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Creating an Effective IR Paradigm

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Abstract

Investor relations (IR) is a strategic corporate function that could make a difference to listed companies' communication process to the markets. It is also a corporate activity that promotes the investment case of a listed company and puts its listed stock "on the radar screen" of the analysts, the media and the fund managers. This paper proposes an effective and efficient investor relations model for listed firms.

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Keywords: Investor Relations; Corporate Communication

1.0 Introduction

«Τα πράγματα δεν ταράζουν τους ανθρώπους, αλλά η άποψη που κάποιοι έχουν για τα πράγματα» Επίκτητος
"Not things, but opinions about things, trouble men" Epictetus

Investor relations (IR) is becoming slowly but progressively a discipline and/or an art between a rock and a hard place. In other words a function that makes the difference for the listed companies' communication process to the markets. Especially nowadays with so many issues on corporate accountability and effectiveness, the IR function is the one that arises beyond and above the corporate governance guidelines, which are universal and standardised to many national equity markets and countries, especially to the economic building blocks such as European Union, NAFTA, etc. It is the one that makes the investment case of a listed company and its listed stock to be recognised and be on the radar system of the fund managers.

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The objective of this research study was to identify the perceptions of the IROs and the IR function not only by the top management of the listed firms at the Athens Stock Exchange (ASE) but also by the sell side analysts and the fund managers. In addition to pinpoint/identify the involuntary and voluntary disclosure strategies used by Greek listed companies and to evaluate their effectiveness. As a consequence, I intend to extract an effective IR path/method in order to attain the predetermined goals such as increase firm visibility, improve its liquidity and share price through upgraded disclosure.

However to measure the effectiveness of the IR activities is a difficult task as well as a dilemma and there is no standard answer to it. I believe, as an IR practitioner that, ultimately the IR is measured up with some identifiable factors. These factors mostly belong to the voluntary disclosure pool that the IRO and the senior management can use. The friendly, interactive and well-informed company's web site, the increasing number of private meetings with investors especially institutional investors, the implementation of a roadshow policy, even the adequate and timely feedback to analysts are variables which the IRO can intensify or minimize well beyond the Corporate Governance principles and regulations. Other factors are more obvious and simpler such as the number of institutional investors year by year, the retaining of existing investors, the number of people (end users, institutional and individual investors) that know the company well (through constant communication and disclosure) and the increase of the share price of the underlying stock.

Furthermore, as the local and global money managers and analysts indicate, the Investor Relations Officer (IRO) has to plan strategy and tactics on a global scale with clarity, resourcefulness and flexibility. For a small, periphery but somehow dynamic market such as Greece, the IRO must add professionalism, seriousness and reputation. Then, if properly orchestrate his/her IR options, activities and communication effectiveness even the most disbelieving, pessimistic and suspicious targeted local and especially global fund manager will invest in the underlying Greek stock. In order to attract US and European pension funds and other institutional investors into Greece, which in reality is still an emerging market, better disclosure, transparency and high governance standards and practices are key elements. Global experience indicates that investors ultimately pay more if they are comfortable with good returns coupled with disclosure. Indeed, in terms of maturity, the equity idea increased dramatically in the 90s in Greece. There are today 360 listed companies at the Athens Stock Exchange (ASE), compared with 279 in Italy (Bolsa Italiana), 2,000 in Spain, 2,673 in London (LSE), 861 in Deutsche Borse (Germany), 419 in the Swiss Stock Exchange and 1,033 in EURONEXT.

1.1 Definitions

IR is a multidisciplinary function that combines principles, methods and tools from sciences and arts such as finance, accounting, marketing, economics, game theory, public relations and psychology. Most people from the academic community as well as Investor Relations (IR) practitioners accept the well-defined descriptions of the Investor Relations function, given by the National (US) Investor Relations Institute (NIRI) "A strategic management responsibility using the disciplines of finance, communication and marketing to manage the content and flow of company information to financial and other constituencies to maximise relative valuation". (http://www.niri.org) and by the UK's Investor Relations Society (IRS) "As the means whereby listed companies maintain a dialogue with existing shareholders and potential investors. Its purpose is to present an accurate picture of corporate performance and prospects, thus allowing investment community, through an informed market, to determine a realistic share price. As a result, IR can have a positive impact on a company's market value and cost of capital relative to the industry sector and overall economic climate". (http://www.ir-soc.org.uk)

Marston (1996, p. 477) defines IR "as the management of the relationship between a company with publicly traded securities and the holders or potential holders of such securities". And she adds "the IR process must reflect the highest standards of integrity of its practitioners if it is to retain the trust it requires from both corporate management and the investment community". Brown (1994, p.44) defines Investor Relations as a "strategic corporate marketing activity, combining the disciplines of finance and communication, which provides present and potential investors with an accurate portrayal of a company's performance and prospects". Preis and Berbers

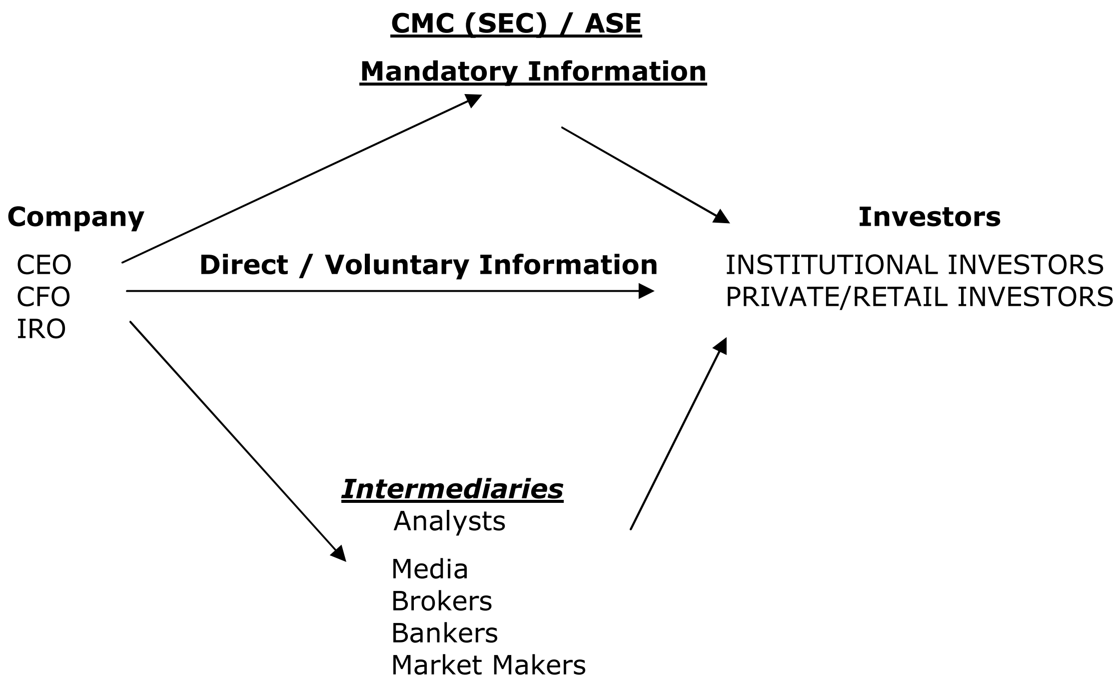
(1990, p. 102) concluded that investor relations is "the mechanism by which companies communicate those facts about themselves that lead to a judgment, by the capital markets, on their corporate operational ability". Investor Relations Officer (IRO), respectively, is the executive who is responsible to initiate, organise, plan and implement the IR strategy as well as to consult and direct the top management to the most effective communication path. The IRO can follow either formal or informal communication paths to pass the company's message across to the market participants. Corporate Governance is the set of rules and regulations that direct and prescribe the business conduct for accountability and performance.

The terms "corporate communication", "corporate financial communication", "corporate disclosure", "communication of information", "corporate disclosure", and "disclosure of information" are referring to the same meaning and are used interchangeably. As the Cadbury report (1992, paragraph 3.2) states that corporate financial communication is "an open approach to the disclosure of information contributes to the efficient working of the market economy, prompts boards to take effective action and allows shareholders and others to scrutinize companies more thoroughly". In other words, most people accept that the IR function does help the information flow between the listed companies and their audience. It comes out of the basic need of communicating the company's information to the market but as a silo of information can be used by the different interested parties to their benefits. Exactly then the regulators appear in order to control and direct the communication channel to a/the mutually benefit of the market. Managers run the listed firms (in trust), who plan and implement the strategic and marketing plans and therefore control all vital company information. On the other side, all shareholders and stakeholders (i.e. suppliers, bankers, customers, etc) have little or no information on the company's activities and performance. Thus this information asymmetry, between the two groups, creates the need for an information processor such as the IR function. And the IR adventure begins, since as processor, is always between a hard place and a rock.

