

Investor Relations for Start-ups: An Analysis of Venture Capital

Investors' Communicative Needs

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Abstract: The term 'investor relations' (IR) often refers only to the very formal and primarily anonymous relations and communication between publicly traded companies and their (potential) shareholders. Especially for young and not yet publicly traded companies (so-called start-ups), it can be shown that the individual contact to a very small and well-known group of investors (e.g., venture capital investors) is essential for survival. Using conjoint analysis, this paper examines the communicative needs of venture capital investors, as they are the formative influence on the communication strategy of young, unlisted start-ups.

Keywords: Investor Relations, Venture Capital, Start-up, Conjoint Analysis

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1. Introduction

This paper brings into focus the structuring of investor relations (IR) as part of a firm's communicative strategy. Especially young companies and the unique needs of their investors are considered. As a general rule, young companies with innovative business ideas are often faced with a lack of necessary financial resources in order to realize their goals [1]. In this paper we refer to 'young companies' as those newly established companies that are, among other things, confronted with extremely volatile surroundings due to the high level of innovation in their industry [2].

In order to build the foundation for establishing the company, facilitate fast growth and successfully continue developing the company, external investors must be found who can provide venture capital [3]. Considering that at the time of the investment, usually no profit is being made and the company has a relatively low cash flow, the uncertainty of a return on the invested capital must be estimated as extremely high. Collateral is most often quite limited or in some cases, not available at all. As a result of this, forecasting methods that rely on past performance are not applicable and can only help to a certain degree in reducing the amount of risk. Thus, the option of financing the company through debt is not available and it is up to the entrepreneur to fulfill the company's capital needs – especially the equity needs – by using

other means or instruments of financing. Venture capital represents one of these financing instruments. In the course of venture capital financing, a company (most often a young one) is provided with external, fully liable equity [4]. The aim of venture capitalists is to participate in an eventual capital gain by acquiring a stake in the company and later to sell shares at a profit. As soon as the external investor takes over this stake in the company, the actual relationship between the company and the provider of capital begins (IR). This relationship is considerably influenced by the communication and the exchange of information between both parties [5].

Literature currently available on the topic of IR focuses predominantly on the very formalized, and therefore, more anonymous communicative relationship between companies already listed on a stock exchange and a larger, for the most part, unknown amount of factual and potential investors [6]. However, questions concerning the possible structuring of IR particularly in the early phase of the company's development are not taken into consideration. For these young and unlisted companies (so-called start-ups) it has been proven, that especially in the early phase, the personal and individual contact to a small, manageable circle of investors is the main focus of finance communication.

Maintaining these contacts plays a decisive role in the further development of the start-up, which is why the lack of discussion on this topic in the academic world is so perplexing. The importance of structuring policies on communication in the framework of the finance-marketing-mix of young companies is explained, on the one hand, by the fact that the initially, extremely limited resources allow only targeting a few potential investors and thus, from the very beginning, must be exceptionally organized towards achieving the targets. On the other hand, going through numerous financing rounds is an essential part of the controlling concept on the part of the venture capital investor, such that it is evident that almost no start-up company, regardless of industry, can become an established company without numerous

financing rounds [7]. In most cases, existing investors from previous financing rounds are approached and are strongly involved in the structuring of the subsequent financing round. Considering this background, the communication with existing and potential equity investors can be seen as essential for the survival of the young company.

We proceed as follows: In section 2 we investigate how the specific attributes of finance communications for young and unlisted companies in the early and expansion stages differ from finance communications of listed companies. Section 3 shows what different organizational aspects exist from the company's point of view for communicating with investors in the early phase of a company's development. The resulting variations are then presented to German venture capitalists in the course of an empirical study and afterwards combined with investors' preferences. Section 4 presents the results of a conjoint analysis and provides the transition to section 5 in which the determined results are analyzed.

2. The Relative Importance of Investor Relations

The questions of 'content and organization' of communications between companies on the one hand, and between investors on the other, has gained importance not only in academia but also in practice [1]. The reason for this, especially in the area of financing young companies, lies in the fact that venture capital has risen in public awareness significantly in the past years [8]. Even after the consolidation of the technology markets, the relative importance of communications has not decreased by any means. Actually, just the opposite is true – due to the large number of failed investments there is a greater emphasis placed on cooperation between company and capital investor. By combining competencies of both the company and the investor side, potential developments that are not in line with the strategy can be detected in time and proper countermeasures may be initiated. Mandatory requirements for reaching this goal include a strong relationship between company and investor and the exchange of relevant information through IR. Based on this, from a research point of view, the question

arises, how the financed company should transfer information. The descriptive answer to this question will be provided in section 4 by isolating the investor preferences, which may, with certain limitations, serve as a normative guideline for organizing the company's communicative relations.

