

Make the Perception Study Count

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Finance chiefs and their peers in the executive suite generally respond favorably to the idea of measuring the effectiveness of key corporate functions such as sales, marketing, capital formation, technology deployments and talent acquisitions. The logic of ROI compels senior management to examine all these functions through the prism of simple questions such as “How well is this function working?” “How do I know?” “In what ways does the function need to improve?”

But the application of this eminently reasonable line of inquiry to investor relations (IR) stumbles on the limitations of prevailing methods of IR perception research and program assessment. Addressing these limitations can boost the return on corporate investments in IR.

Of the main methods of measurement in IR (See side bar), perception studies can provide the most direct and structured measure of investor sentiments. In fact, when done right, perception studies can provide the ultimate measure of the effectiveness of an IR program: that is, the alignment (or divergence) of the views of insiders and investors.

Regrettably, perception studies often fall short of this potential. The typical IR perception study today amounts to little more than investor quotes in paraphrase – with no quantification, no audience segmentation, no attempt to place investor perceptions in the context of broader market perceptions. And this approach has remained largely unchanged, even as capital markets convulsed through one major transformation after another – even as senior managers increasingly develop a finer appreciation of the importance of IR. Still, IR practitioners employ the same methods and deliver a perception-research product strangely resistant to substantive improvements in scope and sophistication. So how exactly does perception research need to change?

Combine qualitative and quantitative methods -- The objective of a perception survey is not just to compile and regurgitate respondents’ comments. A thoughtful

Methods of IR Measurement and their Limitations

Public companies use four main methods to measure the effectiveness of IR and to track the evolution of investor perceptions:

Peer-based analysis of relative valuation, stock performance and equity ownership

- Can help identify but not fully explain valuation disparities
- Cannot isolate the impact of investor relations
- Cannot directly measure message traction or provide specific recommendations for refinements in investment thesis and IR strategy

Perception studies and investor feedback following one-on-one meetings

- The typical perception survey today does not quantify findings or segment the audience
- High risk of unrepresentative findings that can misguide the management team
- Qualitative findings make it difficult to track the evolution of perceptions overtime
- Qualitative findings make it difficult to assess the magnitude of gaps between the perceptions of investors and insiders
- Single-audience surveys miss the opportunity examine investor perceptions in the context broader market sentiments

Sell-side research

- The job of a sell-side analyst is to advise investors, not to echo their views
- The sell-side is a different audience, not a proxy for the buy-side

Informal dialog with investors and analysts

- Useful input, but unstructured and unrepresentative
- High risk of unrepresentative findings that can misguide the management team

survey should project the researcher’s voice -- a unique perspective that organizes and prioritizes the findings in an analytical framework, laying the foundation for actionable answers.

One method for shaping survey findings is to quantify them. But many IR practitioners still resist the idea of using quantitative methods, however much they may help prioritize and concretize the findings. Perception studies still feature sentences about what “many” or “most” investors feel, think or expect.

Of course, these observations are not worthless, but they are not worth much either. They don’t address subtler questions such as exactly how many investors espouse the view, or whether the view is more or less common among certain types of investors, in particular geographies. How heavily does a particular view weigh on particular portfolio managers’ investment decisions? How urgently does the company need to address a particular set of perceptions compared to others?