The basic aim of the Investor Relations (IR) department, according to my experience is: 1) the creation and cultivation of <u>relations of trust</u> with the investors, 2) the direct, correct, valid and timely <u>disclosure</u> of company's activities to the market (analysts, institutional investors, brokers, bankers, etc.), and 3) the strategic planning and programming of IR activities, which have as ultimate goal to optimize the company's share price. I try to investigate the major IR issues that affect the effectiveness of the IR function and consequently the (budgeted) costs for disclosure, the time devoted and spent by the top management, the liquidity of the stock, the cost of capital for the listed company, the share price and others. Some of the issues are structural and others are behavioural or better psychological, such as issues that deal with the personality of the IRO, the hidden agenda of the insiders, the interaction between the buyers and the sellers of the stock during the meetings and others. It is indeed suggested that the interaction between the organizational structure of the IR department and certain features of (the IRO's) human personality can bring about the best results for the listed company. In other words, the hiring of a good, high paid, IRO should go along with the maintenance of an efficient IR office/department and adequate IR budget.

In order to achieve the aforementioned IR and company goals, the IRO must establish direct contact with investors both retail and institutional investors, such as Mutual Funds, Pension Funds, Hedge Funds, etc. He/she can also convey messages and get points across to the end users via intermediaries such as analysts and journalists.

Figure 1.1: Direct and indirect information to investors.



Therefore, the core objective of the investor relations activity is to communicate accurately and fully the strategy and prospects of the business, thereby ensuring that the share price fairly reflects the company's value. In turn effective communication provides the opportunity for companies to broaden their investor base in line with investment trends. Furthermore, Investor Relations help listed companies to attain and retain the optimal or highest share price that is consistent with an accurate and informed view of the company’s performance and its realistic potential.

In addition, the IR’s responsibility is to communicate internally, to provide the top management and the Board of Directors (BoD), with market intelligence and perceptions on the company, related industry and consequently financial market(s) and economy.

1.2 Literature Review

Traditionally, the IR phenomena were examined either as formal corporate communication or informal disclosure policies. Since the recent dot.com bubble, the subsequent collapse of the investors’ confidence and the proliferation of mandatory rules by SEC and corporate governance regulations, the formal corporate communication has been synonymous to the regulated disclosure. Therefore, the annual and semi-annual reports, the official press releases, the agenda and minutes of the general assembly, the financial statements and the footnotes, and the fillings were and are part of the formal or regulated corporate communication. In the same way, informal corporate communications and activities can be classified (Holland, 1999; Marston, 1996; Brennam and Kelly 2000) as Public and Private. Public disclosure includes press releases, web site and web casting communication of information. Private communications consist of mailing information to market participants, answering queries, providing feedback on analysts’ reports, email information, meetings either group or one-on-ones, etc. Similarly, for the IR function, Marston (2004) evaluates IR as part of the financial reporting process but also suggests that IR can be viewed from different angles not merely as an information providing function. She also stated (1996) that the purpose of IR is to provide information to the financial community, such as analysts, media, institutional and retail investors and public investor in order to optimally evaluate a listed company. Other researchers investigate the subject from the organizational viewpoint (Rao and Sivakumar, 1999), Useem (1993), Davis (1991). There are a small number of IR "textbooks" such as Bowman & Bing, (1993); Marcus and Wallace (1990); Nichols, (1989); Ryder & Regester, (1988); Brancato, (1997); Derriman, (1969); that mainly aim to be used as reference by the IR practitioners. Investor Relations has been examined, mainly from an agency theory perspective. The economic theory of the agency paradigm addresses also the information asymmetry and communication gap between management and shareholders. Research by Glosten and Milgrom (1985); Lang and Lundholm (1993, 1996); Welker (1995); and others on this field indicated indeed that corporate disclosure is positively related to information asymmetry between investors and managers.

The traditional Agency theory was introduced by Akeplof (1970), Coase (1973) and later expanded by Jensen and Meckling (1976) and Fama (1980), observed that that the role of financial information was to supervise the top management's behavior in order to reduce the agency cost. Watts and Zimmerman (1978) argued that the companies should increase discretionary disclosure in order to minimize government and stakeholders pressure and unnecessary compulsory regulation. Furthermore, Lev (1992, p. 17) pointed out "economic theory has recognized that without active disclosure the truth never comes out and consequently a permanent information gap generally exists between insiders and outsiders". Gelb (2000) argued that the separation of ownership and control leads to agency problems and the diffusion of ownership leads to governance problems.

Moreover, Verrechia (2001, pp. 98-99) states " disclosure literature could be probably characterized as an eclectic commingling of highly idiosyncratic (and highly stylized), economics-based models" and furthermore suggests "eclecticism is exacerbated by the fact that disclosure, as a topic, spans three literatures, accounting, finance, and economics, and thus inevitably takes on features of those literatures". As we mentioned, the Investor Relations literature is mostly based on the agency economic theory and selected themes from accounting, finance and marketing. In other words, there are a number of academic disciplines involved in the study of investor relations.

Indeed, as Marston (2004, p.xx) argues “there is no specific theory that can explain IR practiced by companies”. And as mentioned before, I am a great believer of the voluntary disclosure and as such the activity and effectiveness of the IR function has mostly a strategic element and dimension. Since regulation and corporate governance rules create a universal and standardized disclosure level, the job of the IRO of a company is to attract the attention of the fund managers and other market players such as analysts, bankers, etc, to his/her firm, among global listed firms, that fiercely compete for capital. Indeed, rightly Dye (2001, p. 184) suggests that “there is a theory of voluntary disclosure and (this theory) is a special case of game theory with the following central premise: any entity contemplating making a disclosure will disclose information that is favourable to the entity, and will not disclose information unfavourable to the entity”. Ryder and Regester (1989), in their book, proposed that IR has strategic importance and it is a strategic link between investors and savers and additionally investors and companies.

Rogers (2002) also proposed a strategic perspective and approach to examine IR. As Marston & Empson (2004, p. 7) argue “hard-copy disclosures and investor relations disclosures may require a different theoretical approach” and Dye (2001, p. 184) posits that “there is no received theory on mandatory disclosures”.

IR function also has been the subject of academic research from the Efficient Market Hypothesis (EMH) perspective. Deller, Stubenrath and Weber, (1999) based on the EMH principles, found that a company by disclosing more to interested parties and to market could influence the market participants. But as Marston (1997, p. 266) argues, “In practice there will always be information asymmetry. It is not possible to convey to the market all the information about a company. If this were possible the market would exhibit strong form efficiency, which has been reported on by Keane (1983, p.10) as follows “The market is efficient in the strong sense if share prices fully reflect not only published information but all relevant information including data not yet publicly available. If the markets were strongly efficient, therefore, even an insider would not be able to profit from his privileged position”. Bromwich (1985, p.68) connects information asymmetry with insiders and most importantly financial analysts with inside information and suggests that the holders of esoteric company intelligence partially help the market efficiency. In particular, he argues that "given the relatively small numbers of individuals who have access to such non-public information" these individuals first of all, may contribute to economic efficiency, since they have access to superior company knowledge, as they claim, and secondly they exercise a kind of monopolistic information power and, therefore, "will not provide the information to all those willing to pay the incremental cost of their demands".

Aside the academic contribution to the IR phenomena, the fledging industry of corporate communication of information draws a lot from the IR practitioners, who plan and implement the IR programme, consult and advise the company's insiders based on the synthesis of market perceptions, opinions and actions. The practitioners in turn convey their experiences, observations, and knowledge to the IR magazine and to different ad hoc research done by intermediaries and consultants. This collection of findings in reality consist a good source of IR issues. Therefore, lots of material and event related results in the investor relations area still is encountered in publications and magazines mainly in the states and the UK. Namely, all IR practitioners and interested parties accept the UK's IR Magazine and its sister web periodical IR on the Net as the "official magazine" in the industry and across the Atlantic, the USA's National Investor Relations Institute's Investor Relations Quarterly and Investor Relations Update are considered as a good source of IR practices, efforts and case studies, and research results.