Until now, there has been almost no differentiation between the status of a company as 'listed' or 'unlisted' in the academic literature on IR [9]. Several authors have already identified this as terra incognita and confirmed the need for further research [10]. There is a long list of papers with a primarily practical approach that discuss the topic of approaching potential investors; however, most studies cover the topic of IR beginning with the initial public offering of the company or the preparation thereof [11]. Still, despite clearly demonstrated need, empirical findings on the phase after the first round of financing until the phase shortly before the initial offering are presently not available. This could be explained by the assumption that there is no real difference between structuring and organizing IR for listed and unlisted companies. The following sections will show that such an assumption has to be rejected.

2.1. Investor Relations at Listed Companies

For companies listed on the stock exchange, there is considerable information on the organization and structuring of the exchange of information with investors available [12]. In most of these cases, IR are generally understood as institutionalized reporting in preparation of the initial public offering for which special resources must be made available [9]. According to this, IR include the entire spectrum of relationships between a company and its shareholders and require organizing communication in a planned and targeted way. The field of potential addressees is, however, not only restricted to shareholders, but also includes additional target groups that might be of importance in the future [13]. Among these are financial analysts, investment institutions, private investors, financial and business press

agencies and also rating agencies [14]. Thus, it makes sense to extend the original interpretation of IR from formalized communications with existing shareholders to include general, and also, anonymous contact to members of the 'financial community' [6]. These two target groups determine the aims of IR of listed companies.

Establishing an institutionalized form of IR is, firstly, aimed towards fulfilling the legal requirements and, secondly, should meet the requirements that the company must fulfill to provide information to its shareholders and the capital market [15]. In Germany, for instance, the stock corporation act regulates a considerable amount of these communicative efforts, which predominantly have the character of past-oriented reporting. This is achieved by disclosing, as neutrally as possible, the past development of the company (e.g., the balance sheet in the annual report) and / or communicating the most recent events.

Information that is based on current developments (e.g., management report) and future-based information (e.g., for the strategic development of the company) are both included in the reporting process [14]. They are however, not provided with the intention of actively including the recipient of the report in the decision-making process. After reviewing numerous empirical studies on the topic, Achleitner et al. [16] identify further sub-goals of IR from a practical perspective. The establishment of a trust relationship with the circle of (potential) investors is awarded highest priority in this situation. In addition to this, the circle of investors should be expanded and the loyalty of the existing shareholders should be strengthened. Measures such as these, which also help increase the company's level of recognition in general, serve as well as a means of attracting qualified personnel and reducing the cost of capital. In this way, companies can achieve a competitive advantage in capital markets. IR function as a tool by which a company can compensate for not having a reputation and a tight supply of liquidity [9]. Table 1 summarizes the characteristics of IR of companies listed on stock exchanges.

2.2. Investor Relations at Young and Unlisted Companies

The essential difference between IR at companies listed on the stock exchange and unlisted start-ups is reflected in the special characteristics of young companies. These characteristics include, in the early phase, a critical deficiency of resources, negative cash-flow with a corresponding lack of profit and current value creation being strongly dependent on future positioning. Moreover, there is a high level of uncertainty on the customer-side concerning the use of innovative technologies (e.g., the use of electronic purchasing in internet start-ups). It is uncertain to what degree these are accepted and at what point in time acceptance will be established. Based on these outlined circumstances, there is a high level of risk present regarding the development of the company and therefore, also for investments in this company. It is similarly difficult for companies, during the first step, to find a venture capital investor at all and then to convince this investor that the business concept is viable. It is, however, just as important in the second step to establish a trusted relationship with the investors after the first payments are transferred.

