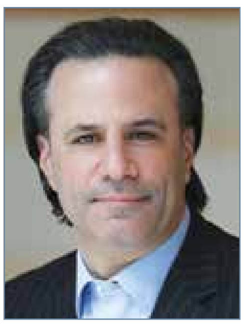
Small-Cap Boards Can't Afford to Ignore CEO Communication Skills

By Adam J. Epstein



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Seasoned small-cap fund managers are forensic observers: they parse everything they read and hear. Many have learned that small-caps are risky enough on a good day, but when the company is also run by a CEO who is a poor communicator, the risks escalate.

Yet it's amazing how few small-cap boards monitor and evaluate the communications acumen of their CEOs. This is a critical mistake, particularly for the thousands of small-caps that regularly need to access equity markets for growth capital.

Here are some areas boards should consider focusing on.

Like most people, CEOs often are uncomfortable speaking in public. Particularly if your company's CEO is new to the role or hasn't had much public speaking experience, a terrific, cost-effective way to help them overcome anxiety is to encourage them to join a local Toastmasters club.

Investors know that most CEOs are reading from scripts during earnings calls, but it erodes investor confidence when CEOs awkwardly read the script as if they've never seen it before. When you listen to eloquent CEOs, you would never know they weren't reciting from memory, and that consequently inspires greater investor confidence. Here are some ways a CEO can take ownership of a call script:

- Read the draft script all the way through two or three times.
- Record a full read-through and listen to it while following along with the script, noting where the text doesn't sound like how you speak and where adding pauses and emphasis would be effective.
- Keep practicing until the recording sounds like natural, extemporaneous speech.

Another stumbling block is the ubiquitous question-and-answer portion of a meeting. When CEOs are good at public speaking, investors take notice. When CEOs are bad at it, investors take extra notice. In order to speak more artfully under the stress of Q&A sessions, consider three important things: preparation, video, and Henry Kissinger.

CEOs should assemble the hardest questions they are likely to receive and then practice the answers—both alone and with their teams and advisors—until the responses are succinct and seamless.

If the Q&A session will be done in front of an audience instead of on the phone, these rehearsal sessions should be video recorded. Without video, CEOs cannot see how they physically carry themselves while they speak, especially at moments when they make verbal fumbles—the "ums" and "ahs" and "you knows" that impair investor confidence.

Henry Kissinger once started a press conference by asking, "Does anyone have any questions for my answers?" Savvy CEOs use every question as an opportunity to refocus attention on a handful of themes and meticulously rehearsed sound bites.

There are several ways boards can help CEOs become better speakers. For starters, if one or more board members is an experienced public speaker, consider providing some mentorship.

Though they can be expensive, speaking coaches—particularly those with experience counseling public company CEOs—can pay for themselves in no time. CEOs should also be encouraged to listen to earnings calls of some Fortune 100 companies and watch iconic speeches on YouTube. One CEO I know has a notebook where she writes down one key thing she learned from listening to a different CEO or orator each week.

When in doubt, CEOs can always ask long-term investors for some candid feedback on their communication skills.

Being a well-spoken CEO doesn't mean that investors are going to buy the company's stock hand over fist. That said, more small-cap board members need to understand that otherwise high-quality companies operated by CEOs who are ineffective speakers will always underperform their better-speaking peers.