



The digital divide

European firms, not North American ones, are leading the way in online IR. Clarity! Communications' Dominic Jones reports

February 2005

The internet is a revealing medium. It's easy for people to compare one company's disclosure with another's and, if different practices exist, it quickly shows. Every month, the IR web site global rankings benchmarking survey, produced by Canadian online IR consultants Clarity! Communications, pries into the online disclosure and communication practices of more than 500 global large caps to see how they measure up to 100 content and ease-of-use criteria. The resulting data provide one of the most comprehensive insights into how online IR practice differs between North American companies and their European counterparts. The benchmarking criteria are largely drawn from more than a dozen studies of what portfolio managers, analysts and individual investors want -- and use -- on IR web sites.

The great divide

The survey's most remarkable finding is that European IR web sites score better on the criteria than those of North American companies. In general, North American companies use their web sites effectively as repositories for disclosure documents that are designed and delivered via other media. European companies, on the other hand, are beginning to use the web itself as a communication medium.

The differences among companies are revealed in a side-by-side comparison of 100 of the highest-scoring firms in each region: European companies communicate better with potential new investors and demonstrate higher levels of openness and transparency in their online communications. The 81 US and 19 Canadian company web sites in the survey are good sources of financial filings, reports, governance policies and investor presentations, but are often narrowly focused and fail to communicate their companies' story effectively.

However, firms on both sides of the Atlantic are failing to design their web sites to communicate effectively with prospective investors. In both regions, more than half of those surveyed did not adequately address this important audience and most sites continue to be geared more toward existing analysts, portfolio managers and shareholders.

New visitors to IR web sites are likely to want an easy-to-access overview of the company's business and industry, its financial and operational history, and details of its strategy before committing to more detailed research. This information should be



prominent on the site, not buried in large online reports and PDF files.

European firms are better at addressing the needs of potential new investors online than their North American counterparts. For example, while 41 percent of the top 100 European IR web sites set aside a page or more to explain their business strategy, only 17 percent of North American companies do so. Similarly, while 89 percent of European companies set aside room on their sites to explain the scope and structure of their businesses, only 61 percent of US firms offer something similar.

Easy access

Research by the CFA Institute of portfolio managers and analysts indicates that they value access to multi-period annual and quarterly financial histories. These allow investors to review key financial and operational data without having to waste time downloading multiple reports or filings.

Here, again, European firms shine, with 40 percent providing HTML-based financial histories compared with just 14 percent of North American firms. North American companies often provide historical financial information from third parties such as Reuters or Thomson Financial, but they disclaim responsibility for the accuracy of the information, which lessens its value. European companies typically provide their own data.

Annual reports are a key resource for investors sizing up a company for the first time, and in this area European companies again do better than North American firms. Recent studies show both professional and retail investors prefer well-designed HTML annual reports to PDF ones, but while 44 percent of European companies provide their reports in easy-to-use HTML, only 23 percent of US and Canadian firms do the same.

The busiest area on IR web sites over the past two years has been the corporate governance section -- but there are significant differences in how companies on the two continents approach their corporate governance communication efforts. In the US, the focus has been on the NYSE's governance disclosure model, which covers corporate governance guidelines, committee charters, independence standards, codes of conduct, and bylaws and articles of incorporation or association.

European companies trail their US counterparts in providing governance policy documents, although many, particularly those with an NYSE listing, have followed the US model. Still, while European companies currently lag in disclosing policies, they are better at demonstrating good governance practices.

Shareholders, compensation and CSR

Nowhere is this difference more evident than in how companies in the two groups treat their annual shareholder meetings. Most North American companies display a near total disregard for their annual meetings on their web sites; only 16 percent of the top 100



North American sites provide voting results from their most recent meetings, compared with 61 percent of European companies.

Firms in Europe are also more likely to provide webcasts, speeches, presentations and meeting materials on their sites than their North American counterparts. There are some notable exceptions -- IBM, Microsoft, Cendant, Placer Dome -- but generally European companies are far better when it comes to posting annual meeting information on their web sites.

