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A Communicative Perspective for Investor Relations: Tapping the Interface Between Corporate Concerns and User Needs

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A COMMUNICATIVE PERSPECTIVE FOR INVESTOR RELATIONS:
TAPPING THE INTERFACE BETWEEN
CORPORATE CONCERNS AND USER NEEDS

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1 Introduction

Companies enjoy a huge variety of venues in which to place financial information and they incur significant costs using them, employing both regulatory and communication experts to assist with such efforts. Yet, while complying with legal requirements for financial reporting is a matter of following the rules, there are few guidelines for managing the multiple *voluntary opportunities* for effective corporate communication with investors.¹ Perhaps it is not surprising then that after legal requirements are met, corporate approaches for communicating financial information diverge quite dramatically.

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¹ Gibbins, Richardson, & Waterhouse, 1990; Mahoney, 1991.

It is true that in various parts of the world, vehicles for financial reporting are universally recognizable—e.g., annual reports have standardized features, as do CEO presentations to analysts. Yet, if and exactly how such communication vehicles are employed varies tremendously from firm to firm. For example, Gibbins, Richardson and Waterhouse² discovered companies using as many as 135 to as few as 3 different communication vehicles to disclose earnings. They further found that few firms have programs for systematically dealing with such. Indeed, as Mahoney noted, there are no simple guidelines; nor is there any consistency in financial reporting to the investment community.³ Moreover, since national markets compete for business, there is little incentive to work out some universal framework for disclosure outputs.⁴

With new markets emerging, increased communication capabilities, and a growing investment community complicating the picture, managing financial information is not getting any easier. At the same time, it is safe to say that as a global group, managers' communication training is spotty at best, even among those who attended top international business schools. It is likely that managers know considerably more about basic financial principles than communicative ones. Take the "time value of money," for example. Seemingly simple yet fundamentally powerful, this concept drives managers' decisions, providing some measure of managerial confidence as to how things work in the world. However, what basic concepts provide fundamental guidance when it comes to communication? What, if any, communication concepts might guide managers' decisions regarding the content, form, and distribution of financial information, especially voluntary communications where the lack of "best practice" is unsettling (at least for some)? And are there any challenges for those managers who are confident that they already know how to communicate?

This chapter proposes a *communicative perspective* for information management and investor relations (IR). This perspective, it is argued, represents a strategic approach that should

² Gibbins, Richardson and Waterhouse (1990).

³ Mahoney (1991), p. 299.

replace the prevailing tendency to view communication merely as an information providing function. Indeed, the essence of the communicative perspective is that IR decisions should be based on the *continuous analyses of the interface between corporate agendas and user information needs*.

To elaborate on this theme, the proposed communicative perspective is set in contrast to the traditional approach of simply conveying information. Subsequently, key components of the communicative perspective will be illustrated, particularly its focus on corporate concerns and external users' information needs. Additional insights are provided by recounting key findings from this author's study of CEO presentations in conjunction with poor earnings announcements. Albeit preliminary, this study of CEO presentations is one of the first to evaluate voluntary corporate communications based on the extent to which users' information needs are met. By examining effectiveness based on information users actually *say* they need (rather than on information companies *think* users need, which is something quite different), this study also suggests the kind of user feedback required if companies want to meet external expectations and thereby establish truly communicative relationships with the investment community. All this becomes the basis for considering some ways a communicative perspective might be implemented.

2 Communicative and non-communicative perspectives

Providing the investment community with information in interesting venues, professionally presented, and regularly, that's being communicative, is it not? Even among start-ups, great attention to external communications is not uncommon. Isn't it safe to conclude then that companies are communicating with their external constituencies? No, it is not. Consider that an annual report may look "perfect" in a vacuum, even win awards for innovation, layout, and readability. Yet if this annual report is largely ignored or regarded as irrelevant by its intended readers, then it fails as communication. So too, a CEO presentation of poor earnings that is rich in apology and lean on detail may come across as inspirational, even quite persuasive, proving well suited to some situations (e.g. a Rotary luncheon). However,

⁴ *The Nikkei Weekly* (16 October 2000).

at some other point in time, say midst an earnings downturn, such a presentation does not answer its listeners' most pressing question: Does this firm have the managerial capability to survive this crisis? Like the annual report described above, this presentation may be called non-communicative.

Preparation of such deliverables can be intense and costly, involving information retrieval, decisions at high levels, and on-going consultations with legal advisors, editors, and document designers to insure compliance with standardized formats and a high degree of readability. While all such activities insure *delivery* of information, none of these activities insure *communication* of information. Simply providing board members, managers, employees, regulators, auditors, underwriters, bankers, shareholders, analysts, institutional and individual investors, reporters, competitors, and the general public with information, is not necessarily communicating with them (Figure 1). Communicating is not quite so simple.

