# Issues Monitoring: Understanding Corporate Crises in Good Time

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IR
INVESTOR RELATIONS



THE FINANCIAL COMMUNICATIONS JOURNAL

*The Investor Relations Firm AG*
*www.irfirm.biz*

*11th issue, September 2006*
*2,000 copies*

## IS IT POSSIBLE TO PREPARE FOR CORPORATE CRISIS?

*The conclusion at the beginning: the contributors to the 11th issue of this journal agree that communication is a main factor of success in overcoming corporate crisis; however, it is not a shield that can ward off all adversities. Therefore, timely and transparent crisis communications benefit from a dedicated team effort with clearly identified roles and responsibilities.*

*In this journal, IR Firm approaches “crisis communications” from different angles and presents the views of various disciplines on the topic. Besides the corporate perspective, the investor, financial engineer, lawyer, communications specialist as well as the psychologist expose their opinions. One other story draws parallels to the political sphere. The rubric Special Focus on the back side of the journal is dedicated to the actual subject “Volatility and IR”.*

*One of the most critical issues, discussed in several articles, is time. Many executives display excellent skill in generating shareholder value as long as the business runs smoothly. Yet, when exceptional events affect the competitive environment or pressure from shareholders is mounting, difficulties arise. It often takes too long for management to come up with a first reaction to a specific situation. Such delays push every organisation into a defensive position and signal uncertainty to the audience, which – for obvious reasons – is derogatory to business confidence.*

*Another common ground is the importance of regular contacts with all stakeholders. The exchange of views reveals general concerns as well as not yet noticed needs, allowing to solve many conflicts before the fire is sparked. Consequently, an effective IR programme supports a company in overcoming crisis situations, but also initiates and improves ongoing dialogue with investors – a key task if the IR discipline is to be defined in its verbatim interpretation.*

*Dr Michael Düringer, Partner,*
*The Investor Relations Firm AG*

## SPECIAL FOCUS: VOLATILITY AND INVESTOR RELATIONS



# Crisis communications

Imagine a company which always meets or exceeds expectations. All stakeholders would be happy and there would be no need for a specific communications strategy in case of bad news. There would be no such thing as bad news, let alone “crisis”. In fact, the company would not even need a strategy for good news either…


*No such thing as a perfect world.*

*Stefan Frischknecht, Fund Manager, Schroders*

Back in reality we have to recognise that hardly any firms live in the perfect world just described. I would even go further and claim that sooner or later all companies fall short of stakeholder expectations – no matter how diligent, efficient and innovative employees and management are*. Once a firm has reached the sobering conclusion that eternal delivery on expectations is not possible, it is high time to design a strategy about how to deal with bad news.

The benefits of a carefully planned crisis communications strategy are twofold: the company not only recovers less harmed from the aftermath of a shock wave but also benefits from the analysis of the dangers and can draw consequences for future actions.

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# Reputation management – a precursor of strategic crisis communication

Appropriate crisis communication strategy strives for the protection of a company's image. It is an element of sound reputation management.

*Marisa Nöldeke-Wilde, Research Assistant and Doctoral Student at the Swiss Banking Institute, University of Zurich*

An analytical framework on crisis communication developed by Coombs (Journal of Public Relations Research, 1998) allows a systematic analysis of companies' crises response behaviour.

**Elements of crisis communication**

**(1) Attack (company confronts the accuser and possibly threatens with lawsuits);**

**(2) Denial (company explains and justifies the fact that no crisis exists);**

**(3) Excuse (company minimises its responsibility for the crisis by denying any intention to harm);**

**(4) Justification (company argues that there was no damage or injuries and minimises the perceived damage);**

**(5) Ingratiation (company curries favour with stakeholders for example by reminding on its favourable past actions or by providing products to favourable prices);**

**(6) Corrective action (company repairs the damage and prevents a repetition of the crisis);**

**(7) Apology (company takes full responsibility of the crisis and offers compensation to victims).**

In practice these strategies are combined and applied dynamically in response to the development of the respective crisis. The success of effective crisis communication relies on the company's reputation.

**The Merck case**

Consider the withdrawal of Vioxx by Merck & Co., Inc. in 2004 as a response to new evidence on higher heart attack risk associated to its use. One can refer to this situation as a "crisis": it destroyed about 27 % ($25 billion) of the company's market value within a single day – this equals Richemont's market capitalisation. Merck's strategy at the time of withdrawal was to deny allegations about earlier knowledge on health risks related to the medicament (denial). It justified the medicament's sale so far (justification) and pushed management's media presence with a comprehensive campaign in order to demonstrate transparency and work against potential rumours (ingratiation).

About a month later, the publication of internal documents and e-mails uncovered earlier knowledge of health risks by the management. Merck denied their authenticity and accused the media of false reporting (denial and attack). The company consistently pointed to its voluntary withdrawal in order to underline its focus on patients' health.

To date, Merck did never change its communication strategy. Even though patients' faith in the company was destroyed as internals became public, the management was able to successfully remove the linkage between the company and Vioxx, and thus restore its reputation.

**The Mercedes case**

As a second application of the Coombs framework consider Mercedes' crisis communication behaviour when its A-Class failed the elk test in 1997. While at the first stage of the crisis Mercedes' management denied any safety problems and rather attacked the Swedish test by blaming unrealistic test conditions, it had to gradually change its communication strategy thereafter. After repeated test failures a combination of denial, excuse, ingratiation, and corrective action was chosen (Ihlen, Journal of Public Relations Research, 2002). Safety problems of the A-Class were still denied; instead, the tires (not manufactured by Mercedes) were blamed for the failure. Ultimately, the tires were changed and an electronic stability system was added for free (corrective action and ingratiation).

It is questionable, whether a combination of denial and excuse is an appropriate strategy. Why would the management excuse itself when in their opinion there is no crisis? The crisis went forth and media pressure became even greater. Eventually, Mercedes abandoned the adopted strategy and apologised for the A-Class's weakness in the tests. A new version of the A-Class was launched in 1998.

Merck never reintroduced Vioxx and restored its reputation through an extensive image campaign, whereas Mercedes apologised for the failures, took corrective actions and relaunched a new version of its product. Both companies applied different communication strategies but overcame the crisis thanks to strong past reputation.

Deep understanding and optimal reaction to a crisis in the decisive moment is of utmost importance. Yet reputation management must be kept in mind as a strategic long-term assignment. For strong reputation works as a buffer which can dampen crisis consequences.

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Five basic rules are presented below which characterise an investor's expectations in terms of communications policy.

**Crisis communications does not start at the onset of a crisis, but before…**

As an investor, I get suspicious when management seems to think that it lives in a risk-free world or if it refrains from telling me where the dangers for my investment might come from. Knowing where the risks are is paramount in investment management. Also, I am bewildered by how many management teams are reluctant to lay open their Achilles heels. It cannot be for competitive reasons, as I have learnt over the years that competitors are always the best informed when it comes to strength and weaknesses of a player. It must be about ignorance or arrogance, both of which are bad companions for investing.

