A Proposed Integrated Framework of Investor Relations Program

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Abstract

Investor Relations (IR) is the process by which the corporation communicates with its investors. It is a strategic management responsibility that integrates finance, communication, marketing and securities law compliance to enable the most effective two-way communication between a company, the financial community, and other constituencies, which ultimately contributes to a company's securities achieving fair valuation.

Not all companies are at the same place in the investor relations process, however. Some companies are barely fulfilling minimal disclosure requirements. Others are executing either Incomplete or non-integrated investor relations programs.

This research is written for a cross section of companies, with emphasis on those companies that have yet to achieve the full potential of their investor relations programs. Its purpose is to show why investor relations is important and to provide guidance on how to perform the function efficiently and effectively.

The purpose of this research is to establish an integrated framework of investor relations program that is applicable to any company either local or abroad.

Key Words: Investor Relations, Investor Relations Officer

مقترح لإطار متكامل لبرنامج العلاقات مع المستثمرين

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الملخص

تعتبر علاقات المستثمرين حلقة الوصل بين الشركة ومستثمريها. فهي مسؤولية إدارية استراتيجية تعمل على إحداث التكامل اللازم بين الماليات والاتصالات والتسويق والامتثال لقوانين سوق المال بما يمكن من التواصل الفاعل بين الشركة ومجتمع المال ككل، وغير ذلك من الأطراف المعنية والتي لها دور في تحقيق سهم الشركة لقيمته العادلة.

على أن الشركات تتفاوت في نظرتها وتعاملها مع آلية علاقات المستثمرين. فهناك من الشركات ما يستوفي بالكاد الحد الأدنى من متطلبات الإفصاح. وهناك شركات أخرى تنفذ البرنامج إما ناقصاً أو بصورة لا تحقق التكامل المطلوب.

ومن هنا يتوجه البحث إلى هذه النوعيات المختلفة من توجهات الشركات، مع تركيز على تلك الشركات التي لم تحقق بعد ما هو مأمول منها فيما يتعلق بتفعيل برنامج علاقات المستثمرين. والغرض منه تبيان سبب أهمية علاقات المستثمرين وتقديم توجيهات بشأن كيفية أداء هذه الوظائف بفعالية وكفاءة.

يسعى البحث إلى ترسيخ إطار عمل متكامل لبرنامج علاقات المستثمرين صالح للتطبيق في أية شركة، محلية كانت أو خارجية.

كلمات رئيسة: علاقات المستثمرين، مسئول العلاقات مع المستثمرين

Introduction

In its infancy, investor relations was seen basically as a job of fulfilling the information requests of analysts and investors. That was then. This is now: Investor relations is a proactive process in which vital and valuable information is continually and broadly disseminated to the financial community and the investing public to ensure that a company will be accurately valued in the marketplace.

The contribution of the investor relations practice to improving valuation has grown substantially in recent years. The institutionalization of the capital markets has demanded it.

As companies achieve the depth and quality of information required by the market to develop fair valuations, they are:

- Creating stronger relationships with analysts, portfolio managers, brokers and individuals — even receiving feedback from them on a regular basis
- Building respect for the investor relations function

Not all companies are at the same place in the investor relations process, however. Some companies are barely fulfilling minimal disclosure requirements. Others are executing either Incomplete or non-integrated investor relations programs.

Research Issue

This research is written for a cross section of companies, with emphasis on those companies that have yet to achieve the full potential of their investor relations programs. Its purpose is to show why investor relations is important and to provide guidance on how to perform the function efficiently and effectively.

Hypothesis of the Research

Local and foreign companies are conducting an integrated investor relations program.

Objective of the Research

The purpose is to establish an integrated framework of investor relations program that is applicable to any company either local or abroad.

Scope and Limitations

The study is limited to listed companies that we believe are in position to provide information that can be used to better answer the research issue. However, we include in the research most famous, local and foreign, company that can be used as a case study of conducting investor relation program. Those two companies are conducting investor relations program, have large market cap, and publicly traded in local and international stock markets.

Literature study

The opportunity to change awareness, perception, attitude and knowledge levels through investor relations is very real. And the benefits that accrue to valuation are very real. Dr. Baruch Lev, professor of accounting and finance at New York University, has studied at 2007 the impact of information on the market extensively. Dr. Lev estimates that there are thousands of mid-sized and smaller companies with market undervaluations caused mainly by the lack of investor knowledge.

Companies that recognize their duty to provide useful information and seize the opportunity are rewarded. A comprehensive 2008 study ("Corporate Disclosure Policy and Analysts") by Professors Mark Lang of Stanford University and Russell Lundholm of the University of Michigan confirmed this: Forthcoming companies have more analyst coverage; the analysts' forecasts are more accurate; and, as a result, more investors are attracted to the stock.

A study done a few years ago showed a direct relationship between investor relations activity and coverage by the financial community. The study discovered companies with NIRI members on staff have more analysts following stock than do companies without NIRI members. It was also discovered that the greater the number of analysts following a company, the higher its price/earnings ratio.

According to a report of the study in the NIRI publication, Investor Relations Update, an attempt was made to determine regression analysis whether other factors-profit margins, better returns on assets, superior growth, etc. might account for the results of the study. This analysis offered no other explanation than the investor relations program.

A 2009 survey of some 1,200 sell-side and buy-side analysts and portfolio managers by *Investor Relations* magazine supported the link between communications and shareholder returns. The 24 companies cited by the 1,200 investment professionals as having the best communications programs also recorded shareholder returns well above the S&P 500 Index average for the year. Follow-up surveys by the magazine indicated similar results. The study showed that investors reward these forthcoming companies with higher valuation. And, higher valuation enables these companies, with superior communications, to enjoy a lower cost of capital.

Research Approach

In the process of answering the research issue we used different approaches. We used an explorative approach. We went through the literature to document the investor relations issues in order to get basis information about the research issue. We also used a descriptive approach during the theoretical part where we give a general view on the existing programs of investor relations.

This research has also a prescriptive part where we explain what ought to be done in this area of investor relations. We believe these approaches are best for the research since they allow us to better document the research, describe and prescribe furthermore, all these are vital in answering the research issue.

Research Layout

Chapter 1 covers the Theoretical Framework. Chapter 2 discuses selected case studies in investor relations as an empirical study. Chapter 3 discuses the proposed integrated framework of investor relations program.

1. Theoretical Framework

1. 1 Investor Relations Definition:

Investor Relations (IR) is the process by which the corporation communicates with its investors. It is a strategic management responsibility that integrates finance, communication, marketing and securities law compliance to enable the most effective two-way communication between a company, the financial community, and other constituencies, which ultimately contributes to a company's securities achieving fair valuation. (NIRI Board of Directors, 2008) The term describes the department of a company devoted to handling inquiries from shareholders and investors, as well as others who might be interested in a company's stock or financial stability.

Obviously, investor relations is the process by which the company informs and persuades investors of the values inherent in the securities the company offers as a means to capitalize business-has also changed dramatically, driven by both technology and the context of the new business environment (Brennan and Tamarowski, 2000, Hong and Huang, 2003)

Many larger publicly-traded companies now have dedicated IR officers “IROs”, who oversee most aspects of shareholder meetings, press conferences, private meetings with investors. The investor relations function also often includes the transmission of information relating to intangible values such as the company's policy on corporate governance or corporate social responsibility “CSR”.