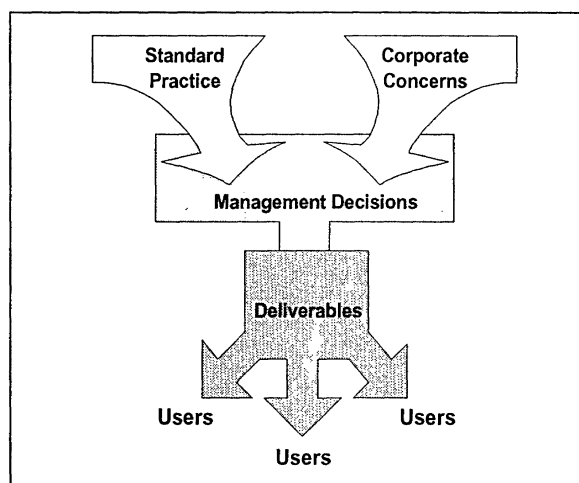


Figure 1: Non-Communicative IR

A communicative approach is not driven by production of deliverables themselves, but rather by the function deliverables serve at a particular point in the experience of the firm and its investors. Indeed, *communication is not delivered, rather it occurs in the experience of individuals. A communicative approach, therefore, does not focus primarily on the formal features of written and oral deliverables themselves, but rather on the activities and*

*relationships the deliverables enable.*⁵ Providing information is quite different than meeting information needs. Moreover, under a communicative approach, annual reports, press releases, CEO presentations, and the like comprise more than artifacts that can be produced by IR specialists who sit quite apart from the on-going strategic and operational activities of the firm. Rather, annual reports, press releases, CEO presentations, and the like comprise something needing to be done at a particular time and for users on both sides, corporate and investment community alike.⁶

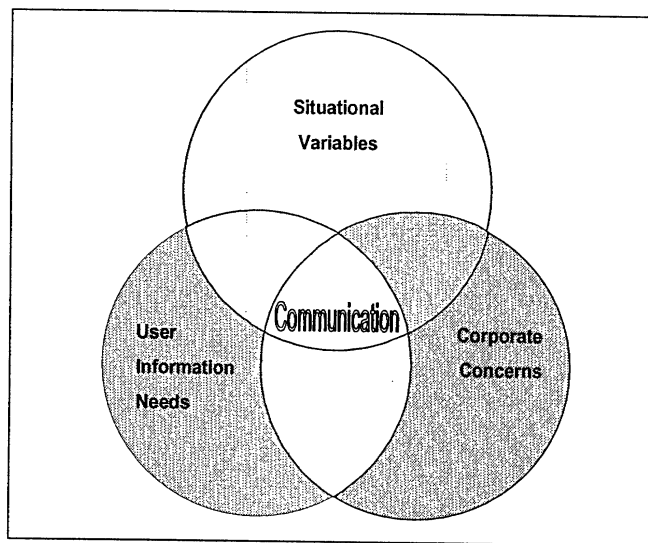


Figure 2: Communicative IR

A communicative perspective sees all such venues as part of an on-going discussion involving changing corporate concerns, user needs, and situational variables (Figure 2). The interface of these at any one point in time determines what information is relevant, what information is likely to have communicative power. This raises several basic questions: What opportunities and concerns do companies have when it comes to reporting financial information? What information does the investment community say it needs? And how do the answers to these questions become the basis for a communicative approach to IR?

⁵ See genre theory, e.g., Berkenkotter and Huckin (1995).

⁶ See Bitzer (1968) on genre theory.

3 Corporate opportunities and concerns for managing financial information

Oral and written, formal and informal, public and private, internal and external communications for reporting financial information include not only those required to meet legal requirements (e.g., periodic filings required by regulators, proxy statements, quarterly and annual reports, and prospectuses pursuant to public offerings), but also multiple voluntary communications including CEO presentations at Deutsche Vereinigung für Finanzanalyse und Asset Management (DVFA) and the New York Society of Security Analysts, reporter interviews, press releases, company tours, phone calls with open telephone lines, annual meetings with shareholders, online annual reports, business plans to secure funding, historical “fact books” providing business and financial records, “net roadshows”,⁷ and public live broadcasts, like Ford Motor Company recently unveiled in New York's Times Square.⁸

Associated with these are other opportunities. CEO presentations to analysts, for example, may involve various pre-announcements, sometimes carried on news networks, business wires, and by *Investor's Daily*; company invitation letters and phone calls to potential attendees; profiles of key individuals who are likely to attend and other materials senior management use to prepare for the meetings; the presentation slides and transcript, plus annual reports and recent quarterlies that may be distributed at the event; CEO pre- and post-presentation meetings with select analysts and investors, pre-meeting press conferences with reporters, and post-event communications that may include written evaluations and follow-up phone calls to collect data from attendees. The presentation transcript, videotape, and sometimes even analysts' reports and earning estimates following the event, may be distributed as well, both externally to the investment community and internally to management and corporate board members.⁹

While potentially numerous, communications related to the financial well being of a firm can prove excruciatingly difficult to manage as they involve conflicting objectives and tricky

⁷ Stone (1999).

⁸ Ford (1999).

trade-offs that are bound to place corporate managers in a no-win situation at one point or another in their careers--e.g. few firms enjoy good news all the time. Clearly, increased communications can expose a firm to more scrutiny, a state of affairs that managers are not known to relish, nor are their firms known to reward them for. More than this, managing message consistency is not easy, particularly as the number and type of communications increase. Yet, external audiences regard consistency as a staple of corporate credibility.¹⁰ Managers must also be mindful not to breach exclusive information-sharing arrangements involving important inter-organizational networks with credit unions, banks, and the like. And then, in terms of information control, managers face the real and on-going concern that too much disclosure may impact their competitive position, that they may simply "give away too much".¹¹ Protecting proprietary information in order to exploit its potential economic advantage, is a very real problem; even information about strategy and business segments can help competitors.¹²

At the same time, research shows that publicly held companies need public attention in order to succeed in the marketplace. Lang and Lundholm¹³ document that firms disclosing more tend to have a greater analyst following, more accurate analyst forecasts, and less dispersion among individual analyst forecasts; Byrd, Johnson, and Johnson¹⁴ found that some firms may have some reason to expect they will get cheaper money as a consequence of CEO presentations at the NYSSA. Moreover, some evidence suggests that in the case of impending poor earnings, early disclosure may reduce the threat of disclosure-related legal liability costs.¹⁵

In these and other matters, requiring the goodwill of various public constituencies (e.g., regulatory hearings, labor negotiations, access to scarce resources) public disclosure is ultimately seen as "banking" the kind of credibility and influence that may be needed in the

⁹ Koonce (1993). See also Mahoney (1991); Useem (1996).

