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Corporate Perception on Capital Markets

Non financial success factors in capital market communication

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Foreword: Those who don’t communicate remain invisible.

When some top managers check on the direction of their company’s stock price, a shade of pale regularly descends over their faces. The negative trend stubbornly refuses to end; the price simply does not react as expected – neither to a successfully completed fiscal year nor to the latest sales successes nor to promising new product introductions. “What are we doing wrong? Our numbers are good – why is our valuation so low?” many puzzled and frustrated board members ask themselves. And if peer-group stocks are clearly performing better, scapegoats are quickly found: “The stockholders are simply not noticing the company’s potential. The analysts are just not getting the equity story ...”

Many Investor Relations Officers know from experience that good financial results and strong stock price performance are not necessarily correlated. Scientific evidence to underpin this feeling has now been provided by the following study conducted by the Institute for Media and Communications Management at the University of St. Gallen in association with DIRK, Deutsche Post AG, ING Group, Pfleiderer AG, PricewaterhouseCoopers AG and RWE AG.

In the study, the project team led by Professor Dr. Miriam Meckel asked analysts and institutional investors about the basis they use to make their decisions or recommendations – and came to this conclusion: The focus of capital-market participants is by no means directed only at the numbers. Rather, the public perception of a company on the capital market – and, consequently, its valuation – depends on a variety of non financial factors and individual company characteristics. These factors play an important role in Investor Relations and are therefore examined in detail in this brochure.

One of the most important non financial, or “soft,” factors is corporate communications. Professional capital-market participants expect a transparent view of developments in the company and its overall state. They can realistically evaluate the condition of the company – and, as a result, its value – only if they receive solid information. It is only then that the stock price can approach its “fair value.” The resulting conclusion: A high level of transparency is a requirement for success on the stock market. The capital-market community demands active communications, in good and bad times.

One other related aspect also supports the need for well-considered corporate communications: It contributes significantly to the so-called capital-market reputation, the sum of impressions that market participants have of the company and its dependability, trustworthiness and sense of responsibility. If the company's capital-market reputation is good, its messages are more likely to be heard – and they are more likely to be believed – an important milestone on the way to fair evaluations.

The fundamental component of this "work on reputation" must be done by the communication and specialized Investor Relations departments. They must win over the hearts and minds of capital-market participants with solid work and good connections to management. The work pays off. After all, comprehensive and continuous communications with the capital market is not a one-way street: It has a positive effect on perceptions and, in the end, on the direction of the stock price. And, as a result, the communication professional gains the trust of management.

Companies are in no way helplessly exposed to the moods of the capital market. The way that they and their stocks are assessed can usually be explained rationally and traced to a company's characteristics or actions. Accordingly, it is up to managers to achieve a fair stock price with the help of professional Investor Relations.

The DIRK is committed to channeling all of its energy into efficient communications between companies and the capital market. This study shows how important it is to actively pursue this goal. We would like to thank all of the partners whose support made this research project possible. And we are also happy that Professor Meckel, as the new member on the DIRK Scientific Advisory Board, will work in the future to systematically examine important issues for the IR community.

Hamburg, October 2007

Dr. Wolfram Schmitt

President of the DIRK – Deutscher Investor Relations Verband e.V.
(German Investor Relations Association)

1. Executive Summary

A company's perception on capital markets determines its value and thereby its strategic options. And yet little is known about the corporate features and factors that determine the perceptions held by financial analysts, institutional investors and financial journalists. The common models of company evaluation usually focus all too strongly on financials alone.

In this study we argue that capital market participants face the challenge of having to assess the uncertain prospects of markets and companies. To reduce the unavoidable risks associated with this exercise, capital market participants draw on so-called qualitative, non-financial corporate factors. By considering these factors, they can assess the situation, capacities, resources and business potential of a company more realistically and thereby improve the quality of the required forecasts. In addition, non financial corporate factors also provide the basis for a capital market reputation – that is, a collective judgment by capital market participants on the reliability, stability and trustworthiness of a company. Based on this reputation, the financial community regards a company's communication messages and growth prospects more or less critically.

This study, conducted among more than 200 financial analysts and institutional investors, leads to the conclusion that the perception of companies in capital markets rests on a number of non financial factors that can be classified into seven categories: corporate communications, management quality, corporate strategy, corporate governance, corporate culture, customer and industrial relationships as well as public affairs. In a two-phase research process, the basic non financial success factors of capital market perception were identified, described and weighted according to their significance. The categories and relevant subfactors elaborated in this report thus provide capital market participants with valuable information on the company's situation and have a significant impact on its reputation. We are convinced that Investor Relations professionals should consider the factors presented in this study in their work to ensure they really cater to the information needs of capital market participants. Consideration of non financial factors enhances the quality of financial communications and contributes to capital market efficiency and transparency.

2. Introduction: Non financial factors in capital markets

A company's share price reflects the value capital market participants attach to that company. Since it is the market participants' perceptions, opinions, recommendations and decisions that determine a share price, it is hardly surprising that listed companies and their managers invest a lot of time and substantial resources into improving their relationships with analysts, investors and financial journalists. Yet despite these efforts, a company's actual market value is beyond management's direct control. For months, or even years, a company's share price can linger below the value that would be regarded as "fair" based on its financial results. And, quite frequently, different companies operating in the same industry sector and reporting similar results have a dramatically different capital market value. Does a company's value depend solely on such financial figures as its balance sheet, earnings and cash-flow statement? Or are there other relevant factors?

This study aims to show that, in addition to financial parameters, non financial factors play a significant role in company evaluations – and should therefore be accorded an adequate place in capital market communication. Various studies – some of which were conducted at the Institute for Media and Communications Management at the University of St. Gallen – have shown that capital market participants' evaluation methods consider non financial aspects. Building on this preliminary insight, the research project "Corporate Perception on Capital Markets" shows what non financial information actually determines the perception of a company in the capital markets – i.e., which non financial factors a company should draw on to most effectively communicate with its target groups. In this context, we will provide a brief overview of the background of the study, the research process and method as well as the non financial corporate factors of particular interest and importance in daily capital market dealings.

Challenges related to investment decisions

Capital market participants share a common goal: to evaluate companies as potentially value-adding investment objects. Professional capital market participants such as analysts or institutional investors, in particular, base their investment decisions on a number of established, quantitative valuation models. A somewhat naïve understanding of valuation practices in the capital markets regards the share price as an objective value that can be calculated reliably by applying certain methods. Experience, as well as theoretical findings, however, contradict this view.

Rather, in information-efficient capital markets, a company's share price reflects the market participants' expectations about its future business development. Stock exchanges trade expectations. Yet expectations – including those about a company's future – are fraught with uncertainties. A company's balance sheets and income statements merely provide a historically oriented perspective on the company's development. But a company's valuation is based first and foremost on forecasts. The quality of forecasts, in turn, depends on the quality and quantity of the information the respective company releases. The less information capital markets have about a company, the less reliable their forecasts will be.

The established quantitative company valuation methods are largely based on forecast data – and thereby include highly subjective elements. For example, the established discounted cash flow method, according to which a company's value can be calculated as the sum of discounted future returns on investment, encompasses an assessment of expected earnings as well as an appropriate discounting factor. The residual value of the discounted cash flow method, the free cash flow – the value theoretically due to shareholders – furthermore contains a subjective assessment of future investments. This shows that any quantitative valuation method ultimately offers no more than an approximation of a company's value as determined by the capital markets. Therefore, there is no such thing as "the one real" valuation method, just as there is no such thing as an objectively calculable enterprise value. This means that, every day, investors and analysts have to form opinions on a company's financial development on the basis of more or less reliable information – and often have considerable leeway in doing so.

"Our experience has shown that you will end up with totally absurd prices when you use purely mathematical models. This is why we came up with the idea that there may be other value drivers that also determine a company's market value. Since we cannot integrate them into our model, we decided to start with a model-based calculation of economic value – in my view, this is the maximum value the company can achieve – and we then deduct our soft factors from this value (…). " *Sell-side analyst*

Capital market participants account for the fundamental impossibility of calculating an objective enterprise value by considering so-called qualitative, soft or non financial corporate factors. Aside from balancesheet analyses, buy recommendations and investment decisions are therefore also based on comprehensive analysis of companies' resources, markets, relationships and potentials. The results of the "Excellence in Investor Relations" study conducted by the Institute for Media and Communications Management at the University of St. Gallen confirm this assessment. In an exploratory investigation, the study analyzed what type and quality of information various representatives of the financial community demand from Investor Relations departments. The results provide interesting insights into the problem discussed here, that is, the problem of deriving an exact company value. The experience of several study participants showed that the company value calculated on the basis of various mathematical models does not match the real, i.e., traded value of a company, sometimes even over the long run. The study participants overwhelmingly agreed that other value drivers need to be considered. It was shown that the interview partners corrected the quantitatively calculated company values by including non financial factors, in many cases producing results that were more satisfactory or closer to the market. The consideration of non financial corporate factors leads to a more adequate picture of the company.

