Thompson adds, meaning at least 5,000 public companies have no analyst sponsorship.

It's impractical for many companies to seek coverage, suggests Gary A. Kraut, president of G.A. Kraut and Company. "They're simply not going to get it. The economics of the brokerage industry don't allow

While the national firms can't justify following small companies on the basis of commission potential, regional firms can and are providing coverage, adds Bill Hartl, vice president of investor relations for Ashland Oil. If not the firm, then maybe there are a couple of brokers with strong customer bases making a market in the company. Many retail brokers have large customer rolls and are capable of moving stock price. Chances are there is a "regional stock broker who has picked up on the company and has clients out there doing very well, thank you," says Hartl. "So there is coverage, but it's not the kind we think of for a large cap company."

Hartl wonders if smaller companies are trying hard enough. Even with Ashland, essentially in one industry, it was tough to get coverage going, he says. "We had to force their attention to get any information flowing and to establish a following. It took a lot of work. But I wonder if some of the companies that are upset about the lack of coverage realize there are ways to get around this if they're willing to put the effort into it," Hartl suggests.

Sell side coverage may not be as important today as it once was, suggests Kay Breakstone, president of Ludgate Communications. "Is it as essential today to have coverage as it was 15 years ago when the market did not look at the valuation techniques as closely," she asks?

Going directly to the buy side may be a better strategy, suggest ITT's Ralph Allen and Elizabeth Smith, vice president of investor relations for Texaco. "Clinging to the notion that the sell side is our future is a loser's game," says Allen. "We already are bypassing them in many

respects as we distribute information." Adds Liz Smith: "Doing IR a different way, bypassing the analysts and going directly to the institutions may be the answer."

As big companies, ITT and Texaco are finding the reports on them are diminishing in size and number. "I've seen the number of reports on my company drop dramatically, and it doesn't matter," says Smith. "Analysts' credibility isn't as good as it once was, the depth is less, and I can hardly remember when the reports were 30, 40 or 50 pages long."

"It's almost embarrassing to get a request for an analyst report, because they're not there," adds Ashland's Hartl. Today, most of the information from analysts is what is provided in the notes that move across First Call, Hartl suggests.

## ANNUAL REPORTS

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With the explosion of technology in disseminating information, sell side analysts are finding it more difficult to rationalize their role, says ITT's Allen. "The buy side demands and gets everything we give the sell side at the same time. The sell side's value now is in following fewer companies than the buy side analysts. They can focus on one company more thoroughly and move information more quickly. In fact, that's the challenge now for sell sides — to be first with new information."

The pressure on analysts to help drum up corporate finance business for the brokerage is apparent. "When we set up an appointment between a company and analyst, invariably two or three investment bankers are in the room," says Breakstone. The analysts admit the pressure, she adds. "So the role of the sell side analyst has changed dramatically," Breakstone says.

Brokers are saying their firms can't afford to do research without investment banking, comments Allen. "The research guys would tell you they can't pay for themselves without the investment banking. That's the reason for all the pressure."

For companies, the bottom line on the importance of brokerage research is still its use by institutions. In some 1,300 interviews with institutions each year, portfolio managers say they pay attention to the work of about two or three sell side analysts, reports Bob Amen, president of Robert A. Amen & Associates/Ketchum Communications. "That's two or three analysts out of some 30 that might be covering AT&T," says Amen. The investing methods of the market are driving the change, adds Amen, with mutual funds a major force.

Something of a paradox may be at work, however, suggests Ralph Allen, namely the use of the sell side as a "foil" by the buy side. Institutions today claim to use brokerage research as backup, Allen says. "They don't act on it on a regular basis." But if the institution is wrong, it will be quick to point at the sell side, calling the mistake "a surprise," says Allen.

Allen also believes the real value of sell side analysts may be as numbers crunchers, a role also seen as valid by institutions. Two or three do a particularly good job in tracking his company, according to Allen. Meeting with an institution, Allen says the portfolio manager often gets out the numbers-laden reports of a favored analyst or two.

Rather than give up on the sell side, NYNEX has taken exactly the opposite approach, reports Bob Wysocki, director of investor relations. "We are encouraging the analysts following us to go back to a more traditional, systematic approach, asking them to do more detailed research," says Wysocki. In return, the company promises to work with them. "A few are reacting positively," he says. "I think they will help us. Some of them won't."

Part of what motivated Wysocki was the concern of the NYNEX chairman. He would see the information moving across First Call from the analysts, "and some of it was wrong," Wysocki says, causing the chairman "to be on my case like nobody's tomorrow."

Some industries are still the subject of long reports. "We've had a 150-page report from Smith Barney for two years in a row," says Gerry Foster, vice president in charge of corporate communications for Schering Plough. They do long research reports in Europe, too," Foster says. "Europe is completely different," adds consultant Phil Webster. "They're still basking in old tradition."

### *Guiding the analysts?*

While the influence of sell side analysts may be waning when measured by its overall contribution to investors, the brokers sure have impact when it comes to earnings forecasts. Those forecasts clearly move the market on a short term basis, up and down depending on the forecasts and whether the surprise in actual results is positive or negative. The forecasts and revisions also have become a significant input in investment models and even are the basis of some models.

Investors accept analysts' forecasts and revisions as valid indicators of performance. A negative revision is a red flag that something is changing inside the company. Passive investors may react by selling while active investors investigate. While the market tends to act on the revision, the actual earnings report can cause a second hit to stock price. Positive revisions are inclined to have the same effect, raising the price.

