Challenging Neoclassical Models of Financial Communication:

A Canadian Case Study

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Abstract

Name of the University: **The University of Manchester**
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This thesis is focused on three dimensions of voluntary disclosure utilized by public corporations to start challenging existing neoclassical assumptions in the literature around financial disclosure. The first dimension is management's understanding of market and investor complexity to effectively reduce information asymmetries. It was found that management can be at an informational disadvantage in trying to understand the investor. Next, is the role of two-way communication in financial disclosure. Two-way communication is seen by management as the most effective form of communication and is used by management to better understand the investor and their needs. Lastly, are the roles of reputation, trust and relationships in financial disclosure. Management views reputation, trust and relationships as key elements of the firm's disclosure policy with financial market participants. In addition to these three dimensions are illustrations of the role that investor relations undertake in helping to facilitate management's understanding of market and investor complexity, two-way communication and building reputation, trust and relationships. A qualitative based case-study approach was used on a unique Canadian situation to provide access to behind the scenes information that may not be readily accessible to an external researcher. The case study and associated results sets the stage for future empirical studies into updating the neoclassical assumptions to better predict the outcome of future events.

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Dedication

This thesis is dedicated to my family who spent many an evening and weekend over the six-year period without my full attention or presence as I researched and drafted this document. It was through their support and encouragement that I was able to complete this undertaking.

Acknowledgements

I want to acknowledge the valuable guidance and support provided by my supervisors, Professor Martin Walker and Dr. Thomas Schleicher. Without their guidance and support, this document would not have been possible. I would also like to acknowledge the generous support on many different fronts by the executive at Husky Energy Inc. in my pursuit of this degree. This thesis would also not have been possible without the support of my cohorts on the 2012 DBA intake.

The Author

My research experience has been mostly limited to that undertaken as part of this doctorate. Prior to embarking on the doctoral journey, my academic career started at the University of Calgary in Canada, pursuing a BSc in Zoology. Part way through that experience, I realized a greater passion for business and while completing the BSc (1996), I also began a BComm degree in Petroleum Land Management, completed in 1997. While the BSc has extensive lab components, neither degree really had any research elements. After a three-year break and while working full-time, I began a distance-based MBA at the University of Warwick, UK, graduating in 2004. The MBA degree also included a required short research study as one of the components.

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1 Introduction

1.1 Motivations for this Research

I have been practicing investor relations (IR) for over a decade, including leading the IR team at one of the largest public companies based in Canada, Husky Energy Inc. I joined the company in October 2010, following a switch in June 2010 in chief executive officers (CEO), with the long-tenured CEO departing and a new CEO, unknown in the North American financial markets where the firm was listed, coming in. During the three years following this change, without a material change in assets, strategy or senior leadership for the firm, there was a drastic and positive change in how the firm was perceived by the financial community.

Along with this positive perception change, the firm also experienced a sizable improvement in the firm's share price-to-earnings and share price-to-cash flow multiples relative to peers. These multiples improved absent any typical major changes to drivers of company value. This drastic change in positive perception has caused me to inquire about the main contributors to the change and the value that improved investor relations and associated activities can bring to an organization.

Initially, I focused on the impact of investor relations on a firm's cost of capital, both debt and equity, to empirically derive a value for good IR. Research along this path would have encountered an area where there is still much debate about the underlying calculations for cost of capital. Delving into the middle of a deep academic debate around how the cost of capital is calculated wasn't the best place to become initiated with the research process. Having substantial experience in investor relations and unique access within a large public company, the research questions moved towards a qualitative study that would better utilize my unique insight and access. Getting inside the organization in such a sensitive role would likely be very difficult for an academic to achieve.

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In beginning to understand what investor relations is, I've searched for a definition from the functional association I was a member of for 10 years, the Canadian Investor Relations Institute, as shown below. There are similar organizations in the US, Europe, Asia, Australia and South America.

> *Investor relations is the strategic management responsibility that integrates the disciplines of finance, communications and marketing to achieve an effective two-way flow of information between a public company and the investment community, in order to enable fair and efficient capital markets. – Canadian Investor Relations Institute (2013)*

The role is defined similarly by the other industry associations listed previously and is often quoted in the IR literature. Another way to think about IR's role is to act as the main liaison with financial market participants and responsible for cultivating the relationship between the company and the financial market participants, a significant company stakeholder. Much of the role involves constant communication with various financial market participants about the information a company is mandated to share, and the additional information voluntarily disclosed. The processes and impacts of voluntary disclosure from real-world experience against that contained in the current literature are where my research interest lies. Considering the significant change that was undertaken at my organization, along with the unique position I was in during this change, it presented an excellent opportunity for greater exploration into this area.

There is an expansive body of literature around financial disclosure and the term "voluntary disclosure" has been defined in several ways. A number of different theories, such as agency theory, capital needs theory, signalling theory and legitimacy theory (Shehata, 2014) provide different definitions and attempt to explain the need for voluntary disclosure. As I initially began to read through the research, there appeared to be a considerable amount of detail missing from what I encountered in my daily work. Numerous neoclassical assumptions are found in the literature that just did not make sense in my personal experience. I know the assumptions are put in place to simplify the models, but with these assumptions in place, I believe the models don't aptly describe reality.

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The financial disclosure literature, to be discussed in greater detail in Chapter 3, has many views around how a publicly listed company's management thinks about and interacts with the financial or investment community. Many of the models involved are focused on moving management and the financial community towards a point of equilibrium, between the costs and benefits of information asymmetry for both parties. While the literature has been exploring the complexities of firm-market interactions, only limited attempts to understand the delicate, dynamic and adaptive nature of these interactions have been made. There are many material assumptions involved, including unidirectional information flow, management having perfect information, all participants acting with perfect rationality, management's knowledge of the market and investors, interactions being single period versus multi-period and market participants as homogenous, among others. These will be better described in the literature review and empirical chapters.

These interactions and views can be difficult to analyse from a historical and external perspective, particularly when undertaking an empirical approach relying on published communication from many companies over a broad period. Additionally, the existing literature is primarily focused on an external view, trying to look from the outside-in rather than originating from inside the company. I plan to use this research and my unique internal access to challenge several major neoclassical assumptions currently held in the literature and hopefully influence the direction of future empirical studies around the application of voluntary disclosure.

1.2 Contribution

As mentioned, the literature regularly investigates financial disclosure by a public firm from an external perspective, using press releases, annual reports and other public disclosure documents that can easily be archived. Through conducting this research, a completely new perspective around financial disclosure is considered – that from inside the company. This internal view allows greater insight into the IR function and disclosure considerations by management – as opposed to disclosure outcomes.

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New considerations around the actions of management and the investor relations team should set the framework for additional empirical studies into the rationale of the information produced. It may direct researchers into further investigations around behavioural economics and finance relative to disclosure models, the influence of reputation and trust on a firm's valuation and how management and the IR role attempt to manage reputation and trust for financial and other stakeholders.

Another novel contribution of this research is the qualitative methodology employed to gain the insights. While the overall literature is broad, the qualitative literature in this area is limited. The approach utilized here is a qualitative approach and is only the second case study approach in IR that I have come across (the other being de Jong et al. (2007)) and the first case study approach looking specifically at voluntary disclosure. This approach should provide rich and detailed information into the inner workings of the disclosure process utilized at a large organization and IR's role in that disclosure process.

1.3 Research Objectives

As described above, financial disclosure is explained by a few different theories, each with their own views and reasons around the need for disclosure. In the theory development, assumptions are required to help simplify the problems being examined. The objective of this research is to explore the validity of several of the assumptions that currently exist in the neoclassical disclosure literature. I believe these assumptions oversimplify what is going on and substantial detail and insight is being missed. By challenging these assumptions through the lens of practical experience, I want to set the stage for further empirical investigation into voluntary disclosure to bring the theory closer to the practice.

The literature that I have reviewed is predominantly theoretical or archival empirical in nature. I believe there is an opportunity to explore financial disclosure through a qualitative view to bring a different perspective. Qualitative research encompasses everything that is not quantitative in nature and can allow for a more exploratory approach towards the research problems. This exploratory approach can set the

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foundations for future empirical research to test the assumptions currently held. With the limited amount of qualitative research available, using a qualitative approach should broaden the financial disclosure issues available for future research by empirical investigators, broadening the generalizability of certain assumptions in the various disclosure models.

With my unique access and vantage point, using a detailed case study, I intend to explore in greater depth the interaction between a company and the financial markets to help enable fair and efficient markets and reduce information asymmetry between management and the financial markets. The case study will focus on different aspects of disclosure where I held the most senior investor relations role between 2011 and 2013. During this period there was a major shift from negative to positive in the perception of the company by many different financial market participants.

1.4 Research Questions

This study will focus on three dimensions of voluntary disclosure utilized by public corporations to provide new perspective on existing views in the literature. These questions focus on more internal aspects that are less visible to the external world but are related to prominent assumptions found in the neoclassical and voluntary disclosure literature. The three areas to be investigated are:

- Does management understand everything about market complexity and the investor to effectively reduce information asymmetries?
- What role does two-way communication play in financial disclosure?
- What roles do reputation, trust and relationships play in financial disclosure?

These three questions are explored in greater depth through a detailed case study at the large organization where I am employed. These questions were derived from a review of the literature which contrasted my deep personal experience in the IR function. The hope is with the results of this investigation new empirical studies can be conducted to further refine the theories.

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These three research questions were used as the starting point to develop a structured interview template, to review the vast collection of email and internal documents I hold and against any internal and external reports I have collected, all better described in the research design chapter. Each of these three questions will also represent the main theme of separate empirical chapters, prepared using the structured interviews, email and internal materials from the organization against the referenced time-period.

1.5 Assumptions and Limitations

I must assume that when interviewing the various internal participants, they will provide a truthful and accurate reflection of how various events unfolded, why they may have unfolded in that way or their beliefs and values around those events. I also must assume that the individuals interviewed will not withhold any information that will be relevant to the investigation, especially through fear of internal repercussions or career impacts.

Researching one's own organization can present unique issues to be faced by the researcher. Symon and Cassell (2012) provides five different guidelines for consideration when researching within your employing organization. Briefly, these five guidelines are:

- *I need to be aware and honest about how much my involvement may frame how I formulate and execute my research along with how I write about it.*
- *Consider how I will protect those involved in the research.*
- *Boundaries between roles and identities become blurred, creating ambiguity in the research.*
- *I need to be aware of my own emotions and manage them as a normal and sensitizing process of my research.*
- *The use of theory can help balance the familiarity of my organization with a measure of intellectual detachment.*

These five guidelines can also be construed as limitations of the study, impacting the level of probing into the organization. The internal firm views expressed in the interviews may present negative opinions around other participants (both internal and external), so some details or views may be held back. Likewise, in my analysis of the

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data, I may be concerned with the views I put forward and how they may impact my future career aspirations at the company.

Another limitation of the study is the period being examined, 2011 through 2013. The interviews were all conducted in 2015, so there is a time lapse of up to five years between the interview and the relevant event. This time lapse may allow for the distortion of past events, or positively or negatively influence the views of the participant based on the results of more current interactions.

1.6 Thesis Organization

This thesis is comprised of eight chapters, including this introduction chapter covering the research contributions, questions and objectives. The thesis begins with the second chapter, which provides an overview of Husky Energy Inc., the organization that is researched along with a review of the investor relations strategy utilized during the period of study. I demonstrate why Husky Energy Inc. is an ideal case for review on financial disclosure and how completely different CEO views on market interaction created an interesting situation that merits further exploration. I then move from the company to the investor relations team, providing an overview of the strategy and direct and indirect responsibilities. As the main liaison between the firm and the financial market participants, it is important to understand how the investor relations team performs its role.

Chapter 3 provides a review of the literature focused around four areas: neoclassical disclosure models, rationality and complexity, two-way communication and reputation and trust. I initially walk through the three main groups of neoclassical financial models and how they are distinguished by relaxing different assumptions in a rational world. This sets the stage for a discussion on market complexity and bounded rationality, connecting to the literature of behavioural economics and behavioural finance. With bounded rationality and complexity, communication becomes vital for market interactions, particularly two-way communication, and the relevant theory is reviewed. With two-way communication, the firm begins to develop reputation and build trust,

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and these concepts are then explored in greater detail, setting the stage for the methodology.

In the fourth chapter, I explain the research design utilized to develop the detailed case study. From the literature review, it was determined that an exploratory qualitative design was the appropriate path to answer the proposed research questions. A single case-study approach based on my unique access to firm materials and individuals, supplemented by semi-structured interviews of key management and members of the investor relations team, is the outcome of the research methodology.

Chapter five is the first empirical chapter, reviewing the complexity of information asymmetry between management and investors, plus a review of management's knowledge of investors. This chapter examines the first research question – 'does management understand everything about market complexity and the investor to effectively reduce information asymmetries?' The section on informational asymmetries examines the regulatory barriers enhancing the informational asymmetries in place between management and the market. Additionally, the cost of information, particularly its acquisition, verification and disclosure, is analysed. For management to understand the investor, investor heterogeneity is explored through evaluating investor interests and drivers, while reviewing the different classes of investors, as seen by Husky. A short company example around short-selling is also provided to illustrate the points above.

The second research question, 'what role does two-way communication play in financial disclosure?' is answered in chapter six. To start, the need for two-way communication beyond the neoclassical one-way communication view is explored. The use of two-way communication is evaluated amongst the primary market participants, especially sell-side analysts and institutional investors. I then proceed to look at the various tools employed and the generation and use of information that two-way communication provides. Lastly, I review the most effective forms of two-way communication and how that communication is evaluated.

The last empirical chapter, chapter seven, explores the connections between reputation, trust and the relationships between the firm and financial market participants to

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answer the final research question - 'What roles do reputation, trust and relationships play in financial disclosure?' First, I study the connections between reputation and trust, looking at how the types of trust are formed and the bases that trust is formed under. Next, I review trust and relationships, considering the role of trust in relationships and relationship complexity. A short company example around an equity issue is also provided to illustrate the points above.

The eighth and final chapter concludes the thesis, where I reiterate the significant findings from each of the empirical chapters. There is a further discussion about assumptions and limitations encountered and my reflection of the research process overall. This helps put in context the contributions to knowledge that this research can produce.

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2 Firm and IR Overview

This chapter provides an overview of the firm being investigated, along with the investor relations (IR) team's strategy, and direct and indirect responsibilities. An overview of the firm helps set the stage for the significant shift in disclosure to the market place, a shift in disclosure that isn't as clear to an external researcher not familiar with the company. The IR strategy and various responsibilities help highlight the role played by the IR team through the disclosure transformation.

2.1 Firm Overview

Husky Energy Inc. (Husky) is a large Canadian integrated energy company, headquartered in Calgary, Alberta, Canada and trading publicly on the Toronto Stock Exchange, while also raising debt in both Canada and the United States. The company has operations, in both the upstream and downstream business segments, in North America and Asia. The business covers the entire petroleum value chain from exploration through development, production and down to refined products, including retail sales and distribution. The products produced include crude oil, bitumen, natural gas, natural gas liquids, synthetic crude oil, gasoline, diesel, jet fuel, ethanol, asphalt and ancillary products. It would be similar to BP or Shell, but on a smaller scale, or about one-tenth the size of these firms.

Husky has been in existence since the late 1930s and became a Canadian public company in the late 1940s. The firm was taken completely private in the late 1980s by a Canadian company and a Hong Kong-based private shareholder (Mr. Li Ka-Shing). A few years later, the private shareholder acquired complete control of the private organization. In 2000, Husky acquired another Canadian public energy company and took over that firm's listing on the Toronto Stock Exchange. As part of Husky's listing, approximately 30 percent of the shares were available to the public and the remainder held by the foreign private shareholder. This is still the situation today, with approximately 30 percent of the outstanding shares widely held between retail and institutional investors and the remainder controlled by the private shareholder through two different entities.

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Of the senior Canadian producers who are considered Husky's peer group (10 during the period, but acquisitions have since reduced that to seven members in 2018), Husky is the only company that is majority owned and controlled by a private individual. Additionally, Husky is the only company of the peer set controlled by Asian interests. Further differentiating Husky from its peers is the fact that Husky is part of a large conglomerate of diverse businesses, including ports, utilities, real estate and telecommunications. One of the other senior producers (Imperial Oil) is also majority owned, but by another, larger, energy company (ExxonMobil).

