You're saying it. Are investors hearing it?

What you need to know

- Investors and other stakeholders are increasingly leveraging technology to analyze company communications and make decisions.
- Ineffective communication can impact how stakeholders view a company.
- Evolving technology and changing investor expectations are driving changes to the investor relations function.
- Companies can use technology to proactively enhance their communications with investors and gain a better understanding of marketplace perceptions.

This In the loop was updated in January 2021 to include additional tools and techniques investors are using to evaluate company communications. We also expand the discussion on the tools used by companies and how investor relations functions are evolving in response to the changing landscape.

In today's complex and technology-driven business environment, it is more important than ever for companies to effectively communicate with investors and other stakeholders. Companies are increasingly subject to changing financial regulations, an increased focus on environmental, social, and governance (ESG) issues, a changing global geopolitical environment, and in some cases, declining trust. And the current COVID-19 environment and its interrelationship with other matters has made it even more important for companies to ensure they are providing transparent and clear messaging to investors. For example, as we recover from the pandemic, most US investors in a recent survey (93%) expect companies they invest in to increase their prioritization of ESG initiatives.[1]

At the same time, investors and other stakeholders are leveraging technology to quickly gather information and analyze what a company is saying or, perhaps more importantly, what they are not saying in their communications.

Investors are listening—closely

Financial communications are increasingly being analyzed by computers rather than people. Technological advances have made it easier for investors and other stakeholders to quickly compile and dissect a wider range of information about a company—both written and verbal. They can now identify unclear or conflicting statements and positions more quickly than in the past.

Some investors are using language and sentiment analysis (an automated process that identifies positive, negative, and neutral opinions in a body of text) to help them make allocation and investment decisions. Investors are also using machine learning and natural language processing tools to create a reference source of a company's commonly-used words to better understand the tone and potential implications of a company's communications. They can also use voice analyzers to identify vocal patterns, emotions, and deceptive responses in management commentary during earnings calls and in other forums.

[1] 2020 Edelman Trust Barometer Special Report: Institutional Investors, November 2020

Investors are not only scrutinizing what a company is saying about itself, but what other stakeholders (e.g., employees, customers, competitors) are saying about the company by purchasing "alternative data." In recent years, there has been a proliferation of vendors that use technology to search through vast quantities of digital data to extract useful information for investors about companies and their competitors.

Mining of this alternative data, which includes a range of information "scraped" from the Internet, images captured by satellites, and data points aggregated from consumers' spending, has grown significantly in recent years. Sales of this data was estimated at more than $1billion in 2019 and nearly $2 billion in 2020.[2]

Investors are also increasingly using social sentiment analysis tools to inform their investment decisions. These tools, offered by some financial services firms, use natural language processing and other complex computer processing techniques to compile and analyze social media data, including tweets, blog posts, and messages to provide to investors. While already impressive, the sophistication, efficiency, and capacity of the technologies that analyze company information will only continue to improve. Therefore, the words a company uses, where it uses them, and how it uses them, are becoming even more important.

The risks of poor communication

Inconsistent, conflicting, or unclear messaging can damage a company's reputation or brand, compromise trust, negatively impact share price and cost of capital, and erode stakeholder confidence. A majority of US institutional investors surveyed (88%), say they must trust the CEO before making or recommending an investment.[3]

In a 2017 survey, most investors (90%) told us the quality of a company's reporting impacts their perception of the quality of its management.[4] And we expect that sentiment is still accurate. At the same time, investors' trust in certain information companies report is increasingly viewed with skepticism. It is imperative that a company's financial and other communications—whether through press releases, earnings calls, annual reports, investor presentations, social media channels or other means—are clear, transparent, and consistent across platforms.

38%

of investors **trust the information companies report** on strategic goals, risks, and key performance indicators enough to be confident in their analysis and decision making.

28%

of investors **believe management is sufficiently transparent** about the metrics they use internally to plan and manage their business.

[2] alternativedata.org

[3] 2020 Edelman Trust Barometer Special Report: Institutional Investors, November 2020

[4] PwC, Global investor survey, November 2017

Companies are responding

As financial communications are increasingly consumed by computers (which drives market activity based on data analysis), companies are using technology to refine their messaging and gain a better understanding of marketplace perceptions. For example, some companies may try to influence the sentiment and tone of their disclosures as interpreted by machine readers to elicit appropriate conclusions about their content and to avoid misinterpretation. Companies may avoid words that are listed as negative in the Harvard Psychosocial Dictionary or other finance-specific dictionary, which are used extensively to train machine readers. Companies might also adjust their use of words that could be labeled as uncertain or demonstrating too little or too much confidence to ensure messaging is heard in the manner intended.

How companies are using technology to enhance communications

There are a range of tools and techniques to help with wording choices and evaluate the effectiveness of communications, including:

- **Machine learning and natural language processing tools** allow a company to test the potential impact of its language before releasing it.
- **Investor perception studies** provide an independent, third-party evaluation of the effectiveness of a company's investor communications.
- **Predictive analytics** allow a company to monitor large quantities of information from external sources (e.g., social media, analyst reports) to better understand the potential impact of communications to investors.
- **Sentiment analytics tools** help in measuring brand health by analyzing key performance indicators like brand awareness and brand reputation. These tools also gauge customer satisfaction levels and opinions potential customers have about the company.
- **Advanced customer relationship management technologies** track and manage stakeholder interactions with the goal of making engagement with key stakeholders more strategic.

These tools and techniques are also helping companies evolve their investor relations (IR) functions, as they respond to a changing investor landscape and evolving stakeholder expectations. For example, in response to the overall increase in use of social media, some companies are embedding a social media strategy within their IR plans that includes a heavy focus on sentiment analytics tools.

Investor relations teams are also now communicating directly with a larger investor community due in part to an increase in the number of retail (individual) investors. In 2020, a record $120 trillion in stock trades were made on US exchanges, with retail investors accounting for a fifth of the volume, double what it was a decade ago.[5]

82%

of institutional investors **consult a company's social media channels** when evaluating a current or prospective investment.[6]

[5] Bloomberg, Day Traders Put Stamp on Market with Unprecedented Stock Frenzy, December 31, 2020

[6] 2019 Edelman Trust Barometer Special Report: Institutional Investors, December 2019

As technology continues to play a larger role in communicating with investors and other stakeholders, companies will want to re-evaluate the role and composition of their communications and investor relations functions as well as consider whether the governance and controls over the use of data and technology should be enhanced. In addition, companies may need to revisit the earnings release and earnings calls processes to make sure the information, and the way it is being provided, consider both a machine and human audience. The company may have a great story to tell about its growth, resilience or a change in strategic direction that needs to be heard in the manner intended. As a company starts to develop or enhance its communications on ESG reporting or other emerging matters, for example, these steps will make it more likely that investors and other audiences will get the message the company is trying to send.

For more information on communicating with stakeholders see our Point of View ***Your purpose, your stakeholders: What it means for reporting.***

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