Investors also pounce on forecast revisions because they know the market is going to react in a hurry. Thus, they move quickly to sell ahead of the crowd or buy before the price moves up. Active investors, confident of their research, frequently buy more shares as the price falls, knowing the market eventually will recognize the fundamental strength and quality of the company.

How accurate are the earnings forecasts and how should companies work with the analysts in creating these estimates? Bob Amen cites a Financial Analysts Journal article indicating the forecasts often miss the mark, according to a study by two professors that covered a five-year time frame. The study indicates that estimates made in January for the year are inaccurate by 57 percent, while those made in December still miss the actual results by 12 percent, Amen reports.

Jim Mabry sees something of the opposite in the banking industry. "The analysts increasingly are commenting on results with reasonable accuracy before the quarter is over," says Mabry, senior vice president and manager of investor relations for Wachovia Corporation.

Companies play a major role in the forecasts on the basis of the amount and quality of information, and of course, the analysts themselves vary by how smart and diligent they are. There aren't just two tiers of information, but more likely six or seven, says NIRI president Lou Thompson after talking to Pete Morley, former president of the Association for Investment Management and Research (AIMR).

The wide range is the result of the quality of questions asked by analysts, Morley tells Thompson. For this reason, the SEC has to understand it's a multi-tiered system of information flow as the commission looks at whether companies are going too far in providing guidance and information to analysts.

In that analysis, the SEC should remember that it has been almost 25 years since the commission blessed the validity of differential disclosure, says consultant Dick Morrill. He recalls the SEC acknowledging its acceptance of differential disclosure at the 1971 NIRI conference. The SEC agreed with "the correctness of differential disclosure," recognizing that the question leads the answer, Morrill says.

"You have to honor the fact that some analysts ask better questions than others, and all analysts probably ask more penetrating questions than shareholders," Morrill explains.

In line with this concept, the SEC also subscribes to the "mosaic theory," acknowledging that analysts and investors legitimately draw material conclusions from the flow of non-material information from companies and others. These material conclusions lead analysts to make buy/hold/sell recommendations and for investors to make buy/sell/hold decisions.

The question isn't should companies guide the analysts, but how? Most companies prefer the consensus estimates to be in a tight range, minimizing the likelihood of a surprise. Hopefully, any surprise will be on the up side, not down.


Companies guide analysts by providing good information all the time. How well they do this is something of a measure of investor relations effectiveness, believes Joe Shenton, president of On-Line Capital Advisors. "The basic job of the IR practitioner is to manage a reasonably narrow range of analysts' estimates," says Shenton. "When the range is wider, it is an indication that the investor relations person isn't doing the job, for whatever reason."

Experience may make a difference in managing earnings expectations, suggests Sharon Vuinovich, vice president of financial communications and investor relations at McDonald's Corp. She notes how troublesome the issue seems to be for younger practitioners. "They feel shackled and bound by disclosure rules rather than having the confidence to lead their way through the process."

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Vuinovich believes the pressures companies face in matters of disclosure have peaked in the last 10 years. "In the 1970s and early '80s, disclosure was more of an accounting precision issue," she says. "Some time in the 1980s, it became an investor issue." The change has been led by the pressure on companies to perform in the short run and the proliferation of law suits, she believes.

Ashland's Bill Hartl worries that companies face problems with estimates because analysts are reluctant to move away from their buy recommendations. "They don't want to go back to their client base and say this is what the companies are telling us. They have an economic incentive to keep the price up there and keep their clients happy."

Texaco's Liz Smith also sees analysts being slow to recognize change. Most analysts base their future estimates on the last six months' results, she says, and "they're slow to recognize the turn. Then, they blame the company for the negative earnings surprise. Or positive. And, they say the trend will continue even though we are trying to influence them to change."

The impact of all this on the press is a concern to companies, according to Ashland's Hartl. While the company can get past the surprise by maintaining strong lines of communication

with its shareholders and institutional prospects, it's probably impossible to avoid negative press coverage of an earnings shortfall. "They're going to write that the consensus was a 10 cent gain and actually it was a 55 cent loss and the company really blew it. That, of course, is absolutely misleading."

For small companies, guiding the analysts can be even trickier. Plus, small companies are more inclined to make forecasts, and results from quarter to quarter can be less predictable. "I had a CFO call recently who said he was in deep trouble," comments Peter Osgood. He told Osgood: "Our forecast was off and if I stop guiding the analysts, I'll have no coverage and then I'll get fired by the CEO."

Bottom line for Harry Wren, assistant treasurer and director of corporate investor relations at Sears, Roebuck and Co., is maintaining the relationship with the sell side. "They're still important and we can't give up on communicating with them," Wren says.

Mark Steinkrauss of Fruit of Loom isn't so sure. "They started to become lemmings 10 to 15 years ago," he says. Steinkrauss believes in building relationships with the buy side. "Then, it's your own credibility that you're building," he says. **IR**

## Investor relations focus shifts as market is institutionalized

ERISA launched the institutionalization of the U.S. equity markets and began the process that has corporate investor relations departments centering their communications on institutions today.

The Employee Retirement Income Security Act of 1974 has two implications for companies and their IR people. "It drove corporate assets into the hands of a third party," says Mark Steinkrauss. "CEOs realized there was a liability for screwing around with pension assets."