In addition NIRI and the UK's Investor Relations Society publishes ad hoc, insightful empirical IR research studies that covers many IR related issues such as IR constraints, tools, effectiveness, relation to the corporate governance rules and directives, and intermediary information disclosure. Furthermore, some ad hoc surveys that shed some light on the IR activities and effectiveness spring out in different regions. News Directions' (1999) survey in ten European countries and Intercapital Communications' IR survey in Australia (1998) are examples that should be followed from institutions across the globe. For instance, a UK focused IR research (IR Magazine, 4 February 2002) indicated that 50% of the asked listed companies adopt a proactive IR programme and roughly 40% reported that the IR was evolved into a strategic activity for the company and participated in the strategic planning. There has been satisfactory research into the specific area of disclosure that is covered by the investor relations in the English-speaking countries (USA, UK, Canada, Australia, NZ, etc) but has been little academic research into IR in the rest of the world (Europe and Asia). Only recently, Marston and Straker (2001) surveying 80 large non-UK European companies, enquiring about their investor relations activities, found that "investor relations was becoming an increasingly important function, and almost 90% of the respondent companies employed a full-time Investor Relations Officer". In addition, their research indicated "the practice of investor relations in Europe has varied and still varies considerably between nations, for a variety of reasons". And they conclude "there has been growth in investor relations in all European countries, perhaps as a result of increases in international investment and the spread of Anglo-Saxon business practices". But little in depth research in this area can be found, especially in English.

The bulk of what is happening in the European (and other like Japan, Korea, etc) countries can be found in the IR Magazine as short, light and event research studies on IR issues. In addition, my awareness and intelligence for the IR status in many markets come from informal discussions and formal presentations in the IIRF annual conferences. More recently, Marston and Straker (2004) have documented the level of the IR industry in the Eastern European countries. Lately, after the stock market bubble, both the academic community and the practitioners view IR as an element of the Corporate Governance. Walmsley, Yadav and Rees (1992) concluded that information is impounded into the share price. They consider that generation of private information is potentially unfair and could be illegal. Aoki, Patrick and Sheard (1994), Kester (1996), Brennam and Kelly (2000), Gaynor (1999); Teh (1999); Parkinson (1998) have researched the dimension and the role of regulation and especially corporate governance on the disclosure process, the quality of corporate governance and corporate communication, the usefulness of regulation.

Others have been investigated (Thompson, 2002, 2003, 2004) the impact of corporate governance rules and especially of the Regulation Fair Disclosure (Reg. FD) and the Sarbanes- Oxley act on the IR and therefore on the information asymmetry, investors confidence, share price, volatility, trading, analysts' models, etc. Especially, Reg. FD rules that enforce the companies to disclose simultaneously any information to all market participants, via the web site, web-casting, press release, etc created probably more informal and discretionary communication issues at least in the non USA markets. Indeed, this area has not been researched at least for the ADRs issues, of these and of non-US stocks. Additionally there are studies or surveys that examine legal or regulatory issues concerning IR role, constraints, tools and effectiveness. Gaved (1997) investigated the role of institutional investors in the governance of the listed companies they are shareholders or the intent to invest in. Carpenter (PR Newswire's Guide to European Disclosure, 2002, p.27) concluded that "disclosure practices have been forced to improve for several companies from smaller markets…while...disclosure practice among Europe's blue chips is driven by similar international standards". A similar survey by Citigate Financial Intelligence (2003, pp. 3-6) reported that "…while shareholder identification is regarded as the building block of Investor Relations… the impetus legislation is not generally provided by the agendas of the corporate or the buy-side communities: the original motive for transparency was the protection of the small shareholder and it remains the legislator's primary concern, joined by other motives for greater transparency such as the desire to prevent money laundering or insider dealing". More recently, the report by Simmons & Simmons (2004, p.8) concludes that putting "aside Russia, which has no formal disclosure obligation (of share ownership), …companies in continental Europe and Canada, Scandinavia, and the UK and commonwealth ...rely on the enforcement powers of the national regulators where the information provided is not sufficient".

In addition, major global institutions such as the NASDAQ produces almost every year a well-defined booklet on IR, which describes adequately and practically the three modes of disclosure (regulated, intermediary and voluntary). Nevertheless, (The strategy and Practice of Investor Relations, 1997, 1999, 2001, p. vii) it defines "Investor Relations as a proactive process in which vital and valuable information is continually disseminated to the financial community to ensure that a company will be accurately valued in the marketplace".

Similarly, the London Stock Exchange (Investor Relations, a practical guide), in association with Buchanan Communications, has also produced this up to date IR guide providing coverage of various aspects of the IR. Moreover, it states (2003, p. 3) that IR "encompasses the broad range of activities through which a quoted company communicates with its current and potential investors". And it argues (2003, p. 21) that "IR best practice can change rapidly. Five years ago it was still considered best practice to invite analysts along to a closed results presentation and pay little regard to the information advantage that this gave the professional investment community over private investors. Today, such an approach is likely to be viewed as selective disclosure and companies are encouraged to relay their presentations live over the web". This attention by the world wide recognized institutions asserts the importance and value of the IR.

There is also a group of researchers that evaluate the role of the information intermediaries in the company's disclosure activity, by greater analyst coverage, estimating accuracy of analysts' forecasts of earnings, projections, earnings guidance, etc. Indeed, prior research by Baldwin (1984); Dye (1988); Trueman & Titman (1988); Balakrishnan, Harris and Sen (1990); Lang and Lundholm (1993); Richardson (1998); and others also demonstrate a relationship between information asymmetry and earnings management. More specifically, Lang and Lundholm (1993); Welker (1995); Lang and Lundholm (1996); Sengupta (1998); Healy, Hutton and Palepu (1999); have documented a negative relationship between corporate disclosure and earnings management. Healy and Palepu (2001) as well as Core (2001) have reviewed the recent empirical disclosure research through the information intermediaries. Moreover, Healy and Palepu (2001, p.418) conclude that there is enough evidence that "shows that at least some of the disclosures made by financial analysts, the business press, and bond-rating agencies affect stock prices". Nonetheless, they summarize that "there remain important gaps in our knowledge about the incentives of auditors and intermediaries, and the impact on their credibility".

Lang and Lundholm recognized the value that IR adds to the disclosure practices over time and show that more informative disclosure policies reduce information asymmetry. In an older study, they (1993, p. 246) provide evidence that "the analysts' ratings are increasing in firm size and in firm performance…and…decreasing in the correlation between earnings and returns, and higher for firms issuing securities in the current or future period". In other words, the mandatory disclosure secures only a small portion of company's information and for the biggest part of the information is left to the discretionary mode of the companies or better to the incentives of the top managers to disclose more information. Similarly, Bhushan (1989) develops a model of analyst following and proposed a number of parameters that affect analyst coverage. The size of the firm, the business lines, the shareholder structure, the company's founder and major shareholder's role, share liquidity and stock return are some of these variables. Additionally, O'Brien and Bhushan (1990, p. 17) found that "analyst following increases more in firms with small prior analyst following and in firms whose return volatility has declined and that analyst following increases more in industries with regulated disclosure and with increasing number of firms. Institutional ownership increases with firm size and with increased market risk". In an later paper, they (1996, p. 490) concluded that "firms with more forthcoming disclosures in their industry have a greater analyst following, more consensus among analysts' earnings forecasts, more accurate forecasts and less variable forecasts revisions" and more importantly "investor relations is consistently a significant determinant of analyst behavior…(since)…direct contact with the company is a primary source of information for analysts". Farragher, Kleinman and Bazaz (1994) found a positive correlation between investor relations activity and the consensus of analysts forecasts especially in terms of earnings per share. Francis, Hanna and Philbrick (1997) similarly found a positive correlation between analyst presentations and analyst coverage. Brennan and Tamarowski (2000) additionally found a positive correlation between analyst coverage and liquidity of the underlying stock. A distinct research subsection in the area of disclosure through the information intermediaries is the managers' earnings management. In other words, the opportunistic disclosure of company's earnings by the insiders has been getting a lot of attention by researchers. For example, Dye (1988); Trueman and Titman (1988); Schipper (1989); Richardson (1998); posit the interdependence and positive relationship of information asymmetry and management of earnings. As we mentioned, Bromwich (1985) argues that some analysts have access to private company information and could be considered as insiders (of company information) themselves and therefore are part of the agency problem. Indeed, as Marston (1998) describes many researchers like Bellemore, Phillips and Ritchie (1979); Lee and Tweedie (1981); Gibbs and Seward (1983); Westwick (1983); Arnold and Moizer (1984); Arnold, Moizer and Noreen (1984); Day

(1986); Chapman (1987); Levine (1988); Porter (1988); Rudd (1988); Hirst (1988); Luther (1990); and Gniewosz (1990); have attempted to identify the role of analysts in the information continuum, mostly in the English speaking (UK, USA, etc) financial markets. The majority of them have employed the survey, questionnaire and interview research approach and their findings assert and support the dynamics of different facets of the voluntary disclosure. Moreover she (Marston, 1997, p 267) states, "It is clear that informal contacts between analysts and companies have long been the norm.