The information content of non financial corporate factors

"I think that obviously one's forecasts have got to be reflected by a broad picture of everything that affects the company. That is because you cannot build things and sell things in a vacuum. Because the hard factors you talk about are actually the product of all the soft factors put together. I think in my view, and I guess in any half-experienced analyst's view, at the heart is, that the painting at the end of the day is made of all the soft bits that go into that painting. It is made up of the inspiration of the artist and it is made up of the colours that are available to him and the experiences that he has had. And it ends up with a hard product. And that is what the numbers achieved by the company are. They are actually a product of all the soft factors surrounding the company." *Sell-side analyst*

The forecast quality of these methods must therefore be regarded as insufficient; a substantial "estimation risk" remains. The statements of the surveyed analysts and investors confirm that forecasts of enterprise value and future business successes depend on a large number of factors that cannot be derived exclusively from companies' financial data. Malkiel (1996, p. 127) offered this rather striking description of the challenge of equity analysis: "Basically, the securities analyst must be a prophet without the benefit of divine inspiration."

"Soft" or non financial corporate factors reduce the estimation risk associated with forecasts. Beyond the information provided by financial accounting, they offer capital market participants data on a company's situation as well as its resources and potential. They even regularly become "leading indicators" – the development of soft factors thus anticipates the development of key financial figures. Our analyses show that today, soft factors are generally considered by capital market participants in an unsystematic manner, based on the personal opinion of the person making the assessment. Only few respondents, for example, used scoring models for weighting non financial factors. Nonetheless, there can be no doubt that the subjective perception of a company in the eyes of capital market participants influences its valuation beyond the purely mathematical processing of corporate financials. A number of key soft factors exist that influence the perception of a company in the eyes of its target groups in the capital markets and should therefore also be accorded an appropriate role in capital market communications. The academic debate on such concepts as "value based management," "intangible assets" and "intellectual capital" shows that the consideration of non financial factors is a necessary prerequisite for adequately forecasting corporate development. Annual accounts are thus less and less able to reflect companies' real value (Baruch Lev, 2001). Meanwhile, the insufficient explanatory power of financial figures can also be attributed to macroeconomic developments such as the increasing importance of knowledge in modern economies (see also Kiernan, 2005).

All of this shows that a consideration of non financial factors in equity valuations produces a more adequate picture of a company's situation and enhances the forecast quality. Given the uncertainties attached to a company's future development, these factors can help market participants master the challenge of company evaluation and reduce the estimation risk. Comprehensive consideration of such soft factors, however, presupposes that this information is actually available to capital market participants. The participants in our study complained repeatedly about difficulties in obtaining relevant non financial information and that such factors are barely considered in corporate communications. Various institutions, such as the "American Institute of Certified Public Accountants" and the world's big-six audit firms (including Ernst & Young, PricewaterhouseCoopers, KPMG and Deloitte), therefore call for increasing consideration of non financial factors in corporate communications, in particular in financial communication: "Without adequate information, users of business reporting cannot judge properly the opportunities and risks of investment opportunities" (AICPA 1994, Chapter 1). With regard to non financial factors, they point to serious "information asymmetries" between companies and capital market participants. Although even companies and corporate executives themselves often cannot forecast their own company's development to a sufficiently reliable degree, they do have access to a much larger amount of information on the company's situation, its resources, goals, strategies, markets, suppliers, customers, competitors, etc. than capital market participants. This means that the company's information base is much broader and more reliable than external observers' can ever be (see also Labhart, 1999). In order to achieve an adequate and stable share-price development, however, it is in the company's interest to ensure a sufficiently high level of information among its capital market target groups by transparently communicating non financial factors.

Communication of non financial factors and reputation building

In capital markets, non financial corporate factors not only enhance information transparency – they also affect capital market's perception of the company in a second, rather indirect manner by contributing to the development of a positive reputation. There can be little doubt that collective psychological and emotional judgments have a significant impact on the capital markets and thereby company valuations. A company's reputation reflects such collective judgments. Reputation can be defined as the sum of a company's images in the eyes of its stakeholders. Studies show that, by helping companies become so-called "investments of choice", a good reputation boosts the company's ability to tap capital markets at favorable conditions (Fombrun, 2002; Larkin, 2003). A good reputation signals the financial market that the enterprise value will at least be maintained, if not increased, in the future. In contrast, a poor reputation is generally the product of repeated profit warnings, unconvincing strategy implementations or poor governance. Recent examples have confirmed that establishing a negative corporate reputation generally results in increased shareholder intervention in the company's business and strategy (shareholder activism).

A positive corporate reputation, in turn, fosters trust and respect toward the company and its management. Trust in a company also implies trust in its communication messages and business results (guidance). In view of the uncertainties attached to future corporate developments and unavoidable information asymmetries, capital market participants tend to adjust their informationgathering behavior to companies' level of trustworthiness. The effort directed towards information gathering by professional capital market participants is limited by their time budgets. This is why the financial community is generally more willing to believe the announcements of companies that have established good reputations – investors and analysts will be more prepared to rely on the guidance of such companies. However, trust and respect toward a company also increase capital market participants' loyalty toward the company, which can, for example, mean staying invested in the company during times of crisis. Apparently, a company's capital market reputation depends on both financial and non financial factors. The company's management quality, communication policy, corporate strategy and products all have an impact on its capital market reputation.

Companies' communication activities represent a key element of reputation management on capital markets. By providing capital market participants with information on their past and planned economic development as well as their current situation, resources and potential, companies and their communication departments take part in the information and interpretation processes of capital market participants. Corporate communication supplies basic information as input for the efforts of investors, analysts, journalists and other capital market participants to gauge companies' development (see also Kuperman 2003; Weick, 1995). It thus plays a key role in opinion building on capital markets. In summary, the communication of relevant non financial corporate aspects influences the perception of a company on capital markets in that it enhances transparency and reduces information asymmetries while also deepening investors' trust in the company. It enables improved assessments of relevant corporate developments and contributes to more reliable assumptions on the company's future performance on the part of capital market participants.

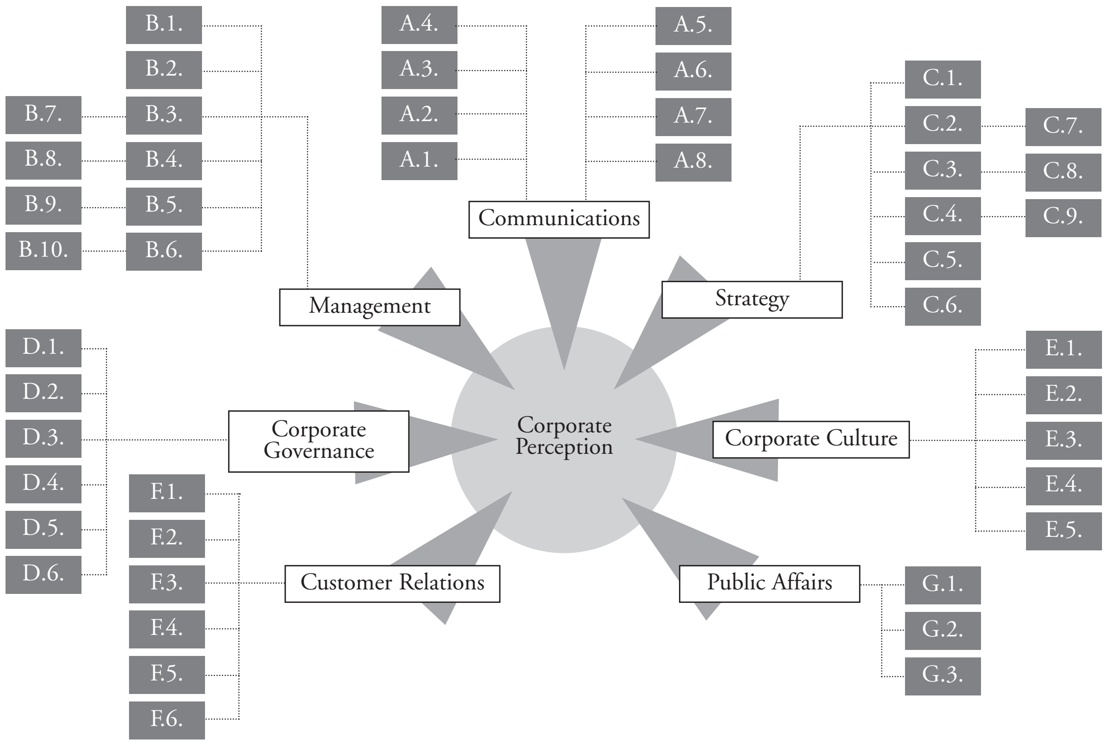
However, a company can only adjust its communication efforts successfully, if it is aware of the information requirements of its target groups. This is why corporate communications must build on an understanding of capital market participants' perception processes and their efforts to collect information about companies. Given the complexity of today's capital market developments, companies can pursue a successful long-term communication policy vis-à-vis the capital markets only if they can build on a sufficient appreciation of the requirements, desires and perceptions of their respective target groups. This is where our research project "Corporate Perception on Capital Markets" comes in. The aim of our empirical analysis, which we will present in the following chapters, was to identify and weight the non financial corporate factors distinctly impacting the perception of a company on the European capital markets, in particular among professional capital market participants. Awareness of these factors is key to financial communications that foster trust and respect on the capital markets by offering target groups comprehensive information.