The firm is structured as five different business units, with four of these based either on product type or geographic location for the upstream businesses and a downstream business as the fifth. The business units are supported corporately by a finance group, a corporate resources group, a legal group and a corporate affairs group. The corporate affairs group is responsible for managing the corporate relationships with all significant stakeholders including investor relations, media relations, government relations, internal communications, community investment and Indigenous relations. The reporting relationships of the organization between 2011 and 2013 are found in Appendix 1 – Corporate Organization Structure.

In June 2010, a change in CEO occurred. The outgoing CEO, who led the company for 18 years starting when it went private in 1992, reduced responsibilities to manage one of the business units for the following year before retiring permanently from the organization. The incoming CEO had led a substantial telecommunications business in India and had been involved with the private shareholder for the previous 25 years in different capacities. Coming from India and the telecommunications business, the CEO was virtually unknown in the North American energy space, particularly to the financial market community. Compared with the peer group CEOs, who all have energy backgrounds, the new CEO was vastly different from what the financial markets were accustomed to for Canadian energy companies. The new CEO wanted to increase the interaction and communication with the financial markets. Much of the increased interaction and rationale is further explored in the empirical chapters.

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Of the company's senior leadership team (15 members), the composition has been relatively stable during the study period, with most change being additions. The C-suite, including the CEO, the chief operating officer (COO) and the chief financial officer (CFO), was consistent during the period from 2011 to 2013. The main senior leadership changes were the addition of four new senior vice-presidents (SVPs), two of whom were to lead the major growth initiatives (oil sands and Asia Pacific) already in place under the prior CEO. The third addition was filled for one of the main business units after a two-year vacancy, while the fourth was to replace the retiring SVP of human resources. During this period, one operational SVP retired with an internal successor promoted and another commercial SVP left the firm and was not replaced.

At the end of 2009, the Board of Directors was comprised of 13 members. By the end of 2013, four new directors were added while two members left the board (the retiring CEO and one director who passed away) to increase the total number to 15. Nine of these directors have been on the board since the company went public in 2000, including the two co-chairmen. There have been no changes to the two directors who maintain the co-chairman titles, representing the primary shareholder. Many of the other directors are also related to the principal shareholder and his other businesses. Contrasted with the peer group, having co-chairmen and the large number of related shareholder directors is unusual. From a governance perspective, the company is the lowest ranked of the peer group in the "Board Games2014: The best and worst governed companies in Canada" (Bara, 2014), with the ranking particularly hampered by poor results for board composition and executive shareholding and compensation, somewhat representative of the related nature of the principal shareholder director appointments.

Strategically, all the major assets were already in place under the previous CEO and split into the primary groupings of upstream[1] and downstream[2] assets, as is consistent with many integrated[3] companies. The new CEO focused on prioritizing the strategic focus

[1] All activities involving the exploration, development and production of crude oil and natural gas to the initial sales point
[2] All activities from the sales point to the end user, including pipelines, refineries, retail distribution, etc.
[3] Companies that participate in the full hydrocarbon value chain from exploration through to refined products (diesel, gasoline/petrol, jet fuel, etc.)

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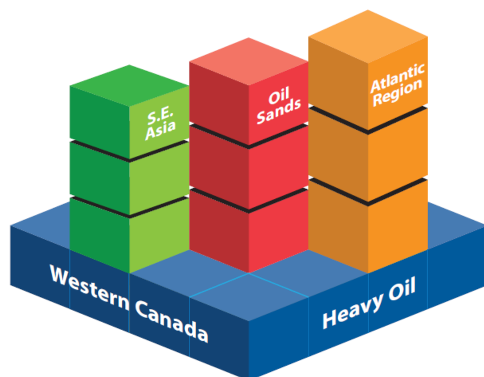
and assets of the company, but no material changes to the strategy have occurred. What appeared to be an undefined strategy under the prior CEO emerged into a foundation and growth pillars strategy. New capital spending was directed to three growth pillars, while the assets classified as foundational were provided enough capital to maintain their existing profitability, but not to grow. Relative to Husky's peers, this strategy was quite different geographically, as Husky is the only company of the group focused on the Canadian East Coast and operating in China. Many of Husky's peers were focusing their interests in areas outside of Canada, particularly the United States, or if in Canada, predominantly in the oil sands. Husky is one of the few energy companies investing large amounts in Canada outside of the oil sands, and only about half of the peers are integrated with refining and retail distribution networks.

The image in Figure 2-1 below was the first roll-out pictorially of the strategy and this image (a) was in use through 2016, with minor modifications – changing the name of SE Asia to Asia Pacific and adding another layer called Midstream/Downstream (b). The representation from May 2011 (a) was unveiled at the company's Annual General Meeting, and the March 2015 (b) representation was the final representation of the strategy. Over this timeframe, the strategy has stayed consistent.

a) Strategy Representation: May 2011



b) March 2015

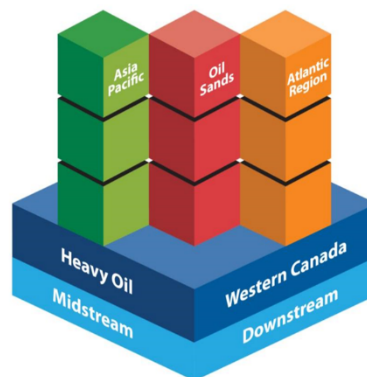


Figure 2-1: Public visual representations of strategy (Source: internal company documents)

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The Asia Pacific region and the oil sands represented two major growth projects, requiring billions of dollars of new funding between 2011 and2014. These projects were not generating any revenue during that period but required substantial funding through their completion. The main revenue producing businesses had been under-capitalized from the credit crisis in 2008 through 2010 and required additional spending to return to, and maintain, their prior productive capability levels. The upstream businesses required significant capital annually for new drilling to maintain productivity, as the existing wells naturally decline in productivity through reduced pressure at average annual rates between 20 and 25 percent.

Operationally, the main corporate performance measures are oil and gas production volume per day, annual oil and gas reserve additions, daily refinery throughput[4] and refinery uptime[5]. Refinery throughput and uptime have remained relatively stable over the study period; with the real changes occurring in oil and gas production. The company exhibited a 'W' shaped performance curve around oil and gas production during the reference period. The average annual levels of production dropped from 306,500 barrels of oil equivalent[6] per day (boe/d) in 2009 to 287,100 boe/d in 2010. In 2011, production increased to 312,500 before falling to 301,500 boe/d in 2012. In 2013, production returned to 312,000 boe/d and further increased to 340,100 boe/d in 2014. This substantial increase resulted from the large Asia Pacific project, mentioned previously, starting to produce.

To overcome the natural declines and grow the business, the company invested between $3 billion and $5 billion annually over the last decade as shown in Table 2-1. Most of the funding for the cash outflows came from reinvestment of cash flow from operating activities, rather than continually accessing the capital markets, comparable to the peer group. In looking at the results in Table 2-1 below, the company accessed the financial markets for a net $7.2 billion while spending a total of $48.5 billion for growth

[4] The daily volume of oil processed through the various refineries
[5] On an annual basis, the percentage of time that the facility was operating at the equivalent of full capacity
[6] For natural gas, the industry standard is that 6 thousand cubic feet (mcf) of natural gas is equivalent to one barrel of oil on an energy equivalency basis.

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for investors or payment of dividends. If you removed the long-term debt outstanding at the end of 2004, which was $2.1 billion dollars, then the total net debt number raised from the market would be only $250 million, which is trivial compared to the investment of $39 billion or the payment of $9.4 billion in dividends.

Table 2-1: Extent of capital market access for growth (Source: internal company documents)

(CAD$ millions)	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Total
Inflows of Cash											
Net new long-term debt	$ (166)	$ (267)	$1,500	$(1,256)	$1,738	$1,080	$ (380)	$ 90	$ -	$ 15	$ 2,354
Commercial Paper	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 895	$ 895
New Common Shares	$ 6	$ 3	$ 5	$ 5	$ 6	$ 989	$1,753	$ 612	$ 35	$ 12	$ 3,426
New Preferred Shares	$ -	$ -	$ -	$ -	$ -	$ -	$ 291	$ -	$ -	$ 243	$ 534
											$ 7,209
Outflows of Cash											
Dividends - Common	$ 700	$ 636	$1,129	$ 1,469	$1,020	$1,020	$ 495	$ 557	$1,171	$1,169	$ 9,366
Dividends - Preferreds	$ -	$ -	$ -	$ -	$ -	$ -	$ 7	$ 17	$ 13	$ 13	$ 50
Capital Expenditures	$3,099	$3,201	$2,974	$ 4,108	$2,797	$3,571	$4,618	$4,701	$5,028	$5,023	$39,120
											$48,536

Coming off the credit crisis of 2008-09 and bracing for substantial capital expenditures on the two major growth projects (oil sands and Asia Pacific) from 2011 through 2014, a comprehensive financial strategy was developed and initiated to re-capitalize the balance sheet in advance of the major spend and to protect the credit rating. This recapitalization included issuing $1 billion of equity at the end of 2010, the implementation of a share dividend program in 2011 that issued equity instead of cash dividends to preserve another $1.2 billion of cash, a preferred share issue of $300 million, another equity issue of $1.2 billion in mid-2011 and a debt issue of US$500 million in early 2012. This is shown in Table 2-1 above.

Over the study period, the market capitalization of the company fluctuated between $20 and $25 billion until mid-2012 when the market capitalization increased to approximately $35 billion (see Appendix 6 –). After this point, the company realized a steady growth in share price and market capitalization. With the various equity issues in 2010 and 2011 and the share dividend, market capitalization is a better metric than pure share price, as the number of shares had increased materially. Looking at the performance of the company against the main North American oil benchmark, West Texas Intermediate (WTI), an interesting story begins to develop. In Figure 2-2, you can see the close relationship, on an indexed basis, between the firm's market capitalization

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and the price of WTI. For this graph, I have indexed both the change in crude oil prices and the change in market capitalization for the company back to the beginning of the year in 2010, the start of this analysis.

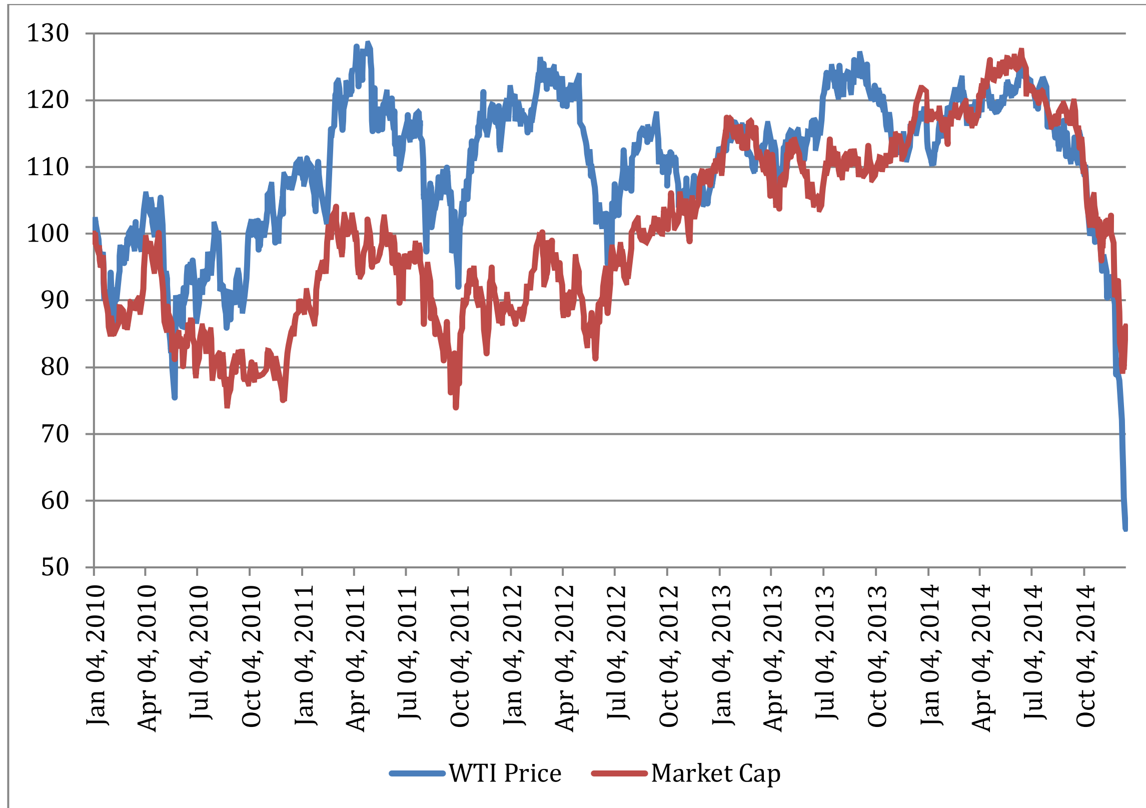

Figure 2-2: Indexation of WTI crude oil spot price against indexation of firm market capitalization, back to January 4, 2010

As seen in Figure 2-2 above, the two lines move in tandem, but with a large gap between the movement in the crude oil price and the market capitalization from summer 2010 until the fall of 2012. This suggests that there are other factors beyond oil price impacting the valuation of the company, and at a discount to movement in the oil price. At this point, the two lines close the gap and for the most part move closely together. Another way to illustrate these changes is through Figure 2-3, the difference between the two index movements. As can be seen in Figure 2-3, the difference closed to zero in the late fall of 2012, and stayed at that level for much of the next two years. With the WTI price collapse at the end of 2014, the market capitalization, while also drifting downwards, has not fallen at the same pace as the oil price.

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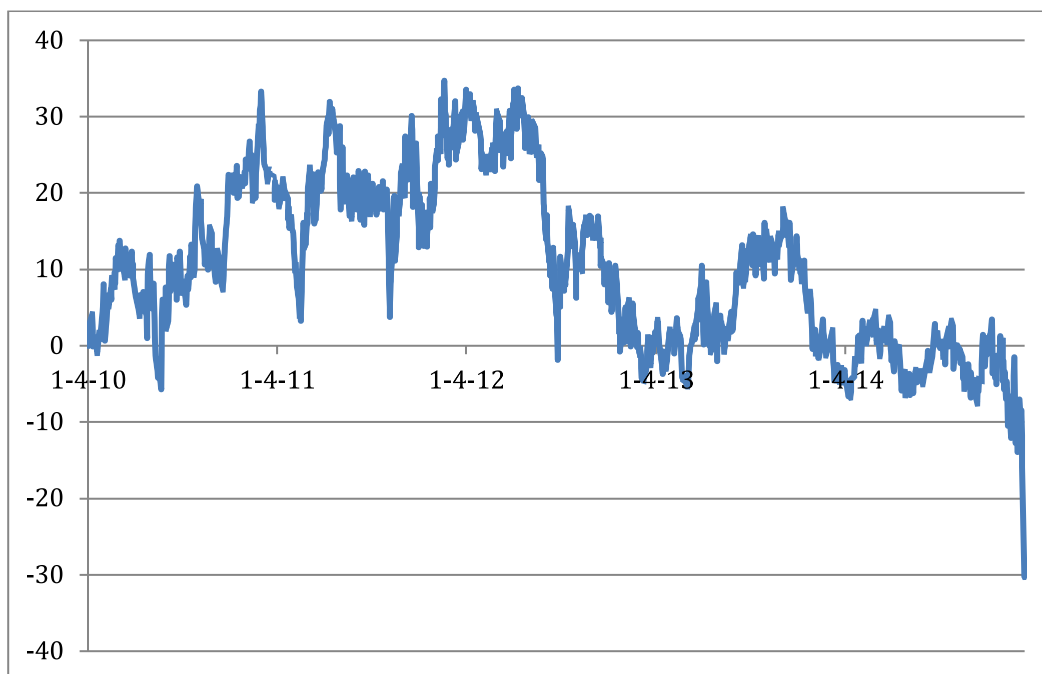

Figure 2-3: The difference between the WTI index and firm market capitalization index

2.2 IR Overview and Strategy

While there were no material changes strategically and limited leadership changes during the research period, there was a drastic change in the way the company interacted with the financial market. Under the prior CEO, the belief was that the company only needed to be concerned about the primary shareholder and not the minority shareholders. With the new CEO arriving, this philosophy was changed, and now management should become very interested in the minority shareholders since they set the value of the principal shareholder's holding, as the principal shareholder did not trade his position. The main emphasis was to begin interacting at a much greater level with the financial community.