The investor relations officers must be aware of current and upcoming issues that an organization or issuer may face, particularly those that relate to fiduciary duty and organizational impact. In particular, it must be able to assess the various patterns of stock-trading that a public company may experience, often as the result of a public disclosure or any research reports issued by financial analysts (Lang and Lundholm 1996)

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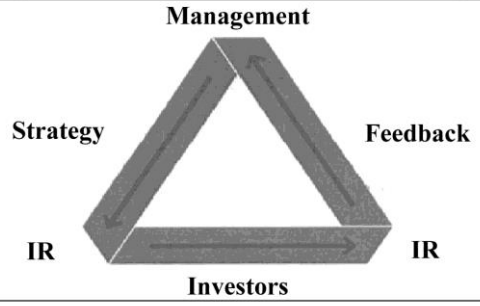
Moreover, In a difficult time such as the world financial crisis and bear market of 2008-09, IROs will want to stay visible and build relationships, be factual in tone and not too quick to make promises, focus on the long-term story and balance sheet strength, aggressively refute rumors and answer concerns of investors, and coordinate media relations and investor communications. Finally, IROs should remember that the story is the business, not the stock price (Bushee and Noe, 2007).

The information flow for investor relations is basically a triangle that includes management, investor relations, and investors. Strategic information flows from management through investor relations to investors and then returns, in the form of feedback, from investors through investor relations to management (see Figure 1).

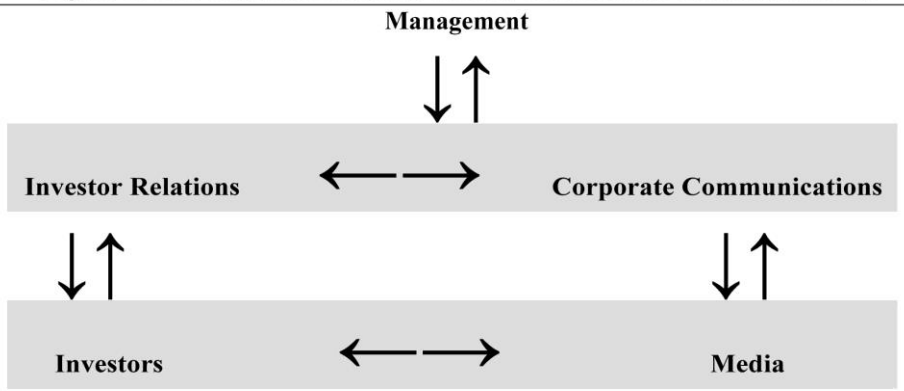
Figure 1: The Investor Relations Triangle



Source: researcher

The flow of financial communications demonstrates the dynamics between investor relations, the media, and investors. Information flows from management to both investor relations and corporate communications. As appropriate, IR shares the information with investors and corporate communications passes it along to the press (and the general public) in the form of press releases. The media, in turn, often contact investors for comments when news breaks. Again, feedback, based on media coverage, questions from reporters, and investor comments, is routinely provided to management (see Figure 2).

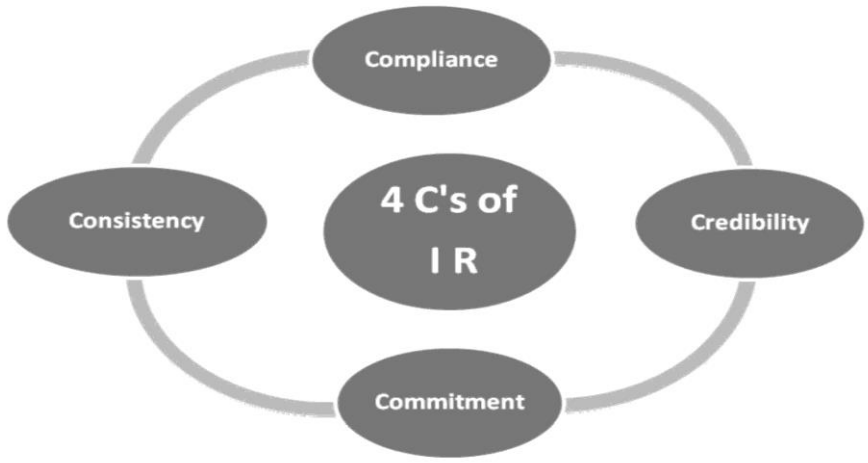
Figure 2: The Investor Relations & Flow of Financial Communications



Source: researcher

Creating and maintaining a world-class investor relations program does require a rigorous adherenceto what we may call the ”Four C’s of investor relations”: **Compliance** with all law, stock market and moral requirments of disclousre; **Credibility** with both the external financial community and internal managemt; **Commitment** of that management to the principles and practisec of investor relations; and last, but perhaps most important, **Consistency** in every thing that is said and done (see Figure 3)

Figure 3 : The 4 C’s of Investor Relations



Source: researcher

Today, investor relations is not only a job that entails communicating a company's strategic direction, it is a discipline that requires its own strategic design (Kothari, 2001). Borrowing from techniques practiced by marketing professionals, investor relations has evolved from a passive practice to an active one, where investors are truly regarded as "customers" owning the company's equity.

Every time the senior management of a company speaks to any audience, they are practicing investor relations. Every press release issued, no matter how trivial, is part of investor relations. The degree to which a corporation is capable of communicating to its audience its own capacity to act strategically can determine its success in the marketplace. Ultimately, a company creates its own value by instilling a sense of confidence in its investors.

1.2 Key Components of Investor Relatiosns

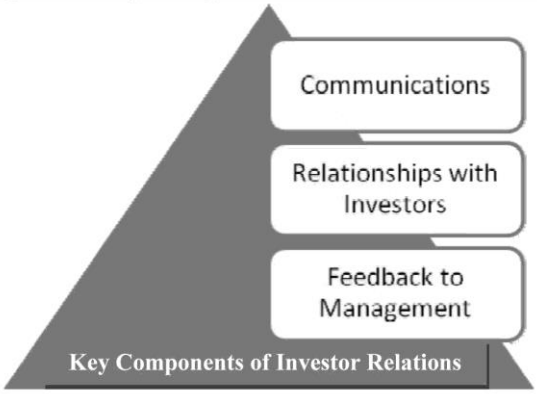
Investor relations encompass three vital and interrelated components. The first is communications, or the flow of valuable information. The objective is to give investors and analysts the best information possible so that they can accurately apply it to evaluate the company. As new developments and financial results are reported by the company, investors see how each action fits into the company's overall strategy. Information creates insight that helps analysts and investors make informed decisions about the fundamental strengths and prospects of companies.

The second involves building mutually beneficial relationships with investors, analysts and brokers. Relationships are built on quality information, timeliness in providing it, thoroughness, candor and honesty, and management's ability to deliver on promises.

And the third is providing feedback to corporate executives on how the market views the company, its strategies and key initiatives to create and sustain value. This role encompasses understanding current attitudes of analysts and investors toward the company, having a strong sense of how the market will react to strategies, and gaining insight into actions investors will favor. Investors approving of certain corporate strategies and actions are likely to respond by buying shares, causing stock prices to rise.

When companies and their investor relations professionals handle these three components well, they are more likely to see their stocks fairly valued. The reason is that the companies are helping investors develop realistic expectations by providing accurate information for analyzing results and making forecasts. Management is also focused on creating value and demonstrating an understanding of what it takes to do so. In seeking fair value, companies are not holding back important information that could lead to a big surprise later.

Figure 4: Key Components of Investor Relations



Source: researcher

1.3 Benefits of Investor Relations Program

1.3.1 IR Role in Creating Fair Value

A carefully planned, well-executed investor relations program can improve company's ability to achieve fair value. And fair market value is what companies should seek. Corporate managers often argue that performance is all that matters. Improve sales, cash flow, earnings and margins each year and each quarter, and investors will like the company. The flip side: Show a slowdown or decline for even one quarter, and they'll complain and worry and maybe sell some shares. If the problem persists, they'll sell more or liquidate their position and perhaps even short the stock.

These dire responses are less likely if a company's IR efforts maximize the value of information in helping investors fully understand the company. The goal is two dimensional:

- To meet investors' demands for information
- To get investors to be open to hearing and accepting new information from the company, focusing on the future.

The latter often results from satisfying the former.

In this communications process, it's important to focus on the numbers that drive performance and to have a clear understanding of the strategies, implementation plans and progress in making the numbers.

So the quality of information becomes the critical element in determining how effective the company is at enabling the market to fairly price its stock.