¹⁰ See Previts, Bricker, Robinson, & Young (1993).

¹¹ Gibbins, et.al. (1990), p. 132.

¹² Dye (1985); *Economist* (14 March 1998).

¹³ Lang & Lundholm (1993).

¹⁴ Byrd, Johnson, & Johnson (1993).

face of regulatory hearings, labor negotiations, access to scarce resources, or other critical situations. In fact, some firms have deemed the communication of financial information important enough to merit changes in internal managerial procedures in order to formulate information, as a matter of course, that may be more favorably digested by the investment community. As Gibbins, Richardson, and Waterhouse observed, among managers there is “a general aversion to self-promotion but also a clear desire to keep the firm in the public eye with sufficient information on the firm's financial position to ensure access to capital markets”.¹⁶ Still, managers express discontent with standardized reporting mechanisms, finding them not only burdensome, but also quite limited in what they allow. As Healy & Palepu noted, “current accounting rules do not permit managers to show the *benefits* of investments in quality improvements, human resource development programs, research and development, and customer service on their balance sheets”.¹⁷

In summary, corporate concerns and opportunities for managing information comprise both visibility and viability issues. Informational visibility involves reporting often enough to remain “present” to users who in any number of ways may influence the firm’s well being; informational viability involves retaining control sufficient to insure that communications do not compromise the firm’s competitiveness. But, these complex corporate concerns are but part of the communicative equation. What comprises the information needs of the external investment community?

4 Users’ information needs

The global investment community clamors for information that can provide a competitive edge in forecasting the worth of companies, interpretative data that offers insight as to what the financials may mean, particularly in regards to future firm value. As Gassman¹⁸ noted, it’s almost impossible to get an edge with the numbers alone because today’s databases give everyone equal access. Indeed, the reporting requirements imposed on firms by legislators,

¹⁵ Bamber & Cheon (1998).

¹⁶ Gibbins, Richardson, & Waterhouse (1990), p.132.

¹⁷ Healy & Palepu (1993), p. 1, author’s emphasis.

¹⁸ Gassman (1995).

standard-setting agencies, and regulators insure that the investment community enjoys a steady stream of corporate financial reports ranging from securities commissions filings to annual reports. But accurate predictions regarding a firm's likely prospects for continued profitability require an ability to *interpret* the numbers, an ability to read between the lines, and for this, *qualitative inputs*, such as personal contacts with top management, are highly valued by the investment community including bankers, buy- and sell-side analysts, institutional fund managers, and a growing and diverse host of individual investors worldwide.¹⁹

4.1 Analysts' information needs

Since the 1970's, a variety of studies have investigated the kinds of information investment constituency's want and how corporate financial reporting might be improved. Until recently, however, these studies tended to focus on a particular segment of the investment community, namely analysts.²⁰ For example, an early study by the Financial Executives Research Foundation²¹ found that analysts believe financial reporting could be improved if more information were provided in five areas: (1) market and competitive position of the company; (2) business segment financial statements; (3) intra-industry comparisons; (4) management goals and objectives; (5) company performance statistics and ratios.

Hill and Knowlton²² discovered that investment professionals want companies to provide more business information via a segment-by-segment format and to disclose as many details and numbers as possible. More recently and along the same lines, Boersema and VanWeelden²³ found that sell-side analysts, the most highly analytical segment of users, placed higher-than-average importance on more detailed segment reporting. According to O'Brien and Bhushan,²⁴ the sheer *amount of information* plays a role in analysts' decisions to follow some firms but not others. O'Brien and Bhushan's research further revealed "a

¹⁹ Gassman (1995); Melcher (1993); Useem (1998).

²⁰ e.g. Lee & Tweedie (1977); Chang & Most (1985); Myers (1991); Schipper (1989); Stein (1989); Pervits, Bricker, Robinson, & Young (1993).

²¹ SRI International (1987)

²² Hill & Knowlton (1984).

²³ Boersema & VanWeelden (1992).

behavioral link between analysts' decision to follow firms and differential costs and benefits of gathering information." In other words, by making the information easy to access a firm can expect more followers.²⁵

Williams²⁶ demonstrated a correlation between analyst forecast revisions and the *usefulness* of the information, more specifically the degree to which the information improved the accuracy of the analyst's forecast, a state-of-affairs that Williams associates with management credibility.²⁷ A similar management affect was discovered by Breton, Taffler, and Cucumel²⁸ whose content analysis of stockbrokers' circulars (documents reporting buy/hold/sell recommendations) shows that "the most important argument in differentiating between recommendations is the *quality of management and strategies*" while firm financial structure and position seemed to have less impact on analysts' recommendations.²⁹

"Assessing the quality of management," Breton, Taffler, and Cucumel further observe, "is often proposed as a good way to reach a judgment on a firm. Moreover, the absence of objective criteria for evaluating management quality, leads to situations where plant visits and business lunches become more important, and, as research has suggested, such contacts have prompted analysts to revise their forecasts in the 'good' position".³⁰

4.2 Investment community information needs

One of the most comprehensive analyses of the information needs of the wider community of users was conducted by the American Institute of Certified Public Accountants (AICPA) Special Committee on Financial Reporting. Motivated by an acknowledged need--the lack of consensus regarding how to improve corporate financial reporting--the AICPA Special Committee went to the users themselves and user-based sources. Data collection included formal discussions with portfolio managers, analysts, and bankers from large and small institutions, and with members of the Financial Accounting Policies Committee of the

²⁴ O'Brien & Bhushan (1990).