In that regard, it also set the stage for investors to focus on maximizing returns in an environment of the professional management of assets. "The fiduciary obligation of institutions is a serious business," says Pam Jameson, president of Jameson & Associates and former corporate investor relations director with Dayton Hudson and Sherwin Williams.

As a result, market value for companies today is being driven by valuation processes developed by institutions. "ERISA makes it very difficult to go against anything that has been documented academically," Jameson says. Fiduciary responsibility is so important today that the ways institutions value stocks have to be backed up by important data streams."

Sell and buy side analysts became the key audiences for investor relations people in the 1970s as institutions took over the markets, propelling the value of sell side analysts in providing research and analysis to help make investment decisions.

Meetings were the order of the day, many mixing buy and sell side analysts. Companies addressed the New York Society of Security Analysts and industry splinter groups in New York, and traveled the country talking at the local Financial Analyst

Federation meetings. (FAF and the Institute of Chartered Financial Analysts later formed the AIMR.)

Or, companies set up their own meetings, customizing the audience somewhat to include key brokerage analysts, institutional shareholders and potential institutional buyers. These meetings, in New York, Boston, Chicago, Los Angeles, San Francisco, Philadelphia and other money centers where brokerages and institutions were located, represent early stage targeting before it was formalized into an investor relations strategy.

Proactive companies also made presentations at brokerage-sponsored conferences attended by institutions. In emerging industries, smaller companies could also find an audience. However, small companies, eager to get before institutions, found they could pay fees to certain sponsoring firms creating forums attended by institutions, individuals with substantial stock portfolios, and retail brokers.

Of course, when IR people weren't running meetings, they were on the telephone, delivering presentations verbally and answering questions of a burgeoning audience that included analysts following the company, analysts considering coverage, institutional shareholders and prospects, brokers and individuals. The telephone became the major vehicle for communications for many IR officers.

In the 1970s, but more so in the early 1980s, contact with portfolio managers started occurring. It happened mainly through brokerage analysts who were arranging meetings between their institutional clients and companies. Or, corporate IR directors (or their agencies) were setting up individual meetings with institutions, typically at their offices, arranged through the buy-side analyst on staff. Targeting was taking another step.

Peter Osgood gives Gillette and its investor relations officer at the time, Bill Brackman, credit for being the first company to set up regular quarterly meetings in New York with professional investors.

### *First targeting, then valuation*

The notion of holding one-on-one meetings took off in the 1980s, as companies saw the benefits of building rapport with their institutional shareholders and providing information directly to potentially interested institutions. This activity evolved into more precise targeting, with the help of SEC 13(f) filings that identified institutional holders of a company's stock, plus the holders of industry peers. Common sense said institutions holding industry peers were candidates to invest in your company.

SEC 13(f) data became available from vendors such as CDA, Vickers, Technimetrics and CORTRAC. The data paved the way for substantial refinements. Vendors and consultants began fine tuning the data to help companies also identify non-industry peer companies on the basis of similar financial characteristics, such as market size and various financial ratios.

Then, another dimension was added when vendors and consultants began analyzing the portfolios of institutions to pinpoint their investment styles and methods.

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The race continues today among vendors and consultants to offer sophisticated targeting services. Among the players are Carson Group, J.M. Lafferty, Georgeson, Investment Data Corp., CDA, Technimetrics and Vickers.

Joe Shenton, who started OLC Corp., led the popularization of targeting as a corporate strategy and was among the first to combine targeting with valuation. In doing the analysis, Shenton identified 10 categories of institutions on the basis of their investment styles, in separating for companies the investors more likely to be responsive to a proactive communications effort.

Targeting is productive in maximizing the use of executive time, suggests Carol Ruth, president of Dewe Rogerson. For this reason, she expects targeting to grow in sophistication. "Tied to valuation, targeting is a fundamental part of investor relations today," Ruth says.

Ralph Allen, of ITT, calls targeting a "common sense" approach to the market. It isn't quantitative, he says, but has practical value in dividing the market on the basis of best prospects. Allen says he has been able to use targeting techniques to move his shareholder base from a primarily "value" orientation to mostly GARP (growth at a reasonable price) and growth investors.

Marvin Krasnansky, now editor of Buy Side magazine, directed a similar exercise while heading investor relations at McKesson Corp. As its investment profile changed, the company was successful in attracting a different set of shareholders, Krasnansky explains, moving the base from value to growth investors.

### *Valuation at center of IR today*

However, even before targeting took off, companies were hearing more about valuation and value creation. Investor Access Corporation followed a conference with an extensive three-part study entitled "The Guide to Maximizing Shareholder Value," published in 1984. Michael Seely, founder of the consulting firm, began framing corporate responsibility and investor relations in terms of shareholder value. Seely presented the idea that information can help fill the value gap as companies seek to have their stock price reflect their intrinsic value.

The availability of 13(f) data probably helped push targeting as a workable idea, while it took companies longer to understand valuation techniques.

Valuation has two dimensions. It is used by investors to calculate a company's value in deciding whether the current stock price is low, fair or high in making an

investment decision. It is used by corporate managements to evaluate potential returns from new investments, such as acquisitions, new production or in bringing major new products to market, and in deciding whether current assets are worth keeping based on their returns. In embracing valuation as a measure of success, companies also are using it to set executive compensation according to performance.

Consulting firms like Alcar, Stern Stewart, McKinsey, Boston Consulting Group and others have been teaching valuation for years, using mainly discounted cash flow techniques.