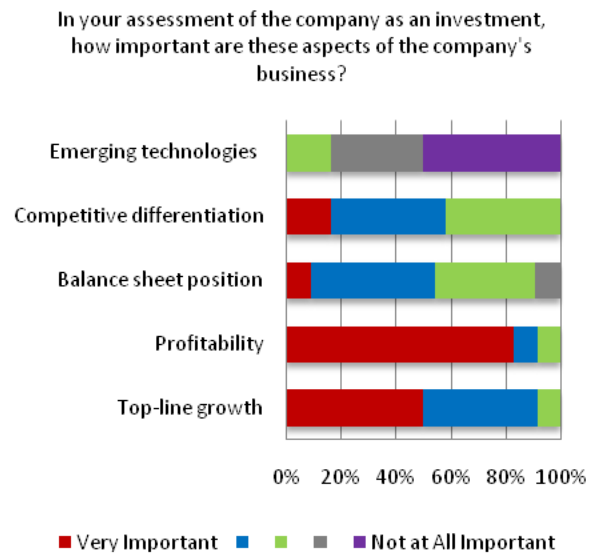
So far, IR practitioners have either rejected quantitative methods or embraced them with methodological ineptitude. Consider, for example, the use of biased response scales (1 through 6, for example) that do not contain a mid-point – a proxy for a neutral response. Instead of discovering investor perceptions, these scales tend to dramatize and distort them, creating an illusion of firmly held opinions. In the meantime, these scales mask investors’ doubts, hesitations, mixed, tentative or neutral sentiments, which often prove more telling precursors of investment decisions.

The failure to integrate quantitative methods into IR perception research keeps the discipline far below the accepted standards elsewhere in corporate market research. Across corporate functions – from product marketing to strategic planning, from HR to IT – quantitative methods have long become commonplace. Whether companies are assessing customer or employee satisfaction, return on investments in a new product or a software deployment, they rarely find comfort in hazy findings.

They don’t develop products because the VP of marketing senses quite a bit of demand. Neither does the VP get promoted because he intuits that customers are generally satisfied. Sophisticated companies today employ sophisticated research methods, across departments. They develop and test hypotheses, they quantify their findings and track changes over time. They often use statistical analysis that may cause experienced statisticians to gasp in amazement.

One of the most irrelevant questions that strangely dominates the thinking of perception researchers is what method works best: qualitative or quantitative, Web surveys, focus groups or phone surveys, yes-or-no responses or scaled responses. The rhetoric around these questions tends toward simplistic extremes that simply miss the point. There are avid advocates of quantitative surveys and researchers who avidly oppose them. There are traditionalists who look askance at Web surveys and enthusiasts who embrace them. The irony about these affinities is that they are often mutually exclusive. The

Figure 1: Quantification can help segment the investment thesis and identify key value drivers



advocates of quantitative surveys cringe at what they see as glaring generalities in qualitative surveys. Conversely, quantitative surveys are sometimes dismissed as pseudo-scientific gimmicks.

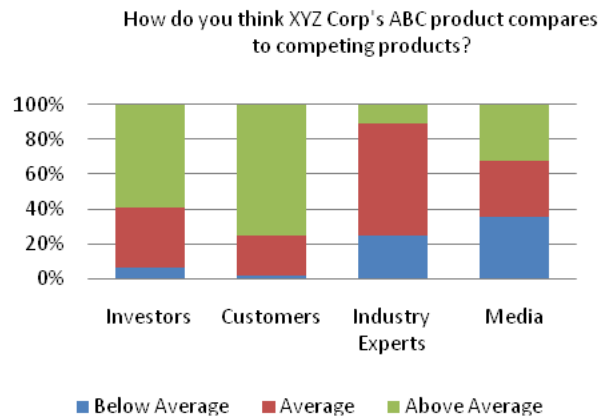
The disagreements are pointless. None of these methods is better or worse, per se. They can all be useful or counterproductive depending on how effectively they are used. They're often best when used in combination. The dogmatic advocacy of either method generally underestimates the complexity of the perception researcher's challenge. Is it really so easy to understand what people think and feel that we can find comfort in our pet methods? At best, the researcher can produce a snapshot, a glimpse, of this whirring, buzzing, shifting phenomenon, veiled by party lines and wishful thinking.

Hence the logic of eclecticism. Whatever the preferred research method, it likely overlooks important facets of the reality it sets out to reveal. No method is perfect, but a thoughtful combination of methods may produce a more informative report.

