

## CHAPTER 24

# Financial public relations (FPR)



## Learning outcomes

By the end of this chapter you should be able to:

- define and describe financial public relations
- identify who is involved in financial public relations practice
- compare the practice of financial public relations in the UK and internationally
- identify how financial public relations practice impacts on organisations
- recognise emerging trends in financial public relations practice.

## Structure

- Overview of financial public relations
- Landscape of the 'City': who's involved in financial PR
- Financial PR practice

## Introduction

'How many PR people does it take to change a light bulb' 'Don't know. I'll have to get back to you on that one?' An old joke, perhaps, but apposite until surprisingly recently. The typical London public-relations person of the 1980s did little more than hand out press releases and take journalists to lunch – and was more familiar with the Savoy's wine list than with his client companies' strategies. That has all changed. Lunch, this correspondent is happy to report, still definitely plays its part. But today's spin doctors are sharp-minded professionals, often indistinguishable from investment bankers and lawyers – and increasingly demanding to be paid like them. In America, financial PR (communicating companies' strategies to shareholders, analysts and the financial press) is still done largely in-house. But it is the top British agencies – Brunswick, Financial Dynamics, The Maitland Consultancy, Finsbury, Citigate Dewe Rogerson and Tulchan – which are showing that financial PR is becoming an industry in its own right.'

Source: *The Economist* 14 July 2001: 74–75

Financial public relations, like so many areas of public relations practice, has in the past been perceived to be nothing more than an *Absolutely Fabulous* (1990s BBC television programme stereotyping a public relations practitioner) world of champagne and caviar, with practitioners as bubbly as their preferred drink. However, as the *Economist* article just quoted suggests, financial public relations practice is now something much more complex, practised in the environments of domestic and international financial markets and the corporate world. Financial public relations is a practice that, for most people within and

outside the public relations industry, remains a mystery shrouded in the complexities of these environments.

The following chapter aims to explore and illustrate for the reader the reality of financial public relations practice, demystify its practices and culture, identify its body of knowledge and provide a glossary (in the accompanying website) for its truly unique lexicon.

## Overview of financial public relations

Financial public relations (PR) is an area of public relations practice that is often misconstrued. This confusion is only furthered when consulting the limited yet varied literature on the subject and largely results from what is an apparently fundamental difference in the practice of financial PR in the UK and the USA. This difference is evident in the literature on financial PR.

### US perspective on financial PR: an investor-focused approach

Financial PR in the USA has historically focused on investor relations (IR). Indeed, the Public Relations Society of America's (PRSA) Financial Communications Section was until 1992 known as the Investor Relations Section (PRSA 2005). This positioning of financial PR as investor relations is reflected in key US public relations texts such as Argenti's seminal 1998 text *Corporate Communications*, in which the chapter on

financial communications is called 'Investor relations: a random walk down Wall Street' (Argenti 1998: 143–166).

So what is IR? One definition is that offered by the Investor Relations Society (1997) where IR is referred to as: 'the management of the relationships between a company with publicly traded securities [shares] and the holders or potential holders of such securities' (quoted in Marston and Straker 2001: 82). The definition draws out an American financial PR practice that is focused on communicating solely with the shareholder (and potential shareholder). Although Argenti points out that the practice involves other intermediary stakeholders who are communicated with in order to reach the shareholder, he refers to these as 'buy-side' and 'sell-side' analysts, referring to financial publics that facilitate for shareholders either the purchase or sale of shares (Argenti 1998: 144).

### UK approach to financial PR

This US view of financial PR practice is fundamentally different from the UK perspective, most notably



PICTURE 24.1 'The City' – so much more than just a square mile in central London. (Source: Eddie Mullholland/Rex.)

## think about 24.1 Different approaches to financial PR

Before reading on, ask yourself, why do you think this core difference might exist? Jot down your thoughts and come back to them after you've read the remainder of the chapter and see whether or not you were correct.

**Feedback** You may want to draw on theories about defining stakeholders and publics in Chapter 12 and professionalism in Chapter 15 for inspiration as to why these differences may exist.

because in the UK IR is viewed as a practice separate from financial PR and is traditionally not handled by financial PR, but rather a company's nominated broker (Middleton 2002: 160). Within the US perspective, the broker would be one of Argenti's 'sell-side' analysts.

The fundamental difference then is that US financial PR (IR) is focused on the shareholder whereas in the UK, as Middleton points out, financial PR is focused on 'raising awareness and building understanding amongst primarily the City's (financial exchanges) opinion formers' who influence investors and potential investors, which she refers to as 'third party' audiences or stakeholders' (Middleton 2002: 160). Further discussion on the reasons for this are introduced in Box 24.1 on p. 472 (see also Think about 24.1 and Activity 24.1.).

### activity 24.1

#### Financial PR in different countries

Using the internet and other reference materials, examine and determine whether financial PR practice in the countries listed here resembles a UK or a US approach.

- 1 Sweden
- 2 Australia
- 3 South Africa
- 4 Canada

#### Feedback

For example, you may want to start by visiting the internet sites of the professional bodies for PR in these various countries and examine the information available on financial communications.

- 1 Sweden: Swedish Public Relations Society ([www.sverigesinformationsforening.se/InEnglish/](http://www.sverigesinformationsforening.se/InEnglish/))
- 2 Australia: Public Relations Institute of Australia ([www.pria.com.au](http://www.pria.com.au))
- 3 South Africa: Public Relations Institute of Southern Africa ([www.prisa.co.za](http://www.prisa.co.za))
- 4 Canada: Canadian Public Relations Society ([www.cprs.ca](http://www.cprs.ca))

Look for key words and themes in the information you find that might give you an insight into the practice of financial PR.

### Why is financial PR so important?

Although at first examination we see a very different stakeholder focus of the US and UK practices of financial PR, what they have in common is that this corporate communication function (see Chapter 28) plays a fundamentally important role in any modern *listed* business.

**Definition:** *Listed* refers to a business whose shares are traded on a stock exchange.

Financial PR's increasing importance is reflected in the *Economist* statement: 'To keep share price up, it is no longer enough merely to have a strategy. The strategy also needs to be articulated smartly – as any manager at BT, Ford or Marconi will tell you' (*The Economist* 14 July 2001: 75). Communication with financial communities about an organisation's position and future strategy is essential to the development of a good financial reputation, which in turn contributes to the overall reputation of an organisation. Good financial reputation is viewed by authors such as Deephouse (1997) and Roberts and Dowling (1997) as contributing to improved organisational performance and superior profitability, a view that is shared by the majority of academic and professional writers.