The boom in hostile takeovers during the late 1980s put the spotlight on valuation. Companies were being valued against their present stock price. When the price was below the intrinsic value, raiders and enterprising corporate managements felt justified in paying a premium to buy the company. Business units were valued individually, with the parts often worth more than the sum based on present price.

Value creation became the mission and valuation the basis of communication as investor relations entered the 1990s. Improved communication starts with understanding the various valuation methods being used by institutions. This knowledge enables companies to focus their communications in providing information investors need to work their valuation models.

It also disciplines companies to think in terms of their valuation and value drivers. Companies are applying the valuation techniques of investors in determining whether their stock is viewed as under, fairly or over valued based on the various models. Services are starting to be offered today to help companies in these analyses. Valuation Technologies, DeMarche and HOLT are among firms providing such services.

Increasingly, professional investors are recognizing that the market is not efficient, but indeed is inefficient. More institutions are using multi-factor investment models as they seek to capture higher returns by identifying companies likely to improve performance in the future. In this process, companies have opportunities to create an investor relations premium by effectively describing and quantifying their drivers of value.



"Most of the superior returns are made in the short run as investors find pockets of inefficiency," says Joe Shenton of On-Line Capital Advisors.

Corporate managements understand the importance of improving shareholder value today. Institutional investors have forced the issue, says Nancy Hobor, vice president of investor relations for Morton International. "There is recognition by managements that they have to do something for the shareholders," Hobor says.

The media has made a substantial contribution to growing the pressure on companies to perform, adds Tim Croasdaile, vice president of Genesis in Denver. "The stories are front page news." Investor and media pressures also have contributed to linking executive compensation with performance. The issues have bred real pay for performance," according to Croasdaile.

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And that in turn is leading to a greater role for investor relations. "If you are compensating in stock, the IR function is even more important," says Croasdaile.

"The shareholder value focus is really the creative focus of the corporation today," suggests Joe Shenton. "Every company knows it should be creating wealth." This is leading companies into understanding the valuation process better, Shenton believes. They are learning the EVA concept, for example, he says, becoming highly conscious of making sure new investments will earn above the cost of capital.


Following a valuation process also brings the investor relations function closer to senior management. "It aligns the function with management in pursuing shareholder value," says Shenton.

Texaco's Liz Smith sees that happening in companies today. There is a much greater understanding among managements and boards of what drives stock price, she believes. "The interests of management are being more closely aligned with the interests of shareholders, and everyone is pulling with the same oar. The corporation is focusing on the strategic plan and the input is better. And as a result, communications are vastly improved," Smith says.

A valuation approach to management and communications disciplines companies to focus on the right information and to aim it at the right audiences. "It makes companies explain what's behind the questions investors ask as well as the numbers," says consultant Pam Jameson. "Companies need to explain how the process works, not just the next flavor, such as EVA."

Thus, the investor relations job has become more analytical, says Sears' Harry Wren. "We have to understand the company, know how to value the pieces and the company as a whole, know the numbers, understand the capital markets. We need to have the total picture of the company financially and operationally," according to Wren.

Valuation becomes the basis of targeting, suggests Kirk Brewer, senior vice president of corporate communications at Intel Corp. "Companies are trying to differentiate themselves by identifying and contacting investors by their valuation models," says Brewer. "Valuation sets us up to target the right investors," adds Harry Wren.

But Brewer also worries about over-emphasizing the tactical and the techniques available to the investor relations practice. His concern is that investor relations people will get caught up in the technology and technique. "Content almost becomes secondary," he says. "The issue is how do we position the company, then what targets do we develop and what methods do we use to reach them." 

# Will technology drive individuals' return to the market?

Will individual investors cycle back into prominence as an investor relations audience?

Individuals held three-quarters of all shares available from U.S. companies in the mid 1960s. As institutions moved in, the percentage of shares owned by individuals declined, but their holdings in total grew, consistent with the explosion of the equity market, led by IPOs and sizable secondary offerings.

Today, institutions hold more than half of a \$6 trillion U.S. equity market. That means individuals still own some \$3 trillion in shares directly. And, they are reported to be net buyers of stock over the last few years, after a long run of being net sellers.

Most companies like the idea of having a strong shareholder foundation of individual investors. They tend to bring stability to the stock, holding shares longer as institutions trade more actively to capture returns. Proxy solicitation studies also indicate that individuals bring some loyalty to the corporation, likely to support management at crunch time.

However, recent studies also are indicating that individuals are becoming less loyal and quicker to sell shares in taking profits or cutting losses. This trend is seen as continuing as individuals build their portfolios and become more professional in their investing methods.

Companies focused their communications on individuals in the 1960s, adding retail brokers and analysts in the 1970s. At first, the bulk of analytical research served the retail market, but it shifted as institutions became the prime players, taking substantial positions in companies.

Companies shifted their IR focus as well, concentrating communication on institutions and analysts, whose research was now mainly serving professional investors.

With IR budgets and staffing always tight, companies began giving program priority to the institutional side of the market. By now, institutions held the largest positions

in many companies. The relationships had to be cultivated because institutional buying and selling moved stock price.

In addition, progress with institutional relationships can be measured more readily than efforts to cover the dispersed and harder-to-reach individual investor segment.

Still, tools to help companies reach individuals and brokers were available, and multiplying. The National Association of Investors Corp. provided a direct path to the most sophisticated of individuals, following NAIC investment techniques. Companies can talk directly with individuals at NAIC-sponsored Investor Fairs and reach them through the association's "green sheet" investment profile, Better Investing magazine and dividend reinvestment programs. Today, some 135 companies are corporate members of NAIC.