Broaden the scope of the survey beyond the financial community

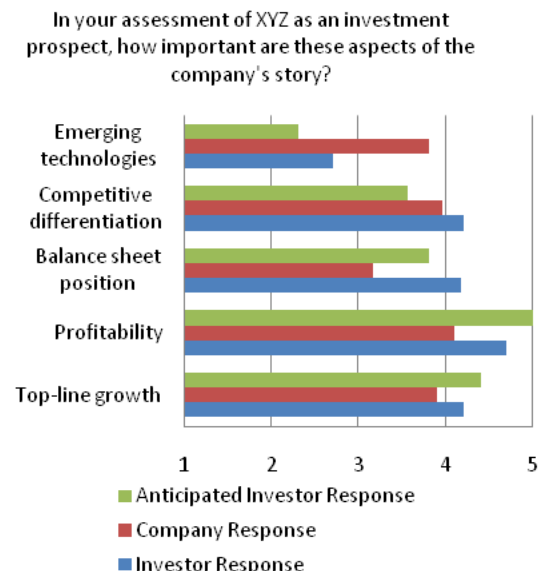
– The financial community is not an isolated monolith, and its perceptions do not take shape in a vacuum. On the contrary, investors today are participants in increasingly complex, global, digital, 24/7, intersecting conversations that defy distances and dichotomies which used to separate stakeholder audiences. In this dynamic context, investor perceptions affect – and are affected by – the views of other market audiences. That's why, the challenge for IR research is not just to consistently survey investors, but also to understand the fuller eco-system of perceptions that affect corporate valuations.

Figure 2: Cross-audience perceptions can help define communications and strategic priorities



Study contrasts and changes – IR practitioners should not only study the views of investors, but they should also identify and measure the gaps between the views of investors and insiders, and they should track the evolution of these opinion dynamics overtime. Ultimately, the goal of IR is to help minimize these gaps, bringing the company's market value in closer alignment with the company's intrinsic value.

Figure 3: Measuring gaps between the views of management and investors can help define the priorities of an IR program



Segment the Audience – Not all opinions matter in IR perception research, certainly not equally. And sometimes the most vocal opinions matter least just, as humbly spoken or unexpressed opinions often matter most. IR practitioners not only need to identify opinions, but also measure their prevalence across the key segments of the investor audience. Audience segmentation in perception studies can follow simple categories such as:

- Current, former and prospective investors
- Domestic and international investors, with the possibility of finer segmentation
- Top-quartile current investors vs. bottom-quartile current investors
- Investors with top-quartile aggregate holdings in the peer group vs. investors with bottom-quartile aggregate holdings in the peer group

But in some cases, you may need to segment the audience on the basis of more unique criteria such as measures of risk aversion/tolerance or agreement/disagreement with certain facets of the company's investment thesis.

Learn from behavioral finance – Advances in behavioral finance have subverted the idea of pure investor rationality, and a growing body of research in this fledgling discipline is painting a fuller picture of how investors actually make investment decisions, how often – how easily and imperceptibly – emotion and cognitive bias can influence what investors think, feel and do.

The incorporation of the basic tenets of behavioral finance into the practice of investor relations will likely define the next chapter in the evolution of IR. In the area of IR perception research, for example, companies can simply start to collect psychographic data about their investors, including their race, gender, geography, age, education and media consumption. They can incorporate into their investor surveys questions designed to tease out the investors' particular biases and preferences. They can ask questions designed to uncover not only the investors' view of the company's stock, but rather the fuller range of the investor's touch-points with the company's brands.

Answers to these questions would likely yield a richer profile of the investor audience than the commonly used descriptors such as "value" or "deep value", "growth" "aggressive growth" or "income". These categories purport to reveal the investor's driving convictions, the key determinants of his or her investment decisions. But these neat categories actually mask subtler and messier realities. Value, growth or income may be an investor's core philosophy, but how the investor applies the philosophy day to day can vary widely and change over time.

Conclusion

Quantification, cross-audience integration, audience segmentation and the analysis of opinion gaps between insiders and investors – these are just some of the methods that can bring greater precision and reliability to IR perception research. They can help advance equity marketing at least to the same level of sophistication that has long characterized the marketing of products and services. Of course, IR practitioners cannot bring about this change on their own. They need the understanding and participation of senior management.