In the phase after the first financing round and the initial public offering, IR are typically characterized by individual communication with just one investor or a small circle of investors. This is usually connected with very personal and direct communication between the company and its investors. However, due to limited resources, it is rare that a consistent and thus institutionalized structure can be established. Performing such duties is done more as an extra task over and above general business operations and is carried out by the management personally. From the venture capitalist's point of view, a seamless communicative relationship with the financed company is to be considered essential. There are numerous information asymmetries influencing the relationship between investor and company especially in the early phase of the company's development [1, p. 3]: “[There are, author’s note] tremendous incentive and information problems that venture capitalists must overcome. Venture investors

typically concentrate in industries with a great deal of uncertainty, where the information gaps among entrepreneurs and investors are commonplace.” As a result, well functioning investment monitoring becomes more important. Only in this way the venture capitalist can add to the value of the company. In investment monitoring it is crucial but exceedingly problematic to provide information at exactly the right time [17].

With respect to the content as a basis of investment monitoring, information that is both present-oriented and future-oriented is especially important as well as information that is of both a financial and non-financial nature [18]. This is due to the fact that almost no past-oriented information is available for growing companies and, if it is available, then its relevance is extremely limited [19]. Statements based on result-related or financial figures cannot be used in most cases considering that the actual potential of the young company can be proven only in the future [20]. Nevertheless, such information can be used as a monitoring instrument of the compliance with the business plan and is therefore quite important for venture capital investors. These requirements are also reflected in the selection of and specification of the actual content of the communications.

Insert table 1 about here

Effective reporting over the development of business activities must therefore present various views on the potential for success of the company. Against this background, these are mostly the financial view, (e.g., financial reports or projections), the operative view of the business (e.g., sales report or reports on suppliers), the organizational and human resources view (e.g., employee satisfaction or human resources planning) as well as the strategy and business development view (e.g., market strategy or investment planning). Direct cooperation between company and investor is decisive here for the individual definition of the information to be communicated. The content of IR is, therefore, only available and only suitable to a certain degree for external interest groups or third parties. For this reason, the specification in the

unquoted or unlisted segment is formed less by legal requirements, as it is based upon the requirements set out in the shareholders' agreement. Table 1 summarizes the characteristics of IR of companies listed on stock exchanges. Consequently, the evolving research question of this study is:

How exactly should the communicative relations between capital receiver (start-up company) and the provider of capital (venture capitalist) be organized and structured?

3. Requirements and Demands of Organizing Investor Relations at Start-Ups

In essence, four distinguishable aspects can be identified based on the previous depiction of IR at listed and unlisted companies (explorative method through literature review [21]). These are the character, cycle, content, and relationship of the communication. Due to the previous lack of empirical evidence on the actual characteristics and details of these individual aspects, a two level technique has been used: In the first step the different relevant possible features of the aspects of communication were identified. Therefore, 21 open interviews with start-up companies were conducted in the course of a preliminary study and their management board was questioned about plausible variations of features corresponding to the four main aspects. All start-up companies questioned were active in the so-called 'internet economy' which ideally represents the situation of young companies financed with venture capital. If one also considers that according to statistics of the German Venture Capital Association [22] in the first quarter of 2003 about 38 % of total investments by German venture capitalists were allocated to communication technologies, it becomes clear that the selection of this sample addressed a segment that is evidently important for venture capital financing. The goal was to determine the spectrum of communication variations within the context of IR (explorative method through expert surveys using open interviews [23]).

3.1. The View of the Management Board (Information Sender)

In the first phase of the study, the following general attributes were successfully identified based upon the statements of the start-up companies: When considering the aspect ‘character of the communication’ there is a differentiation whether the company provides only that information contractually required by the shareholder agreement (e.g., quantitative financial figures) or if, in addition to this, further information (e.g., qualitative results from discussion with cooperation partners) should also be communicated (proactive). With respect to the aspect ‘cycle of communication’, information can be provided at certain, pre-determined times, for example on a quarterly basis (sequentially). It is however, also possible that the company provides the information continuously beyond certain fixed points in time (continuous). Concerning the ‘content of the communication’ the information can include, on the one hand, (most recent) operative developments that have occurred (e.g., sales / financial reports or personnel development). In this case, the focus is placed on communicating results. On the other hand, the financed company could also inform about future operative projects or plans (e.g., visits to trade fairs in the upcoming quarter). Here, the focus is placed more on communicating the planning process. The aspect, ‘relationship of communication’, describes the personal relationship between company and investor. This relationship can be distanced, intense or confidential. With a distanced relationship the exchange of information is usually in written form (e.g., annual reports and minutes of management meetings). Planned meetings in person typically characterize the intense relationship (e.g., regular meetings where all are present). The confidential relationship can be distinguished by ad-hoc, unplanned informal communication. A more comprehensive analysis approach in the application of the IMP paradigm differentiates the attributes and their relationship to one another according to level of conflict and amount of cooperation [24]. This differentiation has the major advantage that the relationship can be featured as having either fully positive or negative characteristics. This study is restricted as it focuses on determining the preferences of venture capitalists and how IR are organized, and thus, solely on the positive side of the differentiation (cooperation),

