Managing Investor Sentiment through Innumerable Influencers

Corporations are responsible to earn profits, provide adequate return on investments to investors, and retain investors. To be able to suitably woo and retain investors, it is imperative to gain an understanding of 'who' are the investors, 'why' do they invest and who 'influences' their decision. The last factor enlarges the audiences that need to be informed to include the influencers.

The investors can essentially be classified into individual and institutional, among the former we have professionals, retired persons, housewives and any other saving person. The latter includes profit and not for profit organisations. The reasons they invest in corporate stock vary from security to fair returns, or for some foreseeable expenses in the future and also for tax purposes.

The investor is influenced by more than a few factors such as publicity, both word-of-mouth from friends/peers and media coverage; the returns on investment; what the broker or agent recommends; by incentives and preferences. Among the newer media influencing the investor we have the real-time news agencies, electronic media, internet, the regulators themselves and investment analysts - print media and foreign institutional investors with scientific and research capabilities.

Financial Public Relations **c**reates and maintains investor confidence. It builds positive relationships with the financial community by providing corporate information. Business's current performance and future prospects must be persuasively communicated, characterised by responsiveness, openness, and regular communications. This will result in support for its management, higher stock prices, and greater ease in attracting new capital.

When poor results are on the anvil, most companies will release the mandatory advertisements in the most inconspicuous publication so as to avoid drawing attention to the matter. The option of preparing the ground for poor results is not explored and very few companies still shy away from presenting the long term forecast.

Takeovers and mergers are the ultimate test of investor confidence and these are only going to become increasingly frequent in the Indian corporate world, whether hostile or otherwise. This necessitates the need for better management of information to the influencers. If the stock price doubles at the announcement of a merger / takeover obviously the takeover is viewed to have synergies that will enhance the value. It can also be construed that the management does not enjoy the confidence of the investor nor could it communicate the real value of the company. Shaun Browne, Chief Executive Officer, HSBC Capital Markets India was quoted in the media saying, "*If the management is sound then a company will not need to buy shares from its* *investors as they will would simply not sell out if they have faith in the management. It all comes down to sound performance and communication."*

> *Indal has learnt to communicate. We have learnt that communication is the key to recognition. We should communicate more with all our shareholders. We should keep informing our people about our company. I was shocked to learn that a very senior government official was long under the impression that Indal is a loss-making company. In fact, we have realised that mere circulation of the first quarter results and holding on to the market share in a competitive industry is not enough. Hence, we have decided to go in for a serious propaganda barrage.*
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> *The people in our own communities, where we have our plants, are well informed and pro-Indal. But the general public also should be aware of the company.'*
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> Business Standard, September 1998
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> This was the response of Tapan Mitra, vice chairman and managing director, Indal on being asked what are the lessons that Indal has learnt from the takeover bid by Sterlite.

Real time news agencies like Reuters, AP-Dow Jones, Bloomberg, Bridge News, etc. put out news instantaneously. And the news carried by them is flashed simultaneously on all their monitors, which are being watched by all major stock traders, analysts and institutional investors - who in turn influence the sentiment of the individual investor. The power of this medium is illustrated by the fact that a newsflash quoting the Finance Minister on Reuters on August 20, 1998 moved the Rupee down from 42.80 to 43.75 to the US $. Similarly, on announcement of the intention of RBI to support the Rupee, the Rupee immediately gained 10 paise and then again upon announcement of actual measures to strengthen the Rupee, the Rupee went up by a full one Rupee!

Internet is another emerging tool to influence and gain investor confidence, amply illustrated by the success of the Resurgent India Bonds. As many as 70,000 applications for the Resurgent India Bonds were downloaded from the State Bank of India website. The Resurgent India Bond page on the Bloomberg site gave it some 7,000 hits on the day the information was published on its site.

Staying with the Resurgent India Bonds, the effectiveness of the Internet is illustrated through the 533 e-mail queries generated as a result of a series of analytical articles on the RIBs in a fortnight.

The electronic medium is a very impressionist medium. The evidence can be gauged by the success of the VDIS scheme of the Government of India, which used the simple and effective messages on cable & satellite television.

The challenge of this medium lies in getting your message across clearly and crisply in a 20-second time frame.

Since analysts make or mar investor confidence, it is important to address them from time to time to gain their understanding on the company. It would be impossible to get them to provide a fair assessment of the stock unless companies share their current financial status and provide them a window of the management's outlook.

> **The New York Stock Exchange gives its listed companies the following advice:**
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> "**Securities analysts** play an increasingly important role in the evaluation and interpretation of the financial affairs of listed companies. Annual reports, quarterly reports, and interim releases cannot by their nature provide all of the financial and statistical data that should be available to the investing public. The Exchange recommends that corporations observe an "<u>open door</u>" policy in their relations with security analysts, financial writers, shareowners and other who have legitimate investments interest in the company affairs."

Regulators are faced with the dilemma when the investor blames the regulator for an investment that did not yield the required return or went bad. This is queer in the light of the fact that the investor absolves himself of complete responsibility and puts the blame firmly on the shoulders of the corporate and the regulators. This makes the regulators responsible for educating the public as well as and providing a forum for redressal, say some provision of insurance.

In India, the regulators are indeed a very important influencer in the light of the fact that RBI had issued advertisements cautioning the public about investing in low credit-rated companies. RBI responded after it was inundated with calls from investors seeking assistance in recovering the funds invested in certain companies. Similarly SEBI issued a public alert advertisement warning investors against investing in the plantation companies.

The financial institutions also comprise a very significant set of influencers as illustrated in the Indal-Sterlite takeover battle and of course, the Asian Paints-ICI battle. The other small investors are really taking their cue from the financial institutions. Hence, the subtle messages put out by the companies on the support of the institutional investor can influence the investors sitting on the fence to make their decision.

(Excerpted from the workbook of PR Pundit's workshop - The Contemporary Portfolio, held in Mumbai on March 17, 1999)