

Published in Deccan Herald, Bangalore, Monday, 26 August 2002

(This article was written soon after the Enron corporate scandal. At that time I headed corporate communications and investor relations at SSI Ltd, a Chennai based IT services company)

## Corporate Communications Transparency & Valuations

Vijay Menon

As the drumbeats of the recent corporate scandals rise to a crescendo, markets and governments are reacting with anger. While regulatory authorities pick their way through inscrutable balance sheets to determine culpability, investors are angrily selling stock of tainted companies and decimating their market capitalization.

The message is clear. When investors return to the market, the premium on good corporate governance and transparency will have gone up a few notches.

Transparency and corporate communication (and I include investor relations in this term) have always been important for establishing goodwill. Goodwill generates brand equity, better valuations, higher price-to-earnings multiples, and thereby lowers cost of capital.

A survey of over 1200 sell and buy side analysts by Investor Relations magazine for instance, found that companies with good communication programs significantly out performed the S&P 500 index in terms of shareholder returns.

It's easy to see why. With the exception of bubble economies – the Internet frenzy of the late nineties is the last example – it's normally a buyers market for investors. A typical manager of a diversified mutual fund keeps tabs on over a 100 companies across several industries and market segments. A typical analyst working for a brokerage and recommending stocks to a fund manager follows 10-20 companies in his area.

Small wonder then that any company that is not seen to consistently and fairly communicate its results and discuss its plans is junked in favor of alternate investment candidates. The role of corporate communication is to generate news flow, manage information, articulate the company story, and facilitate dialogue. In doing so, it can raise awareness of the company brand, create empathy, and pre-sell the company to the target audience.

Most CEOs understand the need for transparency though not all of them find it easy to practice it ! To understand why is to understand the nature of the beast.

Corporate communication promotes the *company* as a product. It defines the key messages, sets up processes for dialogue, frames disclosure policies, and uses the media, the Internet, meetings, conferences and other channels to convey the message.

Unlike product marketing, corporate marketing is a touchy feely affair where the person is often as important as the message. The communication is often one-to-one or one-to-few, is between highly knowledgeable and often egocentric individuals, and is conducted in a mildly or frankly adversarial environment.

Most corporate communication exercises start after the formal press release or company announcement. Companies then engage with the media, analysts or investors to discuss the announcement. These dialogues are potentially confrontational – the reporter or analyst must probe for weaknesses, while companies understandably are keen to spin the story positively. This is often the time when companies are tempted to gloss over or hide embarrassing facts.

They shouldn't. Journalists, analysts and investors are like most normal folks – they are tolerant of honest mistakes but are less forgiving of deception. Most analysts recognize that a company with a fundamentally strong story and able management can survive a few bad quarters. Sure, there will be angry investors who will dump the stock and switch to the next hot pick but that's the nature of the game – the challenge is to keep talking, keep the vision unclouded, and pitch the

story to different classes of investors. For every growth investor, there is a value investor and vice versa.

How transparent is transparent? Media and shareholders often complain that companies are selective in their disclosure. This usually means either of two things – that companies are selective about their audience or selective about their information.

The first problem is by far the more tractable. Legislation and investor expectation today encourage uniform dissemination of information. The compliance arms of most stock exchanges are quick to rap the knuckles of companies that do otherwise. The trend is towards detailed press releases and conference calls that are either open to anyone or whose transcripts are published on company websites.

The second problem of fostering a climate of information sharing cuts to the core of our business culture. Granted that companies need to keep competition sensitive information confidential. Even so, most companies are excessively secretive. One reason is that many Indian companies are only now transiting from entrepreneur led, family owned entities to more diversified ownership structures. As boards of directors become more independent and as promoters offload their equity to outside investors, shareholders will demand – and receive – more and better information.

It's easy to be transparent when the going is good. But a company's mettle is tested by its ability to share information in tough times. On their part, shareholders are clear that they need to hear bad news first from the company. It gives them an opportunity to assess damage and discuss the company's ability to deal with the event. More importantly, it makes them feel that the company cared.

As in any relationship, trust is everything.