The perceived worth of financial PR is valued like no other area of PR practice. Fees in excess of a £1 million (\$1.6 million) for financial PR services are not uncommon. *The Economist* points to the fact that Brunswick (financial PR) was, in 1995, the first to break the £1 million mark for the fee surrounding a single piece of work and in 2000 broke the £2 million fee mark (*The Economist* 14 July 2001: 75). (See Activity 24.2 and Think about 24.2, overleaf.)

### Landscape of the 'City': who's involved in financial PR

By now it should be evident that financial PR has a clear role in contributing to organisational success by managing effective communication with key financial

## think about 24.2 Benefits of financial PR

In what ways does good financial PR benefit an organisation?

- Feedback**
- 1 Assists in maintaining share price.
  - 2 Assists in developing corporate reputation.
  - 3 This, in turn, leads to greater performance and profitability.

### activity 24.2

#### Financial PR and reputation

With a partner or in a small group of peers, discuss why you think good financial PR is important both in terms of protecting an organisation's share price and in building reputation.

#### Feedback

You may find it beneficial to refer to Chapter 13, which deals with reputation. Think of the shares as if you were buying them: what would be important to you and what might affect your purchase decision?

stakeholders and that differences in international financial PR reflect different priorities given to different stakeholders. What these different stakeholders share is that they are all concerned with the activities of financial exchanges (e.g. Wall Street, Frankfurt or the *City*), in other words, the exchange of money between 'people who have money and people who need money' (Middleton 2002: 160). These two parties in the exchange reflect Argenti's discussion of the 'buy-side' and 'sell-side' of the *City* (Argenti 1998: 144).

**Definition:** The *City* refers to the financial institutions based in the City of London in the UK.

## Markets/exchange

These 'haves' and 'have-nots' of the financial world carry out their exchange of money on the global money markets/exchanges. This exchange is usually money (whether US dollars, pounds sterling or the euro) or in the majority of cases shares in companies, futures on agriculture crops, oil or other commodities (varying forms of securities). It is worth noting that practitioners normally communicate only with respect to activities of listed companies and the trading of their shares. Some of the main financial markets that you may have heard of are the London Stock Exchange based in the 'City' of London or the New York

Stock Exchange, which can be found on New York's famous Wall Street. There are also important exchanges in Frankfurt, Germany, and Tokyo, Japan, as well as in most national capital cities. When talking of these stock exchanges people often refer to the '*indexes*' of companies that are part of the exchange when discussing overall sector or market performance.

**Definition:** 'A *stock market index* is a listing of stocks, and a statistic reflecting the composite value of its components. It is used as a tool to represent the characteristics of its component stocks, all of which bear some commonality such as trading on the same stock market exchange, belonging to the same industry or having similar market capitalisations. Many indices compiled by news or financial services firms are used to benchmark the performance of portfolios such as mutual funds. Stock market indices may be classed in many ways. A broad-based index represents the performance of a whole stock market – and by proxy, reflects investor sentiment on the state of the economy. The most regularly quoted market indices are broad-based indices including the largest listed companies on a nation's largest stock exchange, such as the American Dow Jones Industrial Average and S&P 500 Index, the British FTSE 100, and the Japanese Nikkei 225.' (Source: adapted from Wikipedia 2005 [http://en.wikipedia.org/wiki/stock\\_market\\_index](http://en.wikipedia.org/wiki/stock_market_index))

Looking at the exchange markets holistically, who is involved? To put it simply, one could say that it is made up of three overarching categories of stakeholders:

- 1 those who regulate the exchange of money
- 2 those who exchange money
- 3 those who influence or communicate about the exchange of money.

## Regulators

Regulation of the exchange of money is controlled at various levels internationally and nationally. International regulators include the World Bank, the EU and the geographical areas covered by various trade agreements such as the North American Free Trade Agreement (NAFTA). Individual countries all impose

regulations on the exchange of money. However, in the case of individual markets, national regulators control how the exchange of money on a market is conducted, as well as how information that can affect the prices of securities traded on the market is disseminated. In the UK, the regulator responsible for UK securities markets is the Financial Services Authority (FSA). The US equivalent is the Securities and Exchange Commission (SEC) and in the European Union individual countries have their own regulators, although the Commission of European Securities Regulators (CESR) was established in 2001 to coordinate and advise regulators in a bid to ensure consistency in practice and implementation of European law.

Those involved in the exchange of money are institutional shareholders, private shareholders, private client brokers and investment and merchant banks.

## Shareholders

### *Institutional shareholders (potential and current)*

Institutional shareholders are organisations that control collective sums of money that are being used for investment/wealth creation purposes and in turn invest this money into listed companies. This investment is normally to a level far beyond the capabilities of individual private shareholders, often possessing between 1% and 100% of an organisation's securities with a value often ranging into the billions of pounds or dollars in the case of larger listed companies. Often institutional shareholders are mutual funds, pension funds or insurance companies investing premiums.

### *Private shareholders (potential and current)*

Private shareholders are individuals. Like their institutional counterparts, they are investing money with the aim of wealth creation, although in the majority of cases this investment is only a small fraction comparatively, much less than 1% of an organisation's value. However, exceptions to this rule exist in relation to the founders of private companies that become listed companies or, in rare cases, individuals such as Malcolm Glazer who in May 2005 purchased a controlling stake of 76% in Manchester United Football Club. It should be noted that with the continuing developments in communications technologies, individual shareholders are becoming ever more important.

### *Stockbrokers*

Stockbrokers are intermediaries who arrange on behalf of private investors the sale and purchase of

shares. These intermediaries may also sometimes act as 'influencers' in this exchange of money, advising clients on when to sell shares and when to buy.

### *Investment and merchant banks*

Investment and merchant banks are organisations that play several roles in the City. First, these organisations often act on behalf of institutional shareholders and listed companies arranging the sale or purchase of securities, quite often at different times in the financial cycle of an organisation (this cycle is discussed later). Second, unlike stockbrokers, these same organisations often arrange the finance around purchases or sales for institutional shareholders or for listed companies looking to purchase another listed company. In both of these exchanges the investment banks represent the 'buy-side' member of the exchange while merchant banks represent the 'sell-side'. Furthermore, these two City organisations are required by law to interact directly with each other at any time, even when they are two divisions of the same overarching financial organisation. This is to ensure transparency in deals and to avoid one side gaining insider knowledge. Quite often the 'parent' organisation will even house the two divisions in separate buildings to ensure geographic space illustrates the practical separation.

Affecting these decisions are the analysts and the various forms of financial media.