**Know when to call emergency and what to tell them**

In the SWX regulations there is the widely used expression of "significant impact on operating results or asset values" that should trigger a company to issue a press release. Few companies are actually able to define what they view as significant – and again even fewer are ready to share their views with investors. However, I would be eager to know at what threshold a company will issue a profit warning. If during a prolonged stock price weakness there was no news, I could reinforce my position as a long-term investor and buy more shares. And if something does go wrong, I can be sure that the company would not call an ambulance to catch a thief…

**Count the injured and display them on a public board**

When a shock wave hits a company, shareholders have a right to know the order of magnitude of the unlucky event. I want to know if the victims are to be counted by the dozens, the hundreds, or the thousands. Sometimes, management states that it is too early to say what the impact might be. Again, with preparation, a strategy and a publicly known threshold definition of a crisis, it will be easier to gauge the severity of an unforeseen event. What we can learn from the crisis management in case of an earthquake is how the public is constantly informed about the number of victims as well as the cases of happy salvages.

**When in trouble, know your way out**

Once the bad news is out, management should provide a rescue plan. Does the event make it necessary to cut spending or reconsider corporate strategy? If it is just a temporary weakness in customer demand, the company does not need to sell the division, but I would expect to see measures to prevent further losses or profit erosion. Asset disposals are in my view too often pursued as a rescue strategy. It is all too tempting to get rid of a problem by selling that part of a firm that has caused it rather than to solve it. A CFO was once even so blunt to tell me that the ailing business they bought a couple of years ago is no longer part of their focus, but was then part of their expansion strategy. How can a management team win long-term investors if they follow short-term trends?

**Don't forget to talk about the lessons learnt**

Too often management is so relieved to emerge from a crisis that they want to get back to "business as usual" as soon as possible. While I agree that the distraction caused by a crisis should be put away swiftly, I strongly believe that once the shock is over, the involved parties must get together for an analysis of the lessons to be learnt. In a "Sarbanes-Oxley manner", management might think that the right way to avoid future crisis is to over-regulate and significantly increase the audits. On the contrary, responsibility should not be taken away from middle management and put in the hands of a rigid compliance system. One can learn from mistakes; but it can only happen by analysing why something has gone wrong. If people are just given yet another law book without any explanation of why the rules have been established, they might not be able to avoid mistakes from happening twice.

To sum up, what investors expect from a crisis communications policy is that it follows a few principles that help dealing with any corporate challenge: realism, preparation, transparency and careful business analysis.

** To explain why the various stakeholder demands cannot always be met, take a company that wants to deliver to its financial investors by means of growth, profits, or returns on capital. It is easily disguised that due to the law of compounding it is not possible for a firm to outgrow its peers for ever: the company would eventually marginalise all competitors, first in its own industry, then in other sectors of the economy and finally be the economy itself, which is not sustainable.*

# Preventing a crisis

Day in day out, a quick glance at the front pages of a newspaper will reveal an organisation in crisis: the airline with the security scare, the hotel chain with the food bug, the financial institution with a compliance problem, or the insurer moving offshore. Any communications director reading these stories must think "Thank goodness that is not us". But sometimes we do have to face a crisis, and the reputation of our organisation lies in our hands. So how do we protect ourselves and communicate effectively during a crisis?

*Jonathan Hawker, Managing Director, Financial Dynamics, London*

There are several textbooks on crisis management that advocate an academic approach to effective crisis management. They recommend a dialogue with anyone attacking your organisation, that you map your stakeholders and that you communicate often and comprehensively. In my view, this is folly. How can you have a dialogue with an animal rights activist group that is threatening to blow up your Finance Director and which believes your business is morally wrong? Why would you want to communicate frequently and comprehensively with a politician who is opposed to your decision to close a factory? The answer to both of these questions is simple: there is no benefit to your business in attempting to engage with individuals and organisations who are determined to attack you. Dialogue does not deter attackers who have entrenched views.

So what is the alternative? This is what I call pragmatic crisis communications. At its heart is a simple understanding that attacks on your organisation only have a negative impact if they are repeated or believed. Whilst we cannot silence attackers, we can persuade the media not to report these attacks. We can present a compelling counter argument. We can communicate directly with stakeholders to neutralise their concerns about the attackers' claims. These are strategies based on what I call the V5 Impact Formula.

There are two types of crisis: sudden crises, such as a natural disaster or terrorist attack; and emerging crises, where the problem or issue degenerates to a point whereby its handling threatens the reputation of an organisation. Most crises on the front page fall within this category.

In such emerging crises, it is not so much the catalyst which causes the crisis, for example the employee who colludes in a fraud. Instead it is the company's handling of this problem which can create a crisis of reputation.

So if we use this example to illustrate the Formula, what happens after the company discovers the fraud is a void (V1). There is uncertainty about what to communicate or how to communicate the event. The issue is picked up by the media or another stakeholder, the vindicator (V2). The vindicator presents the financial company as the villain (V3) because it has failed to uphold a value (V4) that the general public hold dear – in this case the values of honesty and trustworthiness (is this organisation to be trusted with our money?) – and so the customers of the financial institution not only are presented as victims (V5) but come to consider themselves as victims. When these five Vs come together, there is an inevitable Impact. And in this case the Impact is that there is a public loss of confidence in the institution. Whether it wants to or not, it will be obliged to communicate at some stage.

Pragmatic crisis management would advise that the organisation does not allow the situation to deteriorate to this point. Our advice in this situation is to communicate quickly: you would need to take what journalists call the Gotcha out of the story by admitting quickly that a fraud has been uncovered, that it is an isolated incident, that you are onto it and have put systems in place to ensure no recurrence. Sounds simple. However, most companies are reluctant to take swift and decisive action.

So how do you avoid becoming the villain of the piece should you enter a potential crisis? To manage any crisis or potential crisis effectively you need a tried and tested operational response and good communications. Often, however, communications are the poor cousin. To ensure your team operates effectively, focus first on enhancing your communications process.

There are two schools of thought on how to prepare for crises. Traditionalists argue you need detailed plans covering all eventualities within a manual. Transport for London recently told a crisis conference they took this risk register approach when launching the congestion charge. They worked out all the potential crises they could face and decided in advance how to respond. Then they had a full-scale dress rehearsal involving real journalists and role players to test their communications. They say they made mistakes in that drill and learned from the experience. It worked. On launch day communications were smooth and polished. And the scheme also worked perfectly.

Of course not everyone has the benefit of knowing when the media plan to create a crisis for you on a given day, and sadly the natural world gives little warning of impending disaster. This is where the second approach to crisis communications, again what I call pragmatic crisis communications, has the edge over the traditionalists.

Firstly, no matter how comprehensive your manual, it will never be able to deal with all circumstances and all eventualities.

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# Communication teams on probation

Crisis communication has much in common with standard communication best practices. As in many fields, appropriate preparation combined with an attentive monitoring of new, unexpected developments is half the crisis' successful management.

*Baschi Dürr, Spokesman and Deputy Head of the global Roche Group Media Office, Basel*

Currently, Roche is in very good shape. In medical research, socially and financially all indicators are showing upwards. Roche has recently marketed various drugs and diagnostic products which bring proven benefits to patients with cancer, hepatitis or transplantation. Moreover, in the first half of 2006 the company managed to create 200 new jobs in Switzerland while clearly increasing turnover, profits and margins on a corporate level. Now, leaning back and assuming that this record will avoid future crises would be erroneous in two ways.