Conventional wisdom suggests that extensive media visibility, in story and advertising form, reaches individuals. Coverage can be aimed at publications with high readership among individual investors. The credibility of "third party endorsement" of the company through an article is seen as carrying considerable weight in creating awareness and attracting investors to learn more about the company.

Companies have drawn thousands of requests by advertising the availability of their annual reports in various magazines and newspapers. How many of these interested parties become actual shareholders is virtually impossible to document with any precision.

Hanson Industries is a strong believer in the value of advertising to build a higher visibility level among the investment community that leads to increases in shareholder ranks, especially among individuals. Mickey Foster, vice president of investor relations, reports that close to 40,000 people have requested annual reports from print and broadcast ads being run by Hanson.

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### ***Brokers are main path to individuals***

Companies see retail brokers as the primary path to individuals. Investor relations people were setting up meetings with brokers and retail analysts in the 1960s before they began concentrating on institutional analysts and institutions. Meetings typically were held after the market closed, by company invitation. A pioneer in providing brokers' names to companies was Technimetrics, later joined by CDA.

Brokers' societies began cropping up in the 1970s and '80s, inviting companies to address luncheon meetings, and paying for the meals.

These programs exist today, with numerous refinements having been made along the way. Companies are targeting brokers by tailoring lists, often by industry specialty to the extent it can be identified. Companies are using IR consulting firms specializing in building broker contacts in first and second tier money markets.

Meetings are being set up in branch offices of selective brokerages and companies are securing invitations to talk at firms' morning "squawk box" sessions where all brokers in the network can be reached. This process often begins by working hard to earn a buy recommendation from the firm's analyst. It serves as the basis to encourage more brokers to attend the meetings.

Direct response has become a key tool in reaching brokers. It is taking several forms. Research magazine was launched in the late 1970s as a way for companies to put their story in front of brokers. Articles several pages long appear in the issues, with brokers ordering reprints as a selling tool with their customers. Some companies report reprint orders reaching 40,000 or more (See story on Research in the April Update).

Corporate fact sheets have become popular sales handouts and direct mail selling pieces. They give brokers a sales tool by highlighting the key drivers of value and summarizing financial data. Companies use them directly, at meetings and in mailings. Some companies produce the investment reports themselves, or expanded versions are available from Research Data Group (formerly STAR Services). The latter offer the credibility of being objectively produced collaboratively through Research and Standard & Poor's Corp.

Companies are reaching the broker universe by printing their fact sheets in such publications as Research, Registered Representative and Better Investing. Brokers then order quantities of reprints for customers after seeing the fact sheet in the publication.

For several years, Technimetrics produced fact sheets for companies, mailing them to their broker lists, but it has discontinued the service. There are a number of other firms providing direct mail services of corporate investment materials.

A prime objective of these efforts is to build a broker network that can be nurtured and maintained.

### ***Individuals' big advantage: Technology***

Advances in technology are seen as supporting the ability of individuals to become more active in stock investing. What is starting to drive this process is the ready availability of information through software and online databases.

Joe Shenton sees a critical mass evolving that will bring individuals back into the market in a substantial way. Individuals are buying PCs and using them to search for investment information and manage their portfolios, says Shenton. The explosion in the use of PCs and such prime data sources as the Internet will extend beyond the most optimistic forecasts today, Shenton believes. A count of 50 million PCs in use sometime in the future is realistic, he adds.

Not only will technology level the playing field for individuals, it will help make information a commodity, says Shenton. The instant availability of information to everyone will make it tougher for institutions to score higher returns, he believes. "Right now, the mutual funds are a surrogate for many individual investors," Shenton says, citing the 5 percent or more holdings Fidelity has in some 387 companies as an indication of proof.

"As returns decline and individuals get more confident, we will see a return of the individual investor that will revolutionize investor relations," according to Shenton.

Already, many individuals are outperforming their professional counterparts, Shenton adds, by taking advantage of the tools being provided by the NAIC, American Association of Individual Investors, specialized portfolio management software and online availability of information.

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Companies are picking up the beat, suggests Kirk Brewer of ITEL, noting a brewery that hangs tags on its packages inviting consumers to call or write for a prospectus. "A micro brewery in Denver is doing the same thing," adds Tim Croasdaile.

The key to the growth of investing by individuals will be the accessibility of information at a reasonable cost, adds Marv Krasnansky. Companies are establishing home pages on the Internet and its usage by investors will "exceed all expectations," according to Krasnansky.

McDonald's Sharon Vuinovich says the process may be going full circle. "Mutual fund growth was a reflection of

individuals relinquishing their right to vote and invest," she says. "Perhaps, they are again taking ownership of their portfolios."

However, Carol Ruth, of Dewe Rogerson, wonders if the technology revolution will only serve to extend the lead of institutions. Ruth suggests that individuals may be disadvantaged even more, except for those "who are exceptional people." Her premise: "It may restrict individual investors to certain kinds of people who have the time and inclination to use the PC and data services. Most of us will feel it is very difficult to do our own investing anymore," Ruth suggests. **R**

## The investor relations challenge: Mastering the technology

Technology is both exciting and scary to investor relations practitioners.

Its impact already is starting to be felt, and, as Joe Shenton predicts, stands to revolutionize the practice. "Information is moving so rapidly there is a question of whether we have control over it," suggests Kathy Chieger, director of corporate affairs for Gaylord Container Corp.

