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Give Investors Your Side of the Story
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The travails of Enron Corp., Tyco International Ltd., and PNC Financial Services Group have highlighted some investor-relations lessons that can be useful to financial executives who believe their stock price does not reflect full value.

The turmoil provides insight into the factors investors weigh when judging the attractiveness of a particular stock -- particularly the "soft" nonfinancial factors.

News commentary and analysis have highlighted a number of issues that cause investors acute anxiety. Among the most cited are inadequate accounting disclosure, ineffective oversight by directors, lack of management credibility, and flip-flops on business strategy.

One obvious lesson is to avoid these problems. But the more intriguing point is what they tell us about investors.

It is widely understood that without information to the contrary, investors will assume the worst about a company. But a corollary may not be as fully appreciated: Information can enhance a company's perceived value.

Everyone agrees that a capable and credible management team is one of the most important characteristics of a successful company. Though a track record of successful financial performance is important, credibility can be enhanced by articulating a sound business strategy.

Increasing executive visibility also helps. Investors like to associate a face with a company. Numbers alone do not guarantee that they will pay attention.

It is not uncommon to find differences in the price-to-earnings ratios of companies that have similar product focus, are of similar size, operate in similar markets, and have similar financial performance characteristics. The disparity persists even when the P/E ratio is adjusted for anticipated growth in earnings per share.

Some researchers have attributed between 35% and 70% of a typical company's valuation to soft factors such as management, corporate culture, intellectual property, and regulatory issues. This is logical, since there are limitations to accounting in capturing value.

Nonquantitative factors such as credible management and a well-articulated business strategy increase investor interest. And effective communications can help investors appreciate these elements.

In many respects, investors should be viewed as customers. They have thousands of investment options to choose from, and they are not homogeneous in their approach -- after all, there are thousands of mutual funds, representing a range of investment styles, objectives, and sector specialties.

Furthermore, competition for investors' interest and for share of their wallets is as intense as for traditional customers. More-sophisticated companies are segmenting the universe of investors and instituting targeted sales programs, much as they would for their corporate or consumer banking prospects. They are developing simple, compelling, differentiated investment stories and telling them in an organized way.

An effective investor-relations program is more than the chief financial officer's commenting on the quarterly earnings release. The goal of investor relations should be to keep the company foremost in investors' minds. This has implications for both the frequency and the content of communications.

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