**Avoid overconfidence ...**

Firstly, exposure to crisis grows in parallel with success. Who is being attributed above-average potential by stock markets or by benevolent media, is under constant observation. Good news is no more a surprise while negative occurrences can quickly escalate to a crisis. Secondly, the momentum of success bears the risk of making an organisation indolent. Attention dwindles and the company runs the risk of being overwhelmed by a minor drawback because it is not prepared.

**...and stay alert**

Good preparation is half the communication strategy when it comes to dealing with potential issues and crisis. Mostly, business performance is steered by the company itself, thus defining a schedule harmonised with the ad hoc publicity guidelines. Yet – e.g. in context of the safety discussions around an influenza drug, a management failure or a militant pet protection organisation – timing is often imposed from the outside.

No company is immune from being confronted with such challenges. The job of communication specialists is to prepare specifically where something is in the doing.

In case of a pending litigation, investor and media releases for positive and negative scenarios can be drafted. If a competitor is subject of criticism which concerns the entire industry, one has to reflect how to react if the own company were concerned.

**Every preparation has an end...**

In any case, the attempt to plan any possible scenario in advance is doomed to failure. On the one hand this would lead to a bureaucracy of crisis protocols and complex decision trees which would contradict the imperative of fast action. On the other hand, it can hardly ever be predicted how a certain event will be perceived by the outside world.

If a journalist struggles for news during holidays, if an analyst misinterprets a new figure on his spreadsheet, or if authorities are especially sensitised due to similar occurrences can make an event – which under different circumstances would not have attracted any interest – escalate to a real crisis. This chaos-theory-like crisis development calls for clear decision paths. For this reason, Roche practices an unlikely but not unthinkable accident on its premises twice a year. Experts have to be pulled together, intervals for information updates must be defined in order to ensure that employees and neighbours are informed quickly.

**...and starts ways ahead of any crisis**

It is eminently important to consider that the iron rules of proactive communication also apply in the event of a crisis.

Open and honest communication while sticking to the defined terminology, not engaging in speculations while knowing the needs of journalists and investors, applies in good days as well as in bad ones. Ultimately, crisis communication does not differ fundamentally from any other kind of communication. Yet it confirms, or rather uncovers, the true quality of a communication team.

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In my view too detailed a plan can often be a millstone rather than an aid. For one public sector client, we replaced a 568-page crisis communications plan with a six-step plan their team could store, with key phone numbers, on their mobile phone. The plan is basic, but it is tried and tested under difficult circumstances. The steps are: assemble the right team; assess the facts; review your audiences and their potential reactions; develop your communications strategy and message; assign responsibilities for implementation and get on with it, then review information reported back and start the process again.

Crises do not permit democratic debate. Decisions must be made swiftly, so a strong and trusted leader is essential. His or her role will be to ensure the right strategic decisions are made. An operations chief and communications leader should ensure these decisions are implemented and report back any difficulties. Remember, use your resources well – separate strategy and direction from implementation.

The second step is often overlooked in a detailed plan. Get someone to the scene and get the facts first-hand. If your problem is not a natural disaster, test the facts thoroughly before reacting to another party's attacks or claims.

Pragmatic communications focus on delivering a simple message to each audience, and listening carefully to its response. Once you have the facts ask yourself who needs to know and who will react to this, criticising me or causing me pain. Prioritise your audiences. If you need to reach the broader public, call the media. Remember, don't waste time calling a press conference. The media prefer their own interviews anyway, and this is quicker. In crisis drills, private sector companies often forget to keep their own staff informed of developments. Make sure your communications leader tasks someone to ensure each audience is spoken and listened to.

Too often in crises people forget the basic rule of all communications: keep it simple. Getting the message right is, for many organisations, a time-consuming and political job. Under crisis pressures it is important to remember that you need to get accurate information across fast. Keep it factual. Keep it in everyday language. Keep it very short.

I agree with traditionalists that crisis teams that are regularly tested function most effectively. You don't need to go as far as the congestion charging team's full day with actors. Twice yearly tabletop exercises can achieve similarly successful results. It is best to allow a knowledgeable outsider to develop a true test for your team. This independence enables all key players to participate and avoids you receiving a backlash from your team for giving them too hard a time.

Finally, if you find yourself in the line of fire, never believe that a "head in the sand" approach is in your best business interests. Hoping it will all blow over is a classic boardroom strategy to deal with a media feeding frenzy. Unfortunately, this just creates a void for the media and attackers to fill. So you will end up simply ensuring that you experience a crisis.

# Scandals, emergencies and accidents…

In the past ten years the number of scandals covered by the media has significantly risen. Although they have various origins, all crises have one thing in common: the need for specific crisis communication.

*Andrea A. Ullmann, Consultant,*
*The Investor Relations Firm AG*

But what is a crisis? In short: a crisis is a situation which represents a crucial stage or turning point and requires conflict resolution. The difference with an emergency, which is a sudden unforeseen incidence, lies in the time available to react and resolve the conflict. Accidents, on the other hand, can easily lead to a crisis even though there is no direct causal effect.

Scanning through the latest cases shows that corporate crisis can be divided in two main categories: specific issue-related to or resulting from miscommunication. The following article provides the readers with examples of recent international and Swiss cases. As the details of these cases are often not well known, this shall provide the necessary details.

## SPECIFIC ISSUE-RELATED CRISES

**Enron and Worldcom – accounting irregularities**

In 2001, the United States witnessed two of the largest accounting scandals ever: Enron and Worldcom. Enron, once one of the world's leading electricity, natural gas, pulp, paper, and communications companies, hid many of its debts and losses in a complicated and opaque off-shore structure which was not reported in the financial statements. Worldcom, the telecommunications company, on the other hand, underreported its "line costs" by capitalising them on the balance sheet rather than expensing them. Furthermore, revenues were inflated with bogus accounting entries from "corporate unallocated revenue accounts". Both companies were able to create the illusion of sound financials while they were actually loosing money.

On top of this, as the stock started falling, the CEO of Worldcom, Bernard Ebbers, who accumulated most of his wealth through company stock, came under pressure from banks. Consequently, he asked for a loan from his company. Although he succeeded at first, his strategy ultimately failed and he was ousted in 2002.

*In 2002, the Enron and Worldcom cases led to the creation of a famous and far-reaching US federal securities law, the Sarbanes-Oxley Act. The law dictates stronger penalties for fraud and requires public companies to avoid giving loans to management, to report more information to the public, to maintain stronger independence from auditors and to report on internal financial control procedures. Many other countries followed with similar changes in corporate governance legislations.*

**Unaxis – takeover fight**

In spring 2005, Mirko Kovats and Ronny Pecik, owners of the Victory investment company, fought a tough battle against parts of the shareholder basis including the former majority owner – the Anda-Bührle Family Holding (Ihag) – to acquire the technology company Unaxis.

Until the regular general shareholder meeting in April 2005, Victory was able to acquire 34 % of Unaxis' shares which made the investment company the largest shareholder. However, as Victory was only able to account for 16 % by the close of registration, the investment company was unable to fully deploy its weight at the meeting. Unhappy with the decisions taken and determined to influence Unaxis' development, Victory requested an extraordinary shareholder meeting to use its 34 % voting power in order to reverse some of the decisions taken.