3. Research methods and approach

Due to the limited empirical knowledge available on the research field described in this study, the research project "Corporate Perception on Capital Markets" pursued a combined approach consisting of an interpretative research paradigm for the identification of non financial corporate factors and a subsequent quantitative analysis to weight these factors. In a first step, a theoretical model on corporate perceptions on capital markets was derived on an exploratory basis. To this end, the research team used a grounded theory approach (Glaser & Strauss 1967; Strauss & Corbin 1990), as this appeared particularly well suited to gaining indepth insight into the underlying phenomenon. The key target group consisted of professional members of the financial community who tend to have a major impact on capital market opinions. Between May 2006 and October 2006, 42 partially standardized expert interviews were conducted with representatives of the sell and buy side (analysts and institutional investors). The interview partners were chosen from the European capital markets (UK, France, Germany, Netherlands, Switzerland, Spain).

Prior to the actual interviews, the survey participants were generally briefed on the contents and objectives of the survey. The questions of the exploratory, guideline-based interviews related to capital market participants' decision-making processes, available sources of information as well as qualitative, non financial factors impacting perceptions and assessments. All interviews were fully transcribed and rendered anonymous. The selection of interview partners followed the "theoretical sampling" strategy recommended by Glaser and Strauss (1998). "Theoretical sampling" describes the theory-generating data collection process during which the researcher conducts a parallel process of data collection, codification and analysis while simultaneously deciding on the necessity and type of additional data. In this case, additional interview partners were added to the sample from previously underrepresented sectors of industry with the aim of elaborating new characteristics and dimensions of the presented concepts as well as expanding them if necessary. The resulting theory was thus enriched and differentiated on a step-by-step basis. Although the survey cannot be said to be "representative" by reflecting the underlying universe and providing statistical sampling, it allowed for a sufficiently deep and comprehensive appreciation of the studied object from an exploratory approach. This initial research phase thus resulted in a comprehensive model of the perception of non financial corporate factors on capital markets. It identified 47 significant non financial factors that it assigned to seven overarching categories.

***Chart 1:** Model overviews of non financial factors*



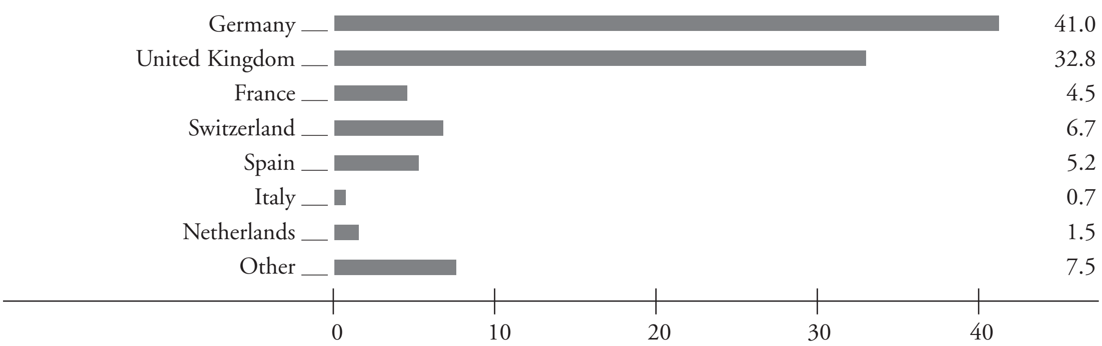
Upon completion of the qualitative research phase, the non financial factors were weighted in accordance to their impact on the activities of professional capital market participants. The weighting of factors was also served to test and validate the plausibility of the entire model. To this end, in late 2006/early 2007 the research team created an online survey based on the platform of German provider Unipark. Two pretests were conducted where professional capital market participants from Switzerland and the UK were asked to fill in the questionnaire and then were questioned on the user friendliness and comprehensibility of the questionnaire (Bourque & Fielder, 2003, p. 83).

The second study pursued a descriptive approach in that it aimed at the quantitative measurement and evaluation of a known, already identified phenomenon and sought to describe the frequency of occurrence of certain attributes and opinions (see also Diekmann, 2006, pp. 31). Accordingly, participants were confronted with a verbally structured template for subjectively evaluating a group of elements and factors (see also Mummendey, 1995, p. 15). The questionnaire presented the previously identified factors and asked participants to rate their relevance for their own, personal assessment of a company on a numerical, descriptive rating scale from 1 – "irrelevant" to 5 – "very relevant." Such a measure is necessarily scaled ordinally, but in the case of rating scales the data analysis can be based on the assumption of an approximate interval scaling (Bortz, 1984, p. 124).

Sample

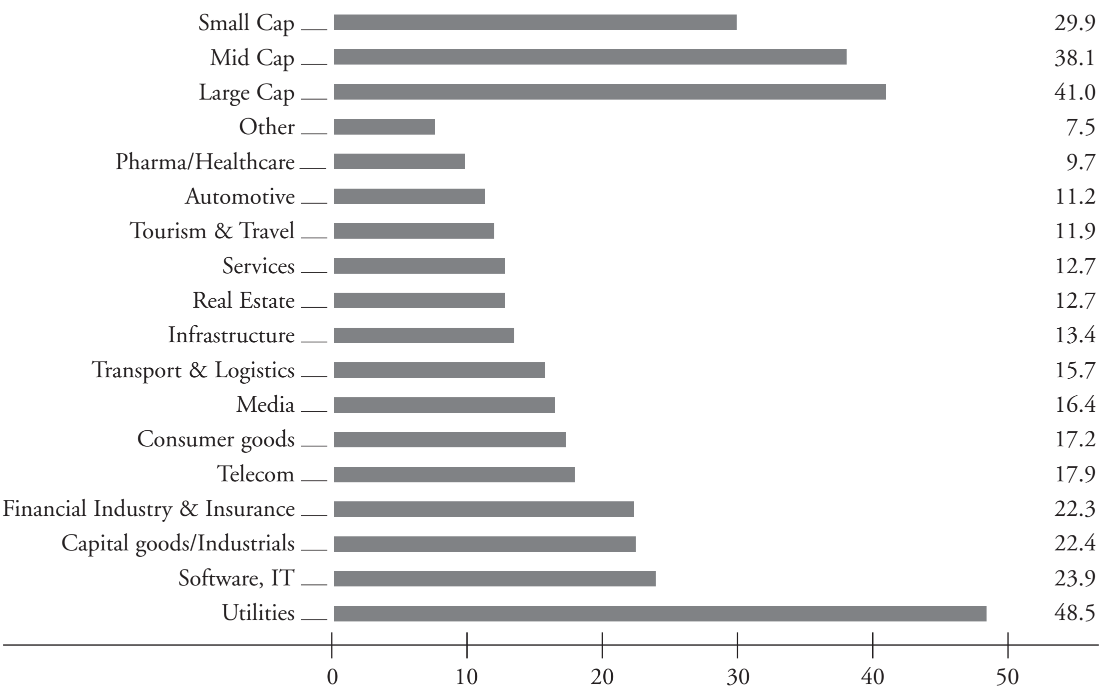
Despite the sampling challenge related to this particular target group, 174 participants joined the second phase. Participants were recruited from the project team's database between February and July 2007. Since participants volunteered to fill in the questionnaire, participation was subject to a certain degree of self-selection. Given the fact that the size of the universe of this survey, i.e., the exact number of all European professional capital market participants, was not known, the sample cannot be assumed to represent a pure random choice sample. Participants in the second study came mostly from Germany and the UK, although a number of other European countries, such as France, Switzerland, Spain and the Netherlands, were also represented (see chart 2).

Chart 2: *Geographic distribution of survey participants [%]*



The survey sample comprised a share of about 45% sell-side analysts, about 22% buy-side analysts and approximately 31% institutional investors. It was ensured that participants operate in or cover a broad range of different sectors and industries (see also chart 3).

Chart 3: *Survey participants' sector coverage [%]*



The two-stage research process was completed by the statistical analysis of the generated data based on the analysis software SPSS. According to the goals of the research project, the analysis focused on the calculation of the mean relevance assessments. The following chapter will present a comprehensive description of the identified, non financial factors in capital market perceptions as well as their significance and weighting.

4. Empirical findings

In the following sections, we will describe and examine the relevance of the identified non financial corporate factors that determine capital market perceptions. The factors will be classified into seven categories. Chart 4 offers an initial overview of each factor's respective relevance. In the context of the survey, the category "communications" was assigned the highest average weighting, followed by "management quality." All seven categories, however, received a weighting above the median value of 3 – in summary, all categories described in the following sections can thus be considered relevant.

Chart 4: *Weighted ranking of all categories and factors*

Corporate communications	Rank
Comprehensive and detailed disclosure	3
Availability and openness of IR staff	7
Proactive agenda setting	9
Continuity	10
Competence and experience of IR staff	12
Quantification of strategic objectives	15
Equal treatment of capital market participants	18
User friendliness	19

Quality of management	Rank
Execution of strategic plans	2
Business acumen	5
Leadership skills	6
Ability to meet forecasts	8
Willingness to discuss business results	13
Track record	14
Management's accessibility	24
Company and industrial experience	27
Personal appearance / communication skills	34
Tenure	45

Strategy	Rank
Long-term orientation	1
Shareholder value	4
Consistency	16
Comprehensibility/coherence	17
Cost efficiency	23
Innovation and technology leadership	29
Creativity and differentiation	35
Alignment with market trends	44
Branding	46

Corporate governance	Rank
Transparency regarding insider trading	20
Performance-based remuneration	22
Shareholder structure	26
Board structure	32
Disclosure of compensation policy	36
Transparency of appointment policies	41

Corporate culture	Rank
Staff recruiting	11
Employee satisfaction	31
Employee turnover	37
Labor relations	40
Employee communication	43

Customer and industrial relations	Rank
Customer satisfaction	21
Customer service	25
Brand strength	30
Industrial reputation	33
Public reputation	42
Media coverage	47

Public affairs	Rank
Susceptibility to regulation	28
Lobbying	38
Environmental and social sensitivity of operations	39

The seven key categories of non financial information in capital market perception and the underlying corporate factors will be considered in more detail in this section, along with an overview of the ranking of factors within the general categories.