Time was when a 10Q report took days to be circulated among investors. Now, through Edgar or a company's home page on the Internet, the 10Q is available worldwide. "Companies aren't controlling the dissemination anymore. It's going out there to everyone," Chieger says.

Data services are multiplying beyond our ability to keep track of them, adds Texaco's Liz Smith. "Put the release on First Call and you can reach 11,000 institutions throughout the world in milliseconds."

Investor relations managers need to recognize the seriousness of the situation and start moving to seize control of it, suggest practitioners who took part in the discussions for this issue of Update. "Everything a company says is part of the record. So is everything said about the company," offers Marv Krasnansky. "If we don't move quickly, it will start to get away from us."

While at Gerber Products, Tim Croasdaile recalls a phone call from a broker who recited every statement Croasdaile had made in the last several years. "It was all there on his computer," Croasdaile says. "Once the information is on the computers, it's hard to get it out of there," adds Krasnansky.

Investors are dialoguing via their PCs and the world wide web, and not all the information they are exchanging is accurate. "Someone may ask about McDonald's and out of nowhere comes an answer that isn't right," comments Sharon Vuinovich.

Companies will have to monitor the Internet and other databases to make sure the information flow from subscribers is accurate, says On-Line's Joe Shenton. The need to monitor the databases has far-reaching implications for companies, involving their products, services and reputation as well as the accuracy of information used for making investment decisions. Shenton cites a leading computer company with an army of 300 people monitoring the databases around the clock.

Rapid data transmission is putting pressure on companies and their agencies to make sure the information is correct and easy to understand the first time, says Carol Ruth of Dewe Rogerson.

Quality, accuracy and clarity are paramount concerns in this electronic age, according to Ruth. "Because information moves and spreads so fast, the company must have a clear message the first time," Ruth says. "There is no room for error, because the markets react so quickly. The information needs to be concise, summarized and focused," she believes.

Ruth cites a case where a company's release contained something new that caused misunderstanding in the market. "Stock price fell two points before anyone could breathe," she says. "If investors see something that doesn't jive with what they expected, or if the information wasn't clear or pronounced enough to flag attention, the company's credibility can be hurt."

In this environment, the investor relations role is more important than ever, believes Jim Mabry of Wachovia. The need to make sure investors are receiving, perceiving and interpreting information correctly was always there, but now the challenge is even greater," Mabry says. "We have to strive for digestion, not indigestion."

Fundamentally, "the investor relations job is to get the best information to key audiences in the most effective and efficient manner," says Mabry. "Thus, we need to stay on top of the most efficient ways to reach investors."

While the Internet promises to encourage individuals to invest more in stocks, Shenton believes professionals also will be big users of online data. In fact, he expects the Internet to challenge the current vendor-based information services industry. "Much of the information will be free," according to Shenton. As a result, data vendors are scurrying to figure out how to add value and maintain their proprietary status with institutions, analysts, and companies, he adds.

The technology explosion prompts Vuinovich to ask the members of her discussion group if they feel prepared to handle it. "Technology is going 10-fold and we're moving 2-fold," she estimates. They try to respond with productive answers: vendors, computer specialists, the company's MIS department. Shenton suggests reading the book, "Being Digital," and offers encouragement by commenting that the next generation of PCs will be more user friendly. Among its advances will be voice recognition, he offers. "Using it at an advanced level won't be that difficult." **IR**

## Seizing the day: Turning technology to your advantage

How can companies distinguish themselves as the Internet and other data services rush the move toward commoditizing information?

"With all the modern methods of communication, the question becomes how companies will make themselves stand out," suggests Shellie Roth, principal of Investor Relations Partners and a former corporate investor relations practitioner. "It is important for companies to process information that is acceptable to its audiences, and not everyone will be using the Internet," Roth says.

Joe Shenton suggests looking at the current situation optimistically and opportunistically. In a very real way, the market is in chaos today," he says, because it is going through "a huge information inefficiency." There is a difference, Shenton explains, "between market inefficiency and information inefficiency." The information inefficiency is presenting a great opportunity for companies, according to Shenton.

Shenton believes the commoditizing of data will force companies from taking a tactical tack to being strategic in figuring out how to add value in the face of all this information. The value add of investor relations will be "how well you can translate the business franchise to shareholders and potential investors," he believes.

"Electronic communication is going to allow us to focus more on the strategy," comments Kirk Brewer of Intel. "An important role will be to help investors sort through all the information to put it into a good perspective and context. We will be providing context to help investors apply their valuations in making investment decisions," according to Brewer.

"Our CEOs may think of this as positioning, and in reality, it's our job already, but it will become even more important in the future," Brewer adds.

McDonald's Sharon Vuinovich wonders if the dependence on database information will detract from company's ability to build good relationships with institutions in the future. "If models are going to drive investing decisions, will we still be able to build solid, long-term relationships," she asks. "We may become more influential in the flow of information, but not in the relationships." **IR**

# Corporate managements recognizing value of investor relations

Investor relations people and the function they perform are winning more respect from corporate executive management.

"The value that investor relations can provide is being recognized more today, because of IR's link with the valuation process," believes Carol Ruth of Dewe Rogerson. "We don't have to work as hard today to explain why we're there."

The keys in this growth, according to Ruth, are IR people's role "in helping senior executives understand valuation, helping them interpret it properly, and helping the company focus the message on the valuation process and corporate performance."