After extensive negotiations, Ihag decided to sell its shares to the investment company, thus allowing Victory to control over 50 % in Unaxis. Consequently, the extraordinary shareholder meeting that took place in June 2005 allowed Victory to win the fight and reverse the decisions taken in April.

*The Unaxis case shows that unfriendly takeover attempts rarely come out of the blue and often hit companies in operational or financial difficulties. Against a board of directors and management team with weakened credibility, tough investors have a walkover, also in terms of communication.*

## COMMUNICATION CRISES

**Adecco – lack of communication**

In early 2004, the world leader in human resource solutions, Adecco, had to postpone the release of its 2003 financial figures twice due to accounting problems in the United States. The company's spare communication in this matter provoked a dramatic share price drop. Despite the fact that eventually no significant irregularities were found and that good results could finally be presented for that year, the share price did not fully recover.

*The Adecco case perfectly demonstrates how a lack of adequate communication driven by legal concerns rather than communication sense, can cause a sharp decline in share price, from which a company may take a very long time to recuperate – even if the operational business is doing well.*

**Swissfirst – share trading before M&A announcement**

In September 2005, the financial service provider Swissfirst (investment banking, private banking, asset management) and Bellevue Holding (investment banking) announced their merger. This deal would not have received as much public attention if shortly after the merger insider trading suspicion had not arisen. Indeed, share movement around that time showed an exceptionally high quantity of traded shares and a significant price increase. Some market participants believe that Swissfirst asked its shareholders to sell their shares. After the announcement of the merger, shareholders who had kept Swissfirst holdings, saw their share value double.

In August 2006, the case was omnipresent in the media as details and especially contradictions in Swissfirst's defence were uncovered. At the time this journal went to press, the main questions about who knew how much about the deal and when, was still with the Federal Banking Commission and the attorneys.

*The Swissfirst case shows the importance of a stringent and concise communication policy in a situation in which a company and its representatives are under high pressure.*

**Schindler – cultural misunderstanding**

In June 2006, a young man died in an accident in Japan in which a Schindler elevator was involved. The top management of the elevator and escalator company, however, did not react or comment the tragedy. Betting on the likelihood that Schindler was not at fault, the management team thought an apology would equal a guilty plea in public opinion and therefore made no comment.

Yet Japanese public opinion expected a fast reaction including a public apology. As no apologies were made until four days after the event, the Japanese people were shocked and angry at the company's ignorance and disrespect for conventions. This mismatch of cultural business behaviour led to a massive loss of company credibility in the Japanese market.

*The Schindler case shows once again how important it is for a company to be aware of local business conventions and cultural context in the markets it operates in.*

# Too many cooks spoil the broth

The stock market downturn was spectacular. Within a day, the Swiss Federal Council annihilated roughly 1.5 billion of tax payer's money through poor communications. Moreover, in summer 2006, Parliament buried the liberalisation of Swisscom. The Swisscom case and the corresponding communications of the Federal Council are object lessons in how not to do it.

*Dr Regula Stämpfli, Political Scientist and Writer, Bern and Brussels*

Well-planned risk communications is the backbone of any government called upon to demonstrate crisis management. Whether in event of natural disasters, accidents or acts of terror, there is only one communication goal that counts for the responsible politician: tell the bad news in a way that makes it less abominable and gives some comfort and hope. In this respect, the Federal Council proved in the Swiss annus horribilis 2001 (9/11, Swissair, Zug) that it can display statesmanlike leadership and not only for the sake of political tactics but for the common good.

The picture is less bright when it comes to assessing their crisis communications in political matters, i.e. in home-made crisis. Here the Swiss government is apt to act inconsistently, display insecurity and deliver itself – in communicative terms – into the hands of its political foes. This could be observed with the liberalisation of the electricity market, with reform tax and with certain AHV or health insurance reforms. But the Federal Council's performance in the case of Swisscom liberalisation topped all previous communication lapses – especially the fact that market-sensitive information concerning a prosperous company was communicated in a way that led to a spectacular collapse in share price, all due to political incompetence.

The first blunder lay in the ostensible announcement by Finance Minister Merz on Thursday, 24 November 2005. Federal Councillor Merz communicated the liberalisation of Swisscom with little conviction. Surprisingly, he wasn't prepared to answer obvious questions such as: Why now? What are the consequences? What happens to public guarantees concerning communication access? These questions were foreseeable. They should have been answered clearly. But this did not happen. On the contrary, Federal Councillor Merz clearly showed how controversial the Swisscom decision was within government itself. Thus, he lost control over the issue. From then on, the communications agenda was dictated by the opponents of the deal and the government got the position of the helpless observer instead of the active communicator.

To make matters worse, Merz first hinted that Swisscom was to abstain from any acquisition outside Switzerland. This was reaffirmed by Justice Minister Christoph Blocher and then later disputed by Communication Minister Moritz Leuenberger. This unleashed havoc in the media and – much worse – in the stock market. The damage done, the Federal Councillors continued to communicate in the media rather with each other with the result that the government's position seemed more unsure than ever.

Chaos was perfect. The Swisscom-Eircom deal fell through. The Swisscom shares took a nosedive. And the liberalisation agenda had to be buried. After this debacle, the Swiss Confederation remains, at one and the same time, Swisscom's lawmaker, regulator, largest customer and shareholder.

**What lessons can be drawn?**

Firstly, market-sensitive political decisions must be prepared meticulously. Corporations already know this; governments have yet to learn it.

Secondly, controversial political business which may have an impact on markets must be communicated in a clear and concise manner. Moreover, the communication effort must be focused on a single subject. And, as the majority shareholder of a listed company, it is unacceptable to prescribe the business strategy via television. This harms the company, it harms the government and it harms markets as well as the citizen's confidence.

Thirdly, it must be self-evident that if a government decides to move towards liberalisation, all facts, figures, and consequences must be at hand. But the real art of communications is not only to say the right thing, in the right place, at the right time, but also to avoid saying the wrong thing at the wrong moment. This applies especially to the Swisscom case, where the announcement prohibiting overseas expansion wrecked the privatisation. And last but not least, equally important for government communications: too many cooks spoil the broth.

*Trust is engendered through persuasive arguments that are credible, transparent and consistent.*

# Early warnings through financial transparency

Corporate crises have various reasons. Most cases of existence-threatening situations have one thing in common: problems do not hit a company unexpectedly, but are usually the result of a long-lasting downward trend.

*Dr Martin Hofacker and Dr Thomas Vettiger, Managing Partners IFBC, Zurich*

One factor explaining crises is the combination of increased market dynamics and growing complexity. This made market forecasts much more challenging in the past couple of years and led to increased business risk for companies. A company would be ill-advised, however, if it were satisfied to use these developments to solely explain an unsatisfactory business development. Rather, these developments should push management to readjust its information tools to fit with the new set-up. More than ever these tools must provide management with relevant information relating to company development, in a timely manner and with reliable quality. On an aggregated level, the company's progression can best be analysed based on its financial performance. It is therefore necessary to check the suitability of management tools used to provide financial transparency in a dynamic environment.