²⁵ O'Brien & Bhushan (1990), p. 75; see also Brennan & Hughes (1990); Bhushan (1989).

²⁶ Williams (1993).

²⁷ See also Stickel (1989); Baginski & Hassell (1990); Useem (1998).

²⁸ Breton, Taffler, & Cucumel (1993, October).

²⁹ Breton, Taffler, & Cucumel (1993, September), p. 28.

Association for Investment Management and Research, members of the Accounting Policies Committee of Robert Morris Associates, as well as analysis of research publications, the writings of investors and creditors, and analysts' formal reports.

As published in *The Information Needs of Investors and Creditors: A Report on the AICPA Special Committee's Study of the Information Needs of Today's Users of Financial Reporting*,³¹ the AICPA Special Committee found a common desire among diverse users for financial reporting in five content categories:

- (1) disaggregated information,
- (2) core earnings,
- (3) estimates, assumptions, and off-balance-sheet risks,
- (4) non-financial business information, and
- (5) forward-looking information.

As can be seen in the Appendix where these categories are elaborated, users want management to highlight and extend the financial information that is disseminated via other venues. An apt example is category five, "forward-looking information." Here the AICPA Report concludes that users want management to identify key trends and relationships in the data. Users do not expect management to provide projections, but rather users need information on which to base their *own* forecasts, including more information from management about operating opportunities and risks.³²

4.3 The need for management analysis

Taken as a whole, research on user information needs suggests little desire for changing standardized reporting vehicles, but avid interest in obtaining more analysis from management. There is, for instance, little reported demand for additional information on balance sheet or income statement values. As McCaslin and Stanga³³ show, analysts assign more importance to such items presented at historical cost, rather than in constant dollars or

³⁰ Breton, Taffler, & Cucumel (1993, October), pp. 3-4.

³¹ AICPA (1993, November).

³² AICPA (1993, November), p. 5.

³³ McCaslin & Stanga (1986).

current costs. In other words, analysts want a more historical analysis of the numbers, analysis that corporate management is uniquely suited to provide. Indeed, as the AICPA report and other research shows, there is a general consensus that contacts with management are essential. This consensus builds on the information models of economics, finance, and accounting, which suggest that managers have superior information on firm current and future performance than do outsiders and, therefore, managerial reports are a potentially reliable source of information.³⁴ Overall, a theme emerges: users of corporate financial communications want more detailed information and they want that information, elaborated by corporate management, especially via personal contexts.

5 User needs analyses of CEO presentations

5.1 Significance of personal communication

Contacts with management, such as CEO presentations in conjunction with earnings announcements like those given at analysts' societies around the world, are increasingly seen as a key genre of voluntary financial reporting. In fact, analysts, whose livelihood depends upon access to all kinds of financial information, rank such contacts as their most important information source.³⁵ Meanwhile companies have come to characterize these presentations as *missionary work*, that is, occasions for spreading "the corporate word" to maintain the faithful while enlisting new followers. Indeed, these presentations allow upper management to frame the corporate facts and figures from a decidedly "up close and personal" perspective that is not afforded via other venues.³⁶ As noted earlier, such contacts have been shown to prompt analysts to publish earnings forecasts following the companies own predictions.³⁷

Take for example a typical CEO presentation at the New York Society of Security Analysts (NYSSA) held at One World Trade Center a short distance from the New York Stock Exchange. The CEO gives a talk, lasting on average 30 minutes,³⁸ while attendees (an

³⁴ e.g. Healy & Palepu, (1993).

³⁵ Arnold & Moizer (1984); Bamber & Cheon (1998); Breton, Taffler, & Cucumel (1993); Previts et.al. (1993); Schipper (1991); SRI International (1987).

³⁶ Useem (1996); Gibbins, Richardson, & Waterhouse (1990).

³⁷ Arnold & Moizer (1984); Breton, Taffler, & Cucumel (1993).