In late 2010, I joined the organization with the mandate of building and implementing a new investor relations focus for the firm. The focus and strategy of the firm's new investor relations program was structured around the 21 capabilities outlined in the "Capabilities of a World-Class Investor Relations Organization" developed by Investor Relations Roundtable (2010). These 21 capabilities are built around four main areas and are highlighted in Table 2-2 below.

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Table 2-2: Capabilities of a World-Class Investor Relations Organization (Investor Relations Roundtable, 2010)

Establishing financial communications strategy	Optimizing the shareholder portfolio
• Key message prioritization • Optimizing disclosure practices • Shareholder activism • Investor perception analysis	• Buy-side investor relationship building • Proactive investor targeting • Sell-side analyst relationship management • Hedge fund management • IR and proxy voting
Providing effective decision support to internal partners	**Managing IR function and performance**
• Dynamic strategic feedback loop • Board decision support • Competitive landscape analysis • Investor impact scenario planning • Disclosure compliance training • Senior executive preparation • Crisis management	• Measuring the value of the IR function • Talent management • Vendor relationship management • Communications channel management • Closed loop performance feedback

In developing the strategy, not all capabilities were an initial focus for the team. The key capabilities to initially develop for Husky were investor perception analysis, buy-side and sell-side relationship building, dynamic strategic feedback loop and senior executive preparation. Based on the ownership structure of the organization, not all 21 capabilities are applicable either. As examples, proxy voting initiatives and managing shareholder activism become irrelevant as the principal shareholder controls enough shares to ensure that any vote is passed in the majority shareholder's favour.

2.3 Direct IR Responsibilities

There are 14 different direct responsibilities of the IR team listed below, which can be found throughout the job descriptions provided in Appendix 4 – IR team job descriptions. These direct responsibilities identify many of the roles that the investor relations team undertook to help management better understand complexity and the investor (Chapter 5), facilitate the different types of two-way communications discussed (Chapter 6) and continue to build out trust, reputation and relationships (Chapter 7).

Based on personal experience, the direct responsibilities of IR can vary somewhat between organizations. At Husky, the IR team has the primary responsibility of owning

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the relationships with all buy-side investors (debt and equity, retail and institutional), all sell-side analysts and institutional sales, and all items relating to these relationships. I will provide more detail around many of the main IR responsibilities below, providing some examples and rationale for why and how these responsibilities were performed. This provides context for IR's role in the later empirical chapters of the case study, particularly Chapter 7.

Direct Responsibility 1 - First and foremost, the team is about customer service. IR provides a service, both internally and obviously externally for the firm. IR is a service in the sense that the team continually provides information and helps the sell-side analysts, retail investors and institutional investors understand all material facets of Husky. Part of that understanding comes through educating and correcting misunderstandings about Husky or the industry that may be at play in the market. It sometimes involves pointing out numbers or facts that were already publicly disclosed, but that the stakeholder was either not aware of or had forgotten.

Direct responsibility 2 - Handling information requests is a key part of IR's customer service response. The team promptly returns any emails or phone calls from shareholders. There is a stated rule that institutional investors and sell-side analysts enquiries are returned within two hours during business hours. Even if the team couldn't yet answer the question, the investor is informed that the request is being worked on and an anticipated response time is provided. For retail investors, the call or the email response time is within 24 hours instead of two. This ensures that a complete response is provided, while not creating any selective disclosure.

To aid in understanding the firm, the team would develop and maintain an IR strategy and program (current tactics to implement the long-term strategy). For program development, the team typically went through an annual process to review the IR strategic plan, update the strategy and identify program changes for the following year. A review and evaluation of what is going well in the current program, what needed to be improved and what new items were upcoming are incorporated into the new program.

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Direct responsibility 3 - In developing initiatives for attracting and retaining institutional investors, targeting plays a large role, which can only be accomplished by understanding investor heterogeneity as discussed in Chapter 5. In targeting, IR looks at many different indicators including the major shareholders of Husky's peers, Husky's existing shareholders that could hold substantially more Husky shares in their portfolio and shareholders attracted to larger dividends that currently don't own Husky. The team also considers those shareholders who are significant shareholders in other companies controlled by the principal shareholder. Based on these varied criteria, IR screens the investor universe to identify those most likely to be interested in Husky's value proposition. Quantitative considerations of the stock help identify the interested quantitative investors, who are focused on statistical movements in the stock rather than the underlying story.

For new investors identified through targeting, IR tries to connect, either directly or indirectly, when marketing in a city where those shareholders reside. This provides the opportunity for a face-to-face meeting. The team coordinates with a sell-side bank (only once was a bank not used) to arrange meetings with existing and targeted investors in that city. When visiting a financial centre, IR attempts to meet with all larger and meaningful shareholders located there. By meaningful, I mean smaller shareholders that may not have a large position in Husky currently but could hold a much larger position. These shareholders are invited to Husky's annual investor day and to any facilities tours that may be held.

The team proactively reaches out to specific shareholders when there is risk that those investors will sell all or a material portion of their Husky holdings. The IR team considers regular and repeated contact essential for retaining existing investors. For any material events disclosed, the team ensures that a direct email is sent to all institutional investors to provide a small but more personal connection between the firm and the investor. The email summarizes the material information disclosure, plus attaches the full press release or financial results as necessary.

For debt investors, an annual marketing trip, or roadshow, is undertaken by visiting key markets and meeting with key debt investors. Husky also participates in an annual debt

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conference in New York. This is the only debt conference Husky is invited to. The frequency of regular contact with debt investors is a small fraction compared to equity investors, but Husky does maintain regular contact with debt holders where possible.

Direct responsibility 4 - To help evaluate investor shareholdings and relevant for Chapter 5; IR employs a specialized surveillance service. This service can connect to the back offices of the various trading houses, obtaining better access and understanding than IR alone can of various shareholder positions maintained in the bank's name. When in investor meetings, the team takes the opportunity to ask about the investor's current share position in Husky. Many times, an indication of position holding or change is provided, if not the exact current holding. It is important to know where an investor's shareholding position has been historically and what direction it was moving, either up, down or flat. IR uses the details related to a shareholder's position in Husky, its peers and the energy sector, and the direction each of these were moving, to understand if there are any gaps in understanding or information that might be biasing investor decisions compared to others.

The impacts of the IR program are reviewed regularly to determine what, if any, changes are required to the program going forward. After any conferences or marketing trips, the team evaluates the effectiveness of the meetings by determining any shareholder position changes as a result. The shareholdings by investor class are also reviewed monthly to identify the classes of shareholders Husky is becoming more or less attractive to. This aids in message development or clarity going forward. This information is useful for enhancing the relationship with various sell-side analysts, equity investors and debt investors.

Direct responsibility 5 - There is much preparation involved prior to meeting with investors. This and the next three responsibilities are particularly relevant for the discussion in Chapter 6 around two-way communication. Independent shareholder and analyst profiles are maintained with meeting notes from all prior interactions. These notes are used as preparations for upcoming meetings. To help management in upcoming meetings with new investors, the team locates photos of the investor to create a sense of immediate connection with the investor. The team reviews with the

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executive the types of questions that investor/analyst had previously asked to determine where their line of thinking was then and where it is likely to go in the upcoming conversation. This helps set the stage early in the conversation and shows that Husky is prepared and not wasting the investor's time.

In starting a meeting, management prepares to proactively answer the shareholder's questions, further assisting the connection with the shareholders. Another technique utilized to generate positive meeting benefits is reaching out prior to the meeting and requesting any questions or themes in advance. This provides valuable insight and allows for preparation, creating greater value for the investor. After the meetings, emails are sent thanking the investor for their time, providing any follow-up information requested and providing the IR team's contact details again.

When in a meeting, on the phone or responding to an email, the team is always trying to anticipate the underlying risk factors in the questions being asked. Many times, the questions are superficial and there is a deeper issue that investors are probing to understand. Based on that underlying risk factor, the goal is to answer their question but demonstrate how the underlying risks are being mitigated as well. This usually stimulates better conversations around Husky's strategic areas and away from the detailed modelling questions.

Direct responsibility 6 - Another direct responsibility is key message development. The IR team develops key messages for many different forms of communication, such as: corporate presentations, investor meetings, internal and external websites, financial or strategic press releases and quarterly conference calls. To improve the messages, IR reviews all questions asked in the current and prior quarters to identify themes or gaps in the financial market's knowledge that require additional information and education. IR then develops a list of themes and model questions and answers, so the executive can get ahead of those that are very likely to be asked in an upcoming meeting.

Direct responsibility 7 - To build on the messages in the meetings, IR and management ensure that the messaging is consistent to all stakeholders, through all communication channels, both internally and externally. That way different messages are not coming

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from different channels and each executive is providing the same message. All executives are updated regularly to keep them informed of the current information and messages in advance of any communication opportunities.

Up to two hours is spent with an executive in advance of each trip to prepare them to meet investors face-to-face. The executive is walked through all existing messaging, highlighting risk areas around the questions that might arise. For any areas of the company where the executive is less familiar, which will be of interest to investors, IR provides an extensive issue overview, plus background detail to assist the executive in answering unfamiliar questions. To further assist, and agreed to in advance with the executive, the IR representative will answer certain questions for parts of Husky's business that the executive is less knowledgeable about. The areas of questions that each will answer are outlined in the preparation meeting with the executive. For example, if traveling with an operational executive, the IR team likely fields all financial questions leaving the executive to answer the more operationally-focused questions. In addition to the message preparation, the team also organizes presentation and media training. This training helps management to present effectively to the investor community, as well as protecting Husky's reputation in the event of a crisis, by management responding appropriately.

Direct responsibility 8 - Shareholder identification and analysis are also parts of relationship building owned by IR and pertinent to the discussion in Chapter 5 and Chapter 7. Regarding shareholder analysis specifically, the team analyses the different shareholders trying to understand what drives their investment strategy. To develop this understanding, the team analyses the investor's geographic range, their shareholdings as a percentage of their total portfolio or the percentage of the weighting in the oil and gas sector. Additionally, any information obtained from analysts about specific investors is analysed and added to the investor profiles for future reference. This might include motivations that could be driving that investor's current trading strategies. This is also placed in context with an analysis of the general market and investment patterns and how that impacts Husky's shareholders. Furthermore, on a semi-monthly basis, as that is the frequency the exchange provides the data, the team

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reviews the short positions held in Husky and its peers and how they have changed over the half-month period.

For stock market monitoring and analysis, during trading hours IR constantly monitors the one stock exchange Husky trades on, the Toronto Stock Exchange. As part of the daily monitoring, the team reviews daily liquidity and block trades, which are any trade over 10,000 shares. However, the real interest is in block sizes of greater than 250,000 shares. When these trades occur, the team identifies the banks involved in the trades. These trades are typically cross trades, where the same bank acted on both the buy and sell-side of the transaction. The team then contacts the bank to see what additional information can be provided and to understand if it is a fundamental trade or a derivative trade. A fundamental trade is when an investor is deciding to either buy or sell stock in the company based on a fundamental aspect/belief about the valuation of the company. Understanding fundamental trades provides valuable information to the IR and management teams. A derivative trade may have no bearing whatsoever on that individual's view of the company and can be used for collateral or for different tax strategies. The derivative trades are used for a few different reasons and typically there is no value in trying to understand the motivations behind them. Through all of this, the IR team sees how Husky's peers are trading in all the different parameters. Husky usually trades at much lower liquidity and volatility rates then peers, but many times derivative block trades will appear in all of Husky's peers at the same time within the trading day.

The IR team is continuously benchmarking Husky share price movements relative to the energy index and the exchange index, as Husky is a member of both. The team evaluates longer-term how Husky trades around the index to assess what beta was relative to the market and peers. Further evaluation takes place on how Husky trades against oil and natural gas benchmark prices, plus currency fluctuation between CAD and USD, to determine how strongly correlated these are and how the correlations deviate. IR analyses monthly the banks that are frequent traders of Husky and those that are less frequent. With that trading information, the team gauges the bank's effectiveness for Husky's valuation purposes. Based on effectiveness, IR determines the allocation of marketing trips to those banks that are perceived to bring greater value to the company

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and the IR function than other banks. This is particularly helpful when the banks, trying to raise their profile, want sell-side analysts to get management in front of investors.

Direct responsibility 9 - Another responsibility is maintenance of the investor relations section of websites. Husky has both an internal and an external website, both with investor relations information. The internal website contains mostly contact information and some operational details, so not a lot of information is provided separately to employees as it is expected they will obtain public information from the external website or their supervisors. On the external website significantly more-detailed information is available. The external website is reviewed quarterly by the IR team, with some sections updated monthly and when necessary. The team maintains a public list of all Husky's analysts and their affiliated banks and locations, so interested investors can reach out to the sell-side analysts directly if desired. All dividend information is listed and updated on the website. The site contains a transcript of all conference calls, conference presentations webcasts and copies of current and past presentation material. Husky webcasts its annual general meeting and investor days and provides the presentation material for these events. The website itself is also regularly benchmarked. The team regularly reviews peers' websites to see what information they are providing to determine if Husky should include similar types of information for its investors or learn interesting facts about the peer's strategies and operations. There is also a monthly evaluation of website traffic, so the team can identify the sections and documents getting the most attention and adjust as necessary.

Related to the website responsibility, IR constantly monitors corporate information on external databases, chat rooms and other areas of the web to ensure that the information out there is factually correct. Reviewing chat rooms provides another gauge for how Husky's messages are being received by the retail investor audience. At no point does the team ever express an opinion in chat rooms or even comment, rather if there are gaps in understanding, this will be incorporated into the message preparation discussed previously. Then the correct information is emphasized in conference calls, press releases and other mediums that the entire public can access.

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Direct responsibility 10 - The team manages all the conferences, group and one-to-one presentations to analysts and investors, both debt and equity, relevant to the two-way communication discussion in Chapter 6. For bank-sponsored investor conferences, an annual calendar is developed with all the conferences Husky is likely to be invited to. From this calendar the team evaluates the conferences of greatest value to Husky. The evaluation considers market geography, quality of the attendees, past investor meetings, and the quality of the bank sponsoring the conference. The team reviews the conference calendar against the corporate reporting calendar to avoid conflicts of presenting just prior to releasing any quarterly information.

When requests arrive to meet with an investor in Husky's office, the IR team assesses the investor quality and determines who should meet with them. If a relatively minor institutional shareholder, typically managing assets of less than $1 billion, just IR would meet with them. If the investors manage assets of $1-$5 billion, a VP or senior VP meets with them and for the most important investors and premier conferences, someone from the C-suite is usually involved, such as the CFO, COO or CEO. In Husky's case, the CEO rarely markets or presents at conferences and typically only meets with the top 10 shareholders. His view is that he manages the main relationship with Husky's principal shareholder, who hold approximately 70% of the company, and that is the bulk of his IR work. He is more than happy to have the rest of the executive team handle the minority shareholders.

When looking at accepting any group or one-on-one meetings, the team always considers these requests against Husky's quarterly reporting schedule. Husky maintains a quiet period, roughly 2 to 3 weeks in advance of any quarterly results release, where no meetings are accepted. In rare instances, Husky must infringe on this quiet period and those are typically for external scheduling of premier conferences. At these events, the team is careful to clearly articulate that Husky is soon to release quarterly results so no questions around quarterly results can be answered. When investors come through Calgary during the quiet period, only the IR team is available to meet and only for introductory meetings where the quarterly results wouldn't be a discussion topic. In all cases, the IR team ensures that there are always two individuals present at meetings, either two from IR or one executive and one from IR, to avoid any selective disclosure.

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Reviews are conducted immediately after a meeting to determine if anything was said that might be construed as selective disclosure and a press release can be prepared and issued, if that is necessary.