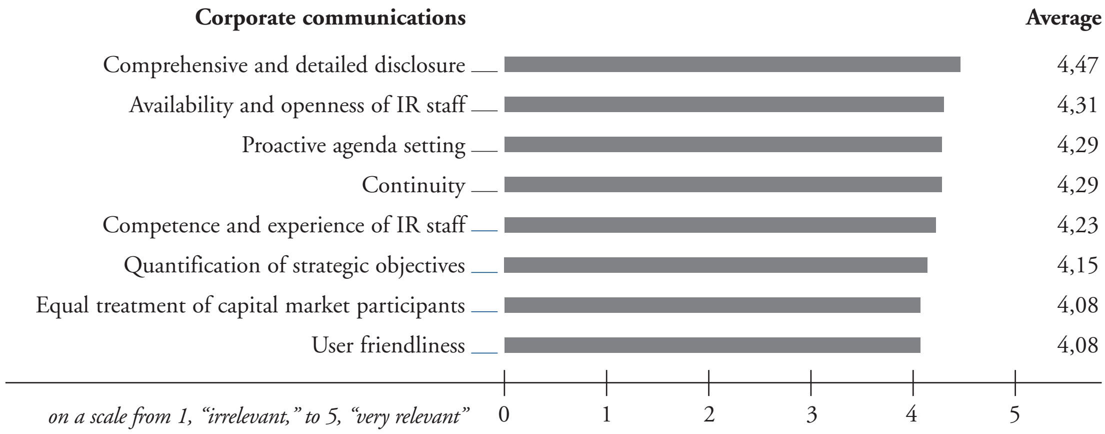
A. Corporate communications

The importance of corporate communications on international capital markets is a well-known phenomenon, which has been confirmed by numerous international studies. A company's communication policy affects its reputation among capital market participants. It is one of the most important sources of information for the financial community – most capital market participants contact the communication departments of the companies they cover several times a week. In their coverage of companies, capital market participants depend on the comprehensive **disclosure of business developments** by the company. Inconsistencies in the company's information policy can therefore have a seriously negative impact on the company. Aside from financial developments, non financial factors are increasingly gaining importance in corporate communications. **Continuous information** on current developments is expected just as much as consistent handling and coverage of the topics addressed by the company. Companies' credibility is influenced heavily by their ability to fulfill projections and forecasts. The financial community appreciates companies that **quantify** their announcements, thereby rendering them tangible.

One of the key tasks of Investor Relations is establishing a trust-based relationship between the company and capital market participants. This is why companies' communication departments should be highly **accessible** and open to the desires and requirements of the financial community. In addition, capital market participants appreciate it when companies take the initiative and **proactively address issues**. In the eyes of capital market participants, the quality of corporate communications is generally closely intertwined with the skills, competencies and **professional experience** of its staff.

Aside from awareness of the actual information requirements of the target group, the **user friendliness** of corporate communications also shows in the formal design of communication instruments, such as the data format or the structure of an annual report. As a matter of principle, capital market participants expect a fair communication policy that **treats all participants of the target group equally** rather than displaying personal preferences.

Chart 5: *Average scores in the corporate communications category*



A.1. Comprehensive and detailed disclosure

"Transparent information – what does the company publish? The more information I obtain about the company, the more transparent the whole affair is. Anything else would destroy value." *Buy-side analyst*

Comprehensive disclosure of business developments is a prerequisite for realistically assessing and evaluating a company. Presenting the company in a timely, detailed and fact-based manner is a core task of corporate communications. Particularly in the case of unexpected developments, full disclosure is decisive.

A.2. Availability and openness of IR staff

"The company's accessibility or proactive approach – a company should not be passive here." *Sell-side analyst*

Transparent, credible corporate communications presuppose access to the according communication functions. Capital market participants expect reliable, present, that is, reachable, contact people, in particular in Investor Relations departments. Communication functions should be willing to discuss the concerns of the financial community and be available to answer questions and discuss issues.

A.3. Proactive agenda setting

"IR should raise interesting topics together with the analyst and, of course, present its opinion in the process rather than letting opinion form in empty space." *Sell-side analyst*

Beyond the willingness to answer their questions, capital market participants appreciate communication managers who identify corporate issues of relevance to the capital market and address these issues proactively. This means that a company should actively seek an exchange of views with the financial community.

A.4. Continuity

> *"Once you start to communicate something, you have to communicate fully rather than stopping when things turn sour."* *Sell-side analyst*

Continuity is a very important aspect of a company's communication efforts. Topics that have been addressed need to be communicated all the way through to the end – for example, the announcement of a strategic initiative must be followed up by relevant updates. Companies should therefore make an effort to ensure a constant exchange of information with capital market participants. The messages, as well as the instruments of communication, should reflect a certain stability. Only continuous communication will convey an impression of reliability and foster trust.

A.5. Competence and experience of IR staff

> *"It is, of course, extremely important to have a reliable contact person who can be reached, who knows the company and who makes sensible and meaningful statements of use to capital market participants."* *Sell-side analyst*

The skills of communication staff directly impact the perceived quality of corporate communications. Capital market participants value experienced IR professionals who show an in-depth knowledge of their company and its business and sector. Operational experience of communication managers can be very helpful in this context. A high level of continuity among contact people is rated very positively by the financial community. A reliable, respected IR teams can relieve the company's management of numerous inquiries and concerns addressed by capital market participants.

A.6. Quantification of strategic objectives

> *"If at all possible, a strategy should be supported by figures."* *Sell-side analyst*

Above all, assessments of corporate success are based on the goals that the company itself has communicated. It is here that the reliability and credibility of a company's communication has to prove itself. Therefore, capital market participants value the publication of tangible, quantified goals as well as the communication of the company's strategic business development based on tangible data.

A.7. Equal treatment of capital market participants

> *"Another important factor is providing the same information to everyone. Some capital market participants should not obtain more or better information than others."* *Sell-side analyst*

The financial community expects a fair treatment by corporate communications. This means, in particular, equal treatment of all capital market participants.

A.8. User friendliness

> *"You often notice that their arguments miss the point or market participants' needs – and whether they know what sort of information the capital market needs."* *Sell-side analyst*

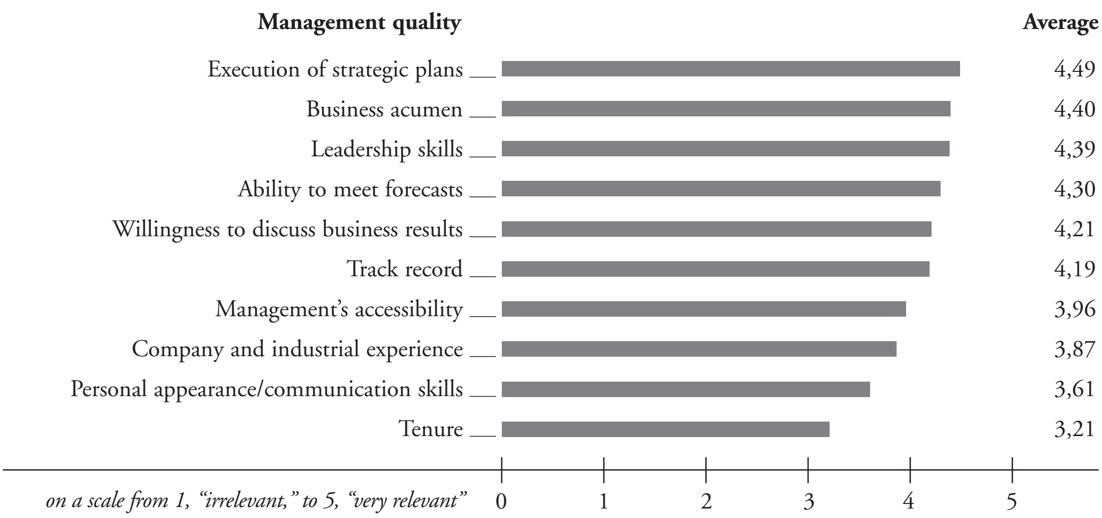
Regularly exchanging information with the communication functions of all companies covered by professional capital market participants represents a very time-intensive task. However, professional communication by companies can reduce the workload of capital market participants. User-friendly communication is characterized by both knowing the relevant issues and using userfriendly data formats or continuous reporting structures.

B. Management quality

The financial community's appraisal of its management is obviously important for a company. Professional capital market participants can only understand and assess past business successes and future strategic plans when they are put in relation to the relevant actors. After all, the likelihood of future success and the ability to **meet forecasts** and **implement strategies** depend largely on the company's management. The financial community therefore not only rates the logical coherence of a corporate strategy, it also particularly considers the credibility of the company's management. Trust in a management team rests on the **experience, business acumen** and **track record** of its members. At the same time, the financial community expects management to be capable of **leading a company** as well as motivating and managing it. Companies' management teams thereby acquire a reputation of being more or less credible and trustworthy.

