

Stern School of Business
GB.3110.30

Professor Baruch Lev
Spring 2013

Investor Relations Strategy for Growth Creation Syllabus

Class Meeting: W 6:00pm-9:00pm, KMC 4-80

Office Hours: W 5:00pm-6:00pm, KMC 10-92

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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 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, how to enhance corporate governance and pay managers their fair share, and, importantly, how to boost your shareprice. In short, this course provides operational tools and policies essential to the running of efficient business enterprises.

The course is mainly 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 (2012, Harvard Business Review Press), and various articles to be provided to students.

General Notes:

1. Class attendance is required.
2. Course grade will be based on students' projects and class discussion.

Course Outline

CLASS 1 INTRODUCTION AND THE ANALYSTS-MANAGERS EARNINGS GAME **2/13/13**

- I. Introduction**
 - Course objectives
 - Why capital markets are crucial to the success of corporations
 - The essence of investor relations—avoiding shareholders’ disappointment
- II. The “All Important” Earnings Game**
 - The intricate interplay between financial analysts forecasting corporate quarterly 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. Privileged Investors-Managers Communication (guest speaker)**

Readings: Text—Introduction and Chapters 1 and 3, and assigned 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 **2/20/13**

- I. Soft and Hard Information**
 - How to communication with “Limited attention” investors
 - How to harden soft information
- II. The Quarterly Conference Call: Main Communication Venue**
 - The quarterly earnings call
 - How to enhance the effectiveness of conference calls
 - Measuring the effectiveness of conference calls
- III. Managerial Earnings Guidance**
 - Guidance—a forward-looking disclosure
 - The raging controversy about guidance
 - The facts: what guidance does and doesn’t do
 - Measuring the effectiveness of guidance

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

Case discussion: Google’s recent conference call

CLASS 3 ACTIVIST INVESTORS
2/27/13

- I. **Investor activism—an historical perspective**
- II. **Challenging managers by shareholder resolutions and proxy contests (guest speaker)**
- 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
3/6/12

- I. **Legally required and voluntary disclosures of information to shareholders**
- II. **Why release information voluntarily?**
 - The shrinking of accounting’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 and reading

Case discussion: The iPhone case

CLASS 5 PROACTIVE INVESTOR RELATIONS: MAINTAINING HIGH SHARE PRICES AND PREVENTING MISHAPS
3/13/13

- I. **The managerial objective—Are U.S. managers myopic?**
- 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. **Corporate Social Responsibility**
- VI. **The Investor Relations Function (guest speaker)**

Readings: Text—Chapters 4, 5, and 8

Case discussion: Corporate social responsibility

CLASS 6 EFFECTIVE CORPORATE GOVERNANCE AND FAIR MANAGERS' PAY
3/27/13

- 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
 - The empirical record on governance
- IV. The main problem with executive pay: pay-for-no-performance**
- V. How to fix executive pay**
- VI. Course summary: A comprehensive corporate capital markets strategy**

Readings: Text—Chapters 12, 13, and 14

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