## Influencers

### *Analysts*

Analysts are individuals who often work for investment and merchant banks as well as stockbrokerages (collectives of stockbrokers) who research and analyse financial information on selected companies, usually within a specific industry sector (e.g. food, oils, transport, entertainment, etc.) and provide shareholders (current and potential) with comment and advice on the investment prospects. This information is published in documents referred to as 'research notes'. The commentary included usually surrounds recommendations about whether or not to buy, sell or hold on to a particular security.

### *Media/financial press*

Like the analysts, the media communicate as well as pass judgement on the performances and prospects of companies, and in turn influence stakeholders involved in the sale and purchase of shares. Making up

this group of 'influencers' are:

- *The national financial and business print media*, which in the UK include key titles such as the *Financial Times* newspaper (commonly referred to as the *FT*), the national business sections of the quality 'dailies' and 'Sundays' (traditionally *The Daily Telegraph*, *The Times*, *The Independent* and *The Guardian*) as well as magazines such as the *Investors Chronicle*. Outside the UK, key titles are the *Wall Street Journal* and *USA Today* in the USA and international titles such as *The Economist*, *International Herald Tribune* and *Le Figaro*, among others.
- The importance of *regional print media* should also be acknowledged with UK titles such as the *London Evening Standard* and the *Manchester Evening News* and US titles such as the *New York Times*, *Washington Post* and *Los Angeles Tribune*.
- *Radio and television* also play an important role in the financial media, providing an immediacy that extends beyond that of the print media. Some of the key radio and television media in the UK and Europe are BBC Radio 4, BBC24, BBC News ([www.bbc.co.uk](http://www.bbc.co.uk)), SKY News and CNN Europe. CNN and the major US radio and television networks such as CBS radio, CBS, ABC and NBC, CNBC television play similar roles in the USA.
- A further media channel that is gaining more importance is the *internet*. With its ability to make information at all levels instantaneously available to a wide spectrum of stakeholders, it is becoming the information stream of choice. The importance of the investor is underlined by the fact that the traditional financial print media have also established themselves as the leaders in the provision of financial news on the internet with the *Financial Times* online at [www.FT.com](http://www.FT.com) in the UK and the *Wall Street Journal* online at [www.online.wsj.com](http://www.online.wsj.com) in the USA. These, along with the rising trend of internet billboard sites (visit [www.executivelibrary.com](http://www.executivelibrary.com) to find the links to several great billboard sites) where individuals post their own views and questions and share them with others, are changing the shape of financial PR practice.
- *Wire services* are a further financial media and interestingly they are usually the source from which all other media (including the internet) receive their information due to their immediacy and ability to communicate price-sensitive information (defined below) to a host of financial opinion formers and stakeholders. As will be discussed further in this chapter, this position as the main source of information is not accidental but ties to the regulations surrounding the practice of

### activity 24.3

#### Financial media coverage

Either using the internet or by visiting a large newspaper shop (or look at a newsstand the next time you are at an international airport), try to identify what the major newspapers are internationally and compare, to the best of your ability, their financial coverage.

#### Feedback

You might want to look at the size of the business section, length of articles, imagery used and, if you can read the language of the publication, articles themselves for the tone of voice and content.

Some examples are:

Australia – *The Australian* ([www.theaustralian.news.com.au](http://www.theaustralian.news.com.au)) and *Australian Financial Review* ([www.afr.com](http://www.afr.com))

Canada – *Globe and Mail* ([www.globeandmail.com](http://www.globeandmail.com)) and *National Post* ([www.nationalpost.com](http://www.nationalpost.com))

France – *Le Monde* ([www.lemonde.fr](http://www.lemonde.fr)) and *Le Figaro* ([www.lefigaro.fr](http://www.lefigaro.fr))

Germany – *Handelsblatt* ([www.handelsblatt.de](http://www.handelsblatt.de)) and *Bild* ([www.debild.de](http://www.debild.de))

South Africa – *Mail and Guardian* ([www.mg.co.za](http://www.mg.co.za))

financial PR. As an example, in the UK the main wire services are the RNS, Reuters ([www.reuters.co.uk](http://www.reuters.co.uk)), The Press Association (PA), AFX, Perfect Information, PR Newswire and others.

- *Other media* which at times play roles as stakeholders in financial PR include, but are not limited to, trade media as well as, in the cases of unique high-profile organisations, mainstream news media.

**Definition:** A wire service is a news-gathering organisation that distributes syndicated copy (information) electronically, as by teletype or the internet, usually to subscribers. (*American Heritage Dictionary* 2004 online)

See Activity 24.3 and Activity 24.4.