which is also the reason why it can be considered sufficient to deal with the three mentioned characteristics hereafter. For the continuation of this study, it is not significant how often a characteristic variation is named; it is far more interesting that a certain aspect depicts a fundamental possibility at all. In general however, it is possible to determine that these four aspects (character, cycle, content and relationship), from the company's viewpoint, are actually about the general central descriptive characteristics for all IR in the area of unlisted companies. Based on this however, it cannot be guaranteed that this represents a complete collection of all relevant aspects (e.g., sub-aspects).

3.2. The View of Venture Capitalists (Information Recipients)

The second part of the study focuses on providing answers about exactly how IR at unlisted companies are structured and according to which various aspects. A simple answer could be as follows (yet this alone would be insufficient as will be revealed): All organizational aspects are determined by the guidelines set by the investors in the shareholder agreement. The analysis of the corresponding shareholder agreements reveals that these clearly tend towards sequential communication of the agreed and, primarily, past-oriented information. The main emphasis in these situations is communicating financial figures. Corresponding excerpts from the contractual agreements, which were provided to the authors, include examples such as:

“The above mentioned consolidated and monthly financial statements are to be submitted no later than 150 days after the end of the respective financial year.”

“The company agrees to provide the investors with a report of the financial situation for a given month no later than 30 days after the end of that respective month.”

“On every 10th working day of the subsequent month the members of the management board will send investors a monthly report containing the following information: profit

and loss account as well as financial analysis, schedule with all changes in the balance sheet total and [...] overview of new contracts, incoming orders and cash flow.”

With respect to future company development, the company's expected performance as per contract can be reduced, for example, to the following: “by the 30th of November of each calendar year, a business plan including an annual budget for the coming year is to be prepared and presented for approval to the investors.” In addition to this, the shareholder agreement determines a long list of activities requiring approval (e.g., sale of company assets or investments over a certain pre-determined limit) and investors are given considerable rights of control (e.g., information upon request) [25]. The wording of the statements points towards, in general, a distanced relationship between investor and the portfolio company.

Considering the background of the special conditions and requirements of IR at unlisted companies, it becomes quite clear that the content of the shareholder agreement is not suitable for the special relationship of start-up companies. This is certainly due to the fact that, for example, the desire to have a personal and future-oriented policy on information is very difficult to determine using legal terminology. This difficulty can be traced back to the situation that the quality of future-oriented information (as opposed to reliable, verifiable information based on past figures) is dependent upon non-verifiable soft factors – such as the plausibility of assumptions made. Moreover, it is revealed that when writing contracts, often the general wording (template or text-book formulations) for an agreement to purchase shares in an established company is used. Thus, the question remains – in addition to what must be contractually agreed – what preferences venture capitalists have with respect to the way in which IR are organized. It will be revealed that the preferences differ significantly from the guidelines of the shareholder agreement. This is essential knowledge that every start-up aiming to establish sustainable relationships with its investors must have. Moreover, this also fills an important research gap: Whereas the motives and preferences of venture capitalists

prior to the conclusion of a contract are considered to be well-researched [26], the expectations for the financed company after the conclusion of the contract remain as of yet unclear.

4. Empirical Study on Organization of Investor Relations at Young Companies

The aim of this study is to achieve a complete picture from a venture capitalist's perspective, of the optimal organization of IR at unlisted start-up companies. This picture is a combination of the respective characteristics of the individual core aspects such that two specifications of the research question emerge:

Which characteristics of an aspect contribute positively to the communicative relationship in the framework of IR?

and

What degree of importance does the individual aspect have with respect to the overall benefit or worth)?