**Transparency to cash and value creation are key**

It is obvious that even in simple and clearly laid out circumstances a financial management system consisting of only an annual balance sheet and income statement is no longer sufficient. For risk-adequate financial business steering this accounting-centred view must be broadened with prospective information about cash-flow generation as well as financial information regarding value creation. Since insolvency causes serious problems in the shortrun, the liquidity forecast is of high importance. In order to serve as an early-warning tool, a liquidity plan designed as a monthly rolling cash-flow statement with a twelve-month time horizon is deemed appropriate. However, the practical implementation can be challenging, since the planning set-up of many companies does not yet use a rolling forecast approach for the overall planning process. This calls for coordination and reconciliation efforts in order to guarantee consistent financial planning data.

Unlike liquidity-related information allowing to control solvency, financial information regarding value creation shows if planned earnings cover the claims of both debt and equity holders for a risk-adequate compensation of their investments. If the company is not able to meet investors' expectations, the consequences may be serious: potential reactions include a drop in company value, and, in the medium term, a downgrade of a company's credit rating or standing. The company will face difficulties in raising debt and equity, combined with increasing costs for new capital. In order to meet tomorrow's investor expectations management needs to assess the value impact of today's decision on future performance. To do so, they need to evaluate decisions using analytical tools such as discounted cash flow models or economic profit calculations. The primary challenge is not the choice of an adequate tool. It is much more its accurate application. The reliable disclosure of the value contribution of an investment requires a correct handling of these projections in the financial model, taking account of currencies, inflation and project-specific risk parameters. Many companies still rely on financial tools which do not capture and disclose correctly the risk profile of a project or of the company as whole.

**Empower the financial mindset in your company**

An information system based on the principles outlined above detects critical situations at an early stage through their financial implications. This permits the analysis of their operational causes and allows taking action in a timely manner. Yet the availability of financial management information in itself is not sufficient for the risk-adequate handling of corporate uncertainty. The existence of a financial mindset in a company is of equal importance. This financial mindset must not be anchored solely with the CFO. All decisiontakers on corporate level need to have the ability to assess the impact of operational decisions on financial key figures. This supports the culture of a firm-wide risk management approach.

# The legal framework in crisis situations

Knowledge about communication liabilities is of foremost importance for the executive management of a listed company. Crisis situations, in particular, require communication efforts in line with applicable legal restrictions regarding timing, recipients, and means.

*Dr Adrian Dörig, LL.M., VISCHER Attorneys at Law, Zurich*

Communications consistent with the regulatory framework is decisive for preserving legitimate corporate interests in the best possible manner. Otherwise, especially if the ad hoc publicity guidelines are violated, the potential for damage is substantial.

**Organisational precautions**

Prior to any crisis situation, a listed company must take precautionary measures in order to act and react appropriately in case of emergency. Such measures comprise:

- The quick notification of the responsible corporate bodies is put into place.
- Clear powers and duties are attributed, in particular for the issuance of ad hoc notices.
- The responsible corporate bodies must be informed about procedures and legal restrictions.

**Measures to prevent information leaks and insider crime**

Information leaks and insider crime can greatly harm listed companies and their shareholders as well as damage the company's image and investor confidence. In crisis situations – which typically involve a significant amount of confidential information being in circulation – counter measures are of particular importance; for example:

- Collect "insider declarations with trading restrictions" from employees who possess relevant information.
- Agree upon contractual penalties for the employees concerned.
- Conduct internal "insider lists".

**Ad hoc publicity guidelines**

For listed companies, the ad hoc publicity guidelines are of most relevance. The obligation for disclosure of potentially price-sensitive facts is stated in art. 72 of the Listing Rules of SWX and outlined in the Directive on Ad hoc Publicity.

The Listing Rules commit listed companies to providing the public with true, clear, and complete information as soon as potentially price-sensitive facts occur. Since *potentially* price-sensitive facts are sufficient, it does not imply that this information will indeed influence the price of the securities in question.

As regards the price sensitivity of facts subjected to the ad hoc publicity guidelines, there is a simple rule of thumb: if an insider were to view a certain corporate event as not being reflected adequately by the security price and would thus be prompted to perform a transaction – then this event would be subject to the ad hoc publicity guidelines. For instance, profit warnings; an unexpected resignation of a board member, executive manager or auditor; recently discovered liabilities (e.g. product or environmental risks); or prior false information of the media are typical cases for potentially price-sensitive facts.

Important to know, furthermore, is that forecasts expressed orally – for example, in the media – may also be considered as price-sensitive facts. Thus, the SWX Disciplinary Commission issued a warning to an issuer because its CEO revised prior earnings forecasts in a media interview, which led to a 3 % share price drop on the day of publication. Correct behaviour would have been to comply with the ad hoc publicity guidelines by officially informing the SWX and the media with a press release. In another decision, the Disciplinary Commission

### ADDITIONAL COMPULSORY COMMUNICATION

*The Stock Exchange and Securities Trading Act as well as the Code of Obligations impose, inter alia, the following:*

- *In case of a public takeover offer, the targeted company's board of directors is required to deliver a public statement.*
- *Certain changes in the level of participations held in securities of a listed company must be notified, and the Federal Banking Commission must be notified if the issuer has reason to believe that a shareholder is in breach of its corresponding obligation to notify.*
- *If a company foresees mass dismissals, information and consultation of employees or their representatives as well as the authorities is compulsory.*
- *The board of directors is required to notify the judge in case of the company's over-indebtedness.*

sanctioned an issuer because its quarterly earnings were accidentally disclosed in the Sunday press; the company did not publish the official figures immediately but waited until Monday evening. Furthermore, the Disciplinary Commission ascertained that the company acted negligently and that it should have been prepared for information leaks. In yet another decision, the Disciplinary Commission detected a breach regarding equal treatment of market participants: an issuer had informed the participants of the annual results conference half an hour before the other interested parties were informed.

To guarantee rapid information of the media, an internal policy regarding ad hoc publicity is as necessary as clearly attributed decision powers and duties (authorisation of ad hoc notice). Only in exceptional cases (when, for example, the issuer has yet to decide internally whether another company will be acquired and the due diligence phase is ongoing), is a postponement of price-sensitive facts' disclosure possible. The issuer, however, must guarantee complete confidentiality of the relevant facts. If a leak occurs, the fact must be disclosed immediately. If it happens during trading hours, SWX must be notified immediately by phone.

# Interacting with people under high pressure

High workloads, in terms of quality and quantity, demand a capability for adaptation, which in turn requires adequate coping resources. However, these resources are restricted, and a disequilibrium between demands and resources is known to cause stress. To be exact, it is one of the definitions of stress.

