

# Investor Relations - The Art and Philosophy of Effective Corporate Communications: A Book Review

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**Abstract:** I chose this book because I wanted to truly challenge myself. I wanted to step far outside of my own comfort zone, but something that would still be useful to my future. While I wanted to learn something totally new, I wanted to be able to relate it back to my current skill set as a Public Relations professional. I decided that dealing with the stock market was far enough outside of my repertoire, and that specifically investor relations was something I could easily relate my Public Relations skills to. Understanding how different actions by the company will be received by investors has a direct parallel to Public Relations. Applying skills from communicating with the public to communicating with investors seemed like a fairly smooth transition, with only a few variations. While there is certainly an overlap of skills between the two fields, there is clear distinction between the two and the precise ways to go about them. I decided to read and review "Investor Relations ~ The Art and Philosophy of Effective Corporate Communications" as my introduction into the field. Overall, this book successfully helped me to push outside of my comfort zone and to go into the world of Investor Relations.

**Keywords:** Investor relations, financial public relations, crisis communication, analyst relations, financial media relations.

## INTRODUCTION

The author, Thomas J. Lauria, begins the book by calling the book "...a handbook to a create comprehensive knowledge base on the broad and sometimes misunderstood topic of investor relations" (Lauria, 2017, 23) [1]. Lauria also makes sure to earn credibility with readers by noting how he was a Fortune 25 Investor Relations Director, as well as both an Equity Research Director and Senior Equity Analyst. After establishing his credibility with readers, he begins to explain just what exactly Investor Relations means. He specifically goes into the role of an Investor Relations Officer, or "IRO" as it is referred to throughout the rest of the book. The main goal of an IRO, and of investor relations as a whole, is to keep the company's stock price up over time. There are two main reasons why a CEO of company will spend tons and tons of money on this. The first is because a CEO often holds the most stock in a company, and as that stock price increases, so does his or her net worth. The other reason is that it increases the worth of the company, and with a higher worth comes lower chances of a buyout. Investor Relations comes into play by showing investors that the company is doing well, which makes stock in the company more desirable, creating a higher demand for it, and therefore becoming more valuable. IRO's try to market the company to investors, and get them to buy stock. This is accomplished through consistently reaching out to investors, going to investor events and holding meetings with investors.

While IRO's try to bring on new investors, it is also important to keep in contact with current investors. If current investors feel the desire to sell, they may do so at a lower price, then lowering the price of every stock in the company. However, the opposite holds true as well. If current investors are happy with the company and generally want to keep their stock in it, they will only sell it at a higher price, thus raising both the stock price and the overall company worth. IRO's can keep investors content by consistently updating them on things that the company is doing, telling them how the company is doing financially, and being around to answer any of their questions about the company. The first third of the book is entirely dedicated to explaining both what Investor Relations is and why it is so important to a company's success. IR officers play an important role helping the market better understand companies by conducting in-depth analyses, interacting regularly with investors and sometimes clarifying misconceptions about firms thereby improving market efficiencies [2-4].

Arguably, one of the most important takeaways from chapter one is the section titled: "Never Strive to Convince, But Rather Understand". It is here that the foundation for the rest of the book is established. In this brief but insightful section, Lauria notes how the most effective IR marketing efforts are the ones that create what he calls "True Understanding". Lauria explains that it is crucial for investors to fully understand the company and what it is doing. It is essential to be fully accessible, honest, and to create an open dialogue with investors about everything from the company's strategy, to its financial expectations. He makes sure to

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note that this is best for when the company is doing well, as well as for when the company is doing not so well. Being totally open, honest, and accessible creates a level of trust in your company, and if investors trust in your company then they are more likely to remain loyal when your company is in a difficult time. "The role of trust in investor relations: a conceptual framework" [5], an article posted in *Corporate Communications: An International Journal*. 2018, Vol. 23 Issue 1, p2-16, fully supported this idea as well. This article supports the idea that there needs to be a genuine trust between corporation and stakeholders, and that the best way to do that is through creating an open and honest relationship between both parties. One of the goals of an IRO is to limit any stock price volatility, and the soundest way to prevent that is by being upfront about what to expect from the company. Ideally, an IRO doesn't convince a stockholder to invest, but rather show them exactly who the company truly is, and to let them decide for themselves. Creating this relationship is fundamental to being a successful IRO, and this thinking is the base for much of the book going forward.