1.3.1.1 Fair Value

The question for companies to analyze is where their stocks stand at the present time on the valuation scale. Is it fairly valued, overvalued or undervalued? When a stock is fairly valued, the market is "efficient" in its knowledge and evaluation of the company. Essentially, the market knows all that's important to know in valuing company's securities.

1.3.1.2 Undervalued Stock

Managements believing their stocks are undervalued can wait to be discovered or can help the effort along. If the company wait it may never get discovered. Or it may lose a lot of valuation. A company's stock could very well be undervalued for two major reasons:

- Lack of information in the marketplace. The market just doesn't know the company.
- Doubt about what the company is doing or saying. Perhaps the company's ability to perform consistently, its competitive

advantages and its essential strengths are not recognized or believed.

In these situations, the opportunity to change awareness, perception, attitude and knowledge levels through investor relations is very real. And the benefits that accrue to valuation are very real (Healy and Palepu, 2006)

1.3.1.2 Overvalued Stock

The risk in being overvalued is that shareholders may eventually recognize the situation, sell hard and fast, possibly causing the price to fall more than a fair valuation suggests. Investors move quickly to lock in profits by selling, or they sell to cut losses, or they sell for seemingly irrational reasons.

Companies can contribute to overvaluation through actions or words. When a company announces new technology, products, or gains in market share, it should exercise care and caution in its communications. The point is to help keep investors' and analysts' expectations at realistic levels.

1.3.2 Rewards of Communicating with Investors

Clearly, companies have a duty to communicate with their investors. Through quality information, they can develop a supportive base of shareholders who will be patient as long as progress is being made.

1.3.3. IR as a Marketing Function

As the investor relations process has matured, companies have realized the benefits of taking more of a proactive than reactive approach. Being proactive enables companies to make investor relations a marketing function. Thinking of it that way opens all kinds of opportunities to increase valuation.

Being proactive means that the company is providing a steady flow of good consistent information to make the market efficient for the company. The company has to make sure that the information that's vital in valuing the company accurately is in the marketplace. Indeed, this information is often referred to as the company's "value drivers." It can include a franchise technology, superior products and a strong pipeline, great marketing finesse, solid brand reputation, pricing and cost advantages, close customer ties, a highly-motivated and productive employee force, and a smart management team (Lev, 1988).

1.3.4 Real Purpose: Reducing Cost of Capital

The best justification for building an effective investor relations program is reducing the company's cost of capital. Companies can measure the value of communications this way.

1.4 Investor Relations Code of Ethics

According to NIRI (NIRI.com, 2009), investor relations officer "IRO" has to:

- Maintain an integrity and credibility by practicing investor relations in accordance with the highest legal and ethical standards.
- Avoid even the appearance of professional impropriety in the conduct of investor relations responsibilities.
- Recognize that the integrity of the capital markets is based on transparency of credible financial and non-financial corporate information, and will to the best ability and knowledge work to ensure that company or client fully and fairly discloses this important information.
- Provide analysts, institutional and individual investors and the media fair access to corporate information.
- Honor obligation to serve the interest of shareholders and other stakeholders.
- Discharge responsibilities completely and competently by keeping abreast of the affairs of the company or its client as well as the laws and regulations affecting the practice of investor relations.

- Maintain the confidentiality of information acquired in the course of Investor Relations Officers "IRO" work for his company and client.
- Not use confidential information acquired in the course of IRO work for his personal advantage nor for the advantage of related parties.
- Exercise independent professional judgment in the conduct of IRO duties and responsibilities on behalf of my company or client.
- Avoid any professional/business relationships that might affect, or be perceived to potentially affect, IRO ethical practice of investor relations.
- Report to appropriate company authorities if I suspect or recognize fraudulent or illegal acts within the company.
- Represent myself in a reputable and dignified manner that reflects the professional stature of investor relations.

2 Selected Case studies in Investor Relations

Following are case studies of IR applications. Our Egyptian model will be the IR program adopted by Olympic Group (OG). According to surveys on individual and institutional investors, OG applies the best IR program for its Egyptian and foreign investors. OG's stock is listed on the Egyptian Stock Exchange, along with GDRs at international stock markets. The International model of IR application will be BASF Int'l. S&P considers BASF's IR program as a role model in this regard.

2.1 Olympic Group Investor Relations Program:

2.1.1 Company's overview

As a landmark among other industrial structures, Olympic Groups cluster of factories specializes in the production of Complete Products Units with the capability of catering to the groups own brands and Original Equipment Manufacturing.

The company pledges a lifetime commitment to serve our customers, by investing in our employees, partnering with our suppliers and distributors, while developing our communities and achieving excellent value to company's shareholders.

2.1.2 Olympic Group Investor Relations Program:

Initial company presentations were scheduled in Egypt and European capital cities where Olympic Group shares were already listed on its national stock exchanges.

- Disclose and communicate to the market and appropriate authorities any material act or fact taking place or related to company's business.
- Ensure the broad and immediate dissemination of information through various information channels to those parties involved in securities market with integrity.
- Provide Investors and appropriate authorities, whenever requested, with any additional explanation in connection with any material act or fact taking place within the company.
- Conducting presentations, which involve performance evaluation and financial analysis, as well as issuing earning releases & holding Conference calls on quarterly basis.
- Attending Road Shows and Conferences in order to build and strengthen trust in the company and attract new investors.
- Communicating with Analysts and Investors on a frequent basis.
- Review the content of analysts' reports before release, with the permission of the respective financial institutions, so as to avoid the disclosure of incorrect or inaccurate data or information to the public domain.
- Communicating the company's worthiness to capital market participants to assist in reflecting this value on the share price.

2.2 BASF Group Investor Relations Program:

2.2.1 Company's overview

Badische Anilin und Soda Fabrik A.G. (now known as BASF) was founded in 1865 along the banks of the Rhine River. BASF was one of the first companies to manufacture dyes from coal tar, later on specializing, for example, in a bright bluish purple dye known as indigo. Diversification into organic chemicals and new production facilities in Ludwigshafen were made possible by the profits generated by their dye business.

Beyond its home market, management was confronted with another perception problem people either did not know the company and its name or they reacted with comments such as, "BASF, the tape people". It was true that magnetic tapes were, in fact, the most visible BASF product for international consumers who happened to purchase quality audio or video cassettes. However, that business represented only 2% of total group sales.

2.2.2 BASF Investor Relations Program:

In turn, these mission statements, objectives, and emerging themes set the tone and established the parameters for BASF investor relations activities. Initial company presentations were scheduled in European capital cities where BASF shares were already listed on national stock exchanges. These included London, Amsterdam, Brussels, Paris, Zurich, Geneva, and Vienna. Additional locations with a proven record of significant investment in foreign shares like Milan, Stockholm, Edinburgh, Glasgow, and Dublin were then chosen. In North America, New York City, Boston, and Toronto were selected to be visited each year, with annual road shows also scheduled for Tokyo, Hong Kong, and Singapore.

From time to time BASF accepts additional invitations to present the company, either for a second time in one of the financial centers mentioned or at additional locations where they meet important institutional investors on a one-to-one basis. When showing

up for a second or even third time at one financial center (e.g., London), BASF is very careful to avoid the risk of "overkill." Therefore, they accept invitations only once every three months, when new quarterly figures have been published in interim reports and discussed in corresponding press conferences and analyst meetings. Over the years, BASF's international program has generated substantial additional interest from portfolio managers, especially in Anglo-Saxon countries, which is also reflected in the increased number of one-on-one investors meetings at corporate headquarters in Ludwigshafen.