The literature clearly indicates that such meetings were viewed with approval as an essential part of a company's financial public relations exercise". For instance, Lee and Tweedie as early as in 1981 (p. 104) report that during a company and site visits "any information obtained (during a visit to a company) may well be unique in the sense that it may not be shared by other investors (both existing and potential), whereas published sources provide knowledge for all users. Consequently, company visits would seem at first sight to be an extremely useful means of obtaining information in advance of other investors". Additionally, Hirst (1988, p. 20) evaluates the close relationship between top management and analysts and concludes "an open management will tend to reduce information disparities. It may, however, reflect more than different management styles. Companies in financial difficulty are likely to be subject to considerable information disparities, and their managements will be unable to speak freely. In either case, the evidence seems to support the view that an open relationship between management and analysts supports marketability".

The regulatory bodies such as the US SEC is pushing hard to succumb the role of the intermediaries and their access to privilege company info by exhorting companies to directly disclose more information to investors. Watts and Zimmerman (1978) argued that the top management of the listed companies should focus and increase their discretionary disclosure in order to voluntarily bridge the information gap between themselves and the market and to strategically pre-empt the regulatory institutions to enforce patterns of disclosure.

Indeed, minimum disclosure requirements exist in a capital market, then the flexibility of the management to exercise discretion in its corporate disclosure and the communication of the company's information is maximized. In addition, Verrecchia (1983) argues that the top management could accept the cost associated with a possible voluntarily increase of the corporate disclosure in order to correctly value their company and its underlying stock by the market. Barry and Brown (1984, 1985); Merton (1987); Diamond and Verrecchia (1991); Kim and Verrecchia (1994); provide evidence of negative correlation between voluntary disclosure and information asymmetries between management and shareholders-investors and furthermore of positive relationship between discretionary disclosure, stock liquidity and share price.

Later on, Healy, Hutton and Palepu (1999) documented the importance of "private information" that stimulates analyst to cover the stock and it also motivates fund managers to buy the stock and therefore boost liquidity and stock price.

MEETINGS

Marston (1991, 1993, 1996, 1997) systematically researching the IR function and using mainly questionnaire methodology examines consistently the development of the industry from organizational issues to execution of private meetings. Needless to mention, she bases her analysis on the assumption of IR as voluntary disclosure.

Similarly, Walmsley, Yadav and Rees (1992) report the importance of private meetings in the disclosure of corporate information. Furthermore, Holland (1998b, p. 267) reported, "private disclosure activity was recognized as a significant part of a larger corporate decision concerning public versus private voluntary disclosure". By interviewing top executives tried to shed light upon and "offer little guidance on how informed traders become informed, or how private or public disclosure will affect other institutional and market states such as trust, confidence and support" (1998a, p. 65). In accordance with previous findings, Barker (1996, 1998) also using the grounded research approach and specifically structured interviews with finance directors, analysts and fund managers concludes (1998, p. 27) that "for analysts, direct contact with the company provides timely, focused, forward-looking information that is perceived to offer a competitive advantage over rival analysts" and similarly, "for fund managers, formal meetings offer an opportunity to access the company's strategy and the ability of management … and to offer a competitive advantage in terms of investment performance relative to rival funds".

Along the same line, Marston (1999), Weetman and Beattie (1999), Beattie (1999), and later Roberts, Sanderson, Hendry and Barker (2004) justified the importance of investor relations meetings and in particular the private meetings, in closing the information gap and accessing directly the top management and therefore primary company information. Eccles and Mavrinac (1995) found that voluntary disclosure policies by the listed companies surpass the mandatory requirements and play an important role in the corporate communication. Baker (2001b), in an empirical work, found that personal contacts and personal relationships are the most accepted and used communication tools by the French institutional investors especially with the companies they have holdings of. Larran and Rees (2003), using the questionnaire and interview methodology, also concluded that the meetings both group and one-on-ones were very important for the most important players, such as company executives, analysts and fund managers. Tuominen (1997) reports and documents that the Nordic corporate communication people favour personal and proactive IR policies extensively. Lev (1992) argued for a more proactive and consistent communication policy by the public companies and provided the link between that and investors' confidence, market surprises and share price. He additionally asserted philosophically that "economic Theory has recognized that without active disclosure the truth never come out – a permanent information gap generally exists between insiders and outsiders" (1992, p.42).

SITES

During the last decade, with the advances of internet technology, the internet financial reporting and email corporate communication have been established as a speed full, frequent and formal disclosure instrument with the time and cost cutting elements that characterizes the new technology. Deller, Stubenrath and Weber (1999) found a positive correlation between the content of the web sites and the level of disclosure. Gelb (2000, p. 169) believes that "disclosures represented by the investor relations category are less formal and rigid and are not an effective signal of the firm's intentions to disclose more in the future". Another survey focused on firms web casting, that reported in the IR Magazine (July 2002) shows that the best web casts could be found not only in the large capitalization companies but in smaller dynamic firms.

Moreover, Xiao, Jones and Lymer, (2002); Lymer (1997); Noor and Mahammad (2000); (Thompson, 2002); Harper (2002); Deller et al. (1999); Hedlin (1999); Bernam and Kelly (2000, 2001); have research internet related topics in a different country setting such as the US, the UK, Germany, Malaysia, Sweden, Ireland and Japan. Topics covered by these research efforts are mainly the existence of interactive web sites by cross sectional listed companies, financial reporting via web, the nature and depth of the company's information, the continuous flow of up dated data, the friendly user content.

CONFERENCE CALLS

Others, such as Tasker (1998) and Frankel, Johnson and Skinner (1999) researching a specific IR tool, that of the use of conference calls to convey information to market participants concluded that this voluntary tool is not only decreasing information asymmetries but also affects positively trading volume and volatility of the shares.

A number of academic studies connected the IR activity with improved communication of company's information and multiple benefits to the companies, such as decrease of bid-ask spread of stocks, improved liquidity, lower equity cost of capital, investors' confidence, benchmark for IR practices, etc in Dhaliwal (1979); Diamond and Verrechia (1991); Lev (1992); Byrd, Johnson and Johnson (1993); Elliot and Jacobson (1994); Greenstein and Sami (1994); Eccles and Mavrinac (1995); Mavrinac (1998); Bendheim, Waddock and Graves (1998); Higgins (2000); Gibbons (2001); Gruner (2002); Hockerts and Moir (2004). Glosten and Milgrom (1985) demonstrated that information asymmetry is reversibly related to the corporate disclosure. Gray and Roberts (1989) have pointed out, corporate perceptions of the costs and benefits can influence the extent of voluntary disclosure. Welker (1995) documented that information asymmetry, measured as the bid-ask spread, is reduced and market liquidity increased as the level of corporate disclosure is increased. Clark and Murray (2000) found positive relationship between the chairman (of the Board of Directors of UK listed companies) statements, as displayed mostly in the annual reports, and the shareholders and investors' confidence.

