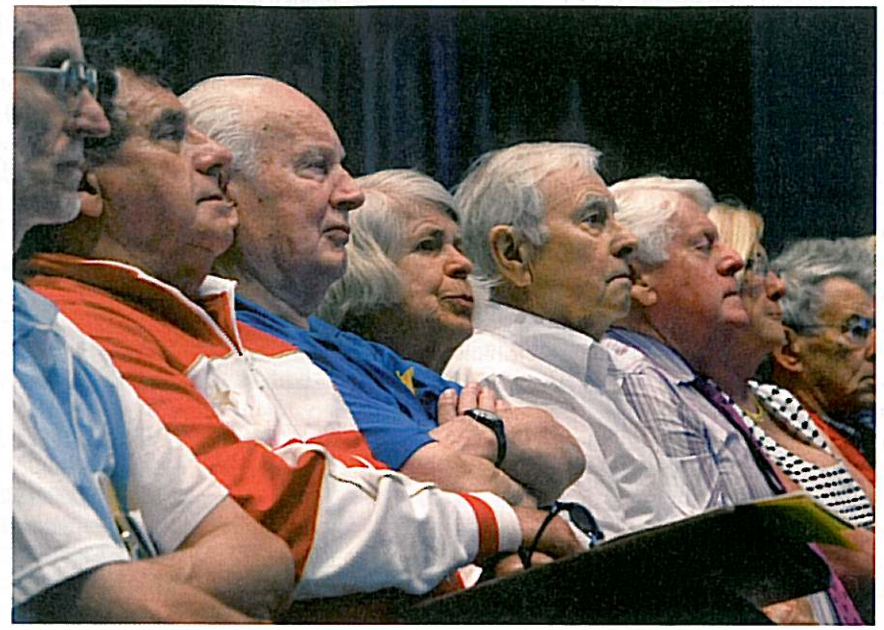
The business end



Mick Tsikas/Reuters

The credibility gap: Shareholders resent the lack of information

INVESTOR RELATIONS

CRACK THE STOCK WHIP

Companies ignore retail shareholders at their peril, especially in times of trouble. The answer lies in clear, simple communications. **Report: Martin Summons**

● Perpetual Investments head of equities John Sevior wrote a stinging letter to *The Australian Financial Review* last November, lambasting Orica chairman Don Mercer and its chief executive, Graeme Liebelt, for alleged "destruction of value". By the time Orica's annual meeting took place on January 30, Sevior – presiding over Perpetual's 7.5 per cent stake in Orica – still hadn't been contacted by the company about his concerns.

It was left to relentless shareholder activist Stephen Mayne to take the microphone at the annual meeting and openly raise the issue of Perpetual's stance directly with Mercer. How would Perpetual vote its stake on the three directors up for re-election, and on the remuneration report? Mercer replied that he had "no knowledge of what they're doing ... Perpetual's precise position is not what I know about".

No more spin. The market wants facts – just talk facts
Equities analyst

Mayne had received an indicative email from Perpetual that morning. "Perhaps you'd like to share the contents of that with us," Mercer quipped. Mayne pressed on: "I'd be amazed if you hadn't found out what your major shareholder thinks. You seem particularly ill-informed."

Such information gaps are an all too familiar feature of investor-relations practice in Australia.

In early 2001, as BHP was cosying up to Billiton for the mooted resources alliance of the decade, the Australian resources behemoth made one strategic error: it forgot to ask retail shareholders what they thought of the deal.

So keen was BHP on consummating the deal that it talked it up prematurely around the market – resulting in a stock-exchange trading halt – and in the process sent jitters across its retail-shareholder base. The shares remained suspended until such time as BHP informed shareholders about what the agreement meant for them.

Some hasty correctional work – overseen by BHP's then outgoing chief executive, Paul Anderson, and his head of investor relations, Robert Porter – was undertaken to ensure retail shareholders were brought into the information loop.

A national perceptions survey of retail shareholder was put in place prior to an extraordinary general meeting to vote on the agreement. The survey found 40 per cent of shareholders were against it.

The study was all about finding out what shareholders did – and, more importantly, did not know – as well as their primary concerns.

BHP shareholders indicated that they placed little trust in the company, the media or their personal stockbrokers and financial advisers as information sources. As events transpired, the media campaign struck on the back of the study worked to deliver BHP a majority vote in favour of the deal – the 40 per cent uncertainty was reduced to only 11 per cent against.

Companies ignore their retail-shareholder rump at their peril, whether in heady economic times or in global recession. They need to toss out public-relations gurus' rule books and endless "communications" coaching. Instead, they must opt for clear, simple language.

Then there is a good chance that shareholders will not only listen to them but thank them for it – even if the messages are unwelcome.

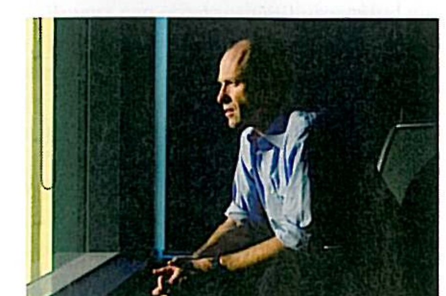
There are two shareholder pet hates: uncertainty and paucity of information.

Given the current economic and financial volatility, it is more important than ever for enterprises of all types to connect with their stakeholders.

"No more spin," one leading Sydney equities analyst says. "The market wants facts – just talk facts."

Well-informed stakeholders, and shareholders in particular, are far more understanding and forgiving, even when companies are bearing bad tidings.

Several studies conducted in Australia and overseas in the past decade emphasise the link between credible shareholder communications and better shareholder returns. Other studies confirm management credibility as the biggest driver of share prices.



Andrew Quilty

No contact: Perpetual Investments' John Sevior

Company announcements flood the markets daily, but how good are companies at listening to shareholders? Understanding shareholder thinking is essential to successful investor relations.

Based on the results of a national shareholder survey, Bendigo Bank was able to harness retail-shareholder support to see off Bank of Queensland's unwanted $2.7 billion takeover bid last June. It found that shareholders simply liked their bank the way it was, and snubbed the suitor's overtures.

In 2004, Warrnambool Cheese & Butter Factory's move to modernise its constitution was rejected by farmer-shareholders because of both misinformation and a lack of information. After this failed attempt at restructuring, the company recognised it required a more sophisticated approach to its investor relations.

Farmers were surveyed, WCBF executives were briefed on the issues that concerned shareholders and an information campaign targeting farmers was developed. The exercise changed farmers' perceptions of the restructure and formed the basis of the supporting media campaign which was able to secure an 86 per cent vote in favour of the restructuring. (WCBF listed on the then Australian Stock Exchange in June 2004.)

Grains marketer AWB – after a failed shareholder vote – launched a campaign involving proxy solicitation, shareholder education and a media push to secure a second, successful vote to rid itself of its anachronistic dual-class share structure. Central to this intensive exercise was turning around grower inertia to ensure that all shareholders not only understood the deal but ultimately voted in favour of it.

Market volatility has spawned financial market uncertainty. Last September, as the fallout gathered pace, the National Investor Relations Institute in the United States held a roundtable to discuss the key to successful investor relations at a time of damaged investor confidence. The primary finding? To "remain consistent, responsive and credible with all investor audiences". BRW

Martin Summons is a former finance journalist and specialises in investor relations with Melbourne consulting firm Value Enhancement Management.