The 'One Metric that Matters' for Investor Relations Officers

Leveraging the 'Value Index' to Focus on What Matters and Outperform Your Peers

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Throughout our more than 20 years of investor relations consulting, one of the key strategies we've learned is the importance of focusing on the "One Metric That Matters" (OMTM) – the Value Index over time.

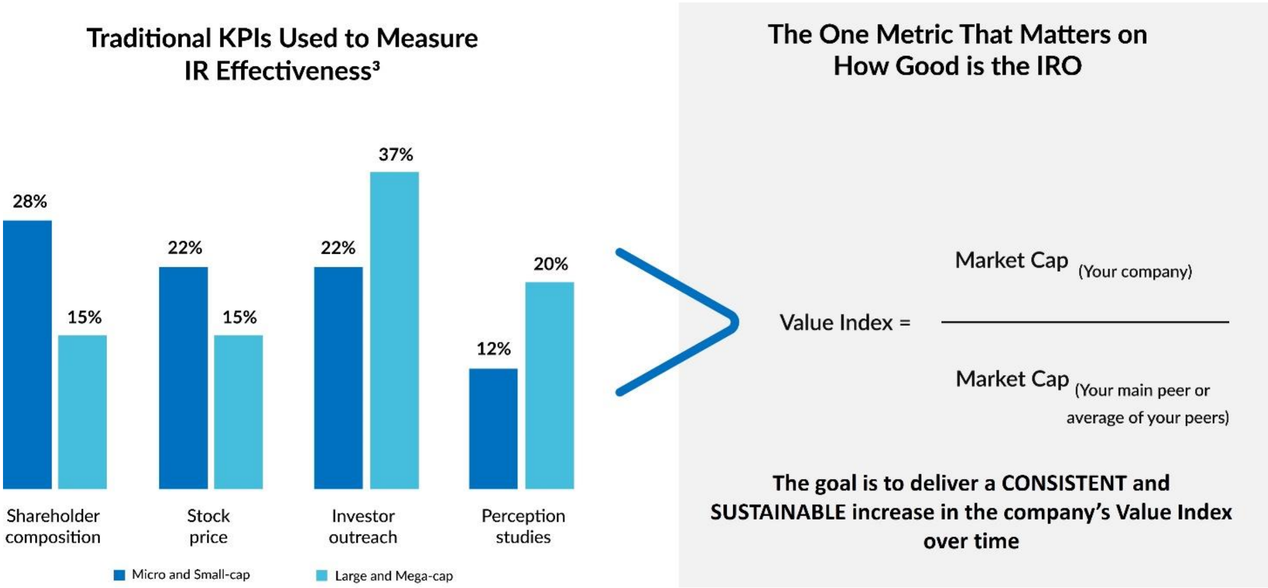
Rather than selecting a few standard key performance indicators (KPIs) and hoping they resonate with the CEO and the Board of Directors, investor relations officers (IROs) are better off prioritizing their focus on the Value Index, even if it means missing some secondary metrics.

While we are not implying there's only one metric IROs should care about, we do believe that at any given time, the Value Index is the one metric that should take precedent above all else. Communicating and instilling this strategic focus throughout your company, the investment community, and the media will help you concentrate your efforts.

Measuring the effectiveness of IR

How to know if the IRO is doing a great job? The **OMTM for investor relations is the Value Index over time**. There is nothing easier and more direct, that also provides full alignment with the interest of the company owners (its shareholders). It can be monitored daily and even built with historical data for a retrospective and evolutionary overview of the **company's value journey**. Once the Board of Directors selects the reference (a single peer or a group of peers), a good IRO has to deliver a **consistent and sustainable increase** in the Value Index. That's it!

This represents a quantum leap improvement when compared to the most traditional and common KPIs for IROs[1,2,3]: perception studies, how well message is registering, stock price and liquidity, ability to communicate and develop relationships with investors, awards, cost of capital, the quantity and quality of analyst coverage and their respective ratings, visibility/meeting frequency (investor outreach), participants at analyst days and site visits, website visitors, and complexion/makeup of shareholder base.



If the Company's Value Index is not progressively improving, no other single KPIs is as relevant. In fact, we believe the Value Index is **so relevant that CEOs and Board Members should also incorporate it as part of their own evaluation process**.

After all, why should anyone care if the company gets an award for the best integrated annual report, or if a perception study says the IRO is accessible and responsive in getting back to investors, or even if stock prices of your industrial segment go up or down in general?