Marketing roadshows (where management meets with investors in the investor's office) to financial centres are coordinated with bank sponsored conferences Husky is attending. These are evenly spread throughout the year. In developing the annual calendar for marketing and conferences, the team books two trips to Europe, one trip to Asia and multiple trips throughout North America. In the U.S., Husky includes two trips to the East Coast, including New York and Boston, and one annual trip to any of Baltimore, Philadelphia, Pittsburgh, New Jersey or Connecticut. There is one trip a year to Chicago, one trip along the West Coast (San Francisco and Los Angeles, and for ease, Vancouver in Canada), one trip down to Denver and one trip down to the Texas region. In Canada, Husky books two to three trips a year to Toronto and Montréal, plus an annual trip to Winnipeg. The team feels with the location of investors and potential investors, this provided Husky with a good geographic distribution and a variety of investors, with different investing mandates, to maintain sufficient interest and support in the shares.

When marketing in a city with a bank, the IR team specifies who the management team should meet with. If there are six meeting slots available in a day, Husky identifies key investors for three or four of those meetings and allows the bank to fill the remaining slots with good candidates to be approved by the IR team. The IR team vehemently discourages any hedge funds for the remaining meetings. Husky feels hedge funds are fine in large-scale group meetings where they won't take over the meeting and other smaller investors can ask questions. Most group meetings with multiple investors in attendance are either lunch meetings while marketing, or what the banks call reverse roadshows. This is where the bank brings a group of clients, maybe 10-15 individuals, to Calgary and sets up several meetings that day with different companies, bringing the investor group from meeting to meeting.

Direct responsibility 11 - IR is also responsible for presentations and reports to the board of directors and management. These reports provide a summary of what the

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market is doing, what IR is doing and what Husky's shareholder positions are. The team produces a monthly activist report, where any active shareholders taking positions in Husky's stock and how much of an activist they were is evaluated. Action plans for these activist shareholders are then developed, if need be. With a 70 percent principal shareholder, activism is rarely an issue for Husky, compared to peers that are widely held.

Direct responsibility 12 - Another area of responsibility for IR is internal and competitor financial analysis, modelling and research. Husky wants to build a solid understanding of its peers as many questions will arise in various investor meetings. Internally, IR needs to understand how Husky is doing things, what is done differently between business units and how these are done differently than peers. This information provides great contextual information that can be passed along to investors to generate a stronger understanding around the strategies Husky is putting in place. The IR team also needs to understand the financial impacts of any management decisions or strategic changes and the decision inputs to communicate effectively to investors and analysts, educating them on how Husky works and assisting in their modelling of Husky.

Direct responsibility 13 - IR crisis management is another key responsibility of the team, and critical to Husky's reputation, trust and relationships as discussed in Chapter 7. As part of the broader corporate crisis management, IR is responsible for the areas that only impact the company with the financial markets. As an example, if there are any financial restatements, significant management changes or anything that has a direct bearing on shareholders or debt holders, IR is either deeply involved or has responsibility in generating the messages and the communications plan to advise the various stakeholders in the financial markets.

Direct responsibility 14 - The last direct responsibility is preparing the fact book. This is a binder prepared quarterly summarizing all operational and financial detail at the business unit level. The fact book is used to help both IR and the executive answer questions in investor meetings around various parts of the business, particularly those parts they are less familiar with. It also provides all the public information made available regarding Husky and specific business units. This provides IR and

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management with the confidence to quickly and correctly answer questions in investor meetings without having to get back to the investor. Having the answers on hand improves the perception that management is on top of the business and knows it thoroughly.

As can be seen from the descriptions above, the IR team at Husky has a wide and varied list of responsibilities, both internally and externally. Not only is it about managing the relationship with the financial markets, but there is continual analysis and evaluation of internal and external data to develop messages and keep those messages consistent. The next section highlights those areas where the IR team contributes but doesn't have the end responsibility for completion.

2.4 Indirect IR Responsibilities

There are 11 different indirect responsibilities for the IR team at Husky, also found in Appendix 4 – IR team job descriptions. These are the responsibilities related to the financial markets where another group within Husky has the direct responsibility, but IR plays a large part in assisting. Like the direct responsibilities previously, I will list the more material indirect responsibilities and the IR team's involvement in those responsibilities. These aren't placed in any specific order, but support Husky's interaction with the financial market participants and underlie some of the discussions in the three empirical chapters.

Indirect responsibility 1 - The first responsibility is around shareholder administration and proxy solicitation. With Husky's large principal shareholder, proxy solicitation is essentially a non-event because any proxies or resolutions that need to pass are approved if the principal shareholder approves. Shareholder administration activities entail several different facets mostly handled by Husky's legal group, but the IR team assists when and where possible. Many share administration requests normally originate through enquiries to the IR team by investors.

Indirect responsibility 2 - For Husky's annual general meeting, the communications manager has direct responsibility for managing the function, but IR develops the CEO

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presentation, including speaking notes, and assists with the underlying business of the meeting. IR provides lists of invitees (investors and analysts, typically), in addition to the retail public who come on their own.

Indirect responsibility 3 - The team plays a review and editing role in the annual and quarterly financial reports, including the annual report, annual information form and management information circular. Husky's communications group, external reporting group (in finance) and legal group, respectively, have direct responsibilities for these disclosure documents. IR's role is to ensure that the factual business information is correct and consistent among all the documents, and that the messaging and tone is consistent and of a level of detail that the layperson can understand.

Indirect responsibility 4 - IR provides input into governance policies around the board, internal disclosure review committees and insider trading or anything of that nature. The Board of Directors and/or legal team has the direct responsibility for developing these various policies. IR's input is focused around what the team has seen at peer companies or what shareholders have been asking for.

Indirect responsibility 5 - For anything around internal corporate communications, Husky's communications manager had direct responsibility. Again, IR plays a role in reviewing, editing and fact-finding for the communications that are provided to the broader employee audience. The team wants to maintain consistency of message both internally and externally. Again, from a consistency of message viewpoint, the IR team participates in many business unit or team meetings, delivering an update on the company and shareholders, so employees can better understand the external perspective of the company.

Indirect responsibility 6 - From a corporate social responsibility standpoint, again Husky's communications manager has direct responsibility for producing the annual sustainability report. IR is involved in reviewing and editing of the document, but also in an oversight role around the type of information that investors are looking for or would find helpful in the document. As the Husky team met with investors that are sustainability focused and some activist investors oriented around sustainability issues,

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the IR team attempts to understand their motives and drivers and provides this input for the document. The team provides information or ensures information that reasonably meets these investors' needs is contained in Husky's sustainability reports.

Indirect responsibility 7 - For the financial media, Husky's media relations team has direct responsibility in dealing with all media and drafting all press releases. The IR team regularly assists the media relations team in understanding the business drivers, understanding the facts, educating the media around a technology or an operation and, again, ensuring consistency in messaging to another external stakeholder.

Indirect responsibility 8 - The IR team must be aware of all regulatory compliance issues as they relate to securities laws and regulations, both in Canada and the U.S. While marketing with the executives, the IR team is the enforcer of those securities laws and regulations to ensure none are broken. The team is the go-to and knows what management can and cannot say to the financial markets. Overall corporate regulatory compliance is through Husky's legal and accounting groups, based on whether it is financial reporting or securities laws reporting. If there is a breach in securities law, then the IR team assists in providing information around the breach and communicating back to the financial community. During the study period, there were no breaches of financial reporting, securities laws or regulations. Another compliance support function for the IR team is assisting with the internal disclosure committee in reviewing and approving information to be released publicly.

Indirect responsibility 9 - For capital formation strategies, the IR team plays a role in the strategies that the CFO and treasurer have direct responsibility over. IR's input is focused on the general market environment and how shareholders would likely view the revised capital formation strategy. A great example of this in action is the second time that Husky issued equity within a year (2011). After the first equity issue (late 2010), one institution advised that they wanted the opportunity to be brought in on a private placement basis (where the new equity issue is not marketed and only sold to a select few). Six months later, before Husky issued additional equity, IR, at the request of the CFO, contacted two specific investors and asked if they wanted an allotment of shares of up to $500 million each. This example is expanded in detail in Chapter 7.

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Indirect responsibility 10 - Internally, Husky's strategic planning and corporate development group have direct responsibility for the overall budgeting and strategic planning. The support IR provides is insight into how Husky's corporate strategy would be interpreted by investors. The team tries to determine if investors would see the strategy positively or negatively.

Indirect responsibility 11 - The last area where the IR team has an indirect responsibility is around options pricing and share unit grants. Husky's human resources group has direct responsibility for recommending the grants, but IR does all the options pricing and examines the market for irregularities during the five-day pricing period for options grants. The team also manages a total shareholder return database that is utilized in determining how many share units to award executives or how many of previously awarded share units vest.

Beyond the direct responsibilities for IR, the team also assists a few other groups in Husky to perform their responsibilities. IR assists in providing consistent messaging, business or financial market data, or an analysis of how investors will perceive the change in information.

2.5 Revised IR Strategy Outcome Overview

By implementing the IR strategy and through direct and indirect responsibilities over the study period, many outcomes were observed. Some of the more interesting are briefly discussed in this section. By focusing on greater interaction with market participants, the outcome is best demonstrated in Figure 2-4, where the tracked interactions with the market increased from 64 in 2010 to almost 600 in 2011 and then maintained that level for the next two years. A deeper look at this result will be covered in Chapter 6 around two-way communication.

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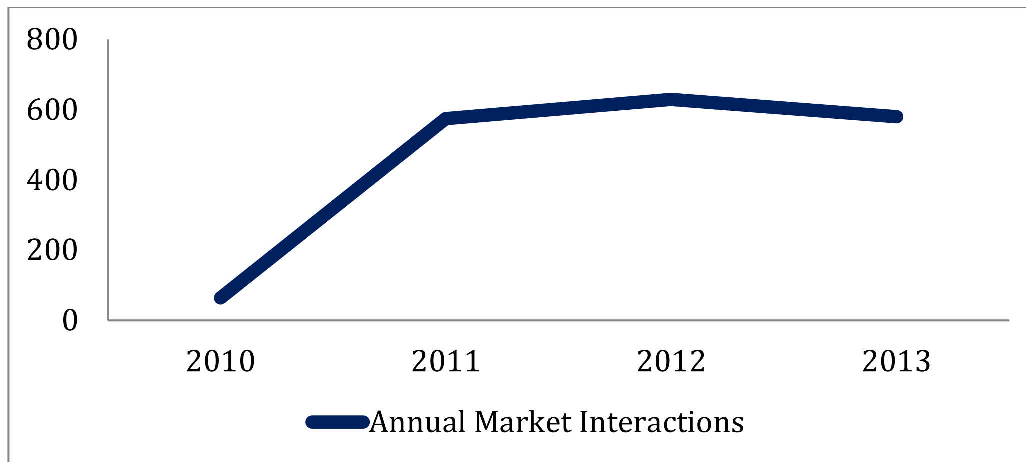

Figure 2-4: Tracked number of interactions between firm and financial market participants (Source: internal company database)

Turning to the type of press releases issued over the period, there are some marked changes presented. The headlines and number of press releases are presented in Appendix 2 – News Timelines. The number of releases vary over the four-year reference period from a low of 25 releases in a year to a high of 37. What is more striking is the focused content of those releases as shown in Figure 2-5. The strategic, operational and financial focus of the releases all dropped from 2010 through 2013. The number of releases that contained advisory information directing the public to listen in on a conference call or webcast almost doubled over the four years. This drop doesn't necessarily mean that Husky was communicating less to the financial markets about these important aspects. Rather, there were less surprises and reduced need to produce individual releases around financial, strategic or operational issues. The increasing number of advisory releases provided greater opportunity for the financial market to hear from management, beyond just reading a press release.

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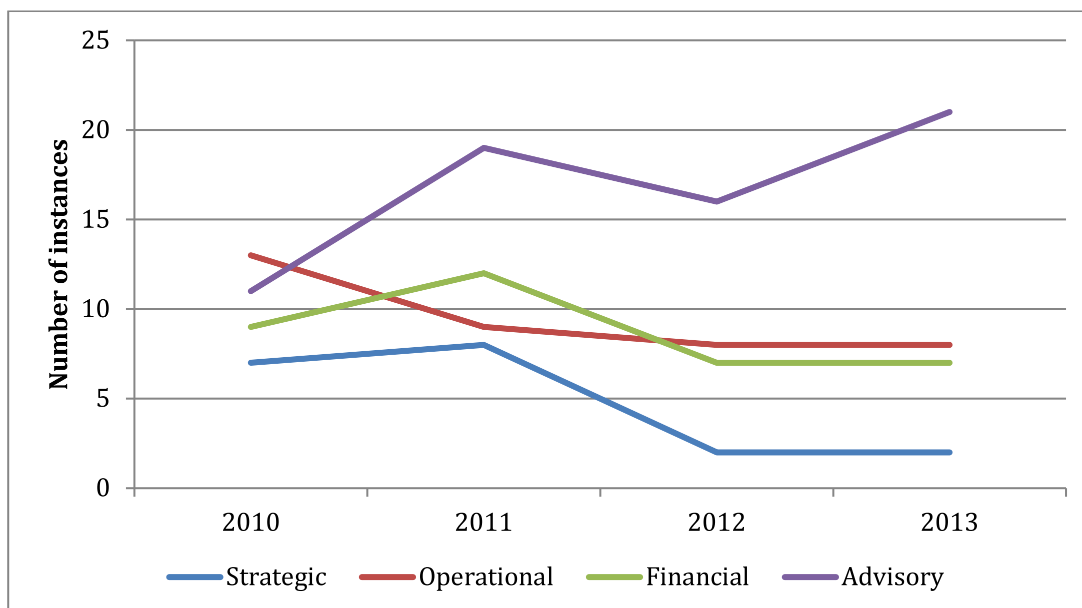

Figure 2-5: Main themes of press releases by year

Included with the change in press releases offered to the public, the company executive began traveling to more investor conferences and meeting investors face-to-face in their own offices. This accounts for most of the interaction increase found in Figure 2-4 previously. Related to the increased interactions, a large shift in the shareholdings of investors in the cities targeted for marketing was experienced. This shift can readily be seen in Figure 2-6, with the greatest increases occurring in Montreal, Los Angeles and Toronto over the three-year period for which the data was available. Unfortunately, the IR team did not investigate which areas or regions experienced declines in shareholdings, but it was believed that much of the increase resulted in a shift from retail investors to institutional investors which could be more easily tracked by the IR team.

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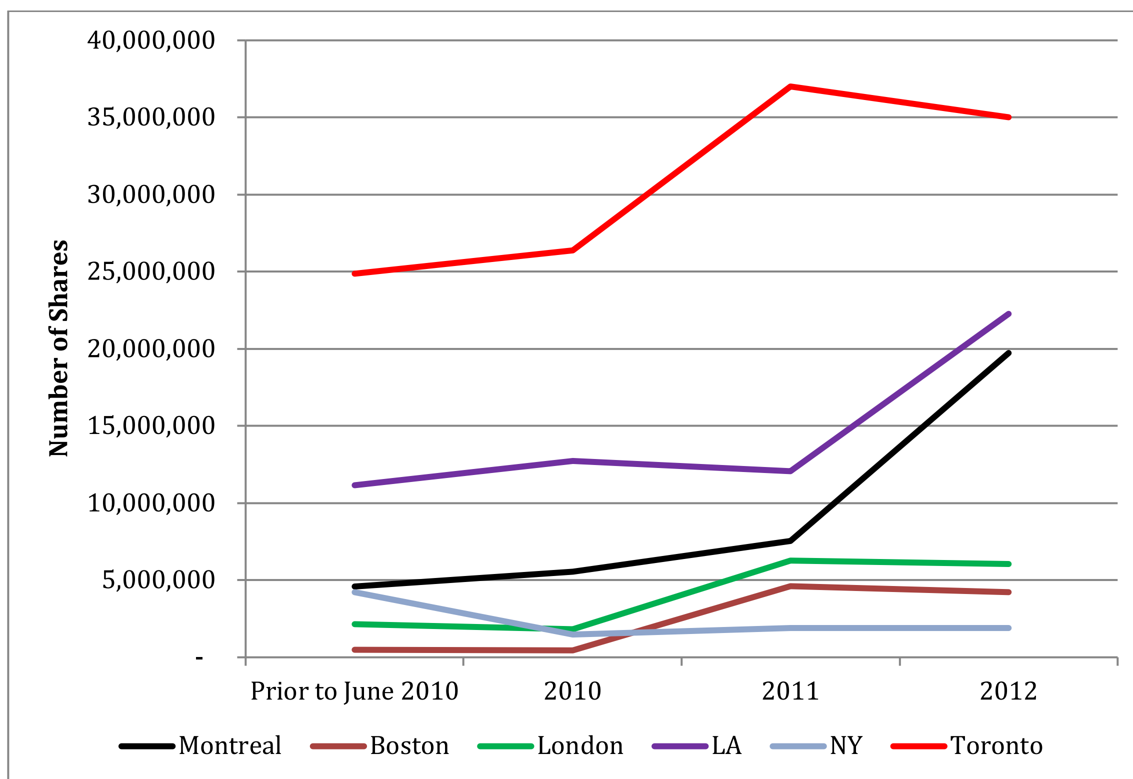

Figure 2-6: Increase in firm shareholding by major geography over time (Source: internal company reports)

Finally, reviewing the one-year results of cash flow (CF) and earnings (EPS) multiples as compared to Husky's seven remaining peer companies at the end of 2012 is shown below in Table 2-3. This table demonstrates significant movement from below average to more average results over the year for both CF and EPS multiples. As can be seen in the table, the CF multiple average moved from 5.3x to 5.6x, while Husky moved from 4.4x to 5.8x. For EPS, the multiple moved from 29.1x (skewed by Encana's results that year) to 18x, while Husky improved from 10.5x to 14.3x, more in line with many of its peers.