From the perspective of the financial community, the evaluation of key corporate actors depends heavily on personal impressions and a direct exchange of information. Accordingly, management's **accessibility** is critical factor. The willingness to **openly discuss** business developments and respond to questions is at least as important as the quality of the answers. Management's communication and **presentation skills** can thus play a role in capital market perceptions.

Chart 6: *Average scores in the management quality category*



B.1. Execution of strategic plans

"Reliability means that announcements are followed through with and strategies are implemented accordingly." *Sell-side analyst*

In the eyes of capital market participants, the extent to which a company fulfills its promises or announcements is closely tied to the execution of strategic plans. Capital market participants expect management to offer insights into planned business developments, products, markets, the company's market position etc. Such strategic plans form the basis of the company's financial development. The quality of the company's management is then assessed based on whether it actually manages to execute the announced strategic plans. If not, management will be expected to offer a well-founded explanation of any deviations.

B.2. Business acumen

"It is really important to get the feeling that management knows its business and key growth drivers inside out." *Institutional investor*

A management team should convey the impression to the capital markets that it understands not only its own company, but also its sector, the competitive rules in its industry and the key value drivers in its own business. The financial community will assess the breadth of management's knowledge and business acumen by its ability to confidently answer specific or targeted questions.

B.3. Leadership skills

"To what extent does the company live its strategy and to what extent does its management communicate this in a credible manner." *Sell-side analyst*

From the capital market perspective, the quality of a company's management does not end with the development and communication of compelling strategies. Implementing these strategies and meeting forecasts also depends significantly on management's ability to convince, move and motivate an organization – the company's employees. The ability to really guide an organization is therefore seen as an important factor in the assessment of a company's management.

B.4. Ability to meet forecasts

"What sort of statements has management made on business prospects in the past? If the statements turned out to be correct, market participants will be more willing to forgive a manager if he or she slips up once in the future." *Institutional investor*

Capital market participants expect management to provide them with a continuous flow of information on corporate goals and plans and, above all, their implementation. A management team will be rated largely on the basis of its ability to fulfill its projections. Management's credibility and reliability thus depend on its ability to really live up to its own forecasts. Attempts to gloss over missed targets will have a distinctly negative long-term impact on management's reputation.

B.5. Willingness to discuss business results

> *"Good corporate management should honestly say how the business is doing, openly accept negative points and perhaps say, yes, alright, xyz is not working out at the moment, and we have introduced xyz measures to remedy this."* *Institutional investor*

For an appropriate, realistic assessment of a company's development and value, the financial community needs accurate, comprehensive statements and information from management. The company's management is expected to be sufficiently willing to really enter into a dialogue with capital market participants, and, in particular, answer questions even when they are critical. The latter particularly applies in the case of negative business trends.

B.6. Track record

> *"It is important to rate the management track record with regard to management's past ability to successfully tackle various management tasks and any possible mistakes that were made from the capital market perspective."* *Sell-side analyst*

A manager's track record, i.e., his or her past successes and failures, is a key factor in the evaluation of individual managers. Based on this track record, capital market participants assess the ability of corporate actors to contribute to positive business developments in the future. A positive track record fosters trust and credibility.

B.7. Management's accessibility

> *"I place great value in management's accessibility at meetings, investor conferences, analyst conferences and roadshows. Depending on the size of the company, it is also important to be able to get through to managers by phone."* *Sell-side analyst*

The financial community places immense value on personal impressions of a company's management team to form a realistic impression of the key actors. Executives are expected to generally be available for communication with capital market participants and to actively seek an exchange of information with this group – through conference calls, roadshows or one-on-one meetings.

B.8. Company and industrial experience

"What sort of background do the board members have? How long have they been with the company and, if they have already held other offices before, how successful were they and what sort of industry experience can they draw on?" *Sell-side analyst*

Depending on the industry in which the company operates, managers' sector experience can be a significant factor in assessments of management's skills and reliability. Capital market participants pay close attention to the companies and sectors in which a manager has gained experience.

B.9. Personal appearance/communication skills

"Management's public appearance is another important factor. After all, fostering and strengthening trust are of critical importance in the capital markets as well. This must be clearly reflected by management's approach to investors." *Sell-side analyst*

The personal impression of a manager that emerges, for example, during a conversation or presentation, inevitably is based in part on the manager's communication skills, eloquence, charisma and public appearance. Confident, charismatic executives can have a distinctly positive impact on a company's perception.

B.10. Tenure

"In my opinion, top managers' tenure and experience within the company are key factors."
Sell-side analyst

An important aspect of management quality is experience, which effects a managers' knowledge of their own companies. Management tenure within a company can be used as an indicator here. A high level of continuity generally increases the likelihood of positive business developments and a high level of reliability. Frequent fluctuations require plausible explanations.

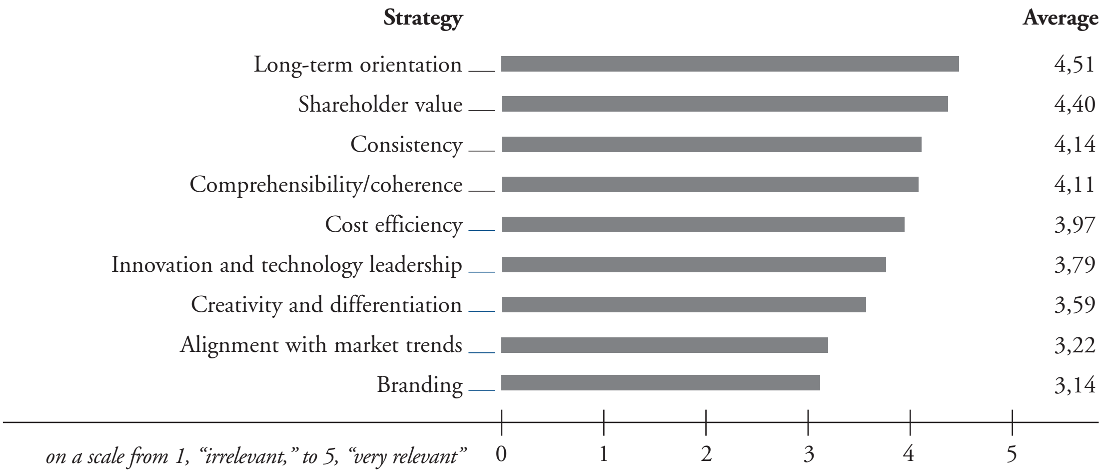
C. Strategy
A company's strategy reflects its goals and the means with which it plans to achieve them – it is the story the company intends to write. A company's success and its future development can therefore only be assessed on the basis of this strategy. As the company's roadmap, the strategy also forms the basis for management ratings by the financial community.

In principle, a strategy should aim to boost the company's **shareholder value**. This is the necessary prerequisite for capital market participants' willingness to provide capital to a company. In addition, however, a strategy should also provide guidance as to the planned **long-term development** of a company. The financial community values corporate strategies that are highly **consistent** and thus somewhat calculable. Only a **comprehensible and coherent** strategy will be accepted.

In terms of substance, a strategy should provide capital market participants with relevant information on the company's market position. In addition, the company's **technological positioning**, its **branding strategy** and consideration of **cost efficiency** in business developments are key factors.

Finally, capital market participants also rate a strategy based on the extent to which it corresponds to perceived **market trends** and on its **creativity and differentiation**. Together, these aspects provide a more or less attractive image of the company among capital market participants.

Chart 7: *Average scores in the strategy category*



C.1. Long-term orientation

> *"How forward thinking their thinking is in terms of strategic issues, which may not affect operations today, but which lay the foundations for the development in the future."*
> *Sell-side analyst*

Corporate strategies are, of course, oriented towards the future – they represent the company's plans for its future development. Since capital market participants will attribute a certain value to the company on the basis of this expected development, strategies must provide a long term perspective. The company's research and development activities as well as the focus of its investments are just as important as the sustainability of corporate development.

C.2. Shareholder value

"People always tend to think that growth is positive, while that's not the case – to create value is positive." Sell-side analyst

Investors generally entrust a company with their capital expecting that the company will be able to generate reasonable capital growth through its business activities. Management assumes this responsibility on behalf of the company's owners. A strategy should therefore explain how a company plans to add value. In this way, management must show that it is aware of investors' goals and ready to act in their interest.

C.3. Consistency

"We don't like U-turns." Sell-side analyst

The reliability of corporate developments and management teams is assessed based on the company's ability to reach strategic goals. Strategies that are subject to frequent changes are obviously not helpful in this assessment and therefore do not find favor with the financial community.

C.4. Comprehensibility and coherence

"One needs to gain the impression that a recurrent theme runs through the entire strategy." Buy-side analyst

A corporate strategy will only be viewed positively on the capital markets if it is logically coherent and free of contradictions. A visibly recurrent theme or guideline will boost acceptance of a strategy. It should therefore be above all comprehensible and understandable to convince the financial community of the company's potential.

C.5. Cost efficiency

"We examine to what extent companies benefit from a competitive edge over their competitors because of their production structure." Sell-side analyst

Since a company's financial success can result from advantages either on the earnings or the cost side, its cost structure, the cost structure of its production and distribution will be closely scrutinized by capital market participants. A strategy should identify the potentials for rationalization and realize efficiency gains.