1.3 The research idea and objective

In this current research, based on a grounded theory approach, I collected empirical data about IR programmes from the Greek companies, the local and global (London) sell side analysts and the local and global (London) mutual, hedge and pension fund managers and to identify and investigate key issues through semi-structured interviews. Interview data was collected from 76 top managers of Greek listed companies. I interviewed 14 Chairmen of the BoD, 11 CEOs, 15 CFOs, and 36 IROs (14, who work in different parts in Greece, outside Athens). The targeted listed companies stratified not only by market capitalisation but also by operating a good IR department. Although I targeted 250 firms, the interviews were done with 76 companies from the three major international indices (FTSE/ASE 20-40-80). Interview data was also collected from 44 sell side analysts, who 34 operate in Athens and 10 work in London but cover mostly Greek stocks. Finally, I interviewed 44 institutional investors, 26 locally in Greece and 18 in London, UK. The selection criteria for the financial (FAs) were the publication of reports in both Greek and English and the subsequent following "promotion and explanation" of their analysis to the market players. Similarly, the criteria for the Fund Managers (FMs) were the active participation, as shareholders, in the Greek listed companies. Roughly 23% (37 interviews) of the data were collected in English language while the remaining 77% (127 interviews were conducted in Greek). All interviews were taped (on a small tape recorder) and the discussion-interview had as guide the questionnaire format and sections-questions that it was filled out previously by the interviewer. In that way, the interview was less time consuming and we were focusing on the qualitative issues rather than quantitative answers such as Yes or No, how many people work in this department, etc. It is the first study in the IR area in Greece and I focused on collecting not only hard evidence from the IR practitioners but also perceptions, misunderstanding and comprehension of the top managers of the listed companies on the Athens Stock Exchange, and other market players. Assuming the inefficiency of the financial markets and accepting the agency model, I tried to recognize the information relationship between the insiders and the institutional investors-shareholders and the role that the IR plays by using the analysts as channel of communication. My objective is to find and propose ways to improve the impact of the IR program. As a long-term IR practitioner I have faced suspicion from the money managers and mistrust from the company's executives. Improved IR plan leads to reliable information flow to all directions, which in turn builds trust, improves assessments, advances liquidity, attracts new capital and increases share price and consequently drives IR efficiency and effectiveness. Moreover, effectiveness of the IR is a quest and cannot be standardized in its application. There are common elements of the IR activities but like marketing and advertising even proactive and strategic intent, intuition, creativity and superior mix of means and mediums play the biggest role in the success of the IR.

1.4 The Research Questions

The main question of this study is about the value and most importantly the effectiveness that the IR adds to the Greek listed companies. Indeed, the basic research question of this thesis address two intertwined and interrelated issues that of the Investor Relations perception and the effectiveness of the implemented Investor Relations programme by the different market players - sell side analysts and fund managers - of the Greek market and by a cross sectional sample of the listed companies at Athens Stock Exchange (ASE). When IR is more effective? Is it in a highly regulated information environment? Is it when the communication channels pass through the analysts? Is it when the insiders are free to adopt IR policies in order to obtain desired results? For instance "why the Greek management disappears when a quarter or a year is bad financially"? as put by a global fund manager. Other questions are researched. For instance, is the IR office necessary in a company to implement voluntary corporate disclosure policies in order to have effectiveness? And when the different market players perceive IR as an effective management function? To identify the two parameters/variables of the main questions we have to establish:

- How the IR is organized, in order to be effective?
- What communication tools uses to report firm financials, performance, strategy and governance elements? Is more effective to use a combination of compulsory and voluntary communication means?
- Is Corporate Governance counterproductive?

- How astutely utilizes intermediaries for financial reporting? and
- How it orchestrates its voluntary disclosure options?

Then we have to recommend

- How the IR should be organized.
- What communication means should employ generally and specifically.
- The boundaries for the CG.
- How to take advantage of analysts, journalists and other intermediate professionals, and
- What orchestration of voluntary disclosure organs should compose?

Other efficiency related questions are addresses but not investigated:

1. The value that the IR adds to the communication and the relationship of the firm with the financial community.
2. The IR influence on the share price.
3. The IR affect on the coec.

1.5 Methodology of research

It is an empirical study using grounded theory approach and it is the first research study of the IR activity and effectiveness in Greece. As Laughlin (1995) indicates there exist two major bodies of research available methods, the positivistic that require less input from the researcher and the phenomenological ones that leave more scope for researcher judgment. I chose to use the phenomenological research methodology and in particular the interview approach. Indeed, in the IR practice, there are some objective and "immutable" issues that are determined by the local psychology and culture, the local business ethics and business practices, the maturity of market players, the stage of the life cycle of the local market is at (i.e. emerging, mature, staple based, industry specific, extroverted, etc) that in turn makes each market unique.

Moreover, I chose interviews as the research method due to my strong view for the IR function, activity and effectiveness, which in turn along with my extensive experience in the field helped identify and ask in person solid, penetrating and motivating questions. Naturally, some of the questioning could have been biased, but I was trying to minimize the bias through the structured format of the questionnaire and the direct answers by the interviewers. Moreover, researchers such as Marston and Holland, who investigated the same subject, used this approach. The study relies on primary data collected from interviewing company representatives (the CFO, the CEO, the IR director) as well as analysts and institutional investors. If Holland (1997, p. 5) believes that "the actual observation of the communication process between institutional investors and management "would be ideal", as a more than 10 year IRO professional and have been working in house for 7 listed companies and in consultation level worked for a variety of big, medium and small capitalization firms, I have been observing the common process of management to the market players and in addition I have been participating in that process. Another issue that I had to be careful about was that "researcher's values inevitably affect the interpretation of the findings" as Holland (1998) put it. Indeed, I could not be completely independent of the issues examined or researched. Even when the IR variables are assumed to be quantitatively measurable (such as IR effectiveness, increase or decrease of stock price, increase of new shareholders, etc), it is difficult to pinpoint if the IR is or is not effective and is subject to interpretation, perspective, even bias, etc. For example, there are cases where the time element plays an important role in the IR effectiveness especially in the case where the IRO does a good job promoting the investment story to potential savers and investors but the stock price can be observed with a time lag, because the price-promotion relationship is mostly time correlated.

I have been "engaged" intuitively and instinctively in additional data gathering methods (Schwartz and Nandhakumar, 2002; Denzin and Lincoln, 1994; Nandhakumar and Jones, 1997; Silverman, 1993) such as notes during meetings and conference calls, observations during group conferences and analyst presentations, informal discussions with fund managers, analysts, bankers, auditors, senior managers, etc, even photograph analysis of investors and visitors to match the intelligence on profiles, styles, even attitudes. In other words, from the early stages (since 1994) I have been taking notes, tape conversations, re-listening and analyzing conference calls, grouping communication styles, forwards, etc of the different human/executive personalities where the concerns to market players strategy, financial and operational data and issues. Indeed, over many years, as Holland (2001) notes: "further data was collected from public and semi-public domain sources. These included public database or archives of the financial press, company reports, analyst reports, and fund manager marketing material for pension trustees. This data provided alternative sources of confirmation or contradiction of interview data. Attendance at practitioner events or conferences was another useful way of collecting material not normally available in public domain".

In addition, for the last five years, as President of the local IR society, the Hellenic Investor Relations Institute (HIRI), I have been organizing a lot of group presentations of clusters of Greek companies (4 or 5 listed firms) from different industries, with different liquidity patterns, shareholder structures, capitalization, etc. to present to most financial centres and to the local financial community such as Frankfurt, Milan, Geneva, Paris, Toronto, New York city, Boston, etc. These group conferences are themselves a full and wealthy pool of IR information and observations. For example, I have the opportunity to observe each panel (usually 3 top executives) presenting, communicating their story and strategy, even during tough Q&A sessions, having in mind that the Greek firms have always to face the not so great image of Greece for a long time. Interviews, as a research tool, seem necessary because in Greece many people do not respond to questionnaires and we probably have success and probably more quality responses with the personal interviews. Although the latter in other countries might be time consuming and more objective, in Greece is preferable and effective. It was decided to select 250 quoted Greek companies as targets, out of a total number of 360 listed companies. The stratification process was similar to Marston's (1993, 1996) and to Godfrey's (2001). The main criteria were the existence of an IR department and the inclusion to a major, internationally recognized, index such as the FTSE/ASE indices and the MSCI. The prime target of listed companies was naturally the big capitalization firms where the need for specialized IR services is important and demand driven, but also dynamic small to medium capitalization firms that either have global operations or strive to attract foreign institutional investors or showed a keen interest in my research. Nevertheless, I tried to have a very good sample of the Greek market in order to extract solid perceptions and thoughts from the senior managers. The main questions to the executive managers focused on the value that the IR adds to the communication and the relationship of the firms with the financial community. In particular, 150 questions belonging to 15 main categories (again 13 for the analysts and institutional investors) of questions were asked at the interviews. (Section 1: Organization of the investor relations function; Section 2: International IR aspects and consultation; Section 3: Substitution effects for the IR function; Section 4: Macro aspects of the IR function; Section 5: Executing of the investor relations programme; Section 6: Company meetings with analysts and fund managers; Section 7: Telephone conversation with analysts and fund managers; Section 8: Company feedback on sell-side analysts' reports; Section 9: Mailing information to analysts and fund managers; Section 10: Proactive roadshows (visiting the fund managers) and increasing analyst coverage; Section 11: Email database management and distribution of information; Section 12: Conference calls as a voluntary disclosure medium; Section 13: Disclosure via Internet sites; Section 14: Controlled information; Section 15: Opinion on your company's relationship with FAs).