As mentioned in the beginning, we are not saying to completely forget other KPIs for investor relations. Actually, there are two secondary KPIs that could be concurrently monitored in real time with the Value Index, which may contribute to better understanding potential issues and support investor relations **strategies to unlock corporate value**:

(a) Homogeneity among sell-side analysts (versus peers) and assertiveness with guidance (to eliminate agency problem); and

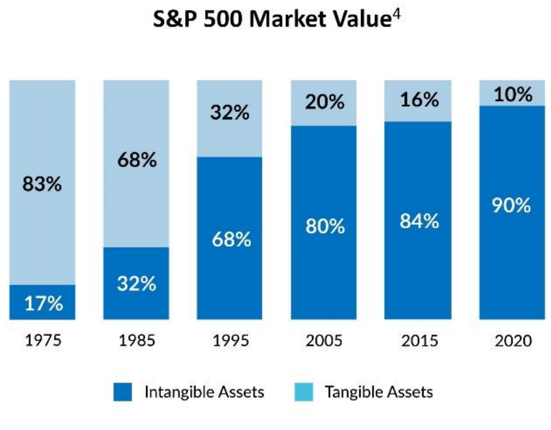
(b) Shareholder management (targeting, outreach and sale of the investment thesis).

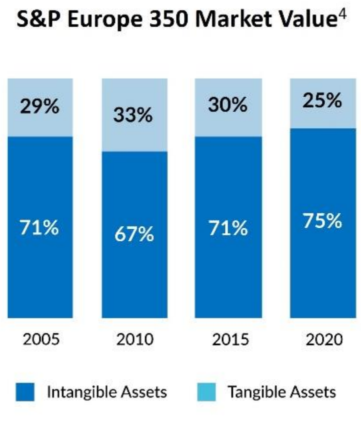
These two additional KPIs are not necessarily easy to achieve; however, they are easy to measure and track over time. They require a tremendous amount of hard work from IROs to favorably impact the Value Index (the OMTM for investor relations).

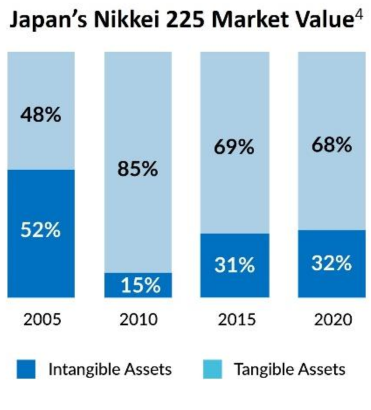
The need for IROs that deliver on a value creation journey

Clearly, public companies will seek IROs that can deliver on a value creation journey; however, the profile of a truly desired IRO that is effective may differ considerably from the current status quo, primarily because value creation tied to tangible assets has decreased over time.

This is confirmed by a study[4] that breaks down the components of corporate market value. Specifically, the role of intangible assets across a range of global indexes, calculated by subtracting net tangible asset value from market capitalization. Such intangible assets include corporate reputation, data/software, R&D, and intellectual property/brand equity.







Corporate reputation is a key lever of shareholder value in the knowledge economy. It has economic impact and creates tangible financial value by inspiring confidence among investors as it relates to the returns and/or growth they're expecting, or have been promised by the management team.

There are nine main drivers of reputation value[5]: quality of products and services, ability to attract talent, community and environmental responsibility (ESG), quality of management, quality of marketing/communication, use of corporate assets, capacity to innovate, financial soundness, and long-term value potential.

We do not advocate that the desired effective IROs have the ability and expertise to manage all the above drivers of reputation value. But they will need to become outstanding project managers with the ability to interact within all areas of the organization that impacts corporate reputation, and ultimately, be a catalyst in this journey.

A company must create value for and be valued by its full range of stakeholders in order to deliver long-term value for its shareholders[6]. The fair pursuit of profit is still what animates markets; and long-term profitability is the measure by which markets will ultimately determine your company's success.

In summary, if companies are to be **meaningful and develop a value creation journey**, not only will they need to **adopt the Value Index as the One Metric That Matters**, but they will also **instill accountabilities of the Chief Reputation Officer into the Investor Relations Officer**.

PDF version *available here*. Reel of the article can be *seen here*.

References:

1) Stewart, N. (2008), *Extreme Measures: how to measure success in IR*, IR Magazine.

2) Ragas, M. and Laskin, A. (2014), *Mixed-methods: measurement and evaluation among investor relations officers*, Corporate Communications: An International Journal.

3) NIRI Analytics (2016), *Measuring Your IR Program's Success Research Report*.

4) Ocean Tomo (2021), *Intangible Asset Market Value Study*.

5) Cole S., Sturgess, B. and Brown, M. (2013), *Using Reputation to Grow Corporate Value*, World Economics.

6) Fink, L. (2022), *Letter to CEOs: The Power of Capitalism*, BlackRock.

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