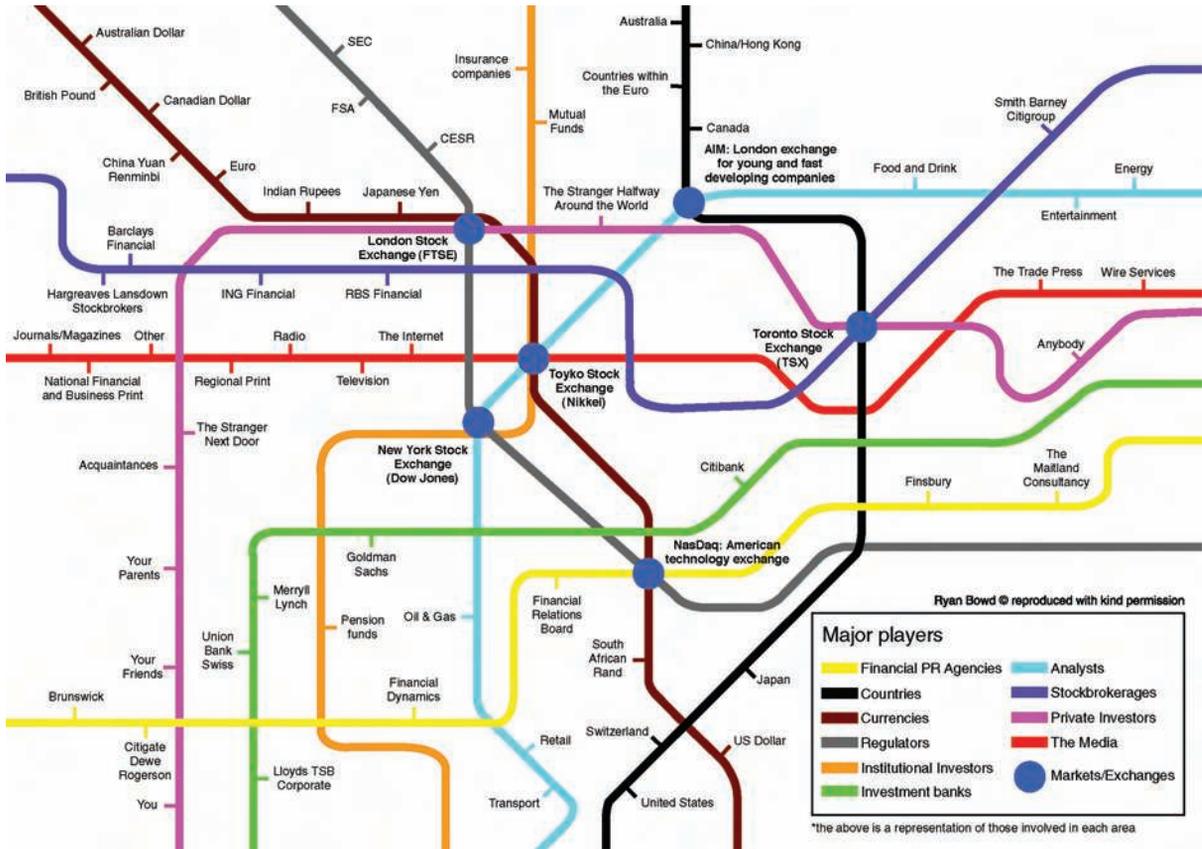
### activity 24.4

#### Buying Man United

Using the internet, search for news stories on the purchase of Manchester United Football Club by the American Malcolm Glazer dating from January to May 2005. Examine where and how this financial story was covered by the press.

#### Feedback

Was the coverage limited only to the financial pages? If not, why do you think it had a wider appeal? What type of organisations do you think could be subject to such media coverage?



PICTURE 24.2 The City, with its range of players (stakeholders) and international differences, can be likened to a metro or tube system that sees money (equity) travel through various stations on the rail lines. Different factors can influence the journey or movements of the equity every day of the year. (Source: Ryan Bowd.)

### Financial PR practice

While it might at first seem that the practice of financial PR internationally differs fundamentally from country to country, this is not the case. Of course, the practice in each country has its own regulations with a unique lexicon and special occurrences, such as mergers and acquisitions and hostile takeovers (these are discussed later). However, it is also characterised by repetitive and regimented cycles of communications, familiar across the globe.

One area, however, where a noticeable change has taken place is with respect to whether or not the financial PR is handled in-house or by a consultancy.

#### In-house vs consultancy

In the USA, financial PR has predominantly and traditionally been practised internally as ‘most American companies of any size have big and experienced in-house teams’, using agencies only to carry out specific transactions such as the special occurrences that are

discussed later (*The Economist* 14 July 2001: 75). In the UK, however, according to several senior practitioners interviewed by the author and reinforced by the *Economist* article, financial PR is more commonly carried out by an external agency. This may be as a result of the competitive media environment and the need to be able to draw on the kind of contacts and relationships a specialist consultant communicating frequently with specific journalists will have. With regard to the practice of IR in Europe, Marston and Straker found that 96% of the organisations they researched had an internal IR function that managed part or all of the organisation’s IR, although of these, 45% still engaged an outside consultancy carrying IR functions (Marston and Straker 2001: 86–87).

#### Regulatory practice

Whether practised internally or externally, financial PR is subject to country-specific sets of guidelines and regulations that govern the practice. This is unlike most other PR functions. In the UK, the regulations

**box**  
**24.1**
**The dollar difference**
**The US cityscape**

In reflecting on the stakeholders involved in financial PR we can start to uncover one of the major reasons for the differences in the practice of financial PR between the USA and the UK.

Differences lie both in the historical structure and the mindset of the US press (often referred to as the '4th estate' versus the UK press (Wikipedia 2005 online). One senior international financial PR practitioner interviewed in the research for this chapter stated that the UK financial media market has traditionally been much more competitive than the US market. The UK, with its smaller geographic size, has numerous national newspapers (due to ease of national distribution) covering the financial activities of the City based solely in London. As a result of this competitive environment, a tradition was forged in the media that has seen the 'press' more likely to print rumour (or, more often, interpretation of fact) and offer opinion in order to differentiate themselves from their competitors. This has resulted in financial PR practice in an environment where practitioners have been required to actively manage and influence the output of the financial press.

In contrast, the USA, due to its vast size, has historically seen 'one-paper towns' where newspapers do not operate in competitive markets. In this context, media reporting is much more objective and focused more on the transmission of information from which opinions are formed, rather than the transmission of opinion and conjecture. It is important to remember that titles such as the *New York Times*, *Washington Post* and *LA Tribune* are only regional papers.

As a result, the focus of US financial PR practice is in working less with the media, but rather more on the buyers and sellers of shares and their intermediaries. While this is a fundamental difference, it is also clear that in an evolving business world of global markets, US financial PR practice is placing greater emphasis on media relations outside the USA.

controlling this practice are in general laid out by the FSA (Financial Services Authority). These regulations are laid out in the FSA's *Purple Book* (previously *Yellow Book* and *Blue Book*, among others). Since 2001, this book has served 'as a single handbook of rules and guidance for all authorised financial firms in the UK', often pointing firms to other more detailed sources of information on specific points of law (FSA 2005). The book and the FSA as a whole aim to create a 'market-place that is run in an efficient, orderly and fair manner whilst ensuring that consumers receive a fair deal by being properly informed and appropriately protected' (FSA 2005). (See Box 24.2.)

As a result, a regimented structure has been established for when, or more specifically at what intervals and with what content (updates on financial results and details of projections on future results, etc.), organisations must regularly communicate with financial stakeholders. This process is often referred to as the 'financial calendar' (Gummer 1995: p. 51). Furthermore, the guidelines also specify how organisations must communicate when involved in extraordinary special occurrences such as:

- initial placing offers (IPO)
- first trading on an exchange
- when a company is subject to mergers and acquisitions or hostile takeovers

- when an organisation 'de-lists' from an exchange and removes its shares from public trading
- any other news that might be considered 'price-sensitive information'.

**Definition:** Price-sensitive information can be defined as 'any information that a market does not know about, which if known would cause the share price of a company to move' (Middleton 2002: 164).

Internationally, it is important to note that regulations do vary and not all countries have either the same presentation format for regulations or the same regulations. In the USA, for example, regulations relevant to financial PR are found in a series of acts passed by the Congress and signed by the President. These include (but are not limited to) the Securities Act 1933, the Securities Exchange Act 1934 (and its 1964 amendment), the Investment Companies Act 1940 and the Sarbanes-Oxley Act 2002 (SEC 2005). This regulation provides for a fundamental difference between the US and UK financial calendars. For instance, in the US financial calendar financial PR practice operates on an annual cycle of quarterly reporting, rather than the UK cycle, which operates, on a cycle of mandatory reporting every six months.