Lauria devotes the next few chapters of his book to understanding both the "Buy Side" and the "Sell Side", and different aspects to consider when addressing each of them. In order to properly relate to investors, it is important to understand where exactly they are coming from, and perhaps more importantly, what they want. A lot of these chapters are based upon the idea of creating an honest and open dialogue between corporation and stakeholder. Starting with the Buy Side, Lauria splits the section into two different subcategories: The Institutional Community and The Retail Community. The institutional community involves people who specialize in this area, such as portfolio managers, their analysts, and various types of funds. The retail community includes regular individuals who are looking to invest. Lauria gives the examples of retirees, people saving for retirement, and parents who want to pay for their child's college education someday. While both these groups are on the buy side, it is important to create a distinction between the two because of their often vastly differing wants and needs. Then Lauria gets into understanding the sell side. These are analysts and brokerage firms who do research on stocks, and then markets and sells said research to the buy side. According to Stock (2003) [6], "Over three-quarters of institutional investors buy sell side research to keep current with the word on the Street". In order to be successful in IR, it is crucial to be able to understand and relate to both of these sides, as

well as to be able to create understanding and relation for your company.

In chapter 6, Lauria takes the time to examine the dynamics of an Investor Relations Team Structure. He basically says that IR teams are typically done one of two ways. The first, which he says is generally preferred, is that the team is divided between those serving the institutional community and those working with the retail community. The second way is that team members are divided between the buy side and the sell side. Both approaches have key differences in the way they are structured, the two are still built on the foundation from chapter one, that IR is done best with an open and honest dialogue between corporation and investor. This was proven in "America's Best Investor Relations" (Jackson, 2009) [7], when they discussed one of the best food IR teams in the world: McDonald's. Their IR team "...provided investors with the context to understand the challenges the... company faces" and "encouraged investors to have a long-term perspective" (Jackson, 2009) [7]. Rather than trying to hide any difficulties from investors, McDonald's IR team was completely open with investors, hence why they ranked at number one by both the buy side and the sell side in the Restaurants sector. Continuing to back up McDonald's IR Teams success, this quote was included from a portfolio manager: "They were able to convey a level of confidence in the management team that gave me more comfort as an investor". This helps show that while different companies will have different styles of handling IR teams, the overlying key is creating that honest and open dialogue between investor and corporation.

The last two chapters of the book are entitled: "Strategic Elements of Investor Relations" and "Logistical Elements of Investor Relations". While both of these chapters have useful information, arguably one of the most interesting sections of both chapters is the "responding to Rumors" piece. Here, Lauria goes into how to properly respond to a rumor about the company. He makes a very good point, saying that in most situations, a representative can state to the media that the company does not respond to rumors. This response would typically be acceptable, especially because the company has no genuine material to announce to the media. However, Lauria says that when a rumor begins to effect a stock price, IRO's have a responsibility to protect the shareholder value and promptly respond to the situation. Lauria makes sure to note that a lack of any response can often be perceived as legitimizing the rumor. However, there are those

who say otherwise. On the other hand, Laskin (2014) [8] contradicts Lauria's assertion by stating that "the problem is that there are no half measures when commentating on rumors. A company can't deny a false rumor if it is close to the truth, so it's better not to say anything at all". This article notes that the "least incriminating" response to any rumor is no comment. This disagreement amongst IR Professionals shows that there is no 'right way' to do investor relations successfully. Investor Relations is an art, not a science, there is no guaranteed fix or certain way to do the job right. That is why the chapters are called "Strategic and Logistical Elements of Investor Relations". There is no absolute sure path to success, but there are certain elements that can certainly help get there.