C.6. Innovation and technology leadership

"Research and development play a key role. This is why I am keen to find out how many people work in this area and what percentage share of sales goes to research and development."
Sell-side analyst

A company's competitive edge can be a result of its technology leadership. Accordingly, capital market participants are interested in companies' research and development activities, the technological maturity of its products and assets and its product pipeline. A company's strategy must offer a clear and coherent message in respect to its technological position and objectives.

C.7. Creativity and differentiation

"I check out whether the company has any specific differences in strategy relative to its peer group and why." *Sell-side analyst*

A company's sustained market success depends on certain differentiating features or abilities that give it a competitive edge. As a result, strategies that merely copy the guide-lines of other companies are perceived as likely to fail. Even when a company contradicts established market trends, it is its unique selling proposition that renders a strategy interesting from the perspective of capital market participants.

C.8. Alignment with market trends

"I want to get the impression that the company has made a thoughtful and considered evaluation of the company's industry and of the competitive forces which impact on the company."
Sell-side analyst

Capital market participants draw on established market and sector trends to assess the plausibility of a strategy. With regard to the development of a sector, the financial community develops certain expectations of a corporate strategy, its direction and the challenges it identifies. Alignment with such market trends can have a positive impact on the perception of a strategy.

C.9. Branding

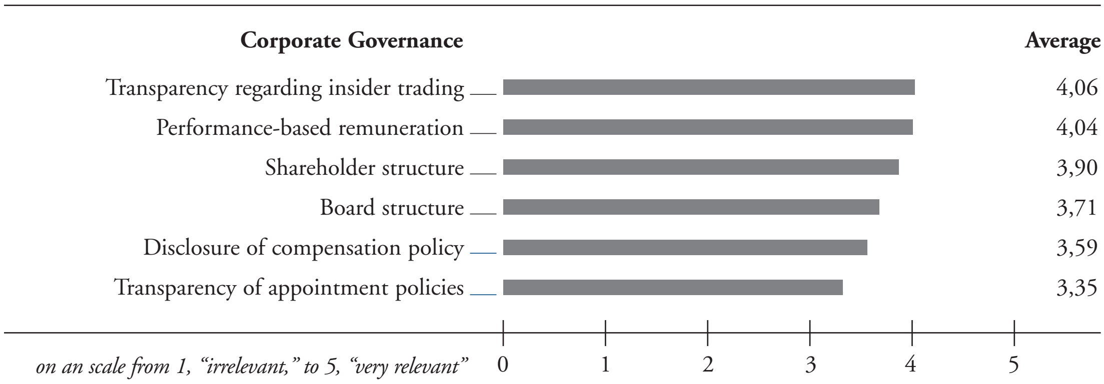
"Brand positioning plays a key role, for example, the company's positioning in the premium or discount segment." *Sell-side analyst*

Product brands can have a significant impact on a company's business model, its margins, its customer relationships and its sales strength. This makes brand awareness and acceptance a key strategic element. In most cases, a branding strategy is directly linked to a company's ability to implement its own pricing policies in the market.

D. Corporate governance

The subject of corporate governance has recently drawn a lot of attention. A series of accounting scandals and corporate bankruptcies spotlight the significance of the cooperation of executive directors, owners and supervisors. It has also emphasized the challenges of transparently and adequately presenting a company's true state. As a consequence, securities exchange regulations and laws were tightened in many instances. Yet, the legal and theoretical debate also left its impact on the perceptions of the capital market participants. The financial community has taken a keener interest in such subjects as the **compensation** of members of the board and **stock dealings by company insiders.** This raises the issue of the appropriate structure of incentives for corporate directors. The **shareholder structure** or changes in it also assumes importance in the capital market's attention – especially in times of investor activism. It can be decisive for the stability or volatility of a company's valuation. A further topic of interest is the **composition and the selection of the supervisory board.** It is here that corporate outsiders can provide a valuable independent perspective on the company. The knowledge, experience and networking of board members can impact the success of a business. The **appointment policies** of the management bodies are therefore of interest to the financial community.

Chart 8: *Average scores in the corporate governance category*



D.1. Transparency regarding insider trading

> *"One thing which I always find prestigious is when a manager buys shares. That is much more meaningful than if he is granted some stock options."* *Sell-side analyst*

The ownership, purchase or sale of stock in a company by an insider is a highly relevant matter for capital market participants and a very revealing indicator of the anticipated success of a company. Engagement by corporate insiders is generally welcomed. In each instance, however, great transparency is expected of these transactions and their internal corporate regulation.

D.2. Performance-based remuneration

> *"You can find different remuneration policies from one group to the other, and when you know on what exactly the management remuneration will be based, the criteria, whether it is short term, long term, EBITDA growth, then this is an interesting point."* *Sell-side analyst*

Capital market participants have an interest in management remuneration. Any suspicion of self-serving activities will have a destructive impact on the reputation of a company. The financial community values remuneration practices that link the financial success of the corporate leadership with that of the whole company.

D.3. Shareholder structure

> *"A colleague of mine observed a family company in which the owners continually bought and sold their shares. When you see such things, naturally you form an impression quickly."*
> *Sell-side analyst*

The shareholder structure can decisively influence the development of a company's value. Its free float, a dominant single stock holder or speculative activist investors can not only impact the volatility of a share, they can also influence the strategy pursued by the company. Any change in the shareholder structure is therefore closely scrutinized by capital market participants.

D.4. Board structure

> *"With regards to remuneration it comes down to the good old principle of having the shareholders' interests aligned with the management's interests."* *Sell-side analyst*

Apart from the importance of a respected and capable management team, the quality of the supervisory body also has an effect on the perception of the company in the capital markets. The financial community pays attention to the qualifications, accomplishments, capabilities and also the connections of the members of the supervisory board.

D.5. Disclosure of compensation policy

> *„With regards to remuneration it comes down to the good old principle of having the shareholders' interests aligned with the management's interests."* *Sell-Side Analyst*

From the perspective of the capital market, a remuneration policy should align the interests of the company's leadership with those of its owners. The evaluation of such a remuneration policy presumes a corresponding transparency in its public presentation.

D.6. Transparency of appointment policies

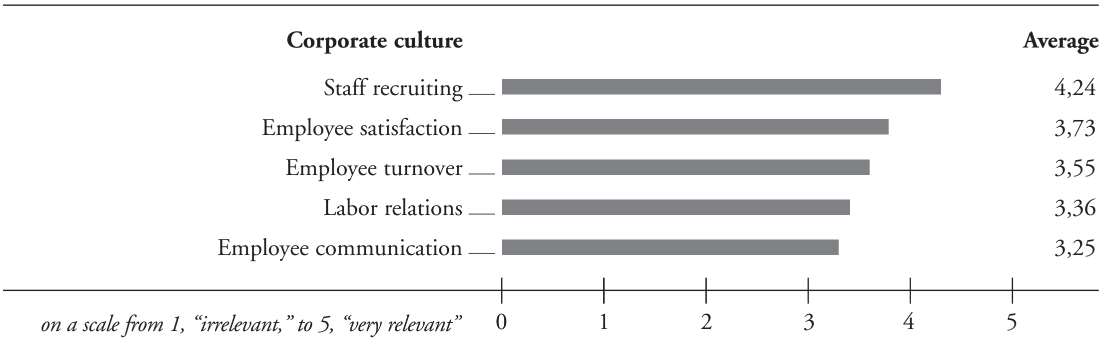
> *"It is about integrity – whether for example the company is showing how the board will be appointed, or how the board of advisers will be appointed."* *Sell-side analyst*

Since the management board and the supervisory board have an obvious impact on the success and development of a company, the financial community appreciates an open discussion of the appointment policies. Transparency in decisions on key appointments raises confidence in a company.

E. Corporate culture/employee relations

No company would be able to offer an attractive product or service to its customers without the cooperation of its workforce. The talent, performance and loyalty of the employees have a decisive influence on the success of every company. Since the **satisfaction of the employees** represents an important indicator of their commitment, capital market participants are interested in the company's dealings with its employees. High **employee turnover**, on the other hand, can be taken as a sign of strategic planning mistakes or scant loyalty on the part of the workforce. The ability of a company **to attract talented staff – above all leadership personnel –** speaks for the success of the organization. Capital market participants expect that the employees will support the strategic direction and initiatives of a company. This assumes that they are adequately informed of the plans of the company's leadership. The quality of **staff communication** undoubtedly has an important impact on the employee's information and motivation. Of equal importance, the **company's relationship to the labor unions** or to the worker's representatives can promote or obstruct the business success of the company – depending on the geographic and political marketplace. Since all these factors are, however, extremely difficult to evaluate by company outsiders – or usually only become visible in the event of a corporate crisis – the capital market again depends on the companies' transparent communication of relevant issues.

Chart 9: *Average scores in the corporate culture category*



E.1. Staff recruiting

> *"How the company appears to the staff, recruits, retains, motivates and gives incentives to top management and staff within the group is also very important."* *Sell-side analyst*

A pool of talented and dedicated employees can only be the result of a company's success in recruiting and attracting such human resources. The capital market appreciates an insight into the company's recruiting efforts – especially with respect to potential leadership positions.

E.2. Employee satisfaction

> *"In principle a company is an organic structure consisting of many small components: employees and their situations. When these are kept in a continual state of fear, for example because they are afraid of being fired, this is naturally no ground in which long-term company success can be rooted."* *Buy-side analyst*

The satisfaction of employees has a direct effect on their loyalty and motivation. It therefore influences the business performance of a company and is an interesting indicator from the perspective of the capital market.

