

Investor Relations Strategy for Growth Creation
ACCT-GB.3110.30
Spring 2013 Syllabus

Instructor: Baruch Lev

Class Time: Wednesdays, 6:00pm-9:00pm

Course Objectives

This course explores the relationship between corporate executives and their shareholders, a relationship crucial to the success of public companies and their managers. Fully based on facts and recent economic and finance empirical research, this course outlines the communications and actions managers should take to ensure investors' support and funding of the company's strategies. You will learn in this course how to meet investors' earnings expectations, how best to communicate the firm's performance – good or bad – to capital markets, how to deal with activist investors intruding upon managers' turf, how to immunize the company from shareholders' and SEC lawsuits, and how to enhance corporate governance and pay managers their fair share. In short, this course provides operational tools and policies essential to the running of efficient business enterprises.

The course is aimed at future corporate financial managers and investor relations executives. By identifying the attributes of well-run, successful companies which gain the trust of investors, the course also serves as an investment guide for portfolio and fund managers.

The readings for this course are Baruch Lev's book Winning Investors Over and various articles to be provided to students.

Course Outline

CLASS 1: INTRODUCTION AND THE ANALYSTS-MANAGERS EARNINGS GAME

I. Introduction

- Course objectives
- Why capital markets are crucial to the success of corporations
- The essence of investor relations—avoiding shareholders' disappointment

II. The Earnings Game

- The intricate interplay between financial analysts forecasting corporate earnings and managers striving to beat the forecasts
- Managerial earnings manipulation to beat analysts' forecasts and maintain the growth façade
- The hazards and futility of financial information manipulation
- What to do and not to do when you are about to disappoint investors

III. The ins and outs of the "investor relations" profession

Readings: Text—Introduction and Chapters 1 and 3, and various relevant publications

Case Discussion: J. Fox and J. Lorsch, "What Good Are Shareholders?" Harvard Business Review, July-August 2012.

CLASS 2: EFFECTIVE COMMUNICATION WITH INVESTORS

- I. Soft and Hard Information**
 - “Limited attention” investors
 - How to harden soft information
- II. The Quarterly Conference Call**
 - The earnings call—the main venue of investor communications
 - How to enhance the effectiveness of conference calls
 - Measuring the effectiveness of conference calls
- IV. Managerial Earnings Guidance**
 - Guidance—a forward-looking disclosure
 - The huge controversy about guidance
 - The facts: what guidance does and doesn’t do
 - Measuring the effectiveness of guidance

Readings: Text—Chapters 2 and 6, and various relevant articles

Case discussion: Google’s recent conference call

CLASS 3: ACTIVIST INVESTORS

- I. Investor activism—an historical perspective**
- II. Challenging managers by shareholder resolutions and proxy contests**
- III. “Say on Pay”—shareholders voting on managers’ pay and their impact**
- IV. Hedge Funds’ Interventions in company affairs**
 - What do they want?
 - What do they achieve?
 - How should managers react to such intervention?
- V. Short Sellers: a nuisance or a force for good?**

Readings: Text—Chapter 11, and various readings

Case discussion: The case against shareholder activism

CLASS 4: VOLUNTARY INFORMATION DISCLOSURE

- I. Legally required and voluntary disclosures of information to shareholders**
- II. Why release information voluntarily?**
 - The shrinking of GAAP’s relevance
 - Akerlof’s lemons
 - Fact-based benefits of voluntary disclosure
- III. Criteria for effective disclosure**
- IV. Voluntary disclosures in various industries**
- V. A template for optimal disclosure**

Readings: Text—Chapter 7

Case discussion: B. Lev, “How to Win Investors Over,” Harvard Business Review, November 2011.

CLASS 5: PROACTIVE INVESTOR RELATIONS: PREVENTING MISHAPS

- I. Bad things can happen even to good managers.**
- II. Immunization against shareholder and SEC lawsuits**
- III. The hazards of overvalued shares**
 - The temptation to prolong and exploit share overvaluation
 - Making bad acquisitions
 - Manipulating financial information
- IV. And the dangers of undervalued shares**
- V. The most effective tool: earnings warnings and guidance**

Readings: Text—Chapters 4, 5, and 8

Case discussion: Should share overvaluation be exploited?

CLASS 6: WHAT IS THE MANAGERIAL OBJECTIVE?

- I. Are corporate managers really myopic?**
- II. The managerial objective function: enhance shareholders' wealth or cater to broader constituencies?**
- III. Good management in the short and long term**
- IV. Corporate Social Responsibility—Is doing good, good for corporations and their managers?**

Readings: Text—Chapters 9 and 10

Case discussion: stockholders vs. stakeholders

CLASS 7: EFFECTIVE CORPORATE GOVERNANCE AND FAIR MANAGERS' PAY

- I. Governance failure and excessive pay—major irritants to investors**
- II. What's corporate governance for?**
- III. Effective governance**
 - Independent directors
 - Expertise on board
 - Busy directors
- IV. The main problem with executive pay: pay-for-no-performance**
- V. How to fix executive pay**
- VI. Course summary: A comprehensive capital markets strategy**

Readings: Text—Chapters 12, 13, and 14

Case discussion: executive pay—a power grab or fair reward?