Given its prominence on shareholders' agendas in 2004, one of the most telling indicators of good IR disclosure is executive compensation. But only one in six companies in the survey sets aside a section to disclose its compensation levels and policies: 26 percent of the top European companies prominently address director and executive compensation on their sites, while only 8 percent of North American companies do the same, although IBM deserves special mention for its excellent compensation pages.

Having elaborate annual meeting sections and being more upfront about compensation practices, where the emphasis is on demonstrating good governance and disclosure rather than simply having disclosure pages, places governance disclosure on European sites a cut above North American efforts.

Europeans are also more attuned to corporate social responsibility (CSR) issues. Although it's rarely an overriding mainstream investor concern, CSR is increasingly in the spotlight shone by influential pension funds, social investors and regulators. In September 2004 General Electric became one of the first North American companies to establish a dedicated CSR section on its IR site, following the lead set earlier by European companies such as Nestlé, Philips Electronics, BP and BT.

More than a third (35 percent) of the top 100 European company sites now provide CSR information targeted specifically at investors, compared with only 9 percent of North American firms' sites. Added to better annual meeting areas, greater prominence of compensation disclosures and a greater approachability and responsiveness, this makes European companies' IR sites more well rounded and credible.

Good access

IR web sites are about building and maintaining a company's relationships with investors and other stakeholders. However, as in any relationship, how you treat the other party helps determine how good that relationship is. IR web sites give out key signals through design, content and usability that influence how users perceive your company. An excellent example of this is contact information, something investors definitely want, according to several investor surveys in recent years.

Usability studies by the Nielsen Norman Group in California found that investors and journalists prefer to correspond with individual company contacts rather than use general phone numbers, e-mail addresses or contact forms -- and European companies are more



likely to provide personal contact information, including personal e-mail addresses, for individual IR contacts. In all, 32 percent of European companies provide complete contact information for individual IR contacts, compared with only 13 percent of North American companies.

European IR web sites also provide better tools for shareholders to monitor developments at the company through e-mail alerts and calendars, and to administer their shareholdings online through online shareholder accounts, historical price and dividend data, and downloadable forms.

Interestingly, while they provide fewer tools and have poorer contact information, North American companies are much more likely to provide online order forms where investors can request information be mailed to them: 76 percent compared with 58 percent of European companies. This may well be an indication that North American companies experience higher demand for printed materials because their web sites do not offer attractive alternatives to investors, while European companies face less demand for printed materials because their online offerings are meeting investors' needs.

The regulatory advantage

As repositories, US web sites are credible because they provide a lot of financial information in the form of filings, reports and presentations. US companies are also subject to oversight by the SEC, by far the most technologically astute of the world's regulators. Indeed, US companies' IR web sites are largely more authoritative by virtue of their regulator's authority rather than anything they themselves bring to their sites.

SEC filings add enormous credibility to an IR web site because they carry greater weight and are generally perceived as more definitive than other disclosures. There is also the widespread perception that the SEC's regulations and standards are stricter, and the penalties for non-compliance more severe, all of which adds to the authoritativeness of SEC filings.

Companies in Europe and other jurisdictions, including Canada, are at a disadvantage simply because their regulators are perceived as having less authority. This perception could be counterbalanced if other regulators provided more effective electronic access to corporate filings. But with the possible exception of the Regulatory News Service in the UK, there are no effective English-language equivalents of the SEC's Edgar database in other countries.

European companies listed on a US exchange and subject to the SEC's requirements for foreign private issuers can mitigate this disadvantage by linking to their Edgar filings, particularly their Form 6 disclosures. But few do so and, even if they do, the lack of insider transaction disclosures for these firms still leaves them at a disadvantage to their US peers.

When the big US television networks want to evaluate the effectiveness of their news



IRontheNet.com
THE INVESTOR RELATIONS SOURCE



anchors, they focus on two key areas: the personal appeal of their news anchors to the public, and their perceived authority. In a way, IR departments and their web sites are like news anchors for their organizations. And if there were polling results for the two networks of web sites, we would likely find European companies score well for likeability, while North American firms would have a slight lead on authority.

The challenge for companies in either group now is to balance these two qualities on their web sites -- and European companies are generally doing a better balancing act than their North American peers.