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Table 2-3: Comparison of firm trading multiples versus peers (Source: internal company reports)

Comparison of Husky Trading Multiples vs. Peers

	2012					2011		Comparison	
	CF/Share*	EPS*	Dec 31st, 2012 closing price ($CAD)	CF Multiple*	EPS Multiple*	CF Multiple Dec 31st, 2011	EPS Multiple Dec 31st, 2011	CF Multiple % Increase	EPS Multiple % Increase
Husky	$ 5.11	$ 2.06	$ 29.40	5.8	14.3	4.4	10.5	31%	36%
Nexen	$ 4.78	$ 0.99	$ 26.57	6.2	26.8	3.6	12.3	70%	119%
Imperial	$ 5.30	$ 4.16	$ 42.73	8.1	10.3	8.6	38.5	-6%	-73%
Suncor	$ 6.49	$ 3.28	$ 32.71	5.0	10.0	4.6	10.5	9%	-5%
Talisman	$ 2.94	$ 0.35	$ 11.25	3.8	32.1	3.9	17.1	-1%	88%
CNRL	$ 5.54	$ 1.64	$ 28.64	5.2	17.5	6.4	15.8	-19%	10%
Encana	$ 4.56	$ 1.30	$ 19.66	4.3	15.1	3.3	111.1	29%	-86%
Cenovus	$ 4.88	$ 1.90	$ 33.29	6.8	17.5	7.8	17.3	-13%	1%
Group Averages				5.6	18.0	5.32	29.13	6%	-38%
					16.7**		17.42***		

*Analyst consensus for 2012 annual estimates

**Average excluding Nexen

***Average adjusted to exclude Encana

It is these multiple movements and the results seen in the other figures in this section that are the basis for the interest in understanding the drivers behind these moves. This will be explored further in the empirical chapters later in this thesis.

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3 Literature Review

3.1 Introduction

Information is a key ingredient in the decision-making process, especially for an investor contemplating an investment in a firm. During the decision-making process, the actors involved become aware of informational asymmetries, which Stiglitz (2002) defines as, "*different people know different things*." These asymmetries arise because not all information is publicly available, and certain actors have private information that they must determine whether to disclose and make public. Signalling theory is a key model used to help close the gaps created through informational asymmetries (Connelly et al., 2011). This model has four elements: the signaller, the signal, the receiver and the feedback. Voluntary disclosure, a specific type of signal, is an intentional use of the signalling model by management to disclose private information to the financial market and other stakeholders. Assumptions being constrained or relaxed for the various signalling theory elements establishes several disclosure models. These relationships between the signaller, the signal, the receiver and the feedback as they relate to voluntary disclosure are explored in more depth in this literature review and the empirical research of this thesis.

There are many different facets that can be researched around how and why a company interacts and communicates with the financial markets, and the literature around this is vast. In reviewing the literature, it is helpful to identify and understand the main theories in place and the assumptions supporting those theories, regardless of how realistic those assumptions may be. Understanding how the theoretical assumptions influence the predicted outcomes or results is key to understanding the theories themselves, as good theory typically comes from the simplest models. Relaxing certain assumptions can drastically change the outcomes of the predictions from the theories.

Based on the research questions developed in the introduction chapter, I believe there are at least four different areas where it is important to consult the literature and understand the theory. These four sections will be the economic models of disclosure choice, rationality and complexity, communication approaches and reputation. I will focus on each of these areas in a separate section below. In an effort to make this

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digestible for the reader, I will focus more on the key theories and recent surveys in the field, highlighting the main assumptions found within those key theories, as the focus of this thesis will challenge some of the assumptions.

In Section 3.2, I will examine the literature around economic models of disclosure choice, with a specific focus on why firms are likely to disclose or withhold disclosure and look at some of the underlying key assumptions towards voluntary disclosure. The key literature can be grouped into persuasion games, costless signalling games and costly reporting games. There are two recent influential surveys of the literature that cover many of the main themes found regarding voluntary disclosure, and these surveys will provide the basis for discussion.

For Section 3.3, the discussion will focus on the bounds of rationality and how this can help deal with market complexity, as well as add to the complexity of the market. I will examine the key theoretical aspects of behavioural economics and behavioural finance that have emerged recently. This demonstrates a spectrum from the perfectly rational to the irrational, along with a secondary continuum of moving from the purely cognitive to the emotional.

Moving to Section 3.4, I will delve into communication as a two-way process. There are at least three reasons that this is important. The first is an understanding that outsiders may have private information that managers don't have. Next, I will consider that outsiders have calculating abilities that may complement those of managers, which provide a different way of thinking about the firm and benefit managers with less than perfect calculating ability. Lastly, managers can't perfectly predict how external agents will respond to disclosures or actions, so they need to talk with these agents about the disclosures or actions, and this will necessarily add complexity.

In the last section, Section 3.5, I will dig deeper into the concepts around reputation and trust that management has with the financial markets, as this is important in the persuasion games and costly reporting models identified earlier. In exploring reputation and trust, it is also important to consider relationships. These three concepts are critical to management's believabilitly in the eyes of the market. Additionally, in

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economic game theory, the differences of single-period interactions compared to multi-period interactions over an extended period of time lead to an understanding of reputation.

After reading through the four sections below, one should be able to understand the major theories in each of the four areas, the key underlying assumptions behind those theories and how these theories are connected to each other.

3.2 Economic models of disclosure choice

If there is an informational asymmetry between management and the financial market, why isn't management likely to provide full disclosure to the financial markets? Beyer et al. (2010) explore the "*unravelling result*," as developed in Grossman and Hart (1980), Grossman (1981), Milgrom (1981) and Milgrom and Roberts (1986), which predicts that firms will disclose all private information if, and only if, certain assumptions are met. If any of the following five assumptions aren't met, then management will likely decide to reveal less than its full private information, voluntarily disclosing some, but not all. According to Beyer et al. (2010), the five conditions are:

> *"(1) the disclosure is costless to the firm; (2) investors know that the firm has, in fact, private information; (3) all investors interpret the firm's disclosure in the same rational way and the firm knows how investors will interpret the firm's disclosure; (4) the firm can credibly disclose its private information; and (5) the firm cannot commit ex-ante to a certain disclosure policy."*

The theoretical literature on the economics of voluntary disclosure can be viewed as a set of attempts to examine what happens when one or more of the assumptions of the unravelling result does not hold. This literature has discussed three main types of models on a continuum based on disclosure costs (proprietary information, legal, reputational or other costs) and truthfulness of voluntary disclosure models, as discussed in Stocken (2013): from persuasion games (truthful and costly) at one end of the continuum, costly reporting games (less truthful but still costly) in the middle of the continuum to costless signalling games (less truthful and no costs) at the opposite end.

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Under persuasion games, the discloser may withhold information, but any information that is disclosed must be truthful, as the costs of misleading information are infinitely high. In the costless signalling games, the discloser may be vague or misleading in the information that they choose to disclose with no costs experienced by the discloser for disclosing the vague information. In certain literature, there are games known as cheap-talk games, which fall under the category of costless signalling games, but not all costless signalling games are cheap-talk games. Finally, in costly reporting games, while the discloser may provide misleading information, they do so knowing that they may incur costs, but costs that are less than under persuasion games.

The models within the three disclosure categories differ according to which assumption from the unravelling principle is relaxed and/or what alternative assumption is put in place. This has resulted in many alternative models where the balance of forces in favour of either more or less disclosure changes between models. For example, some models result in incentives for managers to disclose good news and hide bad news (Dye, 1985), while other models may incentivize management to disclose bad news and hide good news (Suijs, 2007).

Under the persuasion games framework, the primary assumption is that the sender of information, while being truthful with any information disclosed, can choose to withhold information, keeping an informational asymmetry intact between the firm and the investor. Dye (1985) provides three reasons why management may choose to withhold information: they wish to suppress bad information, the information may be proprietary and finally, disclosure may aggravate agency issues between the market and management. Referring back to the elements of signalling theory discussed above, the persuasion game models described by Stocken (2013) focus on variations of the sender and receiver. These variations include informed or uninformed receivers, and single or many receivers. Additionally, the interactions are examined in single and multiple games; but in all cases the signal is still truthful when disclosed and the feedback still represents severe consequences for misleading the receiver. All these games continue to assume a rational view of the economic world, and focus on existing homogeneous investors, rather than future investors. The focus on existing investors can create a conflict of interest between existing and future investors, or if investors are

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indeed heterogeneous, between different classes of investors. Predominantly, there is the assumption that all material information comes from the firm and not from other parties.

Building off Dye (1985) and reasons to withhold information, there can also be conflict between whether to disclose. Darrough and Stoughton (1990) examines the situation where a party is conflicted on whether to disclose favourable or unfavourable proprietary information along with the associated costs. In addition to only considering market valuation, Darrough and Stoughton (1990) also add in the threat of competition and the related costs of competition. If a firm has positive information, the firm may want to disclose to increase its market valuation but be conflicted in disclosing since this may attract new entrants into the market place. Conversely, if the firm has negative information, the firm may decide that it doesn't want to disclose to avoid a market valuation impact, but the negative information may dissuade new entrants from attempting to compete in the market place. Therefore, the firm is conflicted on whether to release both positive and negative information into the market. To overcome this conflict, the firm will need to determine whether market valuation or entry deterrence is more important. Compounding this decision, the market reaction could be inversely related to the nature of the news, placing a higher importance or valuation on competition deterrence rather than the firm's specific results.

The next grouping of literature identified by Stocken (2013) is at the other end of the truth and cost continuum, centred on costless signalling games. These games allow the discloser to be vague or misleading in the information that they choose to disclose with no costs to the discloser for untrue information. Back to the signalling theory, in these games the signal itself has significant flexibility and the feedback loop has very few consequences for management. With the flexibility of truthfulness in the signal, the receiver is forced to apply a credibility standard to the quality of information, creating a principal-agent situation. In a single-period game, this is difficult as there is nothing for the receiver to judge the quality of the information against. This forces the need to view multi-period games where the past signals of the sender can be qualified, and the receiver can apply a probability of accuracy or truthfulness to the signal. Stocken himself contributes to this area of the literature in Stocken (2000) looking at voluntary

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disclosure broadly and management forecasts in particular (Rogers and Stocken, 2005). Unfortunately, the receiver has no way of verifying if the actual signal was truthful or not. A view around these cheap-talk games was initially expressed in Crawford and Sobel (1982), as they examined the rational behaviour between two individuals in direct communication with each other, settling on the relevance of direct communication only when the two individuals' interests are completely aligned. If the sender and receiver's interests are not aligned, even a truthful and quality signal could be viewed as containing less information (Verrecchia, 2001). Again, these models continue to highlight the assumptions around perfect rationality and the homogenous investor, where everyone has the same interests. They don't take into consideration the conflicts of interest between different stakeholders and are difficult to evaluate under a multiple game scenario where signaller credibility begins to sway the receiver's interpretation of the signal. Certain cheap-talk games can be interesting as they help explain why managers disclose a value range rather than a point estimate. Chen et al. (2008) highlights examples where there can be a range of equilibria within the cheap-talk game and the outcomes are still costless to management within the range of possible outcomes. This is interesting as there may be a cost incurred with a single point estimate, but there is no cost if a range is produced.

The last broad categorization of voluntary disclosure identified by Stocken (2013), sitting in the middle of the spectrum, is costly reporting games. These games focus on the discloser providing misleading information, knowing that they will incur costs. It is believed that the value of providing the misleading information is greater than the potential costs incurred. This area was built off the work of Narayanan (1985) and Fischer and Verrecchia (2000). Like the other two categories, a few different assumptions are relaxed and the differences in management's behaviour is examined. The main insight that comes from this category is the demonstration of credibility, or the need for credibility to offset the potential costs that may be incurred. By knowing that there will be a cost to disclosing misleading information, the firm will be more likely to provide credible information to the market if that information can be later verified by the market. The difference of credibility only arises when there are different objectives in play. With the view towards credibility, there is a need for looking at multi-period games, but the models considered primarily focus on the single-period game.

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These models also imply that all investors will deliver the same consequences to management once the information is verified to be untruthful, creating a certain amount of homogeneity amongst the investors.

Even with all of the broad disclosure models mentioned above, management needs a reason to voluntarily disclose information. Lev (1992) outlines many of the reasons why a firm would undertake voluntary disclosure, especially when considering the financial markets as the key stakeholder. These objectives are: correcting mis-valuations, enhancing liquidity, changing shareholder mix, deterring political and regulatory intervention and gaining competitive advantage. In correcting mis-valuations, the financial market may not truly understand the full value of the organization's opportunities or place a different risk on achieving those opportunities than are truly warranted, therefore the true value of the firm is different than the market value. The increased disclosure attempts to bring these two values into alignment. This driver was clearly seen through the research conducted and commented on in the following empirical chapters as the mis-valuations were reduced substantially. By enhancing liquidity, the firm attempts to place more information in the market to close the spread between the bid and ask prices, reducing the necessary return required by the investor and thereby lowering the cost of capital for the firm. In my findings related in the empirical chapters, this driver was indirectly influenced through the other actions by Husky's management. By targeting voluntary disclosure at certain shareholder groups, the firm may be able to adjust its shareholder mix. As an example, by providing information preferred by institutional investors, the firm may be able to attract additional institutional investors as new investors, shifting the shareholder mix. This driver particularly influenced Husky management and, as seen in the results described later, the investor mix was shifted. In politically sensitive industries, such as oil and gas, banking or pharmaceuticals, a firm may be incentivized to release certain types of information to placate regulators and policymakers, who may be pressured by certain special interest groups. Similar to that mentioned in Dye and Sridhar (2002), a firm may gain a competitive advantage through the use of voluntary disclosure beyond just discouraging competition. By reducing the informational asymmetries, thereby lowering their cost of capital or enhancing liquidity, they increase the organization's competitiveness.

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From the surveys by both Beyer et al. (2010) and Stocken (2013), many different assumptions are involved in voluntary disclosure models focused around the unravelling result. With these assumptions, two main areas are focused on in the following sections. The first, perfect rationality, related to assumption 3 from the unravelling result, will be discussed in more detail in Section 3.3, particularly the assumptions that all agents are perfectly rational and have unlimited calculating ability and, additionally, that managers can predict how outsiders will respond to any announcements they make or any action they take, such as financial signalling. The next major grouping of assumptions is around access to information, related to assumption 2 of the unravelling result, discussed in more detail in Section 3.4. This considers that insider managers have access to information about the firm that is not available to external stakeholders and outsiders do not have information about the company that is not also available to the managers.

3.3 Rationality and complexity

Most neoclassical economic literature, including the models described in Section 3.2, is founded around the assumption that both investors and management are perfectly rational, assumption 3 from the unravelling result. This rationality is seen as perfect, logical and deductive (Arthur, 2014, p.38). This assumption is further extended in that managers can predict how the information will be interpreted, and acted on, by rational investors. Using the perfect, logical and deductive nature of perfect rationality allows one to model the world mathematically towards a point of equilibrium; therefore, neoclassical economics embraces the perfect rationality assumption as a foundational assumption.