³⁸ Rogers (2000).

assortment of analysts, individual investors, and other visitors) follow using copies of the presenter's transparencies or power-point slides. Typically the presentation manuscript is also available. Many attendees take notes on pads or laptops and even though lunch may be served, the setting looks more like a classroom than a dining room. Presentations may also be simultaneously broadcast by NBC's Private Financial Network (PFN) to some brokerage houses and other locations at the presenting firm's request. Audio and videotapes are also part of the package for presenters and audiotapes may be purchased by NYSSA members or guests.³⁹

As a recurring event of consequence, both for companies and for those who have or may decide to stake a claim in them, the CEO presentation in conjunction with earnings announcements is an attractive candidate for analysis. While research on corporate communications with investors is almost nil, particularly research examining user information needs and/or communication effectiveness, there is some preliminary research on CEO presentations. A groundbreaking study, as it has direct relevance to CEO presentations in conjunction with earnings announcements, was conducted by Byrd, Johnson and Johnson.⁴⁰ While Byrd, et al. did not analyze the presentations themselves, they did map changes in analyst following, changes in institutional holdings, abnormal returns, and shifts in equity betas surrounding 2,866 CEO presentations to security analyst societies occurring over a four-year period. And while they found no significant impact on share price, their results did reveal *increased investor interest after the presentations*, as evidenced by a significant increase in analysts following, analyst forecast revision activity, and institutional holdings. They also found some evidence that small, unknown firms secure cheaper capital after a presentation of this kind. This suggests that these presentations provide some benefits for firms, particularly new market entrants. But what can be said of the presentations themselves? What is the character of a CEO presentation that users find effective?

³⁹ See <http://www.nyssa.org>; Koonce (1993).

⁴⁰ Byrd, Johnson & Johnson (1993).

5.2 User needs research on actual CEO presentations

Examining in detail a sample of CEO presentations, this author⁴¹ retrieved evaluations of communicative purpose, type and extent of information coverage, and overall effectiveness from diverse groups of evaluators, all individual investors with advanced management training and some with analyst experience. Working independently, evaluators used a variety of analytical tools to assess same eight videotapes of CEO presentations of poor earnings announcements at the New York Society Analysts (the sample comprising all the tapes available from the three years prior to November 1993). While very small, the sample represented highly diverse companies. Also diverse, the evaluative tools provided: 1) overall effectiveness judgments (e.g. To what extent was this presentation effective?), 2) profiling data showing the extent to which four communicative purposes were achieved, and 3) content analyses determining the extent to which certain types of information were covered. Comparing the effectiveness data with the data on communication purpose and content coverage, produced a preliminary picture as to what constitutes an effective CEO presentation from a user perspective.

5.2.1 Evaluating communication purpose

To analyze communicative purpose, evaluators employed a seven-point scale (1 = low; 7 = high) to score CEO presentations on characteristics associated with four basic purposes: relational, informational, promotional, and transformational (sometimes referred to as motivational and inspirational). These data were then employed to create presentation profiles, or visual maps that associate key characteristics with four basic communication purposes.⁴² Results revealed that, as a whole, these presentations are highly informational and secondarily relational; they are *not* promotional or transformational (Figure 3). Furthermore, presentations registering the highest on informational and relational purposes (which value alike the need for technical correctness and accuracy, as seen on the middle, horizontal ray in Figure 3), also received the highest overall effectiveness scores. The presentation deemed least effective registered only moderately high on relational and even

⁴¹ Rogers (2000).

less high on informational. These results raised questions regarding the nature of the informational and relational *content* in these presentations, particularly in presentations ranked highly effective.

5.2.2 Evaluating content coverage

To examine the *content coverage* in the CEO presentations, two types of analyses were conducted on the CEO presentations using the five categories identified as key information needs in AICPA Special Committee Report: (1) disaggregated information, (2) core earnings, (3) off-balance-sheet risks, estimates, and assumptions, (4) non-financial business

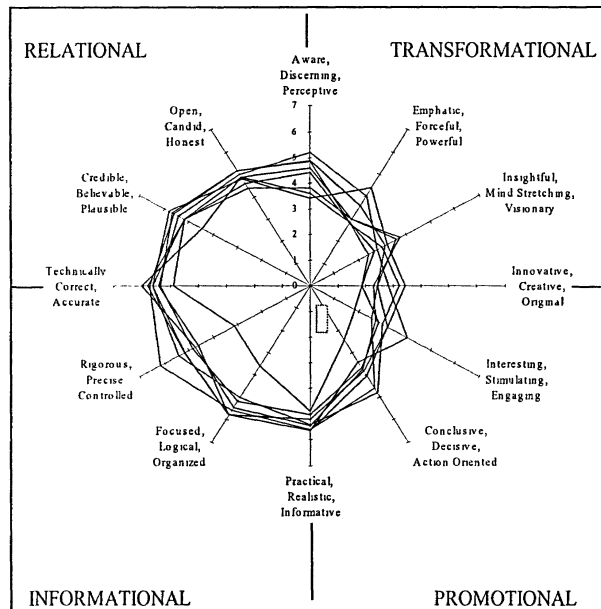


Figure 2: Compilation of Individual Presentation Profiles for all Companies

information, and (5) forward-looking information (see Appendix). A sixth category labeled "non-categorical" was used for information not represented by the five AICPA categories.

Content coverage was evaluated in two ways. First, a *categorical content analysis* asked evaluators to judge the extent of coverage for each AICPA category using an evaluative scale including "high," "moderate," "low," and "no coverage." Second, a *time-stamp analysis*, or chronological timeline of category coverage down to the second, was completed to determine

⁴² For more information on this profiling instrument see Quinn, et.al. (1991), Rogers & Hildebrandt (1993),

the length of time spent on each category as well as to determine the position in the presentation where that coverage occurred.

On the categorical content analysis, “non-financial business information” and “disaggregated information” received high-to-moderate coverage in the majority of presentations, "forward-looking information" and "core earnings" received moderate attention, and “off-balance sheet information" was largely overlooked. As would be expected, the time-stamp analysis coincided with this finding. The time-stamp analysis showed that the greatest percentage of total time across presentations was dedicated to “non-financial information” and, individually, this category was either the first- or second-most covered category time wise. “Disaggregated information” came in second with "forward-looking information" and "core earnings" a distant third overall. "Off-balance sheet information" received almost no attention in terms of time, as illustrated by the bar chart in Figure 4.