**box  
24.2****Getting it out on the wire**

In the UK, when financial information is communicated by an organisation it is distributed through a wire service (see earlier definition) to City stakeholders, particularly the influencers (such as the media and analysts) who then interpret it and pass on their views on the item to readers or clients.

The working practice has evolved as a result of regulation laid down by the FSA, which stipulates that all financial communication must be released via a wire service first in order to ensure that all interested parties receive the information at the same time. This is done in order to ensure no individuals gain an unfair advantage over another party.

Until 15 April 2002 there was one authorised service that had to be used in the UK and that was the Stock Exchange's own Regulatory News Service (RNS). However, since this date the distribution of regulatory financial information to the City has been carried out in a competitive commercial system and there now exist six authorised wire services:

- Business Wire Regulatory Disclosure (provided by Business Wire)
- FirstSight (provided by Romeike)
- Announce (provided by Hugin ASA)
- PR Newswire Disclose (provided by PR Newswire)
- News Release Express (provided by CCN Matthews UK Ltd)
- RNS (provided by the London Stock Exchange)

*Source:* adapted from FSA press release 12 April 2002: FSA/PN/037/2002 and FSA.gov.uk

**Financial calendar**

According to Gummer, the calendar of events is made up of the interim results, preliminary results, annual report and accounts, and the annual general meeting (AGM) (Gummer 1995: 52–56).

**Interim results**

In the UK, these are often referred to as the half-year results (whereas in the USA these are published three times in the year), and serve to provide shareholders and the City with a 'health check' on the state of an organisation's financial results to that point of the year and provide insight into their expectations for the next six months through a statement from the Chairman that will accompany a financial account of figures.

**Preliminary results**

As with the interim results, the preliminary results are a reporting to the City of the organisation's financial results and future prospects, although in this case it is the first reporting of the financial results for the year and in turn often ends up as a 'highlight of the financial year' (Gummer 1995: 53). These results are the City's first opportunity to see and judge whether the strategy of an organisation's management has been successful against their expectations. As a result, both for preliminary results and interim results, if an organisation feels it is unlikely to meet the expectations of its financial stakeholders, it is common practice

that in advance of the regulatory reporting it will issue what is referred to as a 'profits warning statement' via the regulatory wire services. This statement is released in order to soften the blow of poorer than expected results and minimise the impact from any resulting loss of confidence with City audiences. These impacts can include the lowering of share price or a reduction/loss of financial/organisational reputation and the latter can affect the confidence of suppliers and the ability of the organisation to secure finance such as loans from lenders and others.

(It should also be noted at this point that with respect to both interim and preliminary results, the dates on which organisations report results vary with respect to the date of their initial listing, see later, so on any exchange on any given day multiple organisations will report their results.)

**Annual report and accounts**

An organisation's annual report is a document that presents an in-depth accounting of the year's financial results (confirming the preliminary results), as well as covering a variety of other topics of interest to its stakeholders. These topics include, but are not limited to: the codes of business practice; ethical statement; corporate citizenship; and corporate governance and philanthropic activities (Bowd and Harris 2003: 22). This plethora of information is included as a result of both regulatory demand and stakeholder expectations, often tied into the organisational CSR (see Chapter 6). Some

larger organisations, such as Shell, publish separate CSR reports along with their annual report and accounts.

It is important to note that all listed companies are required by law to produce an annual report within six months of their financial year end (date on which preliminary results must be released) and 21 days before their annual reports (Middleton 2002: 168).

### Annual general meeting

The final element of the annual cycle of the financial calendar is the annual general meeting (AGM), which is an opportunity for investors (individual or institutional shareholders) to meet and ask questions of an organisation's management. They can

also vote people onto – or off – the organisation's board of directors (such as chairman, secretary, etc.) as well as on new company articles (regulations). As a result the AGM is potentially a chance for an organisation's shareholders to forge the direction for the coming year. However, apart from times of organisational crisis (brought on by a loss of investor confidence), in practice for most organisations the AGM is an anticlimax (Gummer 1995: 55). The meetings are often poorly attended and most motions have been voted on in advance by postal ballot and the decisions follow the wishes of the institutional shareholders.

Case study 24.1 puts some of these activities into context. (See also Think about 24.3 and 24.4 and Activity 24.5, overleaf.)

#### case study 24.1

### Pace Micro Technology plc

#### It's a material world: the financial calendar and listings regulations

Pace Micro Technology plc is the world's largest dedicated manufacturer of digital set-top boxes, supplying major operators such as BskyB in the UK and Time Warner in the USA. Based in West Yorkshire, Pace is a FTSE techMARK 100 company (one of the FTSE indices), trading its shares on the London Stock Exchange. The company's head of corporate communications and marketing retains a specialist consultancy to enhance Pace's financial PR capability at key times in the financial year, as is typical in UK financial markets. Citigate's in-depth knowledge of the City and other financial stakeholders helps Pace to anticipate how the markets are likely to react to communication of its results and other financial matters. As well as using the services of a City PR consultancy, the in-house communications team take advice from brokers who guide them on the strict regulations governing disclosure of financial information.

It can be difficult to assess what is 'material' and how potentially price-sensitive information that must be announced to the Stock Exchange should be handled. The *Listing Rules* (set out by the UK listings authority, UKLA, which is part of the FSA) prescribe certain matters that must be announced to the market via the RNS (or approved alternative) as aforementioned, as well as large commercial deals, board appointments or departures and the like. Usually such announcements must be made without delay and there may be only a narrow window to agree the format of an announcement.

Pace's financial communication programme works on a six-monthly cycle, driven by the interim results in

January and preliminary final results announced in July. The communications team has to factor in production of the annual report for August, prior to the preparation for the annual general meeting in September. Key stakeholders include institutional and private investors, analysts within the UK, Europe and the USA, and the national and international financial media, for example the *Financial Times* and Reuters. Important other publics are major business customers who need to be assured of the stability of the business and, of course, staff who are particularly affected by the financial reporting in the local press.

Taking the interim results as an example, the head of corporate communication begins work on the chairman's report in November or early December, keeping track of redrafts as the messages are developed with the chief executive officer (CEO) and finance director, along with the brokers and City PR consultancy. In January board members meet to sign off the results, prior to the announcement of the interims, usually on a Monday, when Citigate then issues the information to the Stock Exchange. On results day, information is sent out via a regulatory wire service at 7am, then Pace executives meet with analysts at 9.30am, the City press at 11.30am (often communication with national journalists is by phone, rather than face to face) and the trade press in the afternoon. The results presentation and supporting documentation produced by the communications team forms the basis of subsequent investor roadshows led by the CEO. The cycle is repeated in depth when full results are announced in July.