This perfect rationality view focuses on the choices produced by the decision maker rather than the process employed in making the decision, which is how other social sciences tend to view rationality (Simon, 1986). As Simon (1986) states, neoclassical economics treats rationality differently from social sciences by not addressing participants' goals and values and treating behaviour as homogeneous, both now and in the future. Taking the neoclassical approach pushes you to assume that the real world

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is exactly as the decision maker perceives, utilizing his unlimited computational power to arrive at the most objective decision based on maximizing utility.

It would be difficult for one to debate against the financial markets being a complex system. This perfect rationality view has issues under a complex system for at least two reasons, if not more. The most obvious being that human logical capacity can only handle a certain threshold of complexity. Once that threshold of complexity is surpassed, the human mind no longer copes, causing the perfect rationality assumption to break down. The second being the ability to determine your own reaction and how others will react based on information, when in reality individuals are heterogeneous rather than homogeneous, as described by Simon (1986). In interactive situations, one party cannot rely on the other party to act in a perfectly rational manner, and therefore the first party is required to guess how the other party will react (Arthur, 2014, p.38). Evidence has been building from the 1980s onwards to suggest that accepting a view of bounded rationality or irrationality sometimes provides better predictions on market interpretation and actions to new information than models focused on perfect rationality. This less-than-perfect rationality begins to consider the different behaviours and heterogeneous views.

If you take the view of bounded rationality being a significant contributor to the complexity found in financial markets, then it is important to understand the processes that support this bounded rationality. The social sciences take a more cognitive or procedural approach towards rationality, allowing the view that the decision-making process is sensitive to the complexity of contexts and learning processes as well (Simon, 1986). This view permits limits to the decision maker's ability to objectively maximize utility. Further, the real world may not be exactly as the decision maker perceives it to be. An example can be found in the disclosure models previously discussed, where the decision maker believes his untruthful disclosure is costless, but in fact there are unforeseen costs incurred they may not be aware of. This bounded rationality causes the decision maker to search for patterns to help close gaps in their knowledge and understanding of the markets and minimize the amount of guessing between bounded rationality and perfect rationality.

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The perfect rationality assumption would not require the need for stock price graphs or market indices to distil large amounts of information to determine how one firm is performing against its peers or screen amongst a universe of stocks. In a perfectly rational world, management would not need to engage the services of stock surveillance[7] or conduct independent perception studies, two services that Husky regularly contracted to better understand its shareholder base along with their thoughts. This search for patterns allows the decision maker to simplify the problem by using the patterns to construct temporary hypotheses to work with, such as technical stock trading techniques and their applications. The hypotheses generated are then tested, such as purchasing shares in a company, with the decisions made referred to as induced reasoning, rather than the deductive reasoning as found in neoclassical economics (Arthur, 2014, p.31).

Using bounded rationality instead of perfect rationality as an underlying assumption allows one to focus on the methods and patterns (the learning process) employed by management to understand any number of areas, such as peer strategies, investor priorities, market perception of management, to name a few. It creates the opportunity to think about the firm in different ways. By regularly interacting with a diverse group of market participants, including heterogeneous investors, management can develop and refine these patterns, essentially learning from them. This learning allows management to better interact with the constantly changing and adaptive aspects of the market and its variety of participants.

To cope with the vast amounts of information, both the signaller (management) and the receiver (the market) rely on heuristics to navigate through the sea of information and constant change they find themselves in. These heuristics are focused around the psychological values and behaviours of each actor (signaller and/or receiver) and explored through behavioural economics and behavioural finance literature. When an optimal decision can't be obtained, a heuristic developed by Simon (2013) in the late 1940s and expanded in the 1950s, known as satisficing, is employed. This pattern

[7] Stock surveillance is a service that attempts to determine the shareholding positions of various shareholders by contacting the back offices of many brokerages and seeing which brokerages hold large positions beneficially for investors in 'street-name' or the broker's name rather than the investor's name.

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involves considering all the available alternatives until a suitable threshold is achieved. The literature is finding that using the heuristics in decision making produces better predictions of market and investor reactions to new information than those supplied by models that rely on perfect rationality. This bounded rationality or irrationality is applying greater realism to the models to better predict reactions to real-world phenomena.

Barberis and Thaler (2003) identify three key puzzles that are unexplained by perfect rationality models but begin to be supported through bounded rationality. The first is the equity premium puzzle. This puzzle tries to understand why the average returns for stocks are higher than for bonds given the same level of risk. In a perfectly rational world, this should not be the case. The next is volume liquidity. The volume liquidity puzzle tries to understand the substantial amount of liquidity seen in the market when, under a perfectly rational view, people shouldn't want to trade with people who want to trade with them. The last puzzle is that of predictability, in that stock returns are partially forecastable based on dividend-price ratios.

Camerer et al. (2011) surveys behavioural economics advances and distils the research into two main domains, patterns or heuristics focused on judgement and choice. Judgement-based research is focused on the patterns that participants use to estimate probabilities, while choice-based research is focused on the patterns participants use to select among actions. These heuristics typically cause investors to either over or under react to market news (De Bondt and Thaler, 1985). These heuristics can be both good and bad for the individual. For the good, they provide fast answers that are usually close to optimal when the actor has limited time or cognitive capabilities. In other, certain circumstances these heuristics can violate rationality and lead the actor to a completely wrong choice or judgement. First, I will discuss some of the judgement heuristics and then move to the choice-based heuristics.

Heuristic mechanisms have been identified to form judgements that violate statistical sampling principles or Bayes' rule for updating probabilities (Kahneman and Frederick, 2002). This first pattern for judgement is based on how easy it is for individuals to imagine future events or to retrieve from memory. This is known as the 'availability

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heuristic', and contributes to certain biases, such as hindsight bias. A hindsight bias says events that have occurred in the past are easier to understand than an event that has never previously occurred. Both management and the market are better able to understand future events that follow existing prior events, rather than completely new events that weren't contemplated. The sub-prime mortgage induced credit crises of 2008 would be a good example. With the credit crisis involving previously unexperienced events, the market likely overreacted to the information in the early stages.

Another judgement heuristic is that of representativeness (Tversky and Kahneman, 1983). Representativeness is based on how well the data set of information fits a stereotype. The closer the data set fits with a stereotype, the more likely the data set will be interpreted to behave in the same manner as the stereotype. When an energy company has large profits based on increasing commodity market price moves, the stereotype that all oil companies are greedy seems to be perpetuated. In this situation, the market is more apt to underreact when the information fits that of representativeness. When investors need to apply risk to their investments, which also translates into discounts, the judgement biases become very relevant to the size and likelihood of those risks, and therefore the related discounts placed on the investment.

Small sample sizes are used to extrapolate results to a large population, known as the 'law of small numbers' (Camerer, 1989). The results from a small sample size are thought to represent the overall result for the population. Each quarter, after the first couple of companies report their results, the sell-side analysts usually produce updated results for the remaining peer companies based on the information gained through the quarterly disclosure. Using small samples sizes may cause investors to under or overreact to the information obtained as it pertains to other firms in the peer universe. In a situation where a company provides little disclosure to the market (as Husky did), the market may partially base its reactions to any Husky disclosure on the prior disclosure of its peers, using the availability and representativeness heuristics. If Husky's management wants to understand and change these reactions, they need to disclose and interact with the community more to adjust these heuristics.

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Moving from the judgement-based heuristics to choice-based heuristics, arguably the most successful behavioural model of the choice, or decision-making, process is the prospect theory developed by Kahneman and Tversky (1979) to describe how people choose between probabilistic alternatives, where outcome probabilities are unknown. The theory states rather than focusing on the final outcome, individuals instead choose based on the potential value of losses and gains. These losses and gains are evaluated using certain heuristics described in the following paragraphs. This is a descriptive theory, trying to model real-life decisions, instead of optimal decisions, relative to normative models, as those discussed in Section 3.2 do. The model uses two phases, an editing phase where outcomes are ordered, then an evalutating phase, where the individual behaves as if they are selecting the highest utility based on the ordered potential outcomes. This theory assumes that the actor will be loss-averse, or try to avoid losses where possible. One factor just as important to the process of decision-maiking but not not covered by the model is that of emotion, which will be covered later in this section.

I will describe a few of the different patterns, but management will be uncertain as to which of these, or how many of these, patterns the various market participants will be employing at any time. The first is framing effects. The order that choices are presented to an individual can impact the ultimate decision between the choices (Tversky and Kahneman, 1981). The order that companies present at an investor conference could be an example. Another well-known pattern, particularly in negotiating, is the anchoring effect (Tversky and Kahneman, 1975). This effect establishes a starting point from which the decision is based. The starting point may have little relevance to the actual optimal outcome. Earnings estimates published by the sell-side analyst would be examples of the anchoring effect. Contextual effects will drive decisions based on the other choices that are available within the decision set (Simonson and Tversky, 1992). The endowment effect relates to one having the preference for something they already own over replacing that item and adding something new (Tversky and Kahneman, 1991). This may help explain the difficulty in gaining new institutional investors over increasing the holdings of existing investors.

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Thaler (1999) identifies mental accounting as another decision heuristic, a pattern that psychologically separates the gains and losses being evaluated prior to evaluating the integrated utility. These separate gains and losses can be based on either the source of funds or the use of funds. A simple example is the use of a simple savings account where an individual places funds for a holiday, while still carrying a substantial amount of credit card debt at a high interest rate. It is more logical to use those funds to pay down expensive debt, rather than earning very little interest. Hence, the money is separated into different accounts and treated differently by the individual.

Another pattern is focused around the sequence of outcomes (Camerer et al., 2011). In this heuristic, a sequence of gains is preferred, while a sequence of losses is not preferred, such as a wage increase each year as opposed to taking a new job at a lower salary. This sequence of outcomes can create a level of adaptation, connecting back to the complexity of markets. It will drive an investor to continue supporting a firm or management team that has provided a past series of positive outcomes while not supporting the management that has produced negative outcomes. This helps tie to reputation, which will be discussed later in this chapter. Ambiguity aversion will drive the investor's decision towards the probability of greater certainty even if that certainty may have a lower optimal outcome. This may help explain the preference for dividends over capital gains, even though dividends are taxed at a higher rate (Barberis and Thaler, 2003). Tied to ambiguity aversion is time discounting. Time discounting explains that individuals place a greater importance on near-term certainty than on decisions that have a longer future orientation before the results are experienced (Thaler, 1981). The list above isn't exhaustive but provides a broad spectrum of the heuristics involved in making decisions. These heuristics are also not mutually exclusive, so multiple heuristics can be employed at any time for a decision.

Building on the behavioural finance literature above, related to choice or decision-making, Taffler (2014) extends the spectrum by moving from the logical into the realm of emotions and the sub-conscious. There is an underlying excitement and anxiety involved in investing that further impacts the decision-making process. The unconscious feelings, fantasies and needs of the individual will further influence the judgement and decision-making heuristics described above. Taffler et al. (2017)

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demonstrate how fund managers suffer an underlying anxiety because of the inherent uncertainty the investment process creates. One way to curb this anxiety is through meeting with management to build trust, two topics that will be explored in the remaining sections of this chapter.

As discussed above, the financial markets are complex and driven by the continuum of rationality, from perfectly rational through bounded rationality to the completely irrational. Even within this continuum, there is a spectrum of moving between the logical to the emotional by individual actors. In interpreting the information available to all or selected participants to make judgements and choices, individuals will employ several heuristics to quickly wade through the vast amount of information available and attempt to optimize the decision. In a bounded rationality world, managers need to be aware of their own bounded rationality and be willing to learn from others who may be able to help them think about issues. Further, managers need to understand the mentalities of their investors and cater to the behavioural needs of investors. Managers need to understand how their main investors think about the firm both as a specific investment proposition and relative to other similar prospects.

3.4 Communication as a two-way process

Signalling theory contains four elements within its model, the signaller, the signal, the receiver and feedback. The previous sections focused on the interactions amongst the first three elements, remaining silent on the fourth – feedback. Specifically, the three main categories of disclosure models discussed in Section 3.2 provide a singular flow of information, from the signaller to the receiver – there isn't any mention of an information flow back to the signaller; essentially there is no feedback. This lack of feedback creates a one-way flow of information, from management to the market according to the disclosure models presented previously. The assumption that the informational flow is one-directional and only from the firm to the market needs to be challenged, especially in a world with bounded rationality. For there to be communication, the signaller needs to understand that the signal has been received and understood by the receiver. If the signal hasn't been received and understood, then no communication has taken place. Additionally, just as the financial markets can learn

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from management, management should be able to learn from the financial markets, creating a need for two-way communication.

Beyond the feedback loop described above, there are more specific reasons why two-way communication can matter between a firm and the financial markets. The first being that financial markets can have information managers do not have, particularly around the industry broadly, macro-economic factors, government regulations or peers, as examples. Next, the financial market participants may have calculating abilities that may complement those of managers, possibly seeing connections that generate value in addition to management. These participants can provide a different way of thinking about the firm, which can benefit managers with less than perfect calculating ability in a bounded rationality world. Husky's principal shareholder would be able to provide a deeper understanding into several industries and regions outside of Husky management's normal sphere that may have a material impact on the company. In addition, with rationality bounded, managers can't perfectly predict how external agents will respond to disclosures or actions. Management needs to talk to people about these things, connecting back to the heuristics of behavioural economics or behavioural finance. This is the third assumption found in the unravelling result, described in Section 3.2. Management might believe the market will react favourably to certain news, but the market may see a new risk based on the news and react neutrally to negatively. A Husky example involves the issuance of a share-based dividend rather than a cash dividend.

In helping management learn market sentiment and what investors are looking for, Dye and Sridhar (2002) demonstrate that the market may provide information that is valuable to management, rather than focusing on the assumption that management has all of the valuable information. The market's reaction to a proposed strategy could direct management's actions regarding that strategy. Based on a positive reaction from the market, management might be directed to either continue with the new strategy or even expand on the strategy. In the case of a negative reaction, management might be directed to return to its previously identified strategy to avoid future negative market valuation. The direction of management actions implies that there is two-way

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information flow and that management is learning from, and acting on, information provided by the financial markets.

Not-only is two-way communication valuable for management, it is valuable for the market. The two-way communication practices performed by management are felt to be the most effective means of communication with the financial market (Dooner and McAlister, 2013, Barker et al., 2012). The face-to-face meetings between management and investors are found by investors to be the most useful. These meetings transfer additional information beyond just the words used, as all the non-verbal communication cues are available to the investor as well. The two-way communication, over repeated interactions, can help build credibility and reputation for the management team, a topic to be discussed in more depth in Section 3.5.

Historically, the accounting literature tended to focus on studying and interpreting one-way communication mediums, such as press releases, websites, regulatory filings and annual reports. One reason for the focus is the ease of acquiring the information. This ease of access allows for large empirical studies to be conducted by reviewing thousands of companies with years of history. These one-way communication tools do have their limitations (Holland, 1998), requiring other means to communicate. It is the forms of two-way communication between management and the market which have been less accessible to the researcher, such as investor conferences, one-on-one meetings, and regular phone calls and emails (Marston, 1993, Marston, 1996, Barker, 1998, Marston, 1999, Roberts et al., 2006, Marston, 2008, Barker et al., 2012). These researchers have employed qualitative research methods for exploring two-way communication with case studies (Holland, 2005), interviews and surveys to understand the two-way communication flow. Brennan and Merkl-Davies (2018) highlight the need for continued research to understand how companies can effectively communicate with the financial market. This thesis responds to this call for additional research on companies communicating with the financial market participants.

To help facilitate the two-way communication between management and the financial markets, the investor relations (IR) function plays a crucial role (Savage, 1970). The IR function acts as management's eyes and ears with the market, regularly in contact with

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sell-side analysts and investors (both debt and equity investors; and retail and institutional investors). The IR team assists management in determining when the information flow should be one-way for mandatory or voluntary disclosure, but also helps determine when additional value may be obtained with two-way communication. The IR team helps management understand investor sentiment, where there are gaps in investor understanding about the company, or mis-understanding of the company (Laskin, 2009, Laskin, 2006). During these two-way communication activities, both management and the market participants, whether from the sell-side or the buy-side, can test new concepts or hypotheses, learn the dynamic and adaptive nature of the market or industry and explore the depth of understanding and variable interests or skills of the different participants.