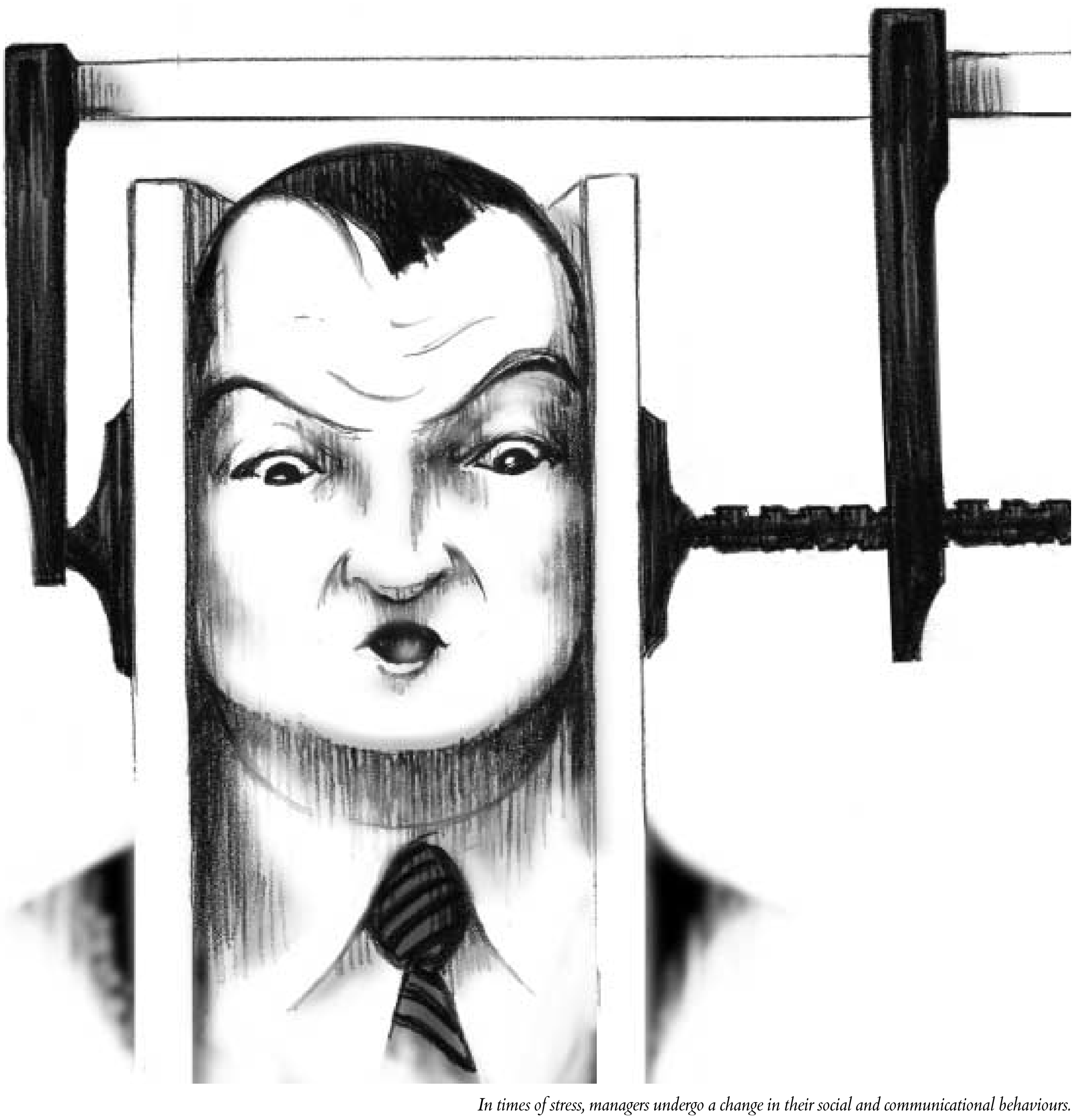
*Dr Dirk Hanebuth and*
*Prof Dr Manfred Schedlowski,*
*Institute of Behavioural Sciences, ETH Zurich*

What are the consequences in the context of communication? Individuals under pressure experience a reduced "stock of energy" for other processes and actions. Communication behaviour reflects this "reallocation of energy". For example, the symptoms of vital exhaustion and burnout also include changes in social and communicational behaviours: irritation, reduced enthusiasm and interest, social withdrawal, and lack of concentration are potential indicators of beginning or ongoing exhaustion. Physical reactions, such as a reduction in the quantity and quality of sleep or psychosomatic complaints, very often accompany these psychological reactions and additionally affect the capacity of coping resources. As most recent neuropsychological research has demonstrated, these changes in social and communication skills in stressed individuals are caused by the enhanced release of so-called stress hormones.

**React appropriately**

The coincidence of high demands, reduced resources and communication deficits is typical. The stressed individual's communication is therefore very often less empathic, less interested, and more impatient. Communication partners who are confronted with these signs should not show reactance but behave in an empathic way. People who are able to interpret these signs in a differential manner are more likely to react appropriately. They are able to see the message content and the "mood background" of the interaction partner simultaneously. That means, the communication partner with sufficient resources compensates for the other person's lack of it.

*Please turn to page 8*



*In times of stress, managers undergo a change in their social and communicational behaviours.*

*Continued from page 7*

**Give a break**
At the front line of business, the interest of a potential contract partner can rise and fall with good or bad communication, not only in financial business. When communication problems arise, it is necessary to search for the reasons in order to focus the intervention. However, training someone in communication techniques, whose high potential is exhausted, is simply alleviating symptoms, not solving the problem.

Funnily enough, coaches in the world of sport would hardly be criticised for giving an injured top player a break or special training. Why not follow the same strategy with exhausted top corporate players? Employees who are at the front line and are involved in continuous communication processes may experience stress caused by the communication itself. Current methods for capturing burn-out, in fact, differ according to whether the causes are general, work related, or client related.

**Identify exhaustion at an early stage**
There are reliable methods to identify exhausted employees in the early stages of an exhaustion process, that is, before communication is influenced negatively. Companies can use screening instruments to evaluate the relation between resources and demands for their employees. Users get an individual, anonymous feedback which acts as a useful starting point for the coaching process; the board of directors receives an elaborate summary providing information which is valuable for personnel and organisational development. Thus, communication processes – often enough essential for successful management – can be optimised and adapted to the individual resources, to job-related demands and stress. Isn't this good news?

**A free on-line test of the relation between demands and resources in your case can be ordered by dirk.hanebuth@ifv.gess.ethz.ch.**

IR INVESTOR RELATIONS

*Print run: 2,000 copies once a year*

*Publisher:*
*The Investor Relations Firm AG*
*Rämistrasse 4*
*P.O. Box*
*CH-8024 Zurich*

*Telephone: +41 43 244 81 44*
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*Illustrations: Paolo Friz (at Illux)*

*Layout: Atelier Frei*
*Printer: benecom GmbH*

# A quick call for action

As different as crisis situations in corporate life may be, there is one thing they have in common: emergencies call for quick action in communications. An appropriate communication tool set is not a striking shield preventing from any adversities. But, it effectively supports any organisation to overcome potential crisis situations.

*Martin Meier-Pfister, Partner,*
*The Investor Relations Firm AG*

Possible extracts from real life experience: a company's secretary general calls at midnight telling that four of the firm's top managers most probably died. The small airplane of one of the top managers crashed close to Vienna. According to first reports of local police nobody survived. "What are the priorities in terms of communications?"

The CEO of a stock market high-flyer calls between Christmas and New Year saying that he was informed by the head of audit about accounting irregularities. The word "fraud" is in the air. "We need help in contingency planning."

A journalist of a big daily newspaper calls asking for information about a disgruntled client of a prestigious private bank: He has detailed information about the bank's transactions and investment guidelines. "Can you please respond to my ten detailed questions within the next 24 hours?"