Reflecting on the purpose of financial public relations for his organisation, Pace CEO John Dyson says:

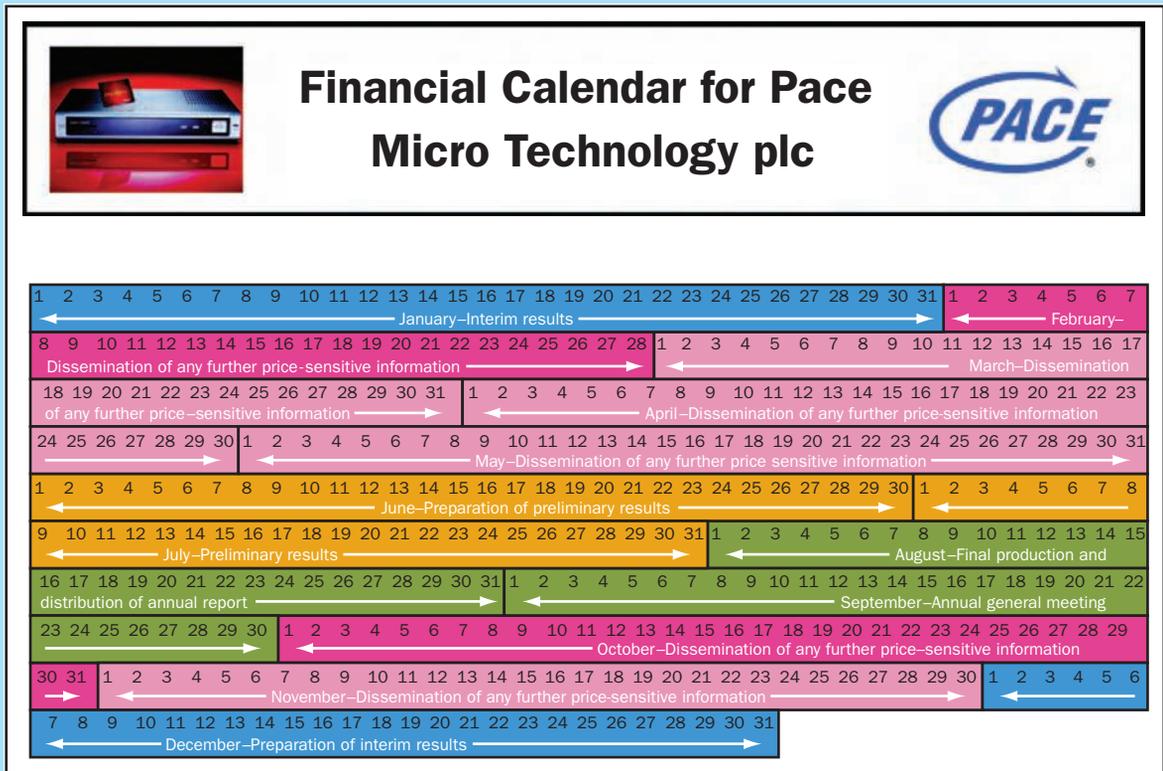


**case study 24.1 (continued)**

The most effective financial PR is actually about delivering business results. PR without substance is meaningless, but today analysts and the media demand continuous news and information. Lack of 'noise' can be misinterpreted, so it's vital that financial communication finds a healthy balance between delivering transparent

and meaningful messages which meet regulatory requirements without creating exaggerated expectations of performance, either for the good or bad.

Source: courtesy of Jo Powell, Senior Lecturer, Leeds Metropolitan University



PICTURE 24.3 Putting the financial calendar into context: a graphic representation of Pace Micro Technology plc's financial year.

**think about 24.3 PR for a listed company**

PR for a listed company regularly involves managing information that may be price sensitive. How can you be sure that what you are publicising to the trade and consumer press in way of new product development does not conflict with FSA rules?

**Feedback** Consult FSA guidelines in the *Purple Book* on reporting and ensure you follow them prescriptively.

**think about 24.4 Skills of the financial PR practitioner**

What are the main capabilities and competencies required of a financial PR practitioner?

**Feedback** You might want to refer to the sections on public relations roles and practitioner skills (Chapters 3 and 15) as well as think about the particular skills required by financial PR practitioners.

**activity 24.5****Reporting financial news**

Over the coming days, watch the financial news portion of your national television reporting (BBC, CNN Europe, CNBC, etc.) and read the financial sections of major papers. Look at how companies which posted results in line with City expectations are reported versus those which fail to meet their expectations.

**Feedback**

You will probably notice that in the current media environment, organisations whose posted results have just met expectations are a non-story worthy of only a brief mention; organisations which have exceeded expectations may receive slightly more coverage; a company that has done poorly against its stakeholders' expectations receives a vast amount of coverage. This coverage may extend into features, as well as the examination of whole sectors in order to gauge whether or not other similar organisations will be posting comparable results.

Apart from the financial calendar and the communication of 'price-sensitive information', there exist three principal types of special occurrence that a financial PR practitioner may have to deal with as part of the practice of financial PR:

- 1 initial placing offer (IPO)
- 2 mergers or acquisitions
- 3 hostile takeovers.

The first of these traditionally only involves one team of practitioners, whereas the other two activities will often involve multiple teams.

**Initial placing offer**

An initial placing offer (IPO) is when an organisation lists itself on an exchange in order to become a traded security that can be bought and sold. For most organisations, this is an incredibly important step that is undertaken for various reasons and if successfully handled can enable them to move from strength to strength. Julius Duncan, Associate Partner of Finsbury, one of the UK and Europe's leading

financial PR consultancies, provides a practitioner's guide to IPOs covering the motivation to float, the process of flotation and some potential pitfalls for practitioners to watch out for in the process in Case study 24.2.