Also, same and/or similar questions were posed to the fund managers and analysts, asking them to identify the added value of the IR to the valuation chain, their decision-making, recommendation and the share purchase.

1.6 Research findings

Most senior managers of the Greek companies, although they comprehend the value of the Investor Relations, ignore the requirements of the particular position and rush to fill them with non-qualified individuals. Instead of hiring individuals with a strong personality who combine market, sector, company and even some legal knowledge, and have some experience in portfolio management, public relations and marketing, they attempt to fill the IRO positions with individuals whose most important asset may be their relationship with the owners or the top executives of the company, or analysts or brokers simply trying to flee the shrinking brokerage business. These people, as a whole, cannot establish info credibility and indeed fail to impress foreign institutional investors. Adopting voluntary and mostly involuntary disclosure policies and engaging in pre-marketing and proactive roadshows abroad should be part of the listed firms' "tool kit." Failing to do so in an increasingly competitive landscape for international institutional funds may result in stock underperformance, which could possibly hurt the firm's image among shareholders and on aggregate undermine the Athens bourse's future.

Experience and opinions indicate that a number of factors may deter active foreign funds from investing in Athens. The small sizes of the local stock market, its lack of depth in liquidity, the slow adoption of IFRS are some of them. However, the biggest problem facing local firms is their inability to "sell themselves" to the group of active international investors. This is the job of the Investor Relations Officer (IRO) but most Greek firms do not have one. Although it is necessary for Greek firms to go out, market themselves and attract the foreign funds pursuing active and proactive IR strategies, few seem to have taken notice and tried to rectify the problem. In contrast, the majority of the IR "departments" were established exogenously, basically only for corporate public mandatory disclosure, via CMC regulation 5/204, ASE's stock star system, law 3016, etc).

The main issues which corporate governance is seen as addressing in Greek firms are business planning procedures, a more active role for the board of directors, the development of organizational and administrative structures, performance measurement, coordination and internal control mechanisms, personnel selection systems, appropriate remuneration policy and the promotion of business culture. International experience and analyses have shown that listed firms that apply practices of corporate governance enjoy lower capital raising costs and higher valuations, due to a "credibility premium" that may be as high as 25 percent. Of course, in bad times like now, corporate governance and IR activities entail higher operating costs but it is an investment with a high return. Moreover, we cannot fight the global trend or better the "market".

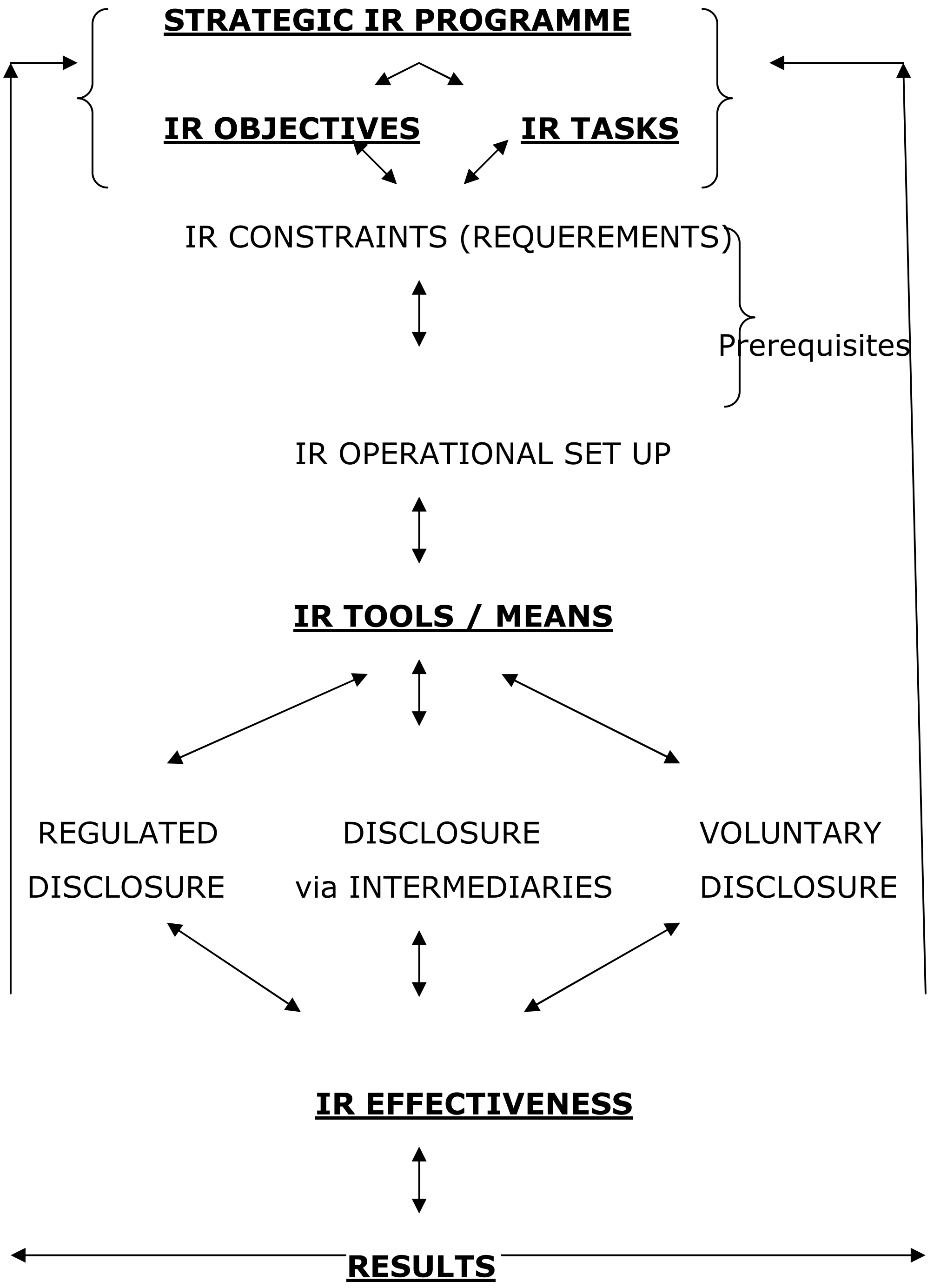
Moreover, some top executives of the listed firms believe that the IR activities or IR practitioners do nothing more and different than the PR departments. And as such they put organically the IR people in or under the "structure" of the PR departments where the IPOs report to the PR director (i.e. OTE since 2001). The research also indicates lack of knowledge for the Investor activities (IR) by the Board of Directors and the executives or management team. Finally, a chief weakness of most Greek listed firms lies in the organization and functioning of their boards of directors, due to the predominance of family members and the lack of internal control. Progressively firms make more changes by introducing web pages with information for investors in Greek as well as in English, by regularly publicizing corporate events and by applying the rules of corporate social responsibility beyond charities and sponsorship of social events.

As a consequence, corporate governance and IR practices are important and some argue imperative for Greek firms that are encouraged to apply them as well as on a voluntary basis. Needless to mention, that 75% of the 360 listed companies are consider as medium to small capitalization companies, which have particular characteristics and challenges: Characteristics (IR from Scratch, Reporting in Greek GAAP, No Visibility, Use only Greek Language Material and Tools). Challenges (Market Capitalisation, Increasing Analyst Coverage, Strategic Targeting of FMs, Cities, Countries for Proactive Roadshows, Extreme Need for IR, Limited Number of Shareholders, Liquidity Issues, More Relationship Roadshows, Marketable Press Releases).

Larger Greek companies are providing generally satisfactory IR to the analyst and fund manager members of the financial community. Indeed, my research shows that there is good recognition of the importance of IR by the top management of the companies. In fact, CEOs are active in their support of IR, but boards are less obviously so. The internal structure and organization of IR is important in order to ensure effective IR information flows and relationships with the financial community and the operational managers even so the employees. On the other hand, transparency and information disclosure practices of the listed firms have been improved lately but the IR practitioners were inexperienced.

1.7 Conclusions - Creating an Effective IR Paradigm

Figure 1.2: The IR Framework



As the current research indicates, the Greek IR model focuses mostly on corporate public mandatory disclosure (i.e. quarterly and yearly accounts, press releases, etc) according to by-laws and regulation and on any "impulsive action" internally by the people from the registry (metochologio) department. In addition, in the Greek model we observe that the media people not only substitute the internal people who process the information but also affect at a large scale the message given to the market directly or via the sell side analysts' dailies. Moreover, it looks as if most Greek companies, especially the small ones, ignore the requirements of the particular IR position and rush to fill them with non-qualified individuals. Instead of hiring individuals with a strong personality who combine market, sector, company and even some legal knowledge, and have some experience in portfolio management, public relations and marketing, they attempt to fill the IRO positions with individuals whose most important asset may be their relationship with the owners or the top executives of the company, or analysts or brokers simply trying to flee the shrinking brokerage business. These people, as a whole, fail to impress foreign institutional investors.