For their investor relations presentations in every leading financial center, BASF selects a prominent universal bank, investment bank, or brokerage house as a main sponsor. In some countries BASF uses a group of two or three institutions on a rotating basis. The main responsibilities of a sponsor include the invitation of target groups, follow-up marketing to these events by phone calls or a second mailing, the organization of the conference or round-table meeting, and the provision of feedback on the presentation, collecting the opinions of participants on the content and quality of the meeting. Whenever BASF feels comfortable with the support it receives from their main sponsor in a country, they follow the old principle of "don't change a winning team." Frequently, BASF investor relations activities constitute only one of several other cooperative business relationships with a sponsoring institution, which helps to motivate sponsors to provide their best efforts.

Investor relations presentations are made at all important financial centers at least once a year, in "good times and in bad." The investment community clearly welcomed BASF's willingness to "show up" in bad times and openly discuss company earnings and business performance in the years 1990 to 1993. Company spokespersons explained the reasons for declining results and told analysts what strategic moves management had initiated to counter the decline. Certainly these difficult years in the early 1990s were part of an overall industry downturn within the context of a macroeconomic scenario of a worldwide recession. Declining capacity utilization and strong pressure on selling prices led to poor results in some of BASF's product portfolios. Rigid cost control of fixed costs in combination

with positive earnings performance in other operational segments helped BASF to offset somewhat these negative developments. However, according to the author's personal experience, it may be noted that.

However, after reviewing the IR program adopted by the two subjects of this study, the Egyptian company and the international company, we conclude that the applied program by each of them is incomplete and lacking in many key parts which, in case they are satisfied, have great potentials. Following is our proposed integrated framework of investor relations program.

3 The proposed integrated full-scale Framework of Investor Relations Program

3.1 Staffing the Investor Relations Function

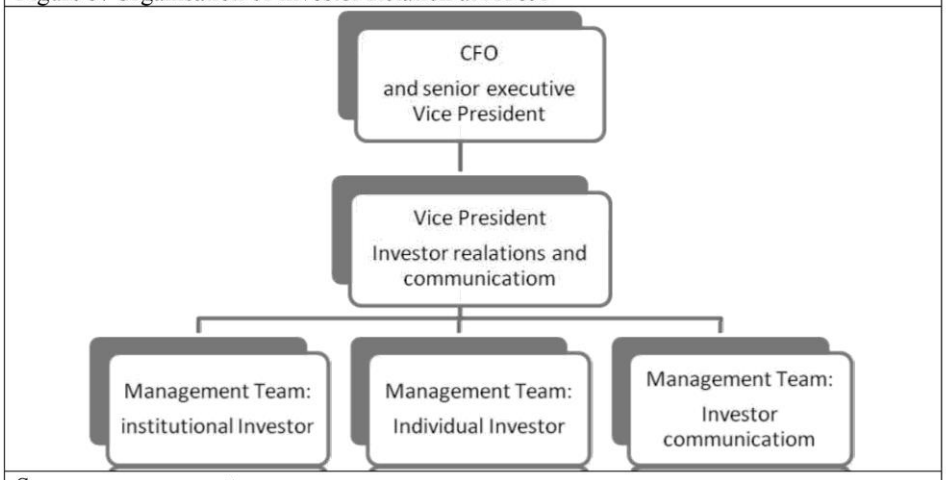
The investor relations function is managed by investor relations officer "IRO" who also speaks for the company. The IRO typically handles telephone contact, leads or takes part in conference calls, gives presentations to brokers and often to analysts and portfolio managers. The IRO is the chief spokesperson to the investment marketplace at numerous companies today, with senior executives being the main speakers at major events, such as investment society and brokerage-sponsored meetings and "investor days" hosted by the company (Sherman, 2005)

In most companies, CFOs and CEOs are part of the investor relations team. These senior executives also make presentations at conferences, host meetings with institutions, participate in quarterly conference calls with investors, and take telephone calls. Analysts and portfolio managers spend considerable time judging the quality of management, by tracking performance, evaluating executive decisions and strategies, and by their impressions at face-to-face meetings.

3.1.1 Investor Relations on the Organization Chart

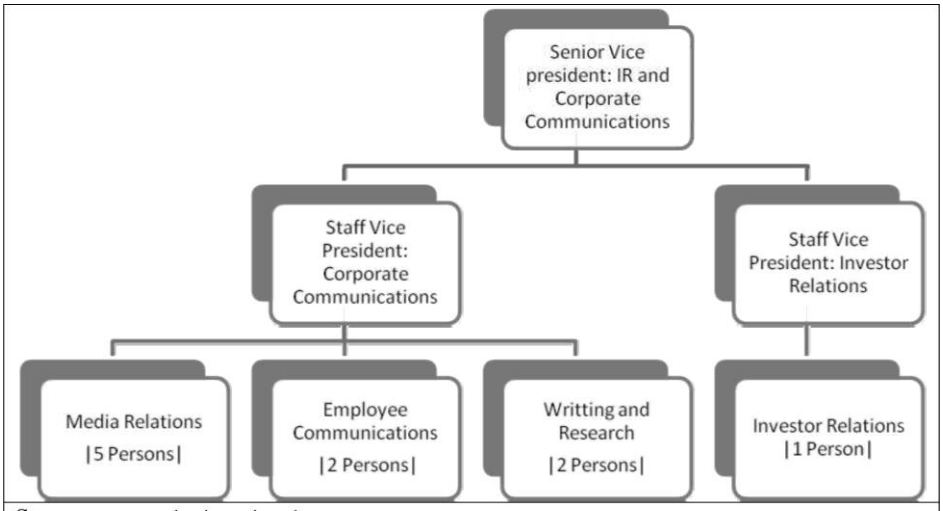
Because it merges so many disciplines, investor relations department doesn't fit neatly into an organization chart. Various companies have placed it under the auspices of the chairman, chief executive officer "CEO", president, chief financial officer "CFO", chief counsel or an executive in charge of corporate communications. There isn't any right place; the key is making sure that investor relations has the opportunity to be effective (see Figures 5, 6 and 7).

Figure 5: Organisation of Investor Relation at AT&T



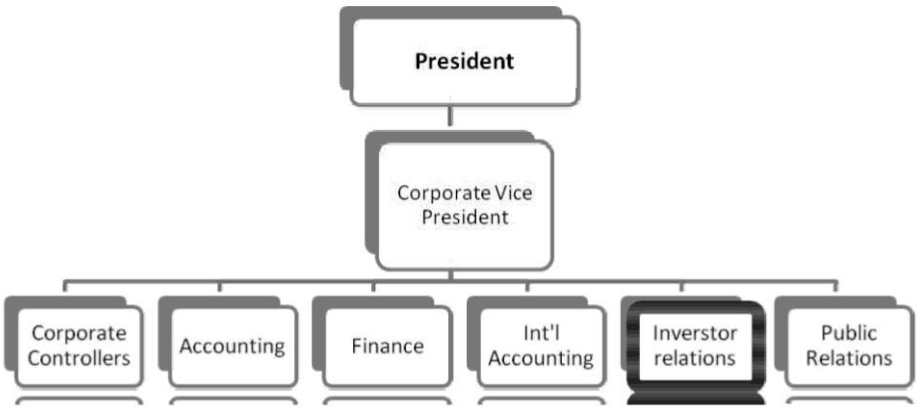
Source: www.corp.att.com

Figure 6: Organisation of Investor Relation at Schering-Plough Corp.



Source: www.schering-plough.com

Figure 7: Organisation of Investor Relation at Sony Corp.



Source: www.sony.comp

Rationales can be built to have investor relations report to the CEO, CFO or senior officer with corporate communications and public affairs responsibilities. The current trend, however, is to have investor relations be part of the chief financial officer's responsibility, viewed as part of financial management. IR is a "numbers" function — understanding the numbers since the company is judged by financial results — as well as a communications function.

In making sure the job isn't reduced to reporting just the numbers, the investor relations specialist needs to be closely linked with functions responsible for operations and strategic planning. Operational results drive the numbers. Developing a level of expertise on each piece of the business is crucial to telling the company's investment story comprehensively (Ritter and Welch, 2002)

The IR function can also report successfully to the CEO — that sends the message that the CEO is serious about IR, supports it and participates in it. This reporting relationship tends to open doors for the IRO inside the company, leading to better knowledge of the business. Or the function can report to a senior officer in charge of all the company's communications functions. Because many companies view investor relations as the most important of the communication functions, the senior officer in charge of the combined communications activities often has an investor relations background.