Indeed, educating management on investor behavior, the capital markets and valuation techniques are primary responsibilities of investor relations practitioners. Too many CEOs and CFOs don't know enough about the investment process, Ruth suggests. "We hear complaints from analysts and portfolio managers all the time."

Dewe Rogerson conducts two-day seminars on the investment process for the executives of foreign company clients establishing investor relations programs in North America. "There is great interest among executives of companies from Latin America and Asia," Ruth says she hasn't thought about doing the seminars for management of U.S. companies.

"If investment bankers were smart, they would hire the best IR people in the country to help IPO companies go forward," adds Marvin Krasnansky of Buy Side. "It would enhance the value of the company for the institutions the investment bankers count as important customers."

A generational change at the top is helping improve the picture steadily for investor relations people, suggests Sears' Harry Wren. The new generation is more comfortable with the IR process and in dealing with analysts and portfolio managers, he believes. The CFO, other financial executives and line officers have extensive experience with the financial community as they move into the executive suite, according to Wren.

## *Access to information critical*

In fully capitalizing on the value of investor relations, the most important thing management can do is provide IR people access to the best information, says Kathy Chieger of Gaylord Container.

Having access to information and senior management is a "critical imperative," says Krasnansky. "The investor relations person has to be wired into management, be part of it," according to Krasnansky. The analysts and portfolio managers "need to be comfortable that the investor relations officer is fully informed," he adds. "Companies that don't do this are acting out of ignorance or naiveté on what drives prices and how critical it is to maintain credibility."

Consultants today need to have in-depth knowledge of their client companies, says Krasnansky. "The consultant must be able to interpret and represent the company well in conversations with investors. There is no going back to correct or expand the information in this day of rapid movement of information."

How to be a part of the inner circle? "Bring solutions, not just the problems," suggests Pam Jameson. "I would submit that some of the crazy situations companies got themselves into wouldn't have occurred if the managements had listened to investor relations advice," Jameson says, giving overleveraging as an example. "Investor relations people know how to read the signals from the market."

Too often, managements are listening instead to the investment bankers, Jameson adds. "They're transaction oriented."

An indication that managements are listening now and recognizing the vital role of investor relations is found in the increased funding for the function, Wren says. "My impression is that the big companies have more resources and are conducting highly sophisticated investor relations programs."



## Many IR jobs available

More jobs are available in investor relations today than in recent memory. "There are more jobs in the NIRI job bank than people to fill them," comments NIRI president Lou Thompson.

Two reasons are the greening of younger companies and the continuing rollout of IPOs. Young companies are upgrading the investor relations position. The process can't come soon enough, a number of practitioners believe. Consultant Arlen Southern finds it "rare" when a small company has a competent investor relations person. "Generally, investor relations is being done by a PR marketing person," he says.

"Young companies should be hiring more qualified people," suggests Sharon Vuinovich of McDonald's. "Think of the value a small company can create when it has an experienced investor relations person guiding it in capitalizing on future opportunity." Vuinovich wonders if seasoned investor relations people, in their same jobs for awhile, shouldn't move into IR management positions with younger companies as a way of strengthening the practice more broadly.

The problem, says Joe Shenton, is these companies don't realize they need real investor relations expertise, and they aren't likely to be able to afford it. "Can they afford not to have it," counters Vuinovich.

Companies also are recognizing the wisdom of giving investor relations officers the total communications responsibility for the corporation, says Tim Croasdaile. "There is a move to entrust the entire portfolio to the IR

specialist," he says. "Investor relations is the highest communications discipline in the company, it has the highest payoff, and gets the manager closest to management, with access to the boardroom."

As organizations are flattened and downsized, the IR person's ability to manage all the communications functions offers even greater value to the company, Croasdaile says. Among communications practitioners, it is the investor relations person who is likely to have experience in business management, an important outside perspective, sense of advocacy for the company's constituencies, and the internal credibility to provide input for management decisions, he explains.

In the future, as the function grows, Kirk Brewer of Intel, sees senior managers coming to the investor relations person for advice. "Hopefully, the CEO, CFO and operating management will be asking for counsel on the impact of proposed actions on various constituencies."

## IR in the executive suite?

Does all this growth get the investor relations officer into the executive suite? "It will always be seen as staff support, not a line management responsibility," says Vuinovich.

But what could be more line driven than having responsibility for the market value of the company, offers Shenton.

The decision at many companies to rotate bright people through the investor relations position should auger well for the function in the future. "We may be seeing CFOs who handled investor relations as assistant treasurers becoming chief executive officers," says Brewer.

Indeed, investor relations people tend to see themselves on a fast track to the top today, says Arlen Southern. He cites two companies in Philadelphia that have promoted their IR heads to senior vice president positions, in strategic planning and finance.

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The investor relations position itself can be high on the corporate ladder. Southern names a major bank in Delaware, with an investor relations officer carrying the title of executive vice president and assistant to the chairman. "Sixty five people report to him and his compensation is substantial."

Companies are smart to rotate staff people through investor relations, keeping the director in place for stability. Bell Atlantic has established that system, and apparently, so has Sears, says Wren. He isn't complaining. He has gained recognition for his work and his training of IR staffers.

Rotating investor relations people is good for the company, but it can be tough on the function, Wren says. "It exposes the best people to the tough environment of dealing with analysts and investors. You certainly learn how to be fast on your feet in responding to questions." But there is continuous retraining, he adds.