It is precisely these questions that are the central focus of conjoint analysis. With the help of conjoint analysis, the advantages and disadvantages of the individual attributes of the analyzed objects (in this case an 'overall picture of IR') can be determined by mathematically breaking down the total worth acquired through empirical analysis of an object into sub-attributes possessing a percentage of the total benefit (decomposition approach [27-28]). Building on the assumption that the total benefit is the cumulative total of the part-worths, participants surveyed were asked to provide general judgments on certain combinations of attributes. Partial evaluations on the individual aspects can then be extrapolated from these global evaluations. In this way, the survey is similar to the actual situation when making decisions (here, in the sense of the acceptance of a specific way of organizing IR) which is

helpful in avoiding possible distortions when answering the questions [27]. Building on the previous depiction of the characteristics of young companies the following hypothesis can be formulated and tested:

H1: Exactly those structural and organizational characteristics of IR lead to a positive result, which are oriented to the characteristics of start-up companies.

Thus, the aspect 'content' of the communication should take account of the future success potential of the start-up and should refer not only to past-oriented information but also strategic assumptions on the planned progress of the company. The aspect 'relationship of communication' should be fixed in a way to meet the needs of, as a general rule, quite a small group of investors in the company, so that the young company can appropriately provide individualized and trust-building information to the shareholders. Considering that the company structure is quite malleable because the company is young, the 'character' of the communication should also be characterized by informal and proactive communication between the investors and the company. Finally, when dealing with the 'cycle' of communication, the (most often) dynamic environment of a young company demands that information is also provided continually and more frequently than is stated in the shareholder agreement.

4.1 Sample

German venture capitalists were the central focus of the survey and served as the target group. Despite all of the turbulences, there are still approximately 200 venture capital companies which are active members in the German Venture Capital Association (GVCA). For the following survey, letters were written to these companies asking for their support if they had invested in at least one internet start-up company prior to or at the time of the survey. In the first steps of the study, a limitation to the internet sector occurred parallel to open questioning

of the internet companies. It can be assumed the results of the study will apply even beyond the net economy segment; a corresponding empirical validation of this assumption is however still pending. Those persons contacted were the CEOs and managing directors named in the member list of the GVCA. In addition, contacts from the personal network of the author, additional employees at venture capital companies were contacted and asked to participate in the study. This initial preparation made it possible to send a total of 235 study questionnaires starting June 28th 2002 by mail to German venture capitalists. Due to this approach, larger venture capital companies tend to be over-represented in the sample. This however is compensated for by the fact that the focus of the inquiries is not a firm's management policies, but rather the subjective individual communicative needs of the respective investment managers (individual viewpoint). In addition, the evaluation of the returned questionnaires showed that not more than two persons from the same company responded to the survey. Within the following weeks up to the end of the study on August 31st, 2002, 59 completed questionnaires were registered that could be considered in the study. This corresponds to a response rate of 25.1%.

4.2. Research Design

Those questioned were to express their preferences for the characteristic elements of the individual aspects of communication (character, cycle, relation of content and relationship) and through this, the first indication towards the overall picture of the desired IR. Keeping this in mind, a set of possible characteristic variations for the central core aspects was defined based on the results of the pre-study described in section 3.1. The results contained four aspects, each having two or three characteristics (see table 2).

Insert table 2 about here

In the process, attention was paid to assure that the characteristics were used in the comparative form (+/and) so that no exclusion criteria developed. Presenting an example should help to make this clearer: Investors must have financial figures from previous quarters in order to set and calculate performance indicators. If only one alternative, such as ‘future-oriented information’ were to be offered for the aspect ‘content’, this would be an exclusion criterion. Due to this, the characteristics ‘past’ and ‘past + future’ are determined for the aspect ‘content’. Furthermore, the results from the preliminary study that was performed imply that the individual aspects are independent of one another, realizable, easily influenced and relevant for the evaluation of IR. A corresponding pre-test of 8 venture capital companies conducted before the written series of questions revealed assumptions pointing towards this. An explanation of the aspects and their attributes was provided with corresponding interpretations for the test persons on a separate sheet in the survey.

The variety of possible combinations between the aspects and attributes is problematic when performing a study. However, in the course of a written survey there is almost no other method of analysis that can deal with the large amount of resulting overall pictures (in this case 24 investor relation situations). The danger of a pre-distribution separation in combination groups and thereby, a falsification of the results for the individual attributes is quite large [27]. The conjoint analysis offers a solution to avoid this problem and validly identifies those situations that are preferred in the context of IR. By means of the ORTHOPLAN procedure in SPSS, the design of the study was reduced to eight fictitious investor relation scenarios that sufficiently and comprehensively cover all possible combinations [28]. Two additional ‘hold-out stimuli’ were created in order to test the internal validity so that the test persons had to compare and evaluate a total of ten general scenarios of possible situations for IR.

