



## Can We Really Measure Investor Relations Performance?

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### What do we need to know to measure IR?

Companies are competing for capital. The investor relations function therefore is a competitive differentiator and plays a critical role in the distribution of information. There are two dimensions the function is pursuing. The first is the regulatory aspect, so the compliance function, and the other is the fair valuation aspect, so the marketing function. Lately, we have been hearing more and more how the investor relations professional is being compensated according to their performance. Hence, as the compliance function is a requirement for all publicly traded companies, there is really no aspect of differentiation. Across companies, strategy and valuation become a comparable marketing aspect, which in turn is really the only aspect that could be measured.

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*“Investor Relations (IR) is a strategic management responsibility that integrates strategy, finance, communication, marketing and compliance with corporate governance to enable the most effective interaction between a company, the financial community and other constituencies, to ultimately contribute to a company's securities achieving a fair valuation.”*

*-NevIR Website-*

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Effective investor relations therefore are the ones that achieve fair valuation. But not all companies have the same investor relations strategy. As a company's story is the marketing aspect of the investor relations role, performance indicators could be derived from this pool. However, in order to make the performance measurement of the role effective, the company needs to view the investor relations function as a profit center and not a cost center.

### Things to consider for performance measurement

As an investor relations professional, we all want to see a return of our efforts in the jobs which we work for. The most common criteria, and one more likely to be preferred by companies in developed countries or maybe even large and mega-caps, is the stock price or share fluctuation. However, in Turkey, where we do have a very young bourse and where daily fluctuations may depend on unforeseen news flow, this may not be the criteria of choice.

Measuring the IR performance can be categorized into two groups: output or outcome; quantitative or qualitative; internal or external; controllable or noncontrollable. The preferred categories should be well-designed and in correlation to the actual IR strategy and its goals. Metrics vary depending on the size of the

company and the budget allocated to investor relations departments. According to NIRI's (National Investor Relations Institute) report titled "Measuring Your IR Program's Success Research Report" published in 2016, "For smaller companies, shareholder composition/diversity was the number one metric used, followed by the stock price/share volatility. For larger companies, it was the quality of investor outreach, followed by perception studies/investor feedback."

The same report mentioned these top five most used metrics:

- 1) Quality of Investor Outreach
- 2) Shareholder Composition/Diversity
- 3) Stock Price/Share Fluctuation
- 4) Perception Studies/Investor Feedback
- 5) Analyst Coverage

While these are by now quite typical metrics used, and some of them are extremely useful, each company's IR function needs to determine its own performance metrics in line with their goals. Hence, an IR program could base its performance measurement on goal-directed behavior (GDB). The American Psychology Association defines GDB as "behavior that is oriented toward attaining a particular goal. It is typically identifiable by observing that an organism ceases search behavior and engages in detour behavior when it encounters obstacles to the goal." Since, the one important factor for the investor relations professional is to achieve fair market value for the stock, the IRO will do this any way possible. Hence, the IRO will have to make sure, that advisory services provide information acceptably, that media outlets whether general, financial or internet, report the news flow correctly, that analysts evaluate companies in line with their stories to provide right buy-and-sell recommendations, that portfolio managers consistent with their fiduciary responsibilities manage assets thoughtfully, that retail registered representatives, where applicable, can tell the same story as the company and that individual investors can have access to the same information to make investment decisions on their own behalf. The IRO needs to understand the complexities involved in dealing with the variety of stakeholders and their pursuit of information.



## Metrics and Tools

As there is no perfect way of measuring the investor relations performance, each IR function should determine their performance metrics according to their IR strategy and their goals. While some of these metrics are self-explanatory, others may need further brainstorming. Here is a useful list of a few metrics in no particular order, thanks to IR Club, of which some of these are used for our performance measurement.

<p>Shareholders</p> <ul style="list-style-type: none"> <li>• Target Shareholder Composition – Achievement</li> <li>• Number of new shareholders within time frame</li> <li>• Conversion rate of targeting activities to share purchases</li> <li>• Direct feedback from shareholders</li> <li>• Perception study feedback</li> <li>• Number of investor meetings/calls with and without C-Level attendance</li> <li>• Meeting with top 10/20/25 shareholders within certain time frame</li> <li>• Advisory role in working with investment banks</li> </ul>	<p>Valuation</p> <ul style="list-style-type: none"> <li>• Stock Price/ Share Fluctuation</li> <li>• Industry/peer benchmark ratios (i.e. P/E)</li> </ul> <p>Sell-side Analysts</p> <ul style="list-style-type: none"> <li>• Quantity of coverage/new initiation</li> <li>• Quality and prestige of analyst</li> <li>• Quality of reports/accuracy of estimates</li> </ul> <p>Tracking Key messages</p> <ul style="list-style-type: none"> <li>• Quality of questions in key IR events</li> <li>• Analyst reports</li> <li>• Proxy advisory reports (if no report is shared, then track the understanding of the advisor and hence the output at AGM)</li> <li>• Media coverage</li> </ul>
<p>Leadership Skills</p> <ul style="list-style-type: none"> <li>• Annual department goals – achievement</li> <li>• Amount of time saved for C-Level in financial community inquiries</li> <li>• Financial community’s willingness to directly deal with IRO instead of C-Level</li> <li>• Allocate management time effectively</li> <li>• Management/Board requests – reliance on IR advice/expertise</li> <li>• Feedback from reports and co-workers</li> <li>• Managing department expenses</li> <li>• Staff Turnover</li> </ul> <p>Industry and Company Knowledge</p> <ul style="list-style-type: none"> <li>• Internal meetings/committees’ attendance</li> <li>• Industry, IR, legal and/or educational forum attendances</li> </ul>	<p>Events and Materials</p> <ul style="list-style-type: none"> <li>• Quality/effectiveness of communication materials</li> <li>• Response time to external and internal stakeholders</li> <li>• Attitude/effectiveness in crisis management</li> <li>• Effectiveness of key IR events (Quarterly briefs, analyst days/calls, AGM)</li> <li>• Roadshow development and execution</li> </ul> <p>Awards and Recognition</p> <ul style="list-style-type: none"> <li>• Peer benchmarking</li> <li>• IR Magazine/Institutional Investor Magazine IR rankings</li> </ul>

It should be noted that when determining performance indicators for Investor Relations departments, it is necessary to differentiate the components. You may be the best narrator in the world, but what good is it, if

the audience does not understand your message? Therefore; transparency, quality of investor outreach, being knowledgeable and responsible, and proactivity are all important criteria used to measure the performance of investor relations professionals. If you happen to be one of the lucky ones and use products such as IHS Markit BDCorporate or Nasdaq IR, then tracking your goals and your active usage can be turned into informative goal achievement reports. Alpha Sense may not provide an individual IR report, yet it provides an instant access to all reports written on the company, hence the search time spent on anything written on any subject can easily be retrieved within seconds. Some IR departments are well served with just doing a perception study and nothing else. Essentially, the investor relations strategy and the goals accompanying it are quite individually designed and therefore deserve unique performance metrics.

## Key Things to Remember

Investor Relations contribute to the company; hence it is an investment, not an expense. IRO performance and efficiency should be determined objectively and monitored regularly. While the share price is the most known metric, this may not be your best choice to measure. If you are worried about your financial image and need to know where you stand, start with a perception study, it will be quite comprehensible.