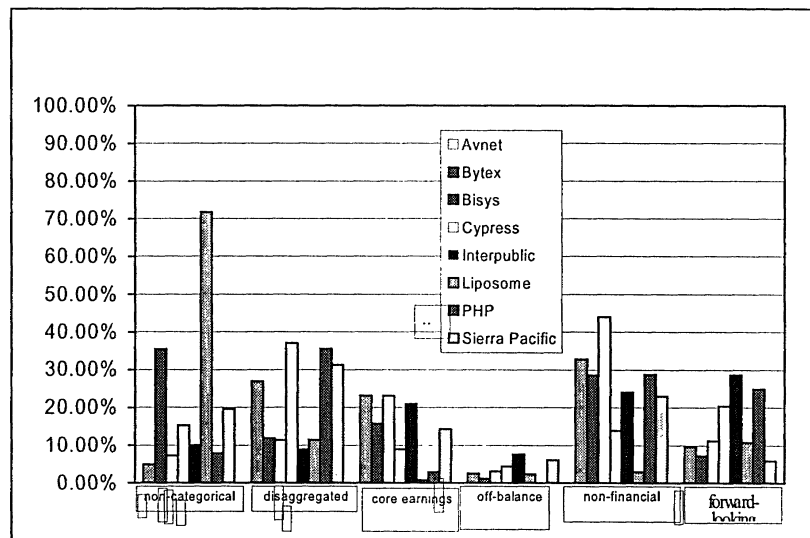


Figure 4. Bar Chart of AICPA Categories by Percentage of Time

5.2.3 Content coverage in most and least effective presentations

Interestingly, the presentation deemed "most effective" was also the only presentation receiving high-to-moderate coverage on all the AICPA user information needs categories.

and Rogers (2000).

Coinciding with this result, the time-stamp analysis reveals that each category received a total of at least three minutes time in this presentation, however, the bulk of the time went to “non-financial information” (9 minutes; 28 seconds), and, most of all, “forward-looking information” (11 minutes, 21 seconds). In the time-stamp of this presentation, one also observes blocks of time dedicated to each of the categories, indicating some degree of elaboration. In fact, the movement from category to category revealed in the time-stamp of the “most effective” presentation, suggests the kind of categorical cross-referencing found in coherent messages—e.g. “forward-looking information” being related to “disaggregated information” and vice versa. By contrast, the presentation deemed “least effective” had less cross-categorical referencing and less balanced coverage overall, using 10 minutes for “disaggregated information,” just over eight minutes for “non-financial information,” only one minute for “core earnings,” and absolutely no time for “off-balance sheet” information.

Taken together, the time-stamp and categorical content analyses reveal that the CEO presentations had quite solid coverage of “disaggregated” and “non-financial” information but, afforded less attention to “off-balance sheet” information. This emphasis seems appropriate given the face-to-face context of the presentations. Of all the AICPA categories, “disaggregated” and “non-financial” information are directly related to management activities that are less easily observed in the standard reporting venues. This is particularly true of the “non-financial” category, which includes managerial explanations ranging from the company mission to unusual transactions and events (see Appendix).

From these findings, a surprisingly clear profile emerges as to what appears to constitute an effective CEO presentation in conjunction with earnings announcements from a user viewpoint. Different respondents viewing different presentations produced a uniform profile—even the least effective presentation privileged informational and relational features. Related to this, “non-financial” and “disaggregated” information dominated the presentations overall, and the presentation deemed most effective, covered all AICPA categories with considerable attention to “forward-looking information.” On the whole, these presentations provide information that is less available elsewhere, interpretative information that befits the face-to-face context.

Also of interest, recall that these presentations did not register as explicitly promotional. Indeed, closer analysis⁴³ revealed that claim statements, which would be expected in highly persuasive communications, do not dominate these presentations. Neither were these “bad news” messages involving buffered explanations of poor earnings--one is hard pressed to find highly positive or negative evaluative statements in any of these presentations despite the fact that they were all given in conjunction with poor earnings. (Moreover, in attending presentations at the NYSSA and reviewing recordings of others, the author observed no noticeable differences between presentations associated with bad earnings and those associated with good earnings.) This suggests that users may expect a CEO presentation of earnings to be constructed as a factual, neutral message, including some coverage of all the AICAP categories, especially the highly interpretative categories requiring management analysis. These data further suggest that such presentations need not explicitly promote the company and need not explicitly seek to motivate those in the audience to invest in the firm as would be expected of the promotional communications associated with unveiling a new product line or with an IPO.

6 Implications for information management am Neuen Markt

6.1 Challenge of the communication perspective

Phenomena like the *Neue Markt* bring new opportunities, including the chance reconsider how financial information is managed. Such opportunities involve the chance to do things differently against a backdrop of cultural practice where information has been rationed for fear that it may be abused by adversarial claimants on corporate resources: unions, governments, and competitors. In fact, the reporting requirements of the Neue Markt (e.g., companies report earnings within two months after each quarter, both in English and in German) are becoming the norm elsewhere in Europe. Growth-stock markets in Amsterdam, Brussels, Milan, and Paris have adopted Neuer Markt-style regulation and the Deutsche Boerse applied the model to a new market for small “Old Economy” stocks, including firms known to have the worst IR in Europe.