**Mergers and acquisitions**

Mergers and acquisitions are the second special occurrence a financial PR may have to regularly undertake for an organisation. Most company takeovers are carried out as 'friendly' transactions. These takeovers or mergers are carried out with the recommendation of the target company's board of directors. Under this friendly manner of execution the risk of failure is lessened, therefore the cost at which one can raise capital to buy a company is lower. Also, they do not have to offer a high premium to the market and the advisor's bills will be less than if the situation were more complicated. This is an activity that the City expects that most listed companies will engage in as part of their corporate strategic plan at some time (Middleton 2002: 169). It will see either one organisation merge with another resulting in a new company or will see a larger company 'swallow up' a smaller organisation. This process often involves one of the organisations raising money to finance the merger or acquisition to enable the shares of the other company to be purchased. This can be done via a rights issue (new shares being offered to the market/exiting shareholders of the other company in the new company) or through loans from financial institutions to purchase the shares for cash. Additionally, it is often necessary for the shareholders of either one or both companies to be persuaded to agree with the proposed action, whether it is a merger or acquisition. There are basic laws that govern the flow of information to the market and it is important to understand them fully before getting involved in a takeover. If you get it wrong you can be sent to jail. However, the basic rule is that all shareholders must be in full possession of the facts of the bid at the same time. This information is usually released in the offer document at the start of the buying process and 'new information' may not be added to it subsequently. (See Think about 24.6 and 24.7, overleaf.)

**think about 24.5 How to use the financial calendar**

After reading Case study 24.1, how do you think a financial PR practitioner might carry out the individual elements in the financial calendar?

**Feedback** Do you think they will run in a similar manner of preparation of materials, distribution, hosting meetings and briefings or will other elements be different? You might want to consult the FSA guidelines or Peter Gummer's (1995) chapter on financial PR, which offers a practical list of the financial PR's role in specific situations.

## case study 24.2

## A practitioner's guide to the IPO

### Motivation for flotation

The primary reason an organisation floats on an exchange is to tap the public equity markets for funds. Companies that have previously been owned by private individuals, private equity companies or governments (in the case of privatisations in the 1980–1990s) sell a stake in themselves onto a stock exchange of their choosing. This brings them an injection of equity (cash), known as the proceeds of the offer, that the company will use to further its strategy/development. This 'use of proceeds' is stated upfront by the company in its prospectus or 'listing particulars'. Typical uses are to restructure debt or pay out exiting shareholders. Other benefits of being on the public markets are heightened profile, the ability to use your quoted shares as currency in further deals and the ability to use equity to attract and incentivise staff.

### Process of flotation

#### Step 1

Once a company has decided it will pursue an IPO it will appoint legal and banking advisors to prepare the necessary paperwork and documents to go public. At the heart of this is the prospectus or 'listing particulars', which sets out every element of the business that is to be sold to investors and provides financial details on its past performance. A critical section of this document covers the 'risk factors' where the company must list every potential threat to its business and its prospects. The prospectus is a legally binding document and must be approved by the UKLA and finally 'stamped' to show that it has been approved.

#### Step 2

The floating company's banking advisors will then go out on the company's behalf to test the level of demand in the market for the company's stock: this process is called pre-marketing. This pre-marketing is based on research notes that are written by the analysts attached to the banks following meetings with the company and its management. From a communications perspective the initiation of pre-marketing is the most common time for the company to issue an 'intention to float' announcement outlining its plans and giving brief details on the business and its management.

#### Step 3

At the end of the pre-marketing period the company sets a 'price range' for its shares that sets a range for the company's valuation when it first floats. This price range will be communicated to the market by way of a statement and journalists will take a view on whether or not the IPO is attractively priced for investors.

#### Step 4

The management of the company then goes on what is known as an 'investor roadshow' to meet institutional investors in a gruelling series of face-to-face meetings, typically over a one to two-week period. The banks then go out to these potential investors and find out if they wish to take up shares, and at what price. This is known as the 'book-building' process. Depending on the level of demand in the book, the IPO will be priced. The intention is to get as high a price as possible. In instances where there is very high demand the price could be outside the top of the range; if there is low demand the range could be lowered or the IPO be priced below the range. In the worst scenario the IPO is 'pulled' because the selling shareholder refuses to accept the lowered price that investors are willing to pay.

#### Step 5

In the instance that the float has been priced successfully the company proceeds to listing on the nominated exchange. The necessary logistics of assigning a ticker code to the new listed company and setting it up as a new stock on the exchange are handled by the company's banks and lawyers.

#### Step 6

Once this is complete the company commences its 'first day of dealing' and its life as a publicly listed company. From this stage on the company is exposed to a heightened level of scrutiny on the public markets and constant journalist attention, and it must abide by the listing rules as outlined by the UKLA.

### A few pitfalls to beware of during the course of an IPO

It is in potential investors' interests to 'talk down' the value of an IPO during the marketing process to enable them to buy the company more cheaply. This is often done through the press and journalists are willing recipients of negative stories about valuation and the possibility of a deal being re-priced, or failing.

Journalists tend to focus on the personal and colourful elements of the information in the prospectus. They are particularly keen to write about any significant payments to management or individuals selling shares. If this is the case for an organisation, it is necessary to explain in detail the reason for the payments and communicate them proactively to journalists thereby gaining their understanding.

*Source:* courtesy of Julius Duncan, Director, Lawton PRC, previously Associate Partner, Finsbury

## think about 24.6 An IPO

If you were acting as the financial PR for a company about to go through the IPO (initial purchase offer) process, what could you do to try to minimise the potential for the pitfall described in Case study 24.2, where potential investors ‘talk down’ the share value of an organisation?

**Feedback** One thing you could do is undertake an issues management programme for the IPO process and prepare documentation to identify any potential issues or weaknesses that could be used against you and then plan a communications strategy around each (see Chapter 19). Often this will involve ensuring that you have brought this information to the City’s attention prior to a third party doing so, and in the process of raising the information, effectively communicating why it is either a ‘non-issue’ or actually a positive for the organisation.

### Hostile takeovers and unsolicited advances

Hostile takeovers and unsolicited advances are the final of the three common special occurrences that PR practitioners will involve themselves in. Although financial PR practitioners perform many tasks for the institutions they work for, perhaps their role and importance is brought most firmly into focus during a company takeover. This is when the press is most interested in a company and where the messages and in particular the sentiment surrounding a bid really can make a difference to everybody’s ‘bottom line’ (profitability). Financial institutions are well aware of this phenomenon and will pay a lot of money for professional media advice during this period.

An ‘unsolicited’ bid for a company is where financial PR gets most interesting. Here the bidder has not asked the directors of the target company for their support. They just go ahead and try to buy the company up. Examples of this include Michael Glazer’s bid for Manchester United plc or Philip Green’s attempt to buy Marks & Spencer. In both these situations, the target company did not put itself up for sale – it became a target without wishing to be so. In both situations, however, the bidding parties wished to enter into negotiations with the target. In the Marks & Spencer case, no formal offer was made for the company but there was significant media speculation surrounding the bid; handling this situation is the job of the financial PR practitioner.