E.3. Employee turnover

> *"A company that is not treating its employees in a fair way will not be able to manage its value, because low employee turnover is valuable to a company."* *Sell-side analyst*

The turnover of employees, especially the frequency of layoffs, gives the capital market an indication of a corporate culture, the satisfaction and motivation of employees as well as the business performance of a company. Small turnover among employees implies that a company cultivates its human resources, which is welcomed as a potential value driver. High turnover rates, on the other hand, are inevitably associated with severance costs and expenditures for the finding and training of replacements. The financial community therefore expects a transparent communication of the state of the workforce.

E.4. Labor relations

> *"It is important for a company to have a good relationship with unions. For some businesses, a strike could have a very big impact on the bottom line."* *Sell-side analyst*

Depending on the legal conditions in a marketplace, the cooperation of the worker representatives can be a critical success factor in the operations of a company. The frequency of conflicts, or even strikes, is of interest to the financial community. Since labor conflicts are associated with costs, they usually draw a lot of attention in the event of a crisis.

E.5. Employee communication

> *"If the relationship between employees and the management board is good, the employees then actually contribute – because they are trustful."* *Sell-side analyst*

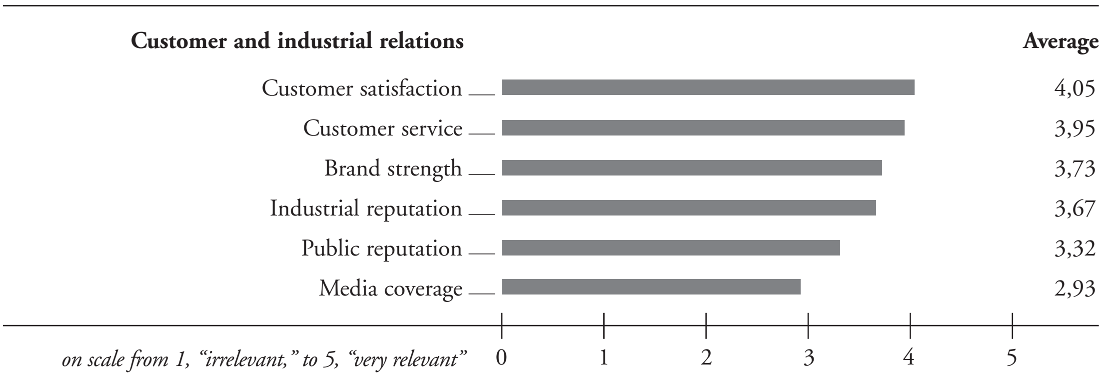
The implementation of a strategy depends on its understanding and acceptance by the employees. Unless it is successfully communicated, a strategy remains a mere theory. The capital market therefore expects comprehensive, regular and transparent staff communication so that it can assume a dependable execution of the strategy.

F. Relationship with customers and the industry

The success of a company is heavily influenced by its perception by various stakeholder groups. Apart from capital market participants and employees, the customers, suppliers and competitors undoubtedly are of decisive importance to a company. Its **public reputation** is a possible framework for the description of a company's public perception. It represents the company's capability to meet the demands of its stakeholders. Although a corporate reputation is composed of countless separate perceptions, it develops a demonstrable effect on the buying or investment decisions of the target groups. A favorable corporate reputation therefore supports the acquisition and retention of customers and capable employees and promotes a favorable **media perception.** A favorable **reputation within an industry** can furthermore foster a company's cooperation with its suppliers and competitors.

Especially in its interactions with customers, a good reputation raises a company's credibility and trustworthiness. It can therefore serve as an indicator of subsequent market successes. Similarly, capital market participants are also interested in the strength of a **company's brands. Customer satisfaction** is another indicator for the probability of a company's business success. The quality of its **customer service** will obviously impact this satisfaction and is therefore another factor of interest in the financial community's perception.

Chart 10: *Average scores in the customer and industry relations category*



F.1. Customer satisfaction

"It is often about relationships with customers, keeping clients very close to you, talking to them even if things are going okay – about what can be improved. So it is not only about prices but also about those things." *Sell-side analyst*

Customer satisfaction is an indicator for the loyalty of a customer and therefore of potential sales. Capital market participants value steady customer relationships and strong customer loyalty. In some instances, a company's customers are directly contacted by capital market participants in order for them to gain an impression of these relationships.

F.2. Customer service

"How are customers treated in general? Is the customer in the way, for example? With many companies one does have the impression that the customer is a nuisance. It is sometimes shocking how you feel treated as a customer by a company. Naturally, that is an important factor." *Buy-side analyst*

Quite often, capital market participants are also customers of a company they are observing. Their own experience – or reports of the experience of others in dealings with this company – therefore weighs into the capital market perception. In this context, the quality of the customer service takes on a central role as another indicator of the capability of a company in cultivating customer relations.

F.3. Brand strength

"The value of the products resides in the brand. This means that people are in part prepared to pay a premium price for a worse product because of the strength of the brand." *Sell-side analyst*

Regularly published ratings of "valuable brands" illustrate the significance of brands in customer relations. A known and cherished brand can have a direct impact on the sales volume of a company. A valuable brand can also raise profitability though a price premium. Depending upon the industry, capital market participants sometimes devote great attention to the brand development and management efforts of companies and their budgeted spending in this regard.

F.4. Industrial reputation

"Naturally one also talks with suppliers or with the customers or with competitors." *Sell-side analyst*

The competitors and suppliers of a company are an interesting source of information for the financial community. The reputation of a company within its industry thereby enters the perception of the capital market.

F.5. Public reputation

> *"If a company is suffering from a sustained image problem, the target share price probably cannot always rise to the full potential of the share."* — *Buy-side analyst*

The public's perception of a company can exert tremendous effects on its success – its sales, its purchasing or its recruiting efforts. Capital market participants therefore observe the reputations of companies and also exchange and compare impressions among one another and with media representatives.

F.6. Media coverage

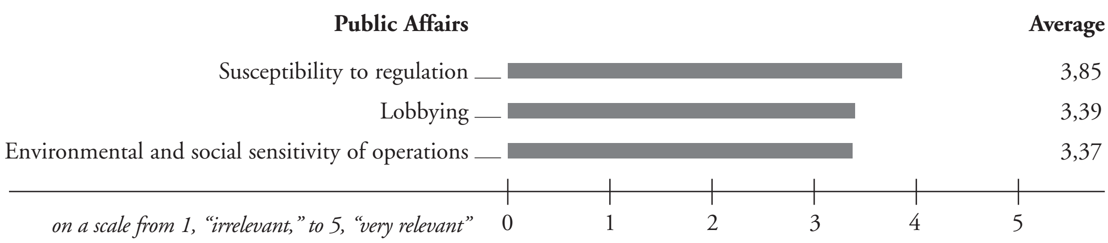
> *"If one sees that the company is continually presented in a bad light in the press because wages are being lowered, because people are being laid off, then one is also influenced by this."* — *Sell-side analyst*

The perception of a company in the capital market is also unavoidably influenced by media coverage. Although analysts and investors assume that they possess a higher grade of information than journalists and they also often mistrust the economic acumen of the media, it is acknowledged that media coverage can sometimes have a strong impact on the business of a company – and therefore on its valuation.

G. Public affairs

The public institutions – government and its agencies – have a huge influence on the development of the business and the markets of companies. These institutions define the legal and formal rules of doing business. Therefore, the public "license to operate" can depend completely upon the goodwill of government agencies. Accordingly, capital market participants take an interest in the **lobbying efforts** and successes of companies. The public affairs of a company are critically scrutinized, particularly in industries that are **exposed to government regulations.** The greater the perceived **social or economic sensitivity** of an operation, the more significant the possible influence of public institutions becomes. A company cannot be immune to state intervention – neither because of its strategic brilliance nor its business acumen.

Chart 11: *Average scores in the public affairs category*



G.1. Susceptibility to regulation

"It is interesting to see the big trends in environmental constraints – whether it is pollution from electricity, whether it is the use of water, some stricter standards for waste management and these kinds of things. How these issues affect or create opportunities is something I try to capture."
Sell-side analyst

The corporate environment can be subject to significant changes with respect to its exposure to regulation. The public and more importantly the political perception of social challenges can result in either beneficial or disadvantageous interventions. The capital market therefore keeps a critical eye on this susceptibility to regulatory change and the possible effects of regulation on business performance.

G.2. Lobbying

"I look at the lobbying of the companies, i.e. their ability to make their measures accepted by their government." *Sell-side analyst*

Depending on the industry in which a company operates, public agencies can exert a direct influence on its prices or product properties. Market trends and market shares are directly subject to state intervention. These are reasons why capital market participants try to form a picture of what countervailing influence a company can exert on the decisions of government agencies. The question arises whether and to what extent a company is able to defend its strategic decisions from government intervention. The quality of public affairs and the success of lobbying efforts thereby become part of the perception of the capital market.

G.3. Environmental and social sensitivity of operations

„These days you will find it hard to attract and retain a committed work force if your company doesn't have some positive environmental or social commitment that the work force can believe in." *Buy-Side Analyst*

The public image of a company is often profoundly shaped by the social and economic impacts of its business. The environmental or social impact inherent in the company's specific activities can have a favorable or unfavorable effect on the customers or the workforce in addition to the public agencies. A perceived misconduct presents a danger to the company's business performance, and is therefore of interest in the perception of the capital market.