The first of the examples above – an unlikely accident – hits management and communications out of the blue. It was handled as well as it could be and did not have any impact on image or operations of the company. The outcome was different in the second case, the financial scandal. Communications played an important role in the efforts to save the company but did eventually not prevent it from going bankrupt. The third example refers to a foreseeable incident where media response and procedures could be prepared.

In any case of corporate crisis, an improper initial reaction may substantially increase problems and worsen the situation. "There is no second chance to make a first impression" is true in this context, as it is in everyday life.

**Key questions**
Although every emergency and crisis situation is different, some questions always remain the same: What do we have to know before we decide and say anything? Should we embrace the crisis and inform in depth, or should we go for a low profile? Is the crisis severe enough for an active statement or should the issue be treated as a minor event, calling for reactive, verbal statements? Who has to be informed first? What can we say, what are the key messages? Who is the company's spokesperson? Is public appearance of top management required? How is the information to be distributed? How do we organise ourselves? What are the likely developments and scenarios which could result in specific strategies or wordings?

Standard advice for any company, even in uneventful times, is to ensure that a company's decision makers can interact whenever required, also at nighttimes, on weekends, during vacations. A practical tool in order to get the above questions answered quickly is a phone line enabling conference calls at any given time. Another minimal precaution for crisis issues is an emergency contact list of top management, or an around-the-clock hotline served by a communications team member. Also, employees or third-party providers ensuring "information logistics", i.e. web master or press release dispatcher, must be available at all times.

**Mind training**
It is advisable to have more than that. Many crisis situations are foreseeable. With a little bit of imagination, critical events that are likely to happen and carry significant reputation risks can be identified. The questions above can be answered in advance. The mind is trained should anything happen.

Also, many challenging situations evolve over time, with signs on the horizon long before an issue hits a specific company and provokes a phone call by a clever financial analyst or an investigative journalist. Issues monitoring helps to classify respective thoughts (see article of Mark Eisenegger, page 9). Since financial markets and the media have a tendency to inflate a number of single issues to a crisis, it is in every company's interest to keep public problems as small as possible. Knowing the facts of the respective issues as well as having answers to nasty questions ready has proved to be the best precaution.

However, the best issue management and contingency planning cannot prevent undesired events. In crisis situations, one has to recognise that the information needs of the respective target groups – i.e. analysts, investors, bondholders, journalists, clients, employees – are accentuated. Content, measures and frequency of contact have to be adapted to their specific requirements, ensuring the consistency of key messages. Other standard advice in crisis situations includes the one-voice policy and the definition of topics that may eventually lead the way out of the crisis. These facts in mind, every crisis must be tackled with indispensable common sense, bearing the famous saying from the Swiss military in mind: Don't panic under fire.

## 4 SIMPLE RULES TO IMPROVE YOUR INFORMATION EFFICIENCY

**Identify your key targets**
*A systematic analysis of existing and potential investor contacts is crucial for well-directed and structured campaigns addressing shareholders and investors. Special databases offer access to the profiles of major investors and analysts. This data is particularly useful when preparing individual meetings and arranging road show presentations.*

**Professionalise the compliance management**
*Both, from a legal as well as an IR-relevant perspective, accounting policies and practices, risk management activities, value reporting and corporate governance are subject to increasing regulation. At the same time, an inadequate communications policy coupled with the disregard of disclosure requirements has led to a huge loss of trust and destruction of value.*

**Analyse your communication efforts**
*Perception studies take the pulse of investors, analysts and journalists and can gather their suggestions for improving a company's communications policy. They provide insights on how well these groups understand a company's value drivers, strategy and targets and how they view the related transparency and quality of information.*

**Webcasting & Telephone Conferencing for everyone**
*Today's telephone conferences are often only available to invited analysts and investors. To bring the live audiostream to the web site is cost-efficient and opens the way to ensuring equal treatment of shareholders by making all information available to everyone. Using MMS and UMTS – which enables fast data transmission to mobile devices – can even bring the moving picture to an investor's mobile phone.*

# Issues monitoring: understanding corporate crises in good time

In today's media society, the risks of a painful loss of reputation have grown in leaps and bounds. There is correspondingly great demand for tools such as Issues Monitoring designed for the early detection of risks in the public environment of organisations. At Zurich University's Research Institute for the Public Sphere and Society (fög), such Issues Monitoring tools have been developed, in close cooperation with companies and administrative bodies, and have been successfully implemented in practice.

*Dr Mark Eisenegger, Issues Monitoring & Reputation Analysis, Forschungsbereich Öffentlichkeit und Gesellschaft (fög), University of Zurich*

**Early detection – but of what?**

Experience from our research teaches us that the aim of such early-warning systems cannot be to surprise companies continuously with completely new and unknown issues. The health-damaging effects of asbestos, the distribution of baby milk powder in the Third World, the nameless bank accounts of Holocaust victims, the question of reasonable salaries for top managers as well as the former relationships of Swiss business to the South African apartheid state – these are examples of issues that have been known for many years and have been underestimated for an equally long period, ultimately with far-reaching consequences by the companies concerned. The main business of Issues Monitoring is not to reveal new issues as such, but to correctly assess the significance of the well-known ones. Many monitoring systems suffer the serious deficit of adding to the information overload already flooding organisations. They confront top executives in an exaggerated manner with ever-newer claims by increasingly peripheral pressure groups in marginal chat forums or newsgroups. In so doing, such systems do a disservice to their true purpose – to provide orientation and reduce uncertainty. But what criteria should be used to separate relevant issues from irrelevant ones?

**The crucial importance of diffusion and reputation potential**

Two aspects are fundamental here: the relevance of an issue is measured both by its diffusion potential and its reputation potential. For a specific topic to become important for an organisation, it must firstly make an appropriate career for itself, i.e. sufficiently enter the public field of vision and set key communication arenas resonating. No matter how scathing the criticism levelled at a company may be, it nevertheless remains without consequence as long as it is imprisoned in the ghettos of largely ignored chat forums. Secondly, the explosiveness of an issue is measured by its potential to trigger significant reputation effects. A topic may appear prominently on the title pages of all the mass media, but its explosive potential remains low as long as the criticism bypasses the company concerned and a glance at the way developments are moving also suggests that we cannot expect it to harm the good reputation of the company in the future.

An early detection tool of the kind developed at the University of Zurich's fög Institute is based on systematic monitoring of leading national and international opinion formers in the mass, expert and specialist media (TV, radio, press and online media). It monitors all issues, from the film festival in Locarno to the Iraq war, to the impending revision of the Swiss corporation stock law, continuously and without any thematic restrictions. The monitored topics are continuously evaluated from this comprehensively updated issues database to determine whether they have the potential to further spread in relevant communication arenas and to affect the reputation of relevant organisations. Of special importance for this relevance appraisal is the question of how much social energy is bound by a particular issue, i.e. how powerful the agents are that stand behind the topic. Experience teaches us that an issue normally has little impact on reputation if it is driven forward only by media professionals or journalists. However, the more influential agents, who have the power to define issues, and share a specific critical view of corporations, stand behind the issue, the greater is the impact on the relevant reputation. In terms of measurement technology, an issue is particularly explosive and calls for action from a corporate standpoint when the criticism (or praise) is directed in a massed manner by diverse powerful agents and the topic is treated in an intensive, sustained and broadly supportive way by public communication.