The case of Manchester United offers interesting insight into whether a bid is ‘hostile’ or not. A bid becomes hostile if the board of the ‘target’ publicly reject a bid. This situation is not at all common, but during the 1980s James Goldsmith and Tiny Rowlands carried out a number of so-called ‘corporate raids’. Press speculation increases massively and therefore the job of the financial PR becomes time consuming and crucial to the success of the bid. In the case of Manchester United plc, the board never stated an outright rejection of the Glazer bid and therefore this bid must be deemed ‘unsolicited’; then again, they did not welcome it either and press coverage surrounding the bid suggested it was ‘hostile’ even though it was not. These grey areas are becoming more common and the so-called ‘half-bid’ situation is making a big difference to the way in which financial PRs do their job and provides problems for the financial regulators. The situation can become even more complicated if another bidder becomes interested. This is called a ‘competitive bid’. Competitive bids are very expensive for the buyer, so when other potential buyers are thinking of making a counter offer, the financial PR must try to influence opinion.

The actual work carried out by the financial PR changes depending on the nature of the offer, whether one is working for the buyer or the seller and whether the offer is in cash (with no equity) or stock (all equity), or a mixture. If the PR is working for a buyer they try to explain that the offer is ‘full and

## think about 24.7 Mergers, acquisitions and IPOs

In the process of a merger or acquisition, what do you think the role of the financial PR is? How different do you think it will be from the role the practitioner team plays in the IPO process?

**Feedback** In these situations, it is the role of the financial PR working with the legal teams and banks involved to communicate to both shareholders and ‘buy-side’ and ‘sell-side’ analysts to ensure shareholder support is won and the City expectations of the effects of the activity are managed effectively.

**box  
24.3**
**Important ‘trigger points’ in takeover code**

Note: % = percentage of shares owned

- 29.9% – once a bidder has taken more than 29.9% of the stock of a listed company it must make a formal offer for the rest of the shares.
- 50% + 1 – you have effective control of the company; in reality you probably have control before this point is reached.
- 75% – you can force a company to de-list with no regard of minority shareholders. You can change the rules of the company to never pay a dividend, for example. At this point, most shareholders will sell their stakes in the company.
- 90% – all minority shareholders must sell to the bidder.

fair’, especially if it is a cash offer. If it is hostile they will highlight the limitations of the current management and feed journalists with evidence of the company’s past underperformance. If the offer includes equity (stock) the PR may highlight how much better the new company will perform and that the value is in the interests of the shareholder.

The key point is that at no time may you produce ‘new information’ but bids can succeed or fail on the sentiment expressed around the marketplace – and financial PRs are crucial to this process. (See Box 24.3.)

In addition to the financial calendar, the communication of other price-sensitive information and the special occurrences already discussed, there is one other rare area of communications activity in financial PR – when an organisation *de-lists* from an exchange.

**Definition:** *De-listing* is when an organisation either withdraws its shares from an exchange and becomes a privately owned company or is removed from an exchange for some form of regulatory reason.

Voluntary de-listing can occur when an organisation or its shareholders as a whole decide to de-list the organisation (assuming they are able to so) or if one shareholder acquires a majority so large that they are able to take an organisation into private ownership without the consent of the other shareholders. In the UK, this level is set at 90% ownership of shares, where that shareholder triggers a compulsory sale of the remaining shares to them. With respect to the previous case of an organisation or all shareholders deciding to de-list, although rare, it does occur; one such case where it is currently occurring is in the USA where many small organisations are de-listing in order to save the costs of meeting the reporting requirement of the Sarbanes-Oxley Act 2002 (Miller

and Frankenthaler 2004 online). The act introduced many new reporting regulations and as a result made the cost of reporting outweigh the benefit of being a publicly traded security.

An organisation can be de-listed from an exchange if it commits a severe breach of the ‘listing rules’ or is found to have repeatedly contravened the regulations, although this rarely occurs. Additionally, an organisation can be de-listed from an exchange if it no longer meets requirements to qualify for a listing. This can happen, for example, to companies traded on US NASDAQ or New York Stock Exchanges if their share price trades for less than \$1 per share for 30 consecutive trading days and they are unable to respond appropriately according to the respective ‘listing rules’.

### How is effectiveness measured in financial PR?

Given that, as this chapter has shown, financial PR has arisen from a variety of historic routes, contains fundamental differences in international practice, has to communicate with a wide range of stakeholders and covers highly regulated activities within the financial calendar, it may seem hard to measure its effectiveness.

Although its activities could be measured via the various techniques described in Chapter 11, financial PR tends to be solely evaluated on its net impact on the business. Middleton (2002) points to the main measure of financial PR being the share price of an organisation, although others would probably widen this to include being on the winning side in takeovers, successfully achieving the desired price at flotation or enabling a merger to take place.

This emphasis on results is exemplified in Pace CEO John Dyson’s quote: ‘The most effective financial PR is actually about delivering business results’ (see

Case study 24.1). In the *Economist* article that was quoted at the beginning of the chapter, Alan Parker, the founder of Brunswick (UK financial PR consul-

tancy), is quoted as saying: 'Retainers are the enemy of value . . . we want to be paid for results' (*The Economist* 14 July 2001: 75).

## Summary

This examination of financial PR has served to demystify the practice by defining what practitioners do, identifying who is involved, illustrating international differences and similarities in practice, introducing some of its unique lexicon and body of knowledge and examining its impact on business. Furthermore, the chapter has drawn out some of the trends that will need to be considered in future years.

One of the trends that it will be essential to consider is converging markets. This constant evolution of the global financial environments in which companies operate will see the practice continue to evolve and practitioners will need to

understand the dynamics involved. As with the metro/tube system map of who's involved in the City, if a practitioner fails to properly navigate the evolving system they will find themselves lost and their organisation derailed.

Overall, financial PR is a highly specialised discipline, the rewards are great and the penalties for failure are extreme. It is imperative that PR practitioners are confident of their ground before getting involved. However, financial PR practices such as mergers and takeovers are highly testing and stimulating. If you do ever get involved, it is likely that the experience will take over your life and push all other matters to one side.

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*Bild*: [www.debild.de](http://www.debild.de)

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The Committee of European Securities Regulators: [www.cesr-eu.org](http://www.cesr-eu.org)

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*Wall Street Journal*: [www.online.wsj.com](http://www.online.wsj.com)

For glossary definitions relevant to this chapter, visit the **selected glossary** feature on the website at: [www.pearsoned.co.uk/tench](http://www.pearsoned.co.uk/tench)