Table 1.1: The IR Activity flow

IR Programme
IR Objectives: Goals and Tasks
IR Prerequisites : Constraints and operational
IR Tools and channels: Regulated – Via Intermediaries – Voluntary Disclosure
IR Effectiveness

In conclusion, the basic attributes for the effectiveness of the IR activity is the appropriate diagnosis of the specific firm's needs as well as the creative strategic planning by the IR department combined with the personal attributes and characteristics of the IRO (Table 1.1). Indeed, the implementation of a strategic IR program might be good for one company but marginal and detrimental for other listed companies. For instance, the main target for a small cap firm is usually the hedge and venture capital fund manager, while for a mature company is the dividend institutional investor.

1.7.1 The IR programme

An effective IR programme can be separated in to five primary sections, which come to a fundamental marketing strategic planning.

Firstly, strategic planning. The planning process involves creating a local but most importantly a global communications framework and forward strategy. The strategy will then be refined geographically as local market conditions dictate. Central to the strategy will be agreeing objectives and specific benchmarks.

Secondly, the IR programme includes the creation of overall positioning and messaging. Specifically this will entail grafting compelling business definitions and central marketing themes to be used across all communication material. Given the intense competition for news as well as space in the global financial market, the ability for the top management to precisely, succinctly and creatively define the company in a variety of market situations is crucial.

Thirdly, the IR programme is responsible for executing global strategy at a local level. Every market has its own idiosyncrasies. For example, in Greece top big capitalization companies are split into joint-stock (government) companies, family controlled conglomerates and subsidiaries of multinationals. In the USA, publicity restrictions are particularly stringent. This can have wide ranging implications for activity in other markets.
Fourthly, the IR programme provides an ongoing issues and crisis management element to the project.

Finally, the IR programme finally plays an important role on a day-to-day basis identifying opportunities, managing the local and global communications and providing a sounding advice for the company. This kind of proactive approach is fundamental to a solid IR programme and style of project management and ensures the avoidance at all times of being placed in a reactive or defensive position.

1.7.2 IR Objectives and Goals

The IR office should focus mainly on:

- **Targeting fund managers / prospective shareholders** – The main IR target and job is to thoroughly and extensively know the shareholders inside out and effectively in person by visiting them regularly. Our goal should be to ADD TARGETS AND PROSPECTS on the existing “funds”.

- **Increasing the company’s share price**
- **Minimizing the IR expenses**

In particular, in terms of shareholders, share price and budget the IR objectives should be:

a. **Shareholders**
    i. Institutional Investors/Shareholders
        1. Increase # new Institutional Investors
        2. Increase # of larger Institutional Investors (>300,000 shares)
        3. No current (existing) Institutional Investor selling (of Dec 31)
        4. No existing Institutional Investor selling (>10%) (of Dec 31)
        5. Geographic location of Institutional shareholders
        6. Mix of investment style
            a. Growth
            b. Income
            c. Dividend
            d. Hedge
            e. Pension
            f. Momentum
    ii. Individual (Retail) Investors
        1. Increase from 25% to 35% of shares outstanding
        2. Promote geographic spread
        3. Good mix of Institutional Investors & Retail Investors
    iii. Employee Shareholders
        1. Increase from 2% to 5% of shares outstanding
    iv. Strategic Shareholders
        1. Increase cross shareholding with complimentary firms

b. **Share price**

i. Effect on share price
ii. Effect on cost of equity capital (coec)
iii. Optimise share price
iv. Increase share price

c. **Budget (economical)**

1.7.3 IR Prerequisites

The requirements for an effective IR policy could be distinguished into company's related constraints and people related prerequisites. Similarly, we can identify financial and non-financial requirements. Giving these constraints the IR office should:

- **Develop a compelling investment rationale --** Why should an investor buy the company's stock? Primarily, a company's investment rationale needs to be communicated throughout all mandatory and voluntary disclosure forums.
- **Disclose timely company's information** -- When to disclose; Why disclose; Who should disclose; and How to disclose.

Particularly, the financial and non-financial prerequisites can be identified as:

a) Financial measures

i. Solid growth
ii. Good financial results quarter by quarter
iii. Profitability (& Solvency) ratios
iv. Capital ratios

a) **Non-financial measures**

i. Following regulations & CG rules
ii. Informing/presenting regularly to middle managers on IR/communication issues
iii. Informing all mangers of market's opinion & perception
iv. Informing all managers (operational, etc) of roadshow results
v. FTSE4GOOD / EIRIS
vi. Corporate Social Responsibility issues
vii. Good relations with top / senior management

viii. BoD culture
ix. Good Audit committee
x. Perception of
   1. Senior management
   2. Fund Managers
   3. Analysts
   4. Other market participants
   5. Company's objectives & goals
   6. Stock by Market players
   7. Quality of IR program
xi. Readiness to admit
   1. Failures
   2. Setbacks
   3. Problems
xii. Effort
xiii. Use of integrated Communications

Very important is also the executives' motivation (Appendix 1.1).

1.7.4 IR Operational Set up

Key IR operations, process and content

It is extremely important for every listed firm to be aware and cater for the different requirements of different audiences. For example, institutional investors require information on strategy and prospects while equity research analysts demand information on accounting and forecasting. It is clear that by adjusting the content of its corporate communications, a listed company can

- Attract potential investors
- Empower the long term relationships with the current shareholders
- Differentiate itself from its peer group
- Demonstrate its future growth potential
- Focus on the implicit under valuation at which its shares trade

- Create positive news flow, which will have an immediate impact on share price

From a procedural viewpoint, institutional investors and equity research analysts mainly would like to:

- See the CEO once a year or twice a year for key investors
- See the CFO and IRO twice a year
- Have access to good general information flow and good and clear guidance on earnings
- Have clear lines of two-way communication
- Comment on both stock specific and industry/regulatory developments and news flow
- Sustain an active programme of frequent contact with "sell side"
- Maintain a programme of operational or divisional visits

Simultaneously, every public company would benefit significantly from communicating clearly to all market players its strategy regarding issues such as

- Corporate governance and management
- Management compensation
- Capital structure efficiency
- Possible share buyback
- Service and product strategy
- Strategy in the Greek, regional, European and global setting
- Possible hidden value in the subsidiaries

In addition, investors and equity research analysts appreciate transparency in financial reporting. Especially companies with multi-market operations the expansion creates the need for appropriate

- Business by business disclosure
- Cash flow generation by businesses

- Reporting, in a consolidated form, according to IFRS (IAS) and sometimes according to US GAAP

1.7.5 Regulated corporate disclosure & IR

When rules and regulations create information controlled and disclosure standardized environment the need and existence of the IR is deteriorating if not disappearing (Table 1.2).

Disclosure tools such as:

a. Annual Report (in Greek)
b. Annual Report (in English)
c. AGM voting decisions
d. AGM vote participation
e. AGM vote execution

leave limited space to the IRO while does not pinpoint the agency issues and information asymmetries nor speculates on the insiders' use of information.

1.7.6 IR via Intermediaries

Table 1.2: IR tools and channels

IR tools for Mandatory Disclosure	**IR tools for Disclosure via Intermediaries**	**IR tools for Voluntary Disclosure**
Annual Report (in Greek)	**A) Financial Intermediaries**	Group Presentations
Interim Reports (in Greek)	Investment Banks	Conferences participation
Annual General Assembly	Corporate Banks	Private (one on ones) meetings
Extraordinary General Assembly	Venture Capital Funds	On site visits
Financial Statements	Insurance Companies	Analysts Presentations
Footnotes on Financials	**B) Information Intermediaries**	Management Forecasts
Management discussion and analysis	Financial Analysts	Feedback on Analysts Reports & Coverage
Fillings	Independent Research	Press Releases
	Industry Experts	Other Corporate Reports
	Financial Press	Mailing Information
	Other Media people	Telephone Answering Queries
	Auditors	Emailing Information
	Custodians	Web Sites
	Specialists	Web Casting
	Brokers	Conference Calls
	Rating Agencies	Dual Listing
	Lobbyists	Roadshows

		Targeting Institutional Investors
		Annual Report (in English)
		Annual Reports (in other languages)
		Interim Reports (in English)

Major IR goals are also to:

- **Target sell-side analysts** — The IR program would begin with the identification of a "target list" for a proactive investor communications effort. Moreover, the IR office should use extensively databases of analysts who follow companies with profiles similar to yours.
- **Increase sell side analyst coverage** – If one Global Analyst and two Greek Analysts cover the stock, this is a mediocre success and the IRO should double the number of Analysts covering our stock.
  - **Build relationship with stockbrokers / market makers** – The "middle" people can become important and vital marketing elements to promote the story, the high calibre and quality of the management and the group prospects.
- **Empower media relations** -- Finally, the IR office should continuously build solid relationships with the major national and international business media. Working with the local editors of the newspapers and magazines as well as the editors of The Wall Street Journal, The New York Times, Business Week, Forbes, Barron 's and Fortune has led to major placements.