3.1.2 Qualities of the Investor Relations Professional

Investor relations combines communications, finance, operations, strategic planning, economics, investment analysis and management. The highly-qualified investor relations officer needs to know a lot about each of these areas. And he or she needs to know how to secure information to fill in any gaps.

IRO's benefit from having a host of qualities — being energetic, tough-minded, goal-driven and confident. The confidence is needed for standing up to demanding, aggressive and smart analysts and investment managers. Corporate executives aren't always so easy to deal with either.

In fact, early on the investor relations officer and management should decide what is to be accomplished — set realistic goals about the quality of information to be disseminated and about how to identify the right investors for the company, have an impact with the investment community, and improve the company's valuation. The investor relations officer must have a set of goals for the IR function.

3.1.3 Essential IRO Capabilities

There is no single education leading to the position of investor relations professional. In fact, IR professionals in practice today bring diverse backgrounds to the role, combining education, job experience and talent. Generally, they all have strong interpersonal, written and verbal skills as well as an understanding of finance, operations, corporate strategies and responsibilities. Some of the capabilities IR professionals should bring to their jobs include:

- Working knowledge of the capital market process and investor behavior.
- Familiarity with creating an investor relations office. This requires understanding the technology required to implement essential activities.

- Background and training in finance and the responsibilities of a public company. This knowledge is essential in working with virtually all analysts and most portfolio managers.
- Background in planning and preparing communications messages and materials. It includes preparing presentations, press releases, annual and interim reports.
- An understanding of the role of market research in supporting an investor relations program. Only through market research will companies know how much is known about them, the attitudes and perceptions of key players in the investment process, and what actions are suggested to maintain good relationships.
- Ability to be a manager and to interface well with various constituencies, both inside and outside the company.

3.2 Investor Relations Program Key Players

The primary commodity of stock market, even before money, is information. And all the world of stock market information is divided into three parts- the buyers, the sellers, and the enablers.

The buyers of information -the brokers, analysts, money managers, portfolio managers, and traders -translate the information into investment advice and investment action. They are the ones who can turn information into capital.

The sellers of the information, on the first level, are the executives of public companies. Their ability to sell information, and its quality, is what leads to (or away from) increased stock trading, increased stock value, and a stronger position in the capital markets. A growing group of information sellers are specialized research companies-analysts who produce and sell research to the group of buyers of information.

The enablers-the lawyers, investment bankers, accountants, investor relations practitioners, and random stock promoters-facilitate the process, each in his or her own way. While the process of capital investment is a function of the buyers and sellers of information, the enablers create the instruments of the process, and smooth the way for those instruments to do their work (Ritter and Welch, 2002).

3.3 Components of Investor Relations Program

The strategic purpose of investor relations is fulfilled by taking a programmed approach to the function, determining the key activities to realize benefits, then successfully implementing these programs to maximize results. The various components of a full-scale investor relations program can be organized into four basic categories:

- Market Research, to develop knowledge and expertise on the capital markets, investment process, investor behavior, investor perceptions and attitudes toward the company, and to track progress in the communications process.
- Message and Information Development, aimed at communicating the investment strengths, major factors and points of information important to the market that will help create fair value.
- Communications Vehicles, namely the best ones to use in getting the message and information to the market, investors, analysts and brokers in the most effective manner.
- Office Administration, involving the use of staff, consultants, suppliers, technology-based and other tools to manage the investor relations process at highest efficiency levels.

3.3.1 Maximizing the Value of Market Research

Under market research fall three key activities: market intelligence, audience analysis, and benchmark surveys.

3.3.1.1 Market Intelligence

Gathering and maintaining market intelligence enables a company to understand how it is viewed by the equity market in both absolute and relative terms. It is essential to both corporate strategies and communications to know how and why the market is behaving toward the company as well as how the market is pricing the stock.

Market research provides the key information to make these analyses. The following information is needed for a composite analysis of the company's position in the stock market: Daily trading volume, Patterns of volume to indicate liquidity and volatility, Stock price against industry and other peers and against the market, Comparison of volume and price, Comparison of relative measures of investor confidence, such as the price/earnings, price/cash flow and price/sales ratios, Comparison of measures of relative performance, such as price/book ratio, returns on equity and return on assets, and Analysts' earnings forecasts for the company and peers (Levitt, 2004)

3.3.1.2 Audience Analysis

The investor relations officer can find other investors with similar styles and approaches and focus communications to show how the company fits their profile.

Communications can lead the way, too, when a company's strategies change, and certain shareholders are expected to sell because the company no longer fits their model, while others will buy because the company does fit their model.

3.3.1.3 Benchmark Surveys

The third important piece of market research is benchmarking. The important research being done by a company can be benchmarked and repeated periodically to track changes in investors' knowledge levels, perceptions and attitudes. The research also can be used to measure progress both in business management and communications. And it can be correlated against valuation and stock price to show the value of certain strategic decisions as well as the communications effort.

3.3.2 The Importance of Message and Information Development

Investors buy shares because they believe revenues and earnings will increase, the company will improve margins to create higher earnings, or it will generate excess cash, which can be used to invest further in growth opportunities, buy back shares or increase

dividends. Investors analyze companies to determine how companies will achieve these financial gains. This analysis leads them to study a company's competitive strengths and advantages. In short, it defines company's value drivers.

The specific information desired by investors and analysts flows from the company's strategies, strengths and programs. Information falls into three categories: (1) financial and operating details that thoroughly explain business operations; (2) the company's vision, mission, values, strategies, direction and programs; (3) the industry context for the company.

3.3.3. Selecting Communications Vehicles

Companies have an arsenal of communications vehicles available to provide information. The list includes printed materials, videos, electronic information services, meetings and, of course, the telephone.

3.3.3.1 Printed Materials

Printed materials are the foundation of a communications program. Required reading includes the Egyptian Financial Supervisory Authority (EFSA) disclosure documents, plus such voluntary materials as annual and quarterly reports, corporate profiles, newsletters and fact books.

3.3.3.1.1 Making Annual Reports Powerful

Companies sometimes get confused about the primary audiences for an annual report. Ideally, the report should be useful to several groups — investors, employees, customers, suppliers, business leaders and interested parties such as the communities where the company has major operations.

Surveys show that investors consider the annual and interim reports to be among their most important sources of information. It typically ranks among the top four sources of information — the others being meetings with management, research from institutions, and research from brokerage analysts.

Analysts and investors also are quick to criticize the quality of annual reports, however, expressing a strong interest in having them contain more of the information they need and value. Reports are often considered to be self-serving, promotional, vague and lacking solid information. Investors don't seem to mind the reports' upscale design; in fact, they agree that companies need to portray a progressive and professional image.

3.3.3.1.2 Letter to Shareholders

The letter to shareholders from the top officers is the most frequently read part of the annual report and provides the best opportunity to communicate the company's investment story. Investors are looking for a strategic discussion about the company. The letter should describe the company's vision, strategic direction, important initiatives to carry out the strategies, and progress in these initiatives. All of this information is put into the context of reporting on the year's results and what they mean in the near term.

3.3.3.2 Electronic Information Services

Companies are encouraged to set up their own Web sites or have it done for them through one of the growing number of outsourcing services. A survey by the NIRI indicates that over 90% of public companies have Web sites that include an investor relations section. An IR Web site is rapidly becoming a standard communications vehicle for reaching the investment marketplace. Many companies also participate in one or more of the IR super sites, created to provide information to investors.

Investor relations Web sites often include stock quotes; historical stock prices and charting capabilities; the annual report; a corporate profile; financial overview; events calendar; and feedback capabilities. Companies increasingly are broadcasting conference calls and financial presentations on the Web. Some companies provide consensus earnings estimates.