⁴³ See Rogers (2000).

In such an environment the tendency to focus primarily on information control, guarding information and reluctantly releasing some of it, is greatly challenged, not only by communicative opportunity, but also by a growing investor activism.⁴⁴ As has been shown earlier, research suggests convincingly that companies must provide information continually to maintain investor interest, firm credibility, and overall influence, yet must do so without jeopardizing competitive advantage. At the same time, the investment community wants much more personal contact with management, contact they believe will provide insight into the quality of management and other interpretative information that is difficult to discover via required reports. And clearly, the relationship between firms and the investment community is ripe with dynamic tensions, perhaps even more so during times of crisis, poor earnings, and negative news.

It is doubtful whether these complex and often competing information needs can be met by IR programs that simply disseminate information in professional-looking, well-edited, smartly-presented packages. So, how can firms expect to manage these information needs? Is it possible to gain and maintain a deep and integrated understanding of the on-going, ever changing and conflicting demands inside and outside the firm, the kind of understanding needed to communicate?

6.2 Implementing a communicative perspective for IR

One way to implement a communicative perspective is to operationalize information management as a significant managerial function. Managers who have this function in their portfolio, need to know intimately the firm's strategy, strengths, weaknesses, and operating procedures, knowledge that can only be obtained via day-to-day participation at the highest levels. This may mean that IR becomes the responsibility of the Chairman and top executives; it may mean that analysts and journalists are given direct access to managers at the top most levels of the firm (not just designated spindoctors). Simply hiring an IR professional to sit in on select meetings, interview managers, write drafts, design

⁴⁴ see Useem (1996, 1998).

deliverables, get approvals, and meet with reporters may insure that information is distributed in a timely and a professional manner. But, apart from the managerial decision-making circle, IR managers cannot be expected to discover the synergies between corporate concerns and user needs, discovery that is at the heart of the communicative perspective.

Communicative information management, requires knowing more than how to set up firewalls to insure that privileged information is protected, although that is part of it. Communicative information management requires knowing more than what the CEO is keen to share, although that is part of it. Communicative information management requires knowing more than how the firm's accounting system may influence the bottom line, although that is part of it. Communicative information management requires knowing options for responding (or not responding) to analysts who have gone "negative" on the firm, and how or if to "set the record straight" when facts are misinterpreted, although this is but part of IR today. Communicative IR requires intimate knowledge of all these and more.

Furthermore, communicative IR involves knowing on a day-to-day basis what information external users will find meaningful. Increasingly, as has been shown, investors consider direct contact with management as essential. And firms around the world are responding.⁴⁵ Deciding how to use such personal contacts requires having an overall communicative strategy that determines what content to place where (e.g., disaggregated and forward-looking information in a CEO presentation), and the extent of content coverage required in various venues (e.g., spend less time on off-balance sheet information in the CEO presentation but give it more attention in the annual report). Moreover, the tools used to obtain evaluative information from the users participating in the research on CEO presentations (purpose profiling; content analyses), suggest multiple other formal and informal ways a firm might solicit feedback from stakeholders.

⁴⁵ e.g., According to Useem (1998), the number of Japanese companies sending officers to meet with investors more than doubled between 1993 and 1996.

Managers with internal participatory power, who also use a wide variety of means to obtain feedback from external constituencies on regular basis, can make *communicative* decisions regarding information, tapping the interface between corporate concerns and external users' information needs to meet the pressing interests of both.

The notion that *providing* information is not the same thing as *communicating* information is as simple and as central to effective IR as is "the time value of money" to accounting and finance. Indeed, this basic insight is becoming more and more apparent and vital in a "shareholder value" driven global business environment.

7 Summary

This chapter puts forth the proposition that the prevailing tendency to regard IR as an information-providing function driven by the production of deliverables (e.g. periodic filings required by regulators; annual reports) should be replaced by a comprehensive "communicative approach." Treating IR as primarily about information distribution by way of various generic forms, a kind of "fill in the blanks" approach, is quite different than the perspective proposed here. Rather, a communicative approach is primarily about discovering users' pressing information needs. Indeed, a communicative perspective for IR is *fundamentally driven by the information discovered in the interface of corporate concerns and user needs, that is, information of high relevance for stakeholders both inside and outside the firm.* But what are the components of this so-called interface that IR is challenged to tap?

On the corporate side, it has been argued here that "communicative IR" can only be implemented by managers who are directly involved in the realm of corporate decision-making and who, simultaneously, are continually seeking to understand what external users want to know at any one point in time. If separated from the firm's inner circle, an IR professional or manager cannot be expected to tap the interface between corporate concerns and users' needs. Related to the need for intimate internal involvement is the fact that few firms enjoy good news all the time and the boundaries of privileged information are amorphous. Communication involves tricky trade-offs even for the most

standardized reporting genre. At the same time, as the research recounted here attests, companies derive significant benefits from voluntary reporting, including using vehicles like the CEO presentation which allows management some *interpretative* license. To handle such, IR must be integrated at the top most levels of the firm.

External to the firm, research on information needs suggests that the investment community does not seek to change the standardized reporting vehicles, but they do have an avid interest in *obtaining more analysis from management*. In fact, research has identified specific kinds of information that external users want more of. Recall that the extensive user survey by the American Institute of Certified Public Accountants (AICPA) revealed five categories of information that users said they need: (1) disaggregated information; (2) core earnings; (3) estimates, assumptions, and off-balance-sheet risks; (4) non-financial business information; and (5) forward-looking information. This research dramatizes the value of learning more about the very particular information needs of the diverse investment community.