However, Issues Monitoring cannot work miracles: it is merely a tool designed to create the conditions for organisations to learn from their experiences sooner rather than later in some cases. And this means creating a reliable classification of potentially explosive issues.

# Special situations trigger volatility

**Crisis situations in general spread uncertainty, often resulting in a more confusing picture of the affected organisation's prospects. Lack of understanding or disagreement may find expression in unwanted volatility in share prices.**

*Bob Haville, Managing Director, and Alison Allfrey, Senior Vice President, Financial Dynamics, London*

Normally, when people talk about volatility, they are referring to some destabilising political act or a change in direction in economic conditions. However, at a different level, most IROs are thinking about their individual share price volatility and what, if anything, they can, or even should, do about it. The following focuses on volatility itself, namely: the relative rate at which the price of a security moves up and down. If the price of a stock moves up and down rapidly over short time periods, it has high volatility. If the price almost never changes, it has low volatility.

Various factors contributed to an increase in market volatility in the last ten years:

- the explosive growth in the creation and use of options and derivatives;
- the growth in a newer breed of investors, such as the hedge funds and activists, with different objectives and time horizons;
- the rapid growth of the private equity funds as they seek to buy or sell often very sizeable assets at prices sometimes outside the "normal" investors' range, through the use of leverage.

Indeed, in the case of the hedge funds, it may well be that volatility is an overall objective as they seek to deploy more creative investment techniques in the search for absolute returns, themselves seemingly on a decreasing curve.

Whilst it is true that hedge funds (and also other investors) have to manage their investments all the time, whether markets are volatile or not, in really adverse conditions, liquidity is reduced and this means that fund managers experience greater difficulty in unwinding positions without impacting prices – thus adding to volatility! This didn't matter as much when the hedge fund industry was relatively small. Back even as recently as in the mid 1990s, hedge funds accounted for negligible amounts of the total funds under management. Now, this total has risen to nearly $1.5 trillion and is still increasing as institutions continue to both enter the market and increase their internal allocation of money to hedge funds in the pursuit of portfolio diversification.

In general, brokers quite like volatility, despite protestations to the contrary, seeking both to create it and take advantage whenever possible, as long as they can control events and bring liquidity to bear when appropriate.

A lot of people in the investor relations world only really think about price volatility if their share price is going down fast and looks like it does not want to stop. Any management concern over a rapidly upward moving share price is normally the result of a being a potential or actual bid target. Or, perhaps down to that most welcome of events in the investor relations world – a leading broker upgrading both estimates and recommendation.

**Politics and economics matter**

The political and economic backdrop defines the landscape of share price formation and overall valuations. Company managements spend lots of time and effort in trying to break out of the straightjacket of their respective home market, sector or historic valuations, continually pushing for that often elusive premium rating, only to be blown off course by external events. IPOs are pulled, acquisitions postponed, managements replaced and retirements brought forward.

The past year or so appears to have had more than the usual number of events contributing to market volatility: the traumas in the Middle East and the significant rise in oil and energy prices, coupled with various other disasters of varying magnitude. In May and June 2006, many equity markets posted some of their sharpest daily falls since 2003. Later in July and August, there have been equally strong high daily gains as markets recovered and stabilised somewhat.

Over the last two years, there was a steady rise in global interest rates, not least in the important US market, with 17 consecutive rises, but also now in Europe and, quite recently, a reintroduction of interest rates in Japan. The US Fed always has to respond to the next set of macroeconomic data and investors have been reacting to the prospect of continued interest rate hikes, although the latest hold decision was a significant break with previous practice.

There is a real fear that the best of the growth in the global economic cycle has passed, which may slow down for quite a while, thus reducing risk appetite. In addition, the prospect of further monetary tightening by the Fed, or anyone else, helps create greater uncertainty and risk aversion by investors, thus contributing to volatility.

All this implies that stock market volatility is here to stay, at least for a while.


## PRACTICAL MEASURES IN ORDER TO STEM VOLATILITY:

- Keeping a close eye on the evolution of the share register to pick up on any change in the investor profile.
- *Indeed, volatile markets may produce a whole new set of investors with different requirements, some of whom may not be all that welcome to management. Activist shareholders are at their most venomous in conditions of volatility, particularly if the cost of their investment is above that of the prevailing share price. Many activists only have one goal in mind: a takeover – so that they can close their positions. No other outcome is acceptable to them.*
- Updating the respective investment cases, even sometimes the whole equity story itself in order to sharpen the picture.
- *Well-established investor relations techniques in targeting, presentations, messaging and feedback will either have to be introduced or upgraded in the perpetual quest for supportive, long-term investors, often found outside the domestic market.*
- Conduct a fresh investor-targeting analysis exercise, designed to identify new targets with differing investment goals,
- *e.g. a value play or perhaps GARP as opposed to outright growth. There is a need to create a prioritised targeting strategy with the aim of encouraging long- term supportive holders and seek a balance in size amongst holdings to help offset selling risk.*

It may not just be volatility to worry about but investor pessimism. Institutional fund managers are becoming generally more pessimistic about the macroeconomic outlook on the back of rising energy prices and the lagged effects of rising interest rates as the year progresses. According to a regular opinion survey conducted by a leading US investment bank, the actual level of pessimism is the worst ever seen since the survey began several years ago and has found expression in the highest level of cash balances since 9/11 – risk aversion is top of the agenda again.

**The IRO and volatility**

So what should an IRO do in volatile markets? Sometimes it seems that a company's share price is the mysterious result of the creation of actuarially defined sectors, competing views on relative growth rates, analysts' models and recommendations, investor appetite and trading books which are either long or short but rarely in perfect harmony! It is a remorseless process where a change in any one of the above can provoke what can often look like a completely disproportionate share price reaction.

In Switzerland, there is heavy index weighting towards the financials, pharmaceutical and chemicals sectors. Whilst investors try to read and play the cycle, particularly in chemicals and financials, Switzerland also has a lot of attractive and inherently defensive style stocks for international investors to consider or increase their weightings in.

Whilst many Continental European companies have some well-developed protective mechanisms, one by one these are being diluted, or are breaking down altogether, in the spirit of a free market economy. One can expect this slow-burn trend to continue and this will require the right type of investor relations response, often in completely changed circumstances.

If there is selling pressure, it may take a lot longer to stop than anticipated as new buyers have to be found. The role of the sell side here can be useful and should be exploited to the full. One starting point is to try and ensure that those houses with the highest trading market share in the stock are making a positive representation of the investment case. This process can be supported by agreeing to make sales force presentations only at those broking houses where the company is seeking to have influence, and by creating a platform for senior management to impress.

One of the most difficult things to determine, for both companies and investors alike, is whether the volatility is driven by a substantive change in the economic cycle or not. Is it a temporary correction or a response to a full-blown and sustainable change in economic conditions? If it is the latter and if it looks likely to last for some time, then the challenge is definitely moving into new territory as far as recent experience in investor relations is concerned – it necessitates being even more proactive.