5. Summary

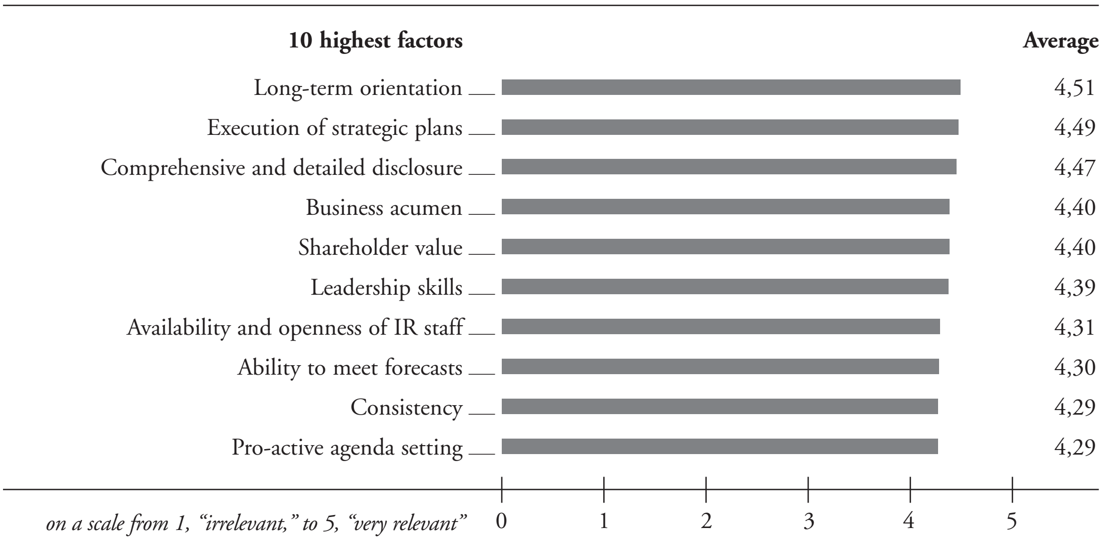
The model of non financial factors as it has been described above provides a comprehensive picture of the perception, judgment and evaluation of a company on capital markets. By weighting and differentiating the relevance of specific factors and categories, conclusions can be drawn on the behavior, informational demands and focus of the financial community. It was noted at the outset that non financial factors offer important informational input to the company evaluation process – particularly regarding the necessary substantiation of forecasts. Furthermore, they inspire trust and respect for a company. Non financial corporate factors are the drivers of a company's capital market reputation. These conclusions are supported and validated by our empirical results.

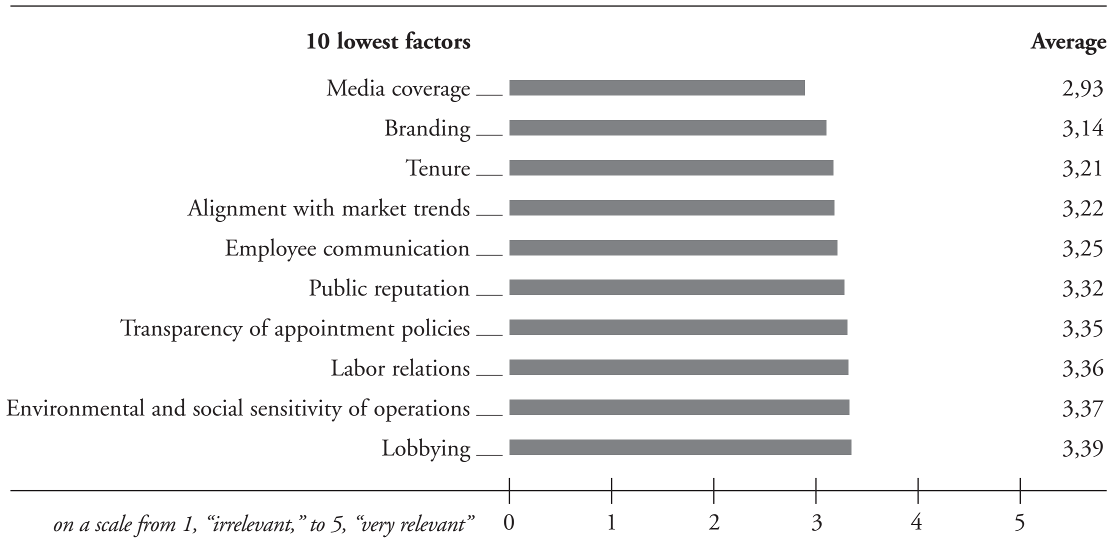
The tremendous importance of corporate communications is one of the key findings of this research project. A transparent and comprehensive disclosure of business operations and strategic goals is just as significant in the capital markets perception as the long-term cultivation of strong, trust-based relationships. When contacting an Investor Relations department, capital market participants today expect to deal with employees who are competent as well as experienced. Management also plays a pivotal role in representing the company and communicating it to outsiders. It contributes to the transparency and quality of the information available to the financial community. When assessing the capabilities and reliability of management, the capital market places great value on direct access to the persons in charge and the personal impression they leave. A respected IR department, however, can relieve the management board of many representational and communicative tasks.

Naturally, the corporate strategy conveys core information on the identity and the goals of a company. With great consistency and clarity, however, it also engenders trust. Additionally, the category of corporate governance highlights the interrelation of information and trust on the capital market. The financial community expects a high degree of transparency in the presentation of business outcomes. It is, however, prepared to rely on the trustworthiness of a company and its leadership, if the company has already proven itself in that respect.

Finally, information on the quality of a company's relationship to its core stakeholder groups – employees, customers and public institutions – provide capital markets with important indicators regarding its economic state and business potential.

Chart 12: *Overview of the highest and lowest scoring factors*





A look at the factors ranked among the highest and lowest (see chart 12) confirms this impression: At the focal point of interest are factors that highlight the transparency as well as the reliability and trustworthiness of the company. A capable management, a long-term, value-creating strategy and competent communication directly influence the daily perception of a company on the capital market.

Even the factors judged to be less crucial have on average received a significant ranking (above median value of 3). They mainly refer to the quality of the company's relationships to other stakeholders such as the media, labor unions and regulatory bodies. It can be deduced that these are what are can be called "hygiene factors": The responsible behavior of a corporation towards its stakeholders is usually simply presupposed. However, should a crisis develop in any of these areas which actually threatens to hurt the business performance of a company, the importance of these factors will instantly skyrocket. As one participant put it: "Favorable publicity is not so important – unfavorable publicity is."

In conclusion we are of the opinion that the model of non financial corporate factors presented in this report offers a comprehensive, valid insight into the information-seeking behavior on the part of professional capital market participants. It can be shown that non financial factors influence the evaluation of a company by the capital market directly and indirectly. Moreover, we were able to identify and differentiate which factors actually have an impact on corporate perception in capital markets. A consideration of these non financial factors will undoubtedly serve the informational needs of capital market participants, raising the quality of Investor Relations. Given the goal of solid, trusting relationships to the financial community and the equally important goal of an adequate evaluation of the company, they can also be described as "success factors of capital market communications".

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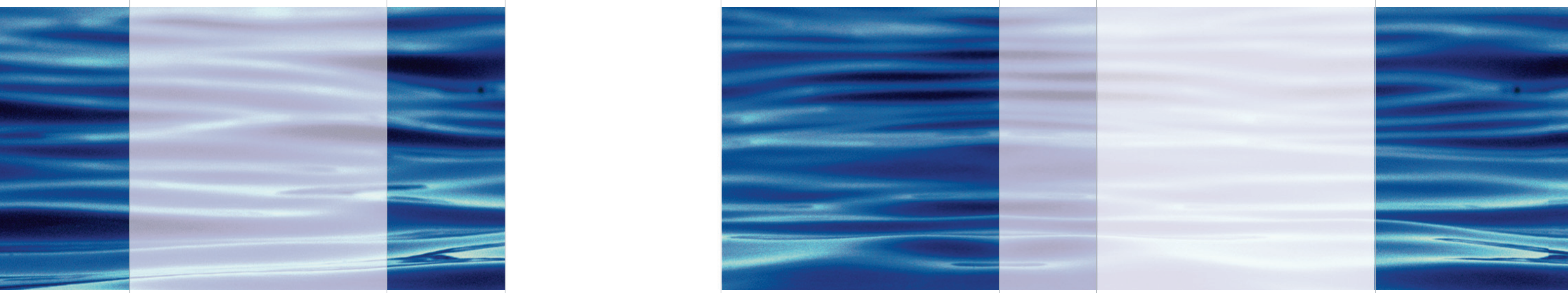

On capital markets, strong financials alone do not guarantee strong share-price performance. This observation, shared by many Investor Relations experts, has now been substantiated by a comprehensive empirical study. This report presents a survey of more than 200 European analysts and institutional investors which where questioned on core factors influencing their decisions and recommendations. The study focuses on so-called “soft” factors that go beyond pure financials.

In cooperation with DIRK, Deutsche Post AG, the ING Group, Pfleiderer AG, PricewaterhouseCoopers AG and RWE AG, the project team of the Institute for Media and Communications Management at the University of St. Gallen led by Professor Dr. Miriam Meckel examined those non financial factors that directly and indirectly influence the capital markets’ valuations. The study showed that factors related to companies’ transparency and trustworthiness can be described as success factors in capital market communication.

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