## **RESULTS/DISCUSSION**

There are a significant number of things that Lauria does excellently in this book. The most prominent is his ability to relate everything back to his personal experience in the field. He makes it very clear that these are real world things that frequently happen, not just a hypothetical situation. By doing this, he is able to paint a clear picture of not only just what Investor Relations is, but also just how important Investor Relations is to companies. Lauria puts an emphasis of explaining how to be a good IRO, but then takes it a step further. He notes that while some companies have just one IRO in charge of the entire operation, there are also many companies that have teams of IROs of up to ten people. Lauria talks through the differences of working alone verses working with a team, and how to properly handle both. This is important because someone who is just starting as an IRO might go on to work for numerous companies in his or her career, and each company might have a different way of handling Investor Relations. Lauria also does a great job of building the readers understanding of Investor Relations from the ground up, knowing that there are readers that do not have the slightest clue of what investor relations is before opening this book. This is important to note, because if the reader gets past the first third of the book without a totally clear understanding of the subject, then the rest of the book becomes almost impossible to follow. This directly leads into the next great thing that Lauria does, which is presenting the viewpoints outside of just the IRO's. In order to be effective at communicating with investors, one must fully understand their side of the business. If an IRO that does not understand what the goals of the investors are, then it is impossible to help meet their wants and needs.

Outside of the really helpful parts of the book, Lauria has a number of key things that are important to mention as well. The first is the website that he includes constantly for readers who want to learn more. One would assume that this meant that on the website would be more information about the topics he is talking about, but the website actually just provides a brief summary of this book, as well as three other books that Lauria has written. It also is abundantly clear that the website was made in the late 1990's and has remained untouched since. The creation of the website appears to be used as a way to market the book, but is only discoverable to those who have already bought the book. This also seems to be the only form of marketing that the book has done, as even the cover alone is just the color grey. If someone searches 'investor relation book' online, there are multiple investor relations books that come up first, each with colorful and bright pictures and graphics on its cover. While Lauria's book may be better written, it is overshadowed by its competitors for having not thought of the COI, or Cost of Ignoring, a marketing plan. Another key thing that Lauria does comes immediately following the section where he builds his credibility. Lauria includes a lengthy "disclaimer" page that starts by saying: "This text contains the opinions of the author and should not be relied upon or considered as representing fact", and ends by saying "Any written material provided to you in this document is not intended to offer legal or investment advice or counsel to the reader". This could potentially seem questionable, but one might think that perhaps this legally had to be included in the book. However, it is not just mentioned in the book once, but a total of three times. As a reader, it becomes hard to not question why this legally had to be mentioned so many times. It then becomes easy for Lauria's credibility to be cut down, despite having just spent pages and pages building it up. One of the most noticeable issues with the book is a lack of flow between chapters. For example, chapter five is about dynamic investor relations programs, chapter seven is about institutional shareholder marketing programs, and chapter eight is about retail shareholder marketing programs. With chapters five, seven, and eight discussing different IR programs, one would assume that chapter six is along similar lines. Chapter six discusses IR team structure, completely disrupting any flow of different IR programs. It gives the feel that he just randomly made a list of topics to talk about, and then just wrote a bit for each and threw it all together, without any rhyme or reason behind it. The last key thing that Lauria does is how he

ends the book. The very final sentence of the book is “Be available at all times to provide any assistance and to inform senior management, if necessary”. That is his closing remark. There is no winding down, no concluding paragraph or statement. It abruptly ends, just like that. This gives the feeling that Lauria just hit that point and decided to give up, as if he was just done writing. These key points are found throughout the book, and almost all of them feel as though they could, if not, should have been avoided by Lauria in the first place.

## CONCLUSION

Overall, Lauria knew what he was talking about for the most part. He provided real world scenarios to help explain each of his points, which are all backed up by his experience. His book is a great starting point for people who know nothing or are very limited in their knowledge about Investor Relations. My goal when assigned this project was to be pushed far outside my comfort zone, but still be able to fully relate my skills to the topic at hand. I feel that investor relations was the perfect topic to accomplish my goal, and Lauria’s book was an excellent introduction to the subject. As far as my recommendation goes, if someone is interested in investor relations, then I highly recommend it. If investor relations is not something you are actively

seeking to learn more about, then I would stay far away from this book. This was not exactly what one would call a ‘fun’ read, but rather a very informative one.

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