Experimental stimuli for the study were cards upon which a possible overall picture of IR was presented by combining different attributes of the core aspects (profile method). Thus, the test persons had – along with separate explanations – 10 cards in front of them (see figure 1), which they had to place in a preferential order (preferential ordering method). Based on this, an order was determined starting with first place for the best variation of the attribute and on down to tenth place for the worst variation. The result, the number of the card and the place awarded to the card were entered into the answer sheet. Using the order of the ten cards with the ten combinations representative of the total amount, it was then possible to determine the importance of each individual core aspect and calculate the contribution of the core aspect to the benefit (positive/negative) of the individual characteristics. The evaluation of the conjoint analysis was performed with the SPSS 11.0 program. All 59 responses were considered in the study.

4.3. Results of the Study

The results (figure 2) show that venture capitalists clearly, with respect to the ‘character of communication,’ prefer a form of communication that is inline with the contract requirements and proactive, i.e. they want, in addition to the agreed upon information, additional details and information on business developments. An important aspect here is the general uncertainty of the development in the start-up segment which creates a greater need for information. The respective part-worth of benefit of +.9364 determines not only the weight, but also offers a first implication as to how meaningful the characteristic’s feature for the object’s overall worth. Only providing the information as agreed upon in the shareholder agreement would have, in contrast, an obviously negative influence on the creation of benefit (-.9364). Thus, the companies have the obligation to provide information. With respect to the aspect ‘cycle of communication’ one recognizes, that the sequential and updated communication produces a positive partial value benefit, however, the level is significantly lower (.3263). In this

instance, an increase of the characteristic obviously does not lead to a significant increase of benefit. It can be assumed that the tendency among venture capitalists – due to their participation in several investments – is to prefer more efficient provision of information. However, they want to be informed in every case immediately when there are important occurrences. Moreover, this result could also be an indicator that, contrary to the stereotype, it is not always the more complicated alternative that is preferred.

Insert figure 2 about here

The most explicit evidence of performance can be observed with the aspect ‘content of the communication.’ Here it is quite clear that the venture capitalists definitely prefer to be informed also about future activities of the company through IR (1.5254). This high, positive partial beneficial value reflects, in particular, the characteristics of start-up companies (see section 2.2). Venture capital investors wish to have an active role in the decisions regarding business development and want to be included in this process. The wish to have influence is expressed regularly in practice when venture capitalists serve in the supervisory board or ask to have certain controlling or co-decision rights that go beyond the normal responsibilities of a minority shareholder. A variation within this attribute (‘content’) would seem to have a significant influence on the total benefit of IR. For the communicative relationship it is therefore not crucial if the relationship is more intense (.4251) or more confidential (0.3489). The most important opinion from the investor’s point of view is that the communication cannot be distanced (-.7740).

From the global assessment of the ten representative forms of communication, the relative importance of each aspect (in terms of an influence on benefit) can be calculated [29]. The most important aspect for organizing IR, according to capital investors, is the ‘content’ (40.49), followed by ‘character’ (26.44) and then ‘relationship’ (23.38). The last core aspect ‘cycle’ plays an inferior role in this context (9.70). This means that, based on this allocation of

preference, the aspect 'content' determined the global opinion of all investors with respect to the preferred, general image of IR by 40.49%. The correlation between the computed metric total value of benefit and the actual (empirical) ranking can in this case be considered high (Pearson's $R = 0.999$). This also applies to the correlation between the actual ranking and those rankings from the conjoint analysis results (Kendall's $\tau = 1.000$). The validity of the results can also be considered quite high as the correlation between the actual and the estimated order of preference from the hold-out cards was very high as well.

5. Conclusion

On the whole it became obvious that the general conditions and requirements for IR at companies already listed on the stock exchange differ significantly from the determining factors at start-ups. The emphasis of the differences is reflected also in the empirical results that exactly those attributes were preferred which characterize the features of young companies in this sector. For every aspect of the communication, there is a relation between the preferred organization of IR and the special characteristics of a young company. The hypothesis formulated at the beginning of section 4 can therefore not be rejected. Future potential of the company, a small circle of investors, and the dynamic market environment influence the way in which IR are organized according to the investors' preference. Thus, venture capitalists prefer IR, which are especially characterized by communications inline with the contractual agreements and which are proactive. They prefer past-oriented and at the same time future-oriented information communicated best within a relationship that ranges from intense to confidential. This reflects especially the characteristics of value creation in the present with a strong connection to the future positioning and the presence of a high level of uncertainty as to the future development. It is not only interesting to see that by simply providing additional information that the company can increase the benefit (e.g., sequential/-0.3263 and sequential + continuous/0.3263). It is just as important to understand how

significant the positive impact on benefit is (e.g., from -1.5254 to 1.5254 for the aspect 'content'). Especially such facts support the recommendation to venture-capital-financed companies to consider their previous processes related to the aspects 'content' and 'character' and make changes where necessary.