When looking at providing voluntary disclosure, the company has the flexibility to choose between one or two-way communication models to disclose that additional information, which the IR team assists with. Grunig and Grunig (1992) describe four different dissemination models that a firm may utilize (separate from the disclosure models in Section 3.2) in the practice of public relations, and readily transferable to investor relations activities. The first two models, the press agentry model and the public information model, are both one-directional for information flow and asymmetrical in information presentation, reflecting a closed-system orientation.

Grunig and Grunig (1992) also describe two different two-way models for information flow, reflecting transparency, but having different information presentations. The first is an asymmetric model that utilizes a feedback mechanism for learning on the part of the market, but not the firm. The second model is referred to as a symmetric model, using the feedback mechanism for learning by both management and the market. With the symmetrical feedback nature of both parties learning from the other, Grunig and Grunig (1992) suggest this should be the preferred model for management communications. Kelly et al. (2010) found that the predominant practice by IR teams is the symmetrical model, following the suggestions by Grunig and Grunig (1992).

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3.5 *Reputation builds trust*

The fourth assumption of the unravelling result mentioned in Section 3.2 that "*the firm can credibly disclose its information,"* will be explored in this section. The term credible can be associated with believability, you can believe the information that management is telling you – the disclosure is truthful. Unfortunately, this only tells part of the story. As Dye (1985) explains, not all information needs to be disclosed. Even though the disclosures that management makes are truthful and credible, the market needs to determine if management is being transparent and not-withholding information that would influence an investor's decision. Ultimately, the market needs to understand the motives of management, something it has very little visibility towards. It is on this basis that three important and related concepts help extend the ideas beyond credibility relating to financial disclosure and more towards management's motives; the concepts of reputation, trust and relationships. This extension also relies on moving past a single interaction to multiple interactions between management and the market participants. I will expand on each of these three concepts independently through the remainder of this section, then explore the connections between the three in greater depth in the final empirical chapter.

Starting with reputation, even though there is an extensive literature, the literature becomes somewhat cloudy. The opaqueness stems from the fact that the definitions offered have multiple contexts in different fields, as discussed by Watrick (2002). Expanding on a consistent definition for corporate reputation, Walker (2010), surveyed the literature, identifying five different attributes contributing to corporate reputation. These five attributes are: "*1) reputation is based on perceptions, 2) it is the aggregate perception of all stakeholders, 3) it is comparative (either to others or to itself over time), 4) it can be positive or negative, and 5) it is stable and enduring*." By combining the five different attributes, Walker (2010) expanded on earlier definitions to define reputation as "*a relatively stable, issue-specific aggregate perceptual representation of a company's past actions and future prospects compared against some standard*."

Considering this definition from a market perspective, one can infer a few attributes. The first being it will take time to adjust the reputation of a firm, and with reputation

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being stable it will also take effort on behalf of management to shift it. Next, only focusing on one set of stakeholders makes it more difficult to move the firm's reputation, as multiple stakeholders' perceptions are aggregated, such as equity investors, debt investors and sell-side analysts, not to mention non-market stakeholders. As the firm's reputation is dynamic, even if slowly moving over time, the reputations of the company's peers are also changing. If Husky's reputation is improving, but at a slower pace than its peers, from a market perspective Husky's reputation could be deteriorating. Lastly, the reputation results from a collection of past actions, highlighting a memory of those actions and establishing a backdrop to viewing future actions.

The memory function of reputation also plays out in repeated game theory models, also known as reputation models. While most game theory models are focused on easier to solve single-period games, once the models move into a repeated game space, then these models are usually simplified by having them repeated infinitely. The most difficult type of models to build and calculate are those that have a finite period of games, especially when it is unknown when the number of periods will end. As understood through folk theorems, these repeated games provide for multiple equilibria beyond the Nash equilibrium available when the model was only played once in a single-period game (Fudenberg and Maskin, 2009). Dealing with these multiple equilibria continues to be a relevant challenge being faced in the literature (Samuelson, 2016). While Diamond (1989) considers repeated games impact on debt acquisition specifically, Mailath and Samuelson (2006) provide an exhaustive review of the different types of reputation models. They go further in looking at models with different assumptions around monitoring management's past actions. What they find is that management's actions in a single period game, as expected, would simply maximize management's current period benefits, while this is not the case in a repeated game. With the monitoring of past actions by the market, management actions shift from opportunistic behaviours towards more cooperative behaviours, exemplifying the memory aspect in these repeated games. Management understands it needs to play the game again and needs to maximize the value over all the games played, not just a single instance. This behaviour adjustment has also been found in some of the financial disclosure literature (Stocken, 2000, Rogers and Stocken, 2005). This memory allows

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management to establish a reputation from historical disclosure and, as mentioned in the definition above by Walker (2010) where he connects a company's past actions with future prospects, this is where I see the connection between reputation and trust.

Similar to reputation, the understanding of trust is also murky, as Fehr (2009) discusses how the definition of trust remains unsolidified and Strauss (2018) calls for more empirical research in trust's role between investor relations and the market, which I pursue with this dissertation. To help break through the murkiness, Rousseau et al. (1998) and Blomqvist (1997) review the literature to see how different fields approach the concept of trust and find that trust is regularly confused with many other terms. Some of the terms used that cause confusion are: competence, credibility, confidence, faith, hope, loyalty and reliance (Blomqvist, 1997). Rousseau et al. (1998) provide the most widely held definition of trust as "*a psychological state comprising the intention to accept vulnerabilities based upon positive expectations of the intentions or behaviour of another*." This definition can be further simplified to two essential attributes. The first requires someone willing to take a risk and the second is that the same individual is relying on another. Both attributes are forward looking, connecting to the prospects found in the reputation definition above, helping to tie the two concepts together, with trust being forward looking and reputation a collection of historical actions and behaviours. Further, trust is an expectation that firms will not behave opportunistically in the future.

Considering this definition in a market context, one can see that an investor must be willing to take a risk on the management team when making an investment and the investor further needs to rely on the management team to maximize the firm's value for the investor's benefit. Trust is used by investors to try to simplify some of the complexity experienced in the market.

In a neoclassical economic sense, trust is not even considered because in a world with perfect information and perfect rationality amongst homogeneous actors, trust is a concept that is not required. That said, trust has also been identified as one of the most effective means for governing transactions and is seen as a simple replacement for the written contract (Zucker, 1986). In repeated games theory models, Tadelis (1999)

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explores situations where individuals see benefit in trying to distinguish themselves from others (good vs bad) as there is greater benefit from being good. An example of this differentiation would be a sign suggesting a poor restaurant is under new management to distinguish from the prior management and to get the customers to trust that the new management will be better. The trust the new management team is trying to establish can be built around two different dimensions, a cognitive trust and an affective trust (Chua et al., 2008). Cognitive trust approaches trust from a rational or logical way, considering whether management has the ability to actually perform the actions that the investor is relying on (Mayer et al., 1995, Nooteboom, 2006). Complementing the cognitive view is affective trust, or trust that is built through emotion, where the investor needs to believe that management knows what the right action is and has the integrity to actually perform that action (Mayer et al., 1995, Nooteboom, 2006).

In building the affective trust just described, relationships play a critical role. Morgan and Hunt (1994) and Schoorman et al. (2007) view trust as the key component of relationships, as trust is highly valued in a strategic partnership. When looking at the connection between the financial markets and management, this can easily be viewed as a form of relationship or strategic partnership. Ring and Van de Ven (1992) look at the use of relational contracts as another form of governance for the firm. In forming these relationships, as identified in the prior section, two-way symmetrical conversation is key. Kent and Taylor (2002) introduce a conceptual framework for relationship building, based on what they term dialogic communications. The framework is based on five different principles: "*1) a dialogic loop, 2) usefulness of information, 3) generation of return visits, 4) ease of the interface and 5) rule of conversation of visitor*." Koehler (2014) mentions that a dialogic conversation is one that builds off two-way symmetrical conversation where there does not need to be consensus and it is transparent, dynamic and neither party really controls the conversation. This type of conversation is consistent in face-to-face meetings between management and market participants. The repeated nature of the conversations allows for affective trust to be built up, hence the relationship building, and any historic actions connected to both cognitive and affective trust are applied towards management's reputation, whether positively or negatively.

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In reviewing the literature for reputation, trust or relationships, hardly any of the theoretical literature has been tested or can be tested using econometric methods. One of the main reasons for a lack of quantitative research here is the lack of a historical and permanent record of the interactions between management and market participants that helps facilitate reputation, trust and relationships. If the theory cannot be tested quantitatively, then a qualitative approach needs to be undertaken. This is one of the reasons that I've used a case-study approach for the empirical chapters contained in this dissertation.

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4 Research Design

Much of the research around corporate disclosure uses econometric methods to test various hypotheses about the actions that management or the company have undertaken in response to certain situations. While these quantitative approaches can cover many companies, for an in-depth look at a specific company or companies they lack contextual understanding of the issues and factors relating to various decisions. For my research questions, my employment at the target company, and the quality of access this provides, facilitates a qualitative approach. Such an approach allows a greater depth and context of information to be obtained that would otherwise be hidden to the quantitative researcher. I will argue that a qualitative approach supplements the quantitative approaches that have thus far been undertaken in the literature around corporate disclosure. While there have been other qualitative approaches, I believe that mine is the first to have such in-depth and unique access. In addition, I believe that the approach of this study complements prior qualitative research carried out by observers external to the firm.

Based on my role as the head of Investor Relations (IR) at Husky Energy between 2011 and 2013, which will be the extent of the study period, I experienced first-hand the events that are described in the empirical chapters on complexity, two-way communication and trust and relationships. This experience accompanies the significant access I have to many of the internal executives involved. I worked daily with Husky's executive management to direct and develop communication with the financial market and interacted daily with a variety of market participants. I do have to be careful, because with this first-hand experience also comes the potential of bias in how I remember events against how they may have unfolded. I wanted to select an approach that leveraged this experience and direct access to key individuals, while minimizing potential personal biases to enhance the reliability and validity of the findings.

According to Yin (2009), there are three main questions that help determine the appropriate research method. These questions are: the form the research question takes, does it require control of behavioural events and does it focus on contemporary events. The research questions identified previously, lend themselves naturally to a case

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study method. These types of questions are more explanatory in nature and thus take on a more interpretive aspect. The answers to Yin's questions are: there is no requirement to control behavioural events as everything is considered after the fact and the events it focuses on are of a more contemporary nature, further supporting the use of a case-study approach, according to Yin (2009). These characteristics are all suitable for a case study approach. Many of the other types of qualitative research (surveys, action research, ethnography, etc.) are less suitable for examining my research questions, as they consider only a partial view compared to the more holistic information contained within a case study.

Based on my personal experience, access and internal information, and the responses to Yin's questions described above, I believe a case study approach will be a better qualitative approach that integrates all these sources of data. To take the greatest advantage of my experience, access and internal information, the case study is focused on a single company, my employer Husky Energy. A case study approach also provides a structure to be followed to help increase validity and reliability of the findings. Further, one of the shortcomings of large-scale quantitative research designs is the ability to document processes or events that led to an action. To overcome this weakness, I have gathered and produced exploratory case studies using the guidelines set out by Yin (2009) and Eisenhardt (1989b). The bulk of the three empirical chapters focus on these case studies supplemented by direct quotations from the interviews.

As mentioned above, the case study will be an examination of a single company, Husky Energy. A single case study can present concerns for validity and reliability, but as this particular situation is both unique and revelatory, a single case study approach can be appropriate according to Yin (2009). To enhance the single case study approach, I will use an embedded design (Yin, 2009), meaning that there are multiple units of study for this particular case, that together provide a more complete view of the area of study. The units of study will focus on complexity, two-way communication and building trust and relationships with the financial markets. These units together present how Husky interacted with the financial markets during the study period and how these interactions evolved from immediately prior to the study period. By focusing on these three units, Husky's interactions can be examined against the market's view of the firm,

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highlighting the processes that the firm utilized to enhance the interactions being evaluated.

The types of evidence to be used in the case study are interviews of the investor relations team and key executives collected in the first stage of the research design, company-produced external publications (news releases, presentations, MD&As, financial statements, statistical supplements, website), email communication (31,000 total emails), analyst reports, investor relations contact management system, internal reports, roadshows, conference attendance, investor relations fact-book, executive preparation material, dry-run preparations for meetings and public events, sell-side sales desk commentary, share price and other trading and market data during the period.

Yin (2009) identifies four general strategies for helping to craft the story of the case study. These four strategies are: relying on theoretical propositions, developing a case description, using both quantitative and qualitative data, and examining rival explanations. It is possible to use more than one of the above strategies in the case study, and through my approach I will be focusing on the use of theoretical propositions and examining rival explanations, which I believe are complementary strategies. Using theoretical propositions is considered the most preferred strategy (Yin, 2009). From the information generated through the case study, I will be exploring rival explanations and comparing and contrasting these explanations against the existing literature to see if any theories emerge that can generate hypotheses to be tested in future research (Eisenhardt, 1989b).

It is important to understand the audience this case study targets, primarily an academic audience both for the fulfilment of my thesis and publication purposes. Beyond that, there is a practical relevance for the junior IR practitioner just getting started in the field or a more seasoned IR leader refining their existing IR plans to take advantage of these learnings. There will also be benefits to be gained by senior management, investors, sell-side analysts and regulators. I want to enable the reader of this case to be able to draw his/her own conclusions, and thus will ensure there is enough evidence contained within the case to do so.

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As the head of investor relations at Husky for three years, I had access to a large collection of internal artefacts that could be used for the case study. I will refer to all these items collectively as an artefact database. Various components of this artefact database were relied on at different times, relevant to the empirical chapter I was working on. Through the case study, I chose to rely less on the public disclosure documents and more on internal or less publicly visible information. This was done as this would be most valuable for future research direction and provide the most unique opportunity for an internal view of the interactions between the company and the financial markets.

I was in the enviable position of having retained all my internal and external email correspondence while in the role between 2011 through 2013. The email archive would be key to helping me remember the facts consistently and in a less biased manner. This email correspondence totals over 15,000 received emails and almost 16,000 sent emails, for a total of approximately 31,000 separate emails. These emails were retained for legal and regulatory reasons, and only after the conclusion of the study period did my research questions form in such a way that these would be a valuable source of information, presumably reducing the implication of bias. The emails were drawn upon through all three chapters, but also as background research into specific details around the events or analyses outlined in each of the chapters.

In addition to the email archive, I have access to all the sell-side research generated around Husky (anywhere from 60 to 100 research pieces per year), a copy of all public disclosure pieces (news releases, presentations, conference call scripts, etc. and all associated drafts of these documents, typically 30 or more documents per year) and all of the internal reports or analyses produced about the financial markets. These various materials were drawn on through the three chapters, as they relate to detailing the various events described.

Finally, a contact management database of every interaction during the study period between the company and institutional investors (debt and equity) and sell-side analysts proved to be quite valuable. Over 1,200 different interactions were tracked in

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this database, consisting of meetings, phone calls and email contacts. This database includes the date, names of all internal and external participants involved in the interaction, whether the contact was through email, phone or in-person, and if in-person where it took place, and the nature of the conversation. This contact management database was used extensively in the two-way communication chapter.

Even though I personally experienced all the events listed in the three empirical chapters and held a large artefacts database as described above, I believed the arguments presented would be even more compelling with input from a collection of other internal participants. Further, the voice of others would help to minimize any personal bias I might have brought to the arguments. To gain this input I decided to use my access and interviewed others involved in the events during the study period. The interview data would further help triangulate and corroborate the information found in the email record, the sell-side research and the public disclosure documents.

Brinkmann and Kvale (2015) highlight seven different stages of the interview process that can be undertaken, which I followed in conducting the interviews. These seven steps are: thematising, designing, interviewing, transcribing, analysing, verifying, and reporting. I supplemented the design and interview stages with the guidelines established by Thomas (1993), which focuses on interviewing elites. Following the approach established by Brinkmann and Kvale (2015) provided a structure to increase the validity of results and limit any bias introduced by my personal or working relationships with the interviewees. As I would be interviewing a number of the company's senior executives, the guidelines for interviewing important people by Thomas (1993) would be useful to elicit the best information from them.