The IRO should focus on:

a) Analysts

I. Analysts reports / coverage

1. Increase Analyst coverage
2. Participate into Analysts' universe
1. Increase Analysts geographic origination (local & global)
2. Expand reports during year
3. Earnings forecasts

4. Earnings consensus
5. Analyst guidance (for company or industry model)
6. Analyst feedback
7. Minimise retaliation on analyst with a negative opinion/target
8. Minimise retaliation on analyst with sell recommendation

ii. Analysts recommendations
1. Upgrade recommendation (from Hold to Buy)
2. No recommendation downgrades

b) Media

iii. Control media abuse
iv. Minimise company's retaliation on media/journalist
v. Eliminate noise

1.7.7 Voluntary IR

The most effective tools belong to the IRO's arsenal ready to be used discretionary in order to get high visibility status and capital placement in the company's share (Appendix 1.2).

Therefore, the IRO should:

- **Set group and one-on-one meetings** — Establishing an active program of individual and group meetings to expand interest in the company. Management would provide a strategic overview of the market and the company. The IR office would coordinate the meetings, provide counsel on the presentation, and follow up with attendees to encourage investment and to build lasting relationships with the company.
- **Target buy-side analysts** — The IR program would begin with the identification of a "target list" for a proactive investor communications effort. Moreover, the IR office should use

extensively databases of analysts and money managers who follow companies with profiles similar to yours.

- **Prepare interesting and motivating corporate materials** — The IR office should have an in-house graphics department that can produce computer-generated slide presentations that correlate with the theme and direction of management's strategy.
- **Direct mail/surveys** -- The conduct of periodic surveys of analysts to obtain opinions and impressions about the company that can help to strengthen management presentation.

1.8 Conclusion

By synthesizing all parts we come to a benchmark for measuring the IR effectiveness that could bring about the expected results for the senior management as well as the investors. Indeed the significant value the IR office might add to the company is based on the voluntary disclosure policies. With this I mean that each company creates its own communication and disclosure strategy for investors, analysts, bankers, brokers, etc., always within the framework of the market's regulations.

The foreign institutional investors, analysts and other market players, have formed a perception of Greece and the Greek stock market. Historically, their bias are entrenched in the uncertainty, lack of confidence, poor information, inconsistency etc. In order for the Greek companies to clarify any info and dissolve any uncertainty either itself alone or along with the Greek state officials (i.e. the Ministry of Finance or Development) they should apply voluntary disclosure policies and their IR departments should implement very proactive marketing plan. The concept not only of disclosing brutally and bluntly the proper information but also of visiting the FMs' offices and briefing on the company's history and perspective is the best way of selling the company's share. I was practically surprised by the interest expressed for Greek stocks, by investors from various «regional» American and Canadian cities such as Des Moines, Kansas City, Minneapolis, Toronto, Montreal, etc. Of course the foreign banks-underwriters during a road show because of lack of time and tight schedule cannot visit all the cities in the states in which certain mutual funds have as base or even better certain pension funds (which are also long-term investors).

It is up to the IR departments of the Greek companies to conduct an aggressive campaign and marketing of their shares.

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Appendix 1.1: IRO's Motivation Performance Compensation

The following represent a well-balanced compensation package.

1) BASIC EXPENSES
The net amount of 1,000 Euro per month.

2) SIGNING BONUS
20,000 Euro payable with signing.
20,000 Euro payable after six months.
The signing bonus is mainly based on IR objectives and criteria that will have a long-term impact on the stock and the company. Some of them are:

a) Establishing a very productive and effective IR office.
b) Creating of an effective and well defined DATABASE
c) Creating of an info-efficient WEB-SITE
d) Setting up Involuntary and Voluntary disclosure policies
e) Identifying all major sell-side analyst, Greek and Global
f) Converting numbers to IAS and US GAAP
g) Knowing personally the shareholders, thus creating long term equity holders
h) Making up of a good proportion of institutional and retail owners
i) Developing key messages
j) Identifying the value drivers (feedback) for the stock
k) Sending systematically well designed press releases
l) Informing and sending, on a regular basis, news on corporate activities to major shareholders, prospects, analysts, traders, etc, via FAX or EMAIL
m) Replying and mailing info requests within 24 hours
n) Consensus earnings estimate (NEVER to surprise the market)
o) Presentation to Greek Analysts
p) Presentation to Greek Fund Managers
q) Presentation to Global Analysts (London)
r) Presentation to American Analysts (New York, +)
s) Presentation to Greek media, Global wires (Reuters, Bloomberg, Bridge,..)
t) Presentation to the Global Banks' Sales force

3) BONUS STRUCTURE
The bonus can originate from two sources:
3.1) Investor related targets and accomplishments:
Appreciated and paid every quarter.

Based on the targets that the IR office will establish per quarter.
It will match the salary for this quarter.
For example, if for the fourth quarter 2002 (Oct. to Dec.), the IR establishes the following seven major targets:

a) Increase analyst coverage by three (3) Greek Analysts
b) Increase analyst coverage by one (1) Global Analyst
c) Add six (6) Institutional Fund Managers to our shareholder base
d) Relationship roadshow to London, New York

e) Proactive roadshow to Denver, Kansas City, etc for prospects
f) Lunch presentation to Italian investors in Milano
g) Increase German Investors' awareness and understanding of the company.

And if we accomplish them, then the bonus for this quarter amounts to 20,000 Euro.

3.2) Implied Stock Option (for the sustainability of the stock):

Maturity date: The last day of every quarter.

Strike price:

1) If 5% up; 2) If 10% up; 3) If 25% up; 4) If 50% up; 5) If 100% up

Amount of equivalent (notional) stock option:

1) 20,000 €; 2) 30,000 €; 3) 40,000 €; 4) 50,000 €; 5) 100,000 €

Appreciated and paid at the moment of reaching the growth.

Stock price: The weighted average closing price of the last two weeks

When the stock price after two years is stabilized at a price that is more than 50% of the price at a given time, then it will be a bonus as a percent out of the notional stock option. For example, if the stock in December 31, is at 6 €, which represents an increase of 71.4% from the current price of 3.5 €, then the bonus will be the 71.4% of 50,000 €.

3.3) Step Up Bonus with Market Criteria (for return larger than the 100% increase in price)

Pre Tax P / E Criterion. The current P/E is 5. (We have to adjust it, with the new market conditions). When the P/E will be above 10, then there will be a bonus of 15 million Drs for every 50 points.

For example, if P/E = 12, then the bonus will be: (10-12=4x0.50)

4x15 million Drs=60 million Drs

The bonus will be effective for prices of the pre tax P/E between 10 and 18 (10<P/E<18). (Again, we have to adjust it, with the new market conditions)

Appendix 1.2: IR tools for voluntary corporate communication

IRO's effectiveness	**IR voluntary tools**	**Supporting tools**
Selling ability	**A) Presentations**	Publications
Analytical ability	Increase analyst presentations	Speeches
Financial skills	Increase group presentations	Logistics
Reliable	Increase private meetings	
Management skills	Increase conference participations	
Non selective disclosure	**B) Roadshows**	
Proactive vs. passive attributes	Increase visits to institutional investors	
	Increase site visits	
	Increase financial centres targets	
	Increase visits to private investors	
	Increase roadshows to local retail market	
	Increase roadshows when results are not good	
	Target geographic types of funds (London, Nordic, UAE)	
	Target investment types of funds (pension, hedge, mutual)	
	C) Web site	
	Increase diversity and frequency of site visits	
	Increase duration on site visits	
	Update site design	
	Update site content	
	Upgrade site friendliness	
	Upgrade site accessibility	
	Gather new contacts and emails	