Companies also are providing the names of analysts and sell-side firms providing coverage. And a few companies are including analysts' research reports. Lawyers tend to argue against reproducing coverage, or even consensus estimates, believing it runs the risk of entangling the company in the content of the report should there be a lawsuit. Most companies do not include research reports on their Web site because of that concern.

The key with company IR Web sites is to keep the content current, encouraging investors to return to the site time and time again, and to make navigation of the site extremely user friendly.

Companies are also linking with investors through e-mail. Many companies today have extensive e-mail lists of sell-side analysts, buy-side analysts and portfolio managers, retail and institutional brokers, and individual investors. Increasingly, quarterly financial results releases, statements, and announcements of conference calls are being sent via e-mail as the use of facsimile for these purposes begins to decline.

3.3.3.3 In-Person Meetings

Despite the focus on electronic communication, face-to-face meetings with companies remain the preferred choice of professional investors. Investors learn from observing executives giving presentations. They learn from the manner in which tough questions are answered. They learn from having other smart people in the room asking tough questions.

3.3.3.4 Telephone Contact

Even with all these methods of communicating, the telephone is still the most popular way of exchanging information between a company and investor. Some days, the investor relations professional never gets off the phone. Telephone contact is highly efficient for both parties. It also provides a unique opportunity for the investor relations person to add value to the process, helping analysts and investors better understand the company.

Telephone contact has spread to audio conference calls, which are used most often by companies to discuss quarterly financial results with analysts, investors and brokers. Virtually everyone likes these forums because of their efficiency and thoroughness in providing information. Video conferences are starting to take place as technology advances. E-mail dialogue also is increasing. It overcomes the constraints of busy days and hectic travel schedules interfering with the ability to make or return phone calls.

3.3.4 Administering the IR Program

The last component of the investor relations program involves administering the function efficiently. Most investor relations departments tend to be small — one- or two-person staffs. Even some large companies have just one or two professionals; others have four or more.

The modern investor relations office is computer-driven. Various outside database services are making it possible to accomplish an amazing amount of work. Virtually all the information needed to perform the IR function can be obtained electronically today, and virtually all the information to be distributed can be prepared, produced and sent through computers.

The research obtained through computers enables investor relations to improve message and information flow, better understand how the market is behaving toward the company, prepare presentations and reports, and work with management on advancing the IR program.

3.4 Implementing Investor Relations Program

Well-rounded communications program is based on building relationships with the analysts and brokers constituting the sell side and the institutions and individuals making up the buy side.

3.4.1 Dealing with the Sell Side

Some people say the influence of brokerage analysts is declining and, while that may be true, their influence remains extremely important and will stay that way. Even the largest institutions, with their own research staffs and substantial computer capability for gathering information, still use sell-side research.

Buy-side analysts and portfolio managers use sell-side research in several ways. The research becomes their initial homework when they look at a new company. It is an integral part of investors' body of research as they approach an investment decision. Institutions are likely to check the opinion of each analyst following a company to see if there is a strong consensus. They probably will talk to the analysts with the strongest positive and negative opinions. Certain analysts have the trust of specific buy-side analysts and portfolio managers because they have been right in the past and have built credibility with that institution.

Mid-sized institutions with limited in-house research capabilities rely more on the sell side for ideas and research. The smallest institutions, with no inside research, consider the sell side to be their most important research resource. In absolute terms, then, analysts have considerable influence because they are advising institutions with investment responsibilities for billions of dollars. Bigger institutions probably consider a broker's ability to buy and sell large blocks of shares without disturbing price a more valuable function than research. Institutions select certain brokerages to execute buy and sell trades because of their trading ability or the quality of their research. Brokerages make their money on trading, of course. While brokerages sell their research for fees, most provide it in return for transaction business.

3.4.1.1 Getting Analysts' Attention

IRO can be a little bolder and call the analyst to introduce the company or seek an appointment. IRO can invite a group of analysts to a meeting. IRO can arrange a face-to-face meeting.

IRO must be able to give the analyst a reason to cover the company, and an improvement in fundamentals tops the list. Analysts won't start to follow a company with faltering fundamentals and prospects. They need to be shown a story that indicates growth. A key role of an analyst is to create interest in a company so investors will buy shares to generate commissions.

Following face-to-face meetings, additional contact is essential. The analyst can be added to contacts list to receive releases and reports. A letter thanking the analyst for attending the meeting and inviting him to stay in touch is certainly a good idea, as are continuing phone conversations.

3.4.1.2 Reaching Brokers

Brokers are the company's direct link to individual investors and sell stocks plus an extensive array of financial products. Unless they specialize in equity and bond accounts for a handful of wealthy people, most brokers don't have the time to do the definitive kind of research conducted by analysts and fund managers. So they want the corporate story in highlight form. Their prime information interests are the company's core business, its major technologies and products, market position and financial performance. Essentially, brokers want to know how the company is making money, how it rewards shareholders, sales and earnings growth, efforts to improve margins and control costs, and competitive advantages and investments that will preserve growth.

3.4.1.3 Institutions as a Prime Market Group

Conventional wisdom today says that institutions drive the stock price of most companies by trading more frequently than individuals and by trading larger numbers of shares.

From an investor relations perspective, this is beneficial. Companies can make contact with institutions more readily than with individuals. The investor relations professional conducts relationships with institutions purely on a business level.

The first proactive efforts of companies to communicate with institutions involve meeting with institutional analysts at presentations sponsored by their professional societies, then inviting them to company-sponsored meetings. Soon the buy-side analysts become an integral part of the communications process. Companies now dispense information directly to portfolio managers and get to know them on a broad scale. And they understand institutions' investment approaches, making it possible to tailor information to their needs and to target compatible investors. This, in turn, leads to companies' ability to better serve shareholders by giving them good information.

Other ways of communicating with institutions: (1) faxing and sending all news releases and relevant statements to commercial wire services so they can be accessed immediately and made available quickly through online databases; (2) putting SEC filings on online databases; (3) establishing company Web sites containing any information that is considered to be important.

3.4.1.4 Individual Investors as an Important Part of the Market

Additional research reveals that individuals tend to put half their stock investments in companies where they or another member of their household works. Investors cite savings through work as a "major" source of retirement income. Increasingly, individuals are taking responsibility for their financial growth and retirement, not relying on pensions or social security.

The challenge for investor relations professionals in reaching individuals is that there are so many of them, and they're so spread out. They defy efficient marketing programming. Nonetheless, smart companies can serve this important market segment in several ways: by working effectively with brokers, by communicating directly with these investors through various electronic sources, through dividend reinvestment and direct stock purchase plans, by meeting these investors directly through their investment clubs and associations such as EIMA and ECMA, through targeted direct mail programs, by mailing or faxing information to individuals, through certain print and broadcast media, and through the Internet and e-mail.

3.4.2 Dealing with the Buy Side

IR professionals stated that direct communications with buy-side investors is one the most crucial steps in the IR process. Once a company attracts one or two buy-side investors, other buy-side investors are more willing to hear about the company. This buy-side interest encourages sell-side analysts to follow the firm and attracts press coverage, all of which help attract a dedicated retail following (one IR professional referred to this as "the circle of influence"). Similarly, it was widely stated that a few initial buy-side investors may have enough impact to increase the trading activity in the stock, making it more attractive to a broader class of large investors.

Most IR professionals attempt to get management to dedicate at least two-to-three days a quarter to investor meetings. Further, they stressed that management must commit to continued meetings once an investor has taken a position. After the meetings, most of the interviewees stated that they perform follow-up calls with the investors to fill in any remaining information gaps and to determine if there is a need to modify management's message in future presentations.

3.4.2.1 Dealing with Media

Every company should be prepared to work with the media on a professional level. Essentially, this means two things: have a plan and have expertise in media relations.