The first stage, thematising, is focused around the investigation's purpose, or the why and what of the research. This purpose needs to be clarified prior to answering any specific questions around how the interviews would be conducted or the techniques used. I can identify three separate purposes of the interviews. The initial purpose is to obtain "empirical" knowledge of subjects' typical experiences around complexity, two-way communication, trust and relationships. The existing theory around disclosure has many assumptions built in and I'm looking to gain evidence through the interviews as to

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whether these assumptions are valid and should be challenged. I am also looking for similar views amongst the management, the IR team or both.

The next stage identified is the design stage. This stage needs to consider how to obtain the intended knowledge along with any ethical implications of the study. I had originally identified a mix of internal and external interviewees, all personally known to me, to provide a mix of views to supplement the artefacts I gathered. A total of 20 interviews were planned with 10 internal interviews and 10 external interviews. Since I would be interviewing individuals, approval from the University's ethics committee was sought and received, all interviewees signed consent forms and the names of the interviewees have intentionally not been provided throughout this document. Access to the interviews has been limited to myself and my supervisors and held in a secure password protected site to limit exposure of the interview contents.

For the internal interviews, I selected all the investor relations team members that were active during the study period, a total of six individuals, excluding myself as the past head of IR. From executive management, five additional interviews were conducted, including the Chief Operating Officer, the Chief Financial Officer, the Senior Vice-President of Corporate Affairs, whose portfolio included investor relations, the Treasurer (who represented debt investors and the credit rating agencies) and a Senior Vice-President of one of Husky's operating divisions who regularly met with investors. All these individuals were personally known to me and I had a good working relationship with all of them. All the investor relations individuals had previously reported to me, while the SVP of Corporate Affairs had been my direct supervisor. As for all internal employees at Husky, the responses provided may have been tempered to avoid any possibility of career impacts to those individuals. All the interviews were conducted between November 2014 and May 2015.

Externally, there was a broader mix of interviewees from the financial markets. The external group was broken into sell-side analysts and other. I interviewed a total of five sell-side analysts, selecting two from large Canadian banks, one from a boutique firm, one from a U.S. bank but based in Canada, and one from a U.S. bank and based in the US. The variety of banks were selected to provide diversity in responses and views about

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Husky. There are no debt analysts that explicitly cover Husky's debt, apart from the credit ratings agencies, which through industry practice and security regulations are provided the same level and confidentiality of information as other insiders of the organization. All the sell-side analysts were personally known to me and I had a positive working relationship with all of them. For the other category, I was hoping to interview five separate institutional investors based on my personal relationships. Since I had been out of the IR lead role for over a year, it was more difficult than I expected to connect with these investors. I managed to interview one hedge fund analyst and a mutual fund portfolio manager. Since I couldn't get the five investors, I decided it would be best to round out the market participants, and I leveraged my internal relationships to gain access to a credit rating analyst and a reporter from the financial media.

In preparing for the interviews, I created a semi-structured set of questions to aid with keeping the interview on track and maintaining overall control of the interview. In generating the interview guide, I worked with my supervisors to outline the main question areas that I should focus on for the interview. The questions can be found in Appendix 5 – Interview questions for IR, Management, Sell-side, Buy-side and were influenced by my review of the literature. The interview guide was broken into four main sections, focused on complexity, two-way communication, building reputation and building relationships. Each section was targeted at 15 to 20 minutes each, for a total interview time of approximately 1 to 1.5 hours in duration, respecting the interviewees' busy schedules. The questions were slightly modified to better align with the groups of investor relations, management, sell-side analysts and others as identified above.

The third stage identified is the interviewing stage, where the interviews are conducted using a guide and considering the interpersonal relation of the situation. In getting ready for an interview of elites, Thomas (1993) provides a number of different elements or guidelines to consider. One must try to combine a recognizable affiliation with a personal contact to hopefully gain access to the elite. It is important to have a compelling reason as to why the elite should see you. Finally, offer a time and place that is convenient to the interviewee. In my situation, access to the interviewee was gained through a personal and working relationship. With this personal contact I easily approached the interviewee to explain why I wanted to conduct an interview around

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my research topic and ask about willingness and approval to participate. With acceptance received, I scheduled a time and place that would be convenient for the interviewee so as not to intrude much into their limited availability. The location was typically a small, quiet room or office where outside distractions were avoided and high-quality recordings made.

The next step in the interview stage is actually collecting the data and, again, Thomas (1993) has some useful pointers to aid in the collection of the data. When asking the questions, it is important to clearly determine which persona – the person, the position or the organization – that I wish to interview in my mind, but also in the mind of the interviewee. For the interviews that I conducted, I asked the individual to represent all three, unless the question was structured to an obvious persona. So there was no confusion, I also clarified the ground rules of the interview, specifying my intention to take notes, record the interview and the content I would be collecting. It is also imperative that I establish and keep in control of the interview. Where possible, I asked for additional data that might be provided and requested the ability to follow-up with additional questions later, which was consistently granted.

The fourth stage described by Brinkmann and Kvale (2015), is the transcribing stage. This stage is about preparing the material to analyse, which includes a transcription of the interview. To aid in the transcription, I took notes and recorded each of the interviews with the consent of the interviewees. Most interviews were conducted face-to-face, but a few were conducted over the phone. To ensure the best recording quality over the phone, I conducted the call with the use of a speaker phone and placed the recording device close to the phone. I hired an external service to transcribe each of the interviews and turn into an electronic written document. I then reviewed the document and corrected any errors and omissions based on the original recordings and my notes, with the recording taking precedence.

In the fifth stage, analysing the interviews, I decided to further narrow the focus of the questions to just the internal interviewees and the perspective of the firm. There would be too much information to review and analyse for the scope of this thesis if not narrowed to either the internal or external view. I selected the internal view, as that

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was the view I was closest to and had the most documentation around, based on the email database and other internal analysis. At this point, I only analysed the internal interviews for further discussion in the empirical chapters. To undertake the analysis, I first grouped all the responses for each of the four main sections together. I then reviewed the answers to each question looking for themes that arose.

The sixth stage suggested by Brinkmann and Kvale (2015) is the verifying stage. This stage focuses on the validity, reliability, and generalizability of the interview findings. As I am looking for descriptive reports of past experiences, there are issues around validity and veracity of subject's remembering which become pertinent. There are additional issues or conflict of interest as all individuals are involved in the same company and there could be impacts on careers based on what the interviewees comment on or what the interviewer reports on. The reliability of the interview results was enhanced through triangulation by finding additional information from the artefact database, such as emails, internal research or other items. One example of this is the connection between the sell-side research reports and the interview information gathered around reputation.

The last stage identified in interviewing is the reporting stage, and how best to communicate the findings. Since the interviews provide further information for the case study, direct quotes were incorporated into the event descriptions and frequently reported on in the chapter on trust and relationships.

In addition to the interviews and case study, I had started exploring the potential of using network analysis to document the relationships between the internal participants and the external market participants. To do this, the information contained in the contact management database was uploaded into a freeware software called Gelphi. With the data uploaded into Gelphi, I could then plot network diagrams along with a multitude of network analysis metrics. I decided not to pursue this any further as it was moving away from the intent of the research questions, but the network diagrams provided some relevant information. These network diagrams are provided in the chapter on trust and relationships and discussed further in chapter 7.

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By using the combination of the artefact database and interviews, I was able to build a case study around the multiple units of complexity, two-way communication, reputation and relationships. There are a few key findings from the three empirical chapters that would have been difficult to uncover through a large-scale quantitative study. Examples of these findings are included in each of the empirical chapters. In the complexity chapter, I begin to understand that management is at an informational disadvantage to the financial market in certain keys areas and doesn't necessarily understand the drivers and motivations of firms' investors, which are heterogeneous rather than homogenous in nature. In the two-way communication chapter, it was found that management actively seeks feedback from market participants and that one-on-one meetings provide the most effective form of feedback for management. A couple of items from the trust and relationship chapter include the hierarchy of importance for interactions between management and different market participants and how management may exhaust certain financing options prior to the option that is observed by the financial markets.

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5 Management and Market Complexity

5.1 Introduction

Continued growth is a common goal for most companies, requiring repeated and regular access to capital. The main route to accessing additional capital is through the financial markets, so companies must interact with investors willing to trade the firm's securities, whether debt or equity. This interaction and attraction of new capital to the firm from investors is commonly viewed from a neoclassical perspective as a simple endeavour. In this chapter, I intend to show that there are difficulties and complexities that management constantly faces in accessing investors, related to the barriers and costs of identifying investors and the heterogeneity of investors, diminishing the neoclassical belief that accessing investors and the market is simple.

This and the following chapters are focused on the complex path a company takes to make itself more attractive to the financial markets. A path, I believe, centred firmly on improving the company's reputation or credibility in the eyes of the market participants, and investors specifically. However, in managing the firm's reputation, management first needs to overcome the barriers and costs related to identifying and understanding the firm's current or potential investors. Once identified, management can begin to understand the different investing styles followed by its investors. Understanding the different styles allows management to better deal with various market complexities and target efforts towards certain classes of investors over others. Thus, the issues involved in understanding and managing current and potential investor heterogeneity are the focus of this chapter.

The first issue to be addressed is the supply of capital. Rather than being unlimited, the available supply ebbs and flows like the tide. In good times, there is plenty of capital, but in rough times capital can be scarce, especially when considered industry by industry. I believe the financial crisis of 2008 clearly demonstrated a scarcity of capital for many industries. Even when capital appears readily available in the markets, it may be scarce for your industry, let alone your company within that industry. As an example, try to raise funds to expand typewriter production in the year 2000 or beyond, and see how much cash you can access. Assuming capital is available to your industry at a point in

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time, to attract that capital, firms need to put forward a proposition that is more engaging than their peers. If the firm's proposition is not as enticing as its peers, then it will be difficult to raise any additional funds for continued growth.

A company will first need to understand if capital is available at a particular time and what the cost to access that capital will be. It could be that no capital is available for the industry, such as the typewriters above, or it is too expensive to access for the firm, based on the quality of opportunities currently available with the return unable to cover the cost of capital. Even with a publicly traded company that has an established share price updated frequently, a firm is never entirely certain of the size of the market available to raise new funds for additional equity or debt securities. How can the company understand the market available for its securities and increase the size of that market by making itself more attractive to investors than its peers?

One critical step in answering the previous question is for management to identify and understand its existing and potential investors. From personal experience, investors or potential investors rarely make themselves known or available. In fact, there are many external participants involved in the financial markets, but most everyone that management interacts with, as shown in Appendix 3 – Internal and external participants in financial market discussions, is peripheral to the investor or potential investors. If investors are difficult to identify, then it becomes difficult for management to know what may attract or interest those investors. Management doesn't have the time or financial resources to put forward an unlimited number of propositions to attract investors, so the firm needs to understand its investor base, and focus efforts on those that already invest in the firm or are most likely to invest in the firm.

There is no question that management acts on behalf of the shareholder, but for management to act on the shareholder's behalf, management needs to know who the shareholders are and what the shareholders want. This is essentially an information asymmetry problem, but instead of management holding back information from the investor as most literature focuses on, there is a substantial amount of information being held back from management by the investor. The initial difficulty firms encounter in gathering investor information is that the regulatory and legal environment are

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stacked against management, presenting barriers in gathering investor information. In Section 5.2.1 below, I will describe how the regulatory environment in Canada for registered versus beneficial shareholders, non-objecting versus objecting shareholders, mutual fund versus pension fund shareholders, fundamental versus derivative trades and normal share trading versus short-selling all present barriers to management gaining an understanding of who the firm's existing shareholders are.

While I won't delve into it in this chapter, securities analysts, brokerages, ratings agencies and other information monitors can also hinder management's understanding of the market. These information monitors act as a one-way intermediary between the investor and management, flowing information from management to the investor, but returning little information about the investor back to the firm. Management also has no control or recourse over the quality, accuracy or slant of communications the information monitor provides to the investor. The regulatory barriers expressed above, and the information monitors listed here all present additional costs for the company in trying to better understand its security holders.

In addition to the costs management faces with disclosing information, or the costs incurred from any inaccurate information provided by information monitors to investors as discussed above, management also faces costs for acquiring, processing and verifying any information received from market participants, including investors. These costs are described in Section 5.2.2 below and are borne by management and the firm in overcoming the regulatory barriers presented in Section 5.2.1. Even with these costs of acquiring, processing and verifying information, the regulatory barriers are such that management will not be able to gain perfect information on its investors at any point in time but spending more on the acquisition will likely provide management with better information on its shareholder. That better information could result in timelier and/or accurate information. By having better information on investors, management can then begin to understand who has invested in the company.

Once the investor has been identified, only then can the firm comprehend their interests and drivers. Economic theory has us take one of two approaches towards investors. The first is investor homogeneity, or *Homo economicus*, often assumed by neoclassical

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economic theorists to make their models tractable. However, in my experience, it is important to be aware that investors exhibit considerable heterogeneity, rather than homogeneity as is often assumed in disclosure models, and the heterogeneity should be responded to. There are many different factors and beliefs that distinguish investors corresponding to their investment styles, helping to build the heterogeneity of investors, which I describe in greater detail in Section 5.3.1. The different factors that will be looked at are geography, investor sophistication, valuation methods, ownership structure and trading strategies. It will help to segment these investors into different classes. These different factors can then be used by management to create classes of investors based on investor styles, a strategy for taking complex information and simplifying so that management can efficiently deal with the variety of information.

Creating investor classes allows management to efficiently focus on certain classes of investors that are of highest interest. A company can break these into multiple classifications, and at Husky, the IR team used six different classifications: yield, value, growth, growth at a reasonable price, index and other or alternative investors, as better detailed in Section 5.3.2. The other or alternative investors could be further broken down into momentum, hedge, sovereign wealth and arbitrage investors. Husky management focused primarily on yield and value style investors and avoids those investors classified as other or alternative, along with any passive investors, typically found in the index category.

This focus on yield and value style investors by management is known as investor targeting. When interviewed, the Chief Operating Officer suggested that Husky "*needs to attract investors to you rather than investors just seeking you out*," that is, targeting specific investors. In attempting to make the firm more attractive, management needs to focus on understanding the needs and desires of these investors to craft voluntary disclosure that would be interesting and informative to these investors, helping set Husky apart from its peers. In crafting the voluntary disclosure, management is faced with significant choice. While much of the process, content and timelines for interaction are governed by mandatory disclosure requirements and regulations, any remaining interaction and information sharing, or voluntary disclosure, is left to management's discretion as to content, frequency and method. Management discretion around content,

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frequency and method is where considerable debate lies in the literature (Diamond, 1985, Dye, 1985, Lev, 1992, Verrecchia, 2001, Beyer et al., 2010), particularly the application of management discretion. Both the market and the literature are searching for a better understanding around management's motivations for voluntary disclosure and whether there is any underlying management agenda that may impact the value of the firm's debt or equity. These choices by management are influenced by the investor drivers and classes presented earlier.

A case study around short-selling as experienced by Husky highlights the complexities of management understanding the investors and their specific motivations. This case study, presented in Section 5.4, helps demonstrate the difficulty that management has in identifying the investors involved, the regulatory barriers encountered and the motivators for which the short-selling was occurring. Management tries to understand these motivators to help determine if new voluntary disclosures are required to alleviate or correct potential negative sentiment around Husky's equity securities. These short-selling motivators were also obscure to other investors in the market place, further exhibiting the complexities in the market that management is faced with in trying to make the company more attractive.

5.2 Information asymmetry

As stated in Section 5.1, there is an information asymmetry issue between management and the investor. I'm not debating that management has some private information not available to the investor, but that the opposite situation exists for certain information where the investor has private information not available to management. Much of the information asymmetry relates to issues explored through the literature around agency theory and I will provide a little context around the theory before discussing the issues encountered in this section.

Agency theory's main premise is that the principal (investor) delegates the responsibility of running the firm to an agent (management) who acts for the principal (Jensen and Meckling, 1976). There are two main styles for describing the theory, a

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more mathematical approach called principal-agent theory (Laffont and Martimort, 2002) and a more descriptive and empirical approach known as positive agency theory (Eisenhardt, 1989a). Under both, management's main task is to create shareholder value (Dobbin and Jung, 2010). This delegation of authority from the investor to management creates a variety of conflicts between the principal and the agent, including different goals (principal utility maximization versus agent utility maximization), informational asymmetries (the agent has more information than the principal) and different risk preferences (