To demonstrate the kind of user feedback tools that companies might employ, this chapter further reviews key findings from the author's earlier study of CEO presentations (Rogers, 2000). Albeit preliminary, this study is perhaps the first to collect user response data on CEO presentations in conjunction with poor earnings announcements. Emerging from this research is a surprisingly uniform picture as to the purpose and content of CEO presentations that users find effective. For example, in terms of *purpose*, all the CEO presentations were shown to be highly informational and secondarily relational, but this was particularly true of those presentations characterized as most effective. Meanwhile, none of presentations was highly promotional or transformational as might be expected of a speech in conjunction with a new product unveiling or an IPO.

In terms of *content*, using the AICPA categories as the basis for time-stamp and categorical content analyses, this research revealed that such CEO presentations consistently have quite solid coverage of "non-financial" and "disaggregated" information. By contrast, they afforded very little attention to "off-balance sheet"

information. Interestingly enough, the “non-financial” and “disaggregated” information categories are also related to less tangible management activities and, therefore, seem particularly well suited to face-to-face venues, like the CEO presentation to analysts, and less well suited to depersonalized, standardized venues. This, coupled with the fact external users want *more interpretation* from management, further illustrates the importance of the voluntary vehicles generally and of the AICAP categories specifically.

Overall, the tools for examining communication purpose and content coverage recounted here provide some preliminary direction as to what information might be well suited to CEO presentations in conjunction with earnings announcements, direction that is valuable given the lack of “best practice,” particularly in relationship to such voluntary reporting vehicles. More such feedback tools and active company programs to employ them with users could be of great benefit to IR, guiding management decisions regarding communication media selection, content development, and form. Use of such external feedback tools, coupled with the internal corporate integration of IR at the highest levels of management, comprise the components of a communicative approach.

Appendix: AICPA Content Analysis Categories

#	Category	Brief Description	Full Description
1	Disaggregated Information	Both investors and creditors place a high value on segment reporting and believe that current disaggregated disclosures generally do not provide adequate information to help them predict an entity's future earnings and cash flows. They also want segment information on a quarterly basis.	Users believe segments of an entity's business that have significantly different opportunities and risks should be disaggregated and disclosed separately in the financial statements. They want disaggregated information presented in a manner consistent with the way the entity manages its risks and opportunities, even if the company is not managed on an industry basis. In certain instances, users also want disaggregated information on a geographic and line-of-business basis.
2	Core Earnings	Users want information about the portion of a company's reported earnings that is stable or recurring and that provides a basis for estimating sustainable earnings.	Current financial reporting does not separately display core earnings, and users do not believe the system provides sufficient information about nonrecurring, unusual or infrequent items to enable them to determine core earnings for themselves. They believe that financial statements do not identify a sufficiently broad range of potential nonrecurring, unusual or infrequent items and that the descriptions and details of items identified are sometimes insufficient to determine whether they are part of core earnings.
3	Estimates, Assumptions & Off-Balance-Sheet Risks	Users want companies to disclose information about the estimates and assumptions used to determine material assets and liability amounts. They also want more	Users believe that companies should disclose information about estimates and assumptions because that information is essential to the evaluation of the uncertainties inherent in the financial statements. They also want more useful information about financial instruments and off-balance-sheet financing arrangements to understand the nature of

qualitative and quantitative information about the risks associated with financial instruments and off-balance-sheet financing arrangements.

the various risks undertaken by a company. In the current environment that might include information about:

- Hedging strategies.
- Sensitivity analyses based on changes in interest and foreign exchange rates.
- The risks related to derivative products (swaps, futures contracts, etc.), particularly credit and counterparty risks.

4 Nonfinancial Business Information

Users need to understand the relationship between the events and activities of a company and how those events and activities are reported in its financial statements. Nonfinancial business information serves the critical function of helping users understand that relationship as they evaluate a company's operations.

Users are interested in nonfinancial business information about a company and its segments, such as:

- Mission and objectives, methods of conducting the business and its relationships with others--e.g. financial interests and relationships among major shareholders, directors and management and between them and the company.
- Nonfinancial operating data, such as production data, for recent periods.
- Explanations of relationships and changes in the data, such as key changes in amounts in the historical financial statements and nonfinancial statistics and the reasons for those changes.
- Measures of liquidity and reasons for changes in those measures.
- Identity and effect of unusual, infrequent or nonrecurring transactions and events.

5 Forward-Looking Information

Investors and creditors need forward-looking information on which to base their own

Users consider it essential that companies disclose forward-looking information, such as the identity of key trends and relationships in the data. They also seek other

projections. But they do not expect management to provide projections or forecasts. They also want more information about operating opportunities and risks that are relatively near-term and relatively certain and quantifiable.

forward-looking information like measures of leading indicators--e.g. backlog and innovation. Both investors and creditors consider forward-looking information an important part of their analysis, using it to assess variability of the operation, debt service capability, additional borrowing needs, management goals and strategies, and future revenues. They welcome qualitative information, such as broad business objectives and prospects for return on assets and equity. But they are only interested in key indicators, as opposed to full forecasted financial information. Users want operating opportunities and risks identified based on the company and its segments rather than on an industry-wide basis. They also want information about opportunities and risk resulting from concentrations in assets, customers and suppliers.

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