A media relations plan covers both responsive and proactive ways of dealing with the press. The components of a planned, responsive program include having a team ready to deal with the media, knowing who is going to speak on behalf of the company, properly preparing the spokesperson(s), and anticipating the subjects likely to come under media scrutiny. Many companies select certain subjects in advance, prepare responses to probable questions, and even practice role playing. This process is described in more detail in the next chapter, which focuses on crisis communications.

A planned, proactive program consists of several parts, as described later in this chapter: how to handle news; how to position the company as a leader by being included in stories about trends, issues and developments; and how to build steady media coverage through articles and interviews.

Success with the media on a professional level also requires knowing what the media wants. The ultimate objective is to figure out how to benefit a company while satisfying the media's perceived needs.

Companies can get what they want from a story by deciding what they want in advance, then determining how to accomplish it. The "how" part is achieved by planning the content and scene in which the story is told. The scene may be a science lab, a customer location, the CEO's getaway or wherever is appropriate. The content of the story is carefully shaped by determining ahead of time what is to be said and who the best people are to say it.

Depending on the topic, spokespersons are typically the investor and public relations professionals, CEO, CFO, chairman, president and others designated to speak in certain situations. Operating unit heads may be asked by the IR officer to talk at an investor conference, or a scientist may be pegged for a media interview on a new technology.

Spokespersons can benefit from being coached on how to give crisp, compelling answers; handle tough questions quickly; come across as sincere and likable; maintain an executive presence; and deal with different reporters. Coaching can pay off not only in effective media interviews but in effective presentations and conference calls

to the financial community. Imparting information well and making a good impression help to build both credibility and relationships.

Investor relations and public relations professionals are encouraged to participate in the coaching process, even though they get lots of practice by talking to reporters and investors every day. In fact, it is the importance of their daily contacts that makes professional training advisable for them.

A media visibility strategy works best when it flows from understanding how newspapers, magazines, wire services and broadcast programs are put together and how journalists think and operate. The goal of the company is to be a part of the media process — to have the company seen as a source of information, news, commentary, background and knowledge. Companies earn this position by being complete, candid, honest, accurate and timely in their response to requests and in proactively presenting their information.

Reporters are always looking for sources, and a company can be a valuable source, either on or off the record. “On the record” means being quoted or having the information attributed to the company. “Off the record” means the company is providing some background and insight, but it isn’t to be attributed the company. The end result is that the company helps reporters gain information, knowledge and understanding, and the reporters help the company gain visibility and a reputation as leaders and experts in their industry.

A healthy attitude toward media relations parallels the attitude managers should have in seeking a fair valuation of the company’s stock: provide the information so the market can value the stock fairly; provide the information so the media will cover the company fairly.

Good companies shouldn’t fear the press, even when there is a problem. The best action is to deal with the problem, keeping all constituents informed. In seeking to cover the story fairly, the media will be more inclined to give full treatment to the company’s actions when IRO is forthcoming and working to achieve a resolution.

3.5 Investor Relations and Company’s Financial Life Cycle

3.5.1 Going Public

To fully capitalize on a media relations program, companies should think in terms of a planned effort to: match subjects of value to the company with media outlet opportunities; target releases, articles and story ideas to appropriate media.

In view of the health of the market for initial public offerings, and the competition for attention, good investor relations begins before the company goes public.

The company choosing to go public should know that there is a vast area of concern in terms of relations with the financial community. Investor relations activities begin well before the public stock offering, and continue well afterwards.

3.5.2 Choosing an Underwriter

The choice of an underwriter is an investor relations concern because underwriter will serve as a significant conduit to the financial community. Choosing the wrong underwriter can be an investor relations disaster – one for which no investor relations program can offer quick relief.

An underwriter gives financial support and takes responsibility for paying any costs associated with the activity he or she underwrites. An underwriter is often someone in the insurance business who may assess the risks involved with enrolling an applicant for coverage or a particular policy. The underwriter must also compensate for any loss under the terms of the insurance policy. An underwriter may also serve as an intermediary between an issuer of a security and an investor. In this capacity, an underwriter buys an issue of securities from a company and resells it to the investors. As an underwriter, a person (or firm) bears the risk of selling the securities to the public and guarantees the proceeds from a sale, essentially taking ownership of the securities. If the underwriter can't sell the securities at the asking price, the underwriter may have to sell them for less than they paid or retain the securities themselves.

3.5.3 Preparing to Go Public

Properly done, the company that feels it should consider going public must begin by doing a great deal of preparation. This should include taking a realistic view of its long-term capital needs, and assessing alternate sources of capital. A complete financial analysis should be done including pro forma operating statements and balance sheets for at least five years forward. This program should be done

with the assistance of the company's own internal financial staff, and with help of its accounting firm and attorneys.

3.5.4 Choosing an Investment Banker

The company should select and approach no more than three or four investment banking firms. With the aid of the accountant and the attorney, firms can be readily identified on the basis of:-

- The strength of reputation
- Limitations of the size of companies they will accept as clients
- The number of comparable client companies they have in terms industry, and capitalization

3.5.5 The Pre-Public Pattern

Prior to registration, and as a part of putting the company's story together for presentation to perspective underwriters, the company should orient its material. This should not be done in the legalistic terms of a prospectus, but in ways that are acceptable to the financial community in general. On approach used with some measure of success is the financial annual report for the nonpublic company. The report needs not to be expensive or elaborate, but it can follow the same general procedure used for an annual report for a public company.

3.5.6 The New Issue

Once the company is out for registration it can begin to pursue the normal investor relations activities. The first step is a press release which simply announces the new issue, made available by prospectus. It should include the underwriter, the size and details of the issue, and a brief description of the company's business.

3.5.7 The Private Placement

An increasing number of companies are going public, or are having a secondary offering, using the private placement. The private

placement (or non-public offering) is The sale of securities directly to an institutional investor, such as a bank, mutual fund, insurance company, pension fund, or foundation. A private placement is a funding round of securities which are sold without a initial public offering, usually to a small number of chosen private investors

3.5.8 The After Market

The after-market is what happens to the stock after the public issue. In too many cases, a company is led to believe that the underwriter will take and maintain a proprietary interest in the stock issue after the company has gone public. This is rarely the case, even for companies that do well in the stock market following original issue.

3.5.9 Going Private

Going private is the repurchasing of all of a company's outstanding stock by employees or a private investor. As a result of such an initiative, the company stops being publicly traded. Sometimes, the company might have to take on significant debt to finance the change in ownership structure. Companies might want to go private in order to restructure their businesses (when they feel that the process might affect their stock prices poorly in the short run). They might also want to go private to avoid the expense and regulations associated with remaining listed on a stock exchange.

3.6 Investor Relations Role in Managing a Crisis

Corporate crises are more common than we might realize, suggesting that every company should have a plan to deal with one. Crises can be organized into categories, with virtually every one having the potential to drive down a company’s value and stock price: poor financial performance; product recalls, tampering and deficiencies; accidents and natural disasters; employee, shareholder and other stakeholder group dissatisfaction; and regulatory problems.

3.6.1 Step 1: An Early Warning System

The key first step in a crisis management plan is having an early warning system. This primarily involves methods of obtaining information — gaining knowledge and insight on people's feelings and opinions, tracking trends and detecting developments in the earliest stages.

Good relationships with a wide variety of people can help a company pick up on rumors, trace them to their originators, get a sense of how constituent groups feel about the situations, and learn what people are saying. Companies can also use the Internet as a major source of intelligence on a crisis in the making. Monitoring the Internet daily can reveal discontent, changing attitudes or the building of opinion against the company on a certain issue. Today, chat rooms and message boards are potential sources of crises.

3.6.2 Step 2: Gathering a Crisis Team

Next in a crisis management program is forming the crisis team. It should represent all interests in the company that would be affected by a crisis, consistent with the various kinds that can occur. This means the team is likely to include the heads of or representatives from investor relations, corporate communications, legal, human resources, security, marketing/sales, finance, operations, manufacturing and regulatory affairs.