The downside is the company "is constantly being left with a smart person who doesn't know the investor relations practice," says consultant Shellie Roth. "With so much turnover in the position, how does the company develop seasoned business people," adds Joe Shenton. **IR**

## Prime way to add value: Build relationships

Relationship building is the essence of the IR job, say practitioners taking part in the discussions.

Thanks in part to NIRI, many investor relations practitioners are doing an excellent job today, comments Mark Steinkrauss of the Fruit of the Loom. This challenges him to figure out how to add value, literally in competition with other IR people for share of mind and a portion of investors' money.

For Steinkrauss, the answer comes in relationship building, and the challenges to do it effectively are greater than ever with so much of the market consisting of momentum, passive and index investors. "You have to be out there, telling the story. Some investor relations people should probably be spending 80 percent of their time face to face with investors. It's hard work, but it is one of the best ways to differentiate your company," Steinkrauss says.

The work that Harry Wren did in establishing good relationships with institutions gave Sears enough credibility to win additional time to turn the company around. Wren had set out to build institutional relationships early in the 1980s, well before a group of investors became restless.

"We were working with our investment banker as early as 1985 in developing a valuation strategy," Wren says. "Bob Monks takes credit for getting us going, but it really isn't the case. The company was valuing the pieces and

we realized they weren't ready to be spun off; they had to be grown to the point of getting the greatest value."

Pam Jameson, first a retail analyst and then an investor relations specialist in the retail field, understands the importance of Wren's work with institutions throughout this period. "If Harry hadn't built the relationships with the sell and buy sides, we can't be sure where the company would be today," Jameson says. "You'll never understand just how much credibility Harry had."

Institutions took Wren's calls and listened with an open mind, Jameson says. "They held off taking severe actions."

Having made major investments in its financial subsidiaries, Sears has been able to focus again on strengthening its core merchandising business, Wren says. It also has broadened its management, bringing in specialists in finance and other key disciplines. Typical of a specialty company, most of its senior managers had retail backgrounds. "We've learned our lessons," Wren says.

Consultant Phil Webster believes relationships are the key to success, while mass marketing is doomed to failure. Webster doesn't recommend reaching through cyberspace to find "somebody who loves you. Those of us who have been selling know the best selling is person to person," he says. "I believe all of you who are going after mass marketing of investor relations messages to the greatest group of people over time are not going to succeed,"

Webster says, "while those who are going to succeed will be the ones who differentiate and personalize their messages to reach the few who can make a big difference."

In fact, Webster would concentrate on 20 to 30 large institutions or investors who will be supportive longer term holders. Steinkrauss has taken a similar approach at Fruit of the Loom. "We picked 10 investors who never owned the company but could take huge positions, then spent time calling on them," he says.

In starting and building relationships, companies need to work harder at simplifying the message, believes consultant Gary Kraut. To be successful, they will benefit from being more innovative, he suggests. Kraut says information overload and clutter are challenging companies to be more creative in how they present ideas and information. IR people also seem to have forgotten "how to sell" their messages and information. "They're just throwing up slides and data. Afterward, people can't recall anything of consequence."

Innovation? "Figure out how to sell your stock in 45 seconds," he says. "Everything else then becomes detail to support what you said."

### *Expanded role for IR in future*

Steinkrauss expands on the investor role in modern times. Its foundation is disseminating information to prime audiences and managing the information stream from outside audiences — the financial press, rating agencies, exchanges, investors, analysts, and the rest, he says.

"The key is managing that information flow to senior management and the board." It accomplishes three vital things, according to Steinkrauss: "Keeps management better informed, enables them to make better operating decisions; and allows us to participate in the decision-making process."

At many companies, investor relations people will need to grow their stature to fill the role envisioned by Steinkrauss, he says. "For every major corporate decision, the investor relations officer will have to be able to describe the impact on various external audiences. The investor relations officer will need to be able to tell management what the aftermath will be. You won't just be mouthing the words but you better understand your business damn good — every aspect of it. You better understand the nuances and be able to communicate in that room, because it will be expected of you," according to Steinkrauss.

At that point, the investor relations officer is prepared to speak for management in front of institutions and analysts, and provide significant counsel to the company's management, he continues. "In front of investors, you have to be able to answer the question where is the company going to be in five years," according to Steinkrauss.

When investor relations people reach this level, they are "not only articulating the corporate strategy, they are helping define it, Steinkrauss says.

There is a link between being given the authority to speak on behalf of the CEO and being experienced and smart enough to manage an investor relations program that is essentially strategic, rather than being bogged down in tactical activities, believes Joe Shenton. "They are the IR people who have won the confidence of management and who understand the vision of the company," Shenton says.

His vision of the future of investor relations is captured in this idea: "Investor relations will have much more to do with advice and counsel on the business franchise and where it is going," Shenton believes. **IR**

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## People

**Raymond C. Allieri** has been named vice president of investor relations for MCI Communications Corporation, Washington, D.C. Allieri most recently served as director of sales and service for the company's Delaware valley region.

**Ron Macleod** has joined The Carson Group in New York as director of new business development. Previously, Macleod was vice president for a national proxy firm and he began his career with Merrill Lynch.

Ludgate-Princeton has been formed by Ludgate Communications Inc. and Princeton Public Relations Group. Key principals in the firm are **Kay Breakstone**, president of Ludgate, **James M. DiClerico** and **William F. Noonan**, co-principals of Princeton Public Relations Group.

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