Furthermore, it can be determined that the wishes of venture capitalists as to how the IR should be organized differ significantly from the information rights determined in the shareholder agreements. It becomes clear that contractual aspects and the actual functioning and organization do not coincide with one another. It is not surprising that shareholders [30] of companies – in the form of equity capital investors – have both hidden as well as open demands on the company. However, statements could now be made about these demands, which have not yet been expressly formulated. From the answers in the study, it is clear that investors prefer IR that are up-to-date and interactive. Investors desire additional informal, personal discussions and prefer a mutual exchange of knowledge. In this context, future activities of the company are the main topic. Only in this way can investors have a positive impact on steering business development and create added value through their advice or by their own activities.

Determining the discrepancy between the preferred and contractual organization of IR that results from this study can be viewed as an important piece of knowledge gained. Companies not fully aware of the additional information and communication needs of their investors definitely face the danger of underestimating the relationship with the investor. The damage that can result from such unintentional, unsatisfactory conduct should not be taken too lightly. This can result in insufficient support on the part of the investor as well as the lack of commitment for future financing rounds. It is clear that properly carrying out and dealing with IR is extremely important for the success of the company.

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Table 1 Investor relations of listed and unlisted companies

<i>Companies listed on stock exchanges</i>	<i>Unlisted companies</i>
<ul style="list-style-type: none">– formal communications by properly establishing resources required for communications within the company itself (organizational form: management of the process through the PR and the finance departments) or alternatively, outsourcing this to an agency (aspect: character of communications);– extensive guidelines based on the legal reporting requirements (aspect: cycle/frequency and character of communications);– a broad field of possible addressees (shareholders and capital market; aspect: character and relationship of communications);– a combination of both anonymous (capital market) and individual (each majority shareholder) reporting (aspect: relationship of communications);– neutral communications focused on past-oriented figures and information (aspect: content of communications);– Placing the focus on finance-oriented figures supported by controlling (aspect: content of communications).	<ul style="list-style-type: none">– formal, and at the same time, informal communication by means of available resources in the company (organisational structure: Project management through the company's management; aspect: character of the communication);– the requirements as set out in the shareholders' agreement by the investors (aspect: cycle and character of the communication);– a close-knit circle of addressees (a handful of equity investors; aspect: character and relationship of the communication);– personalized reporting (aspect: communicative relations);– a biased communication with a focus on current- and future oriented reporting (aspect: content of the communication);– a focus on statements on the strategy and future developments.

Table 2 Aspects of communication and their interpretation

<i>Aspect</i>	<i>Attribute</i>	<i>Interpretation</i>
Character	Contractual	Financed company provides the information as set out in the shareholders' agreement (e.g., financial reports and accounts).
	Contractual + proactive	Financed company provides the information as set out in the shareholders' agreement as well as additional information on company development (e.g., current business transactions or discussions from cooperations).
Cycle	Sequential	Financed company provides the information agreed upon at the pre-determined point in time (e.g., quarterly or monthly).
	Sequential + continuous	Financed company provides the information agreed upon at the pre-determined point in time as well as on a continual basis (e.g., once or twice a week or monthly).
Content	Past	Financed company informs about (most recent) business developments that have occurred (e.g., development of turnover or personnel). Results are the main focus.
	Past + future	Financed company informs about past and future business developments (e.g., representation at upcoming trade shows in next quarter). Focus on results and planning.
Relationship	Distanced	Communication is characterized by distanced business relationship.
	Intensive	Communication is characterized by intensive business relationship.
	Confidential	Communication is characterized by confidential business relationship.

Figure 1 Exemplary IR-scenario card as presented to venture capitalists

Card 7
Character of communication is **passive**
Cycle of communication is **sequential + continuous**
Content of communication is oriented towards the **past**
Relationship of communication is **distanced**

Figure 2 Weighting of individual aspects and attributes