At least one senior officer should be on the team — executive support and participation are crucial to successful implementation. The CEO must endorse the concept and be part of the process. Too many well-conceived and rehearsed crisis plans come apart under pressure because the CEO wasn't part of the effort from the beginning.

The basic responsibility of the crisis team is to prepare the crisis plan, give it depth by making sure it is comprehensive and detailed, and give it life by making sure every participant is fully prepared to execute his or her role. That usually is best accomplished by conducting initial and periodic "dry runs."

3.6.3. Step 3: Determining the Message and Information

Companies need to keep the long term in mind as they report on the current situation. Think beyond what is happening at the moment and evaluate how the company will be perceived going forward after the crisis. Assess the impact and damage that may occur, and how best to repair the situation.

Some crisis management consultants advise companies to try to communicate primarily through the written word. Written statements enable the company to be more deliberate and precise in presenting information. They also can be disseminated widely, and they are likely to be carried immediately by the many media outlets that receive them.

Verbal statements and discussions carry some risk of error or misinterpretation. Discussions can go beyond the content the company intends to communicate. There is also the risk of the spokesperson becoming ruffled and either saying something incorrectly or saying too much. However, a real person doing an effective job of discussing the crisis will humanize the company and can evoke respect and support.

Companies should practice frequently how they will handle a crisis, using a different crisis each time and selecting from among those most likely to occur. The company's early warning system can help identify vulnerability to certain crises.

3.6.4 Role of Investor Relations Professionals

Investor relations professionals can play a vital role in preparing for and participating in a crisis through their regular contacts with the investment community. The investment community can give early indications of a crisis to come. Analysts are a good information resource for hearing about problems, hearing what competitors might be saying and doing. They also are good sources of information for learning how other companies handled a similar situation.

In a crisis, investor relations professionals must work to keep analysts and investors up to date on company actions and to help them interpret the impact on the company's operations, finances and valuation. Timely communication of worthwhile information is critical. Silence is damaging, uncertainty and changing messages can be deadly to corporate credibility.

Investor relations professionals also serve as a source of feedback to management on how the investment community is reacting to the crisis. That information can be a major component in management's decisions on how to handle the situation in the best way.

3.7 Costs and Budgets of Investor Relations Program

In a well-run investor relations program, there is no question that the greater and more extensive the effort, the greater the effectiveness. Nevertheless, the cost of an investor relations program is not a measure of its potential success. Program that cost a great deal may be no more effective than programs that are moderately priced. The measure is the program-not the cost. Virtually every cost factor may be foreseen. And at least, a program should be budgetable. Essentially, the fee and expense elements of an investor relations program following:-

Consulting fees consists of Shareholder and street research, design and printing, mailing, broadcast fax, investor meetings, teleconferencing, Web site, travel costs to meetings, major press interviews and out-of-pocket miscellaneous expenses

3.8 Measuring Effectiveness of an Investor Relations Program

An investor relations program can be measured in several ways. The objective is to show how improved communication increases market knowledge as reflected in share price.

3.8.1 Measuring Effectiveness with the Buy Side

Programs designed to attract institutions can be measured in several ways:

- Increasing the positions of current institutional shareholders: Measuring institutional holdings both before and after a pro-active targeting effort can indicate the success of the effort.
- Broadening the base of institutions holding shares: Companies can identify certain institutions, increase the flow of information and amount of contact, then monitor their share positions. Having more institutional holders increases the number of buyers, to raise demand, while reducing the risk of a few sellers pulling down the price.
- Changing the mix of institutions based on their investing styles: This targeting effort typically seeks to strengthen the holdings of longer-term institutions. Companies also can target growth, value or income investors, as well, by emphasizing strengths and programs important to each group.
- Results are measured by monitoring the shareholder base, identifying new holders and their styles, while tracking the institutions that sell and their styles. Buying patterns of institutional holders are watched closely for buildups in positions that can be linked with the investor relations effort.

3.8.2 Measuring Effectiveness with the Sell Side

Companies can also measure initiatives to increase sell-side coverage and support with both analysts and brokers. First, analysts:

- Increasing the number of analysts following the company: This is easily measured by targeting certain analysts and picking up the pace of contact to encourage them to cover the company. The effort is successful if the analysts start following the company.
- Building the interest and enthusiasm of certain analysts already covering the company: The objective is to urge them to be more aggressive and bullish in recommending the company to investors and to push the stock harder with the firm’s institutional and retail brokers.

- Most analysts have favorite stocks that they push at any given time: The analyst's enthusiasm for a company will depend on an appraisal of prospects, the level of increased return expected, and his or her confidence that the returns can be achieved. That level of confidence can be enhanced by good information and stronger company relationships.
- Companies can measure the progress being made in the number of research reports being written and the quality of the reports. When the reports display more knowledge about the company and more insight into value drivers, that probably comes from the closer IR contact. Also, the complimentary words of an analyst often stem from improving relationships with the company.
- Companies can increase institutional or retail holdings by creating more sell-side coverage through brokerages specializing in specific market segments. They can build institutional holdings by gaining sponsorship from brokerages with big institutional client bases, such as Goldman Sachs. The same is true on the retail side, by focusing on firms like Morgan Stanley Dean Witter, Salomon Smith Barney or Prudential.
- Tracking increases in share positions by customers of the brokerages requires monitoring the process directly with the firm. Most brokerages are willing to share the knowledge of their success with the company.
- Measuring the amount of stock placed with individuals through the brokers of a specific firm: This can be the result of an ongoing communications program with a Market Maker. Or it can be the result of a specific campaign with brokerage firm—mailings of materials, a CEO presentation across the broadcast network, or face-to-face meetings in broker offices.
- Measuring the increase in stock positions in certain cities following a campaign: Companies can follow up a series of broker meetings in several cities by watching for a pickup in retail positions in those cities. Check the registered and beneficial shareholder lists and the positions of brokerages contacted in these cities.

- Follow-up becomes an important activity in maximizing the value of communications programs as well as measuring their results. Follow-up activities include mailings of new printed materials to brokers attending meetings and phone calls to update brokers on new developments.
- Several other retail-oriented investor relations programs can be measured: The National
- Association of Investors Corporation (NAIC) tallies the number of shares held in each company by its investor clubs and members. Companies with active NAIC programs can expect their share positions to grow.
- Direct mail programs aimed at brokers also can be measured. Research and Registered
- Representative magazines keep track of the brokers requesting reprints of articles and corporate profiles, and the number of reprints they order. Research follows up with select groups of brokers to count the number of new customers and the amount of stock placed with these investors as a result of the reprint mailings.

Research Results

After reviewing the investor relations program adopted by the two subjects of this study, the Egyptian company and the international company, we conclude that the applied program by each of them is incomplete and lacking in many key parts which, in case they are satisfied, have great potentials:

The research suggests a comprehensive investor relations program which satisfies the following requirements: staffing the investor relations function, investor relations program key players, components of investor relations program, implementing investor relations program, investor relations and company's financial life cycle, investor relations role in managing a crisis, costs and budgets of investor relations program, and measuring effectiveness of an investor relations program

Thus it was proved the non-validity of the hypothesis that local and foreign companies are not conducting an integrated investor relations program. And an integrated investor relations program can be developed.

Recommendations

- Companies are recommended to adopt the suggested comprehensive investor relations program.
- We recommend establishing an Egyptian Investor Relations Association "EIRA" with mission to activate the IR activities and to launch a series of training programs.

Suggestions for Further Research

The investor relations subject is considered as one of the key new issues. We propose a framework for IR program. Therefore, we recommend that further studies approach this model with an aim to determine its strengths and weaknesses.

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$$F(c) = P(R_h^2 < c) = \sum_{i=0}^{\infty} w_i(\lambda) I_{c^*}\left(\tfrac{k-1}{2} + i, \tfrac{n-k}{2}\right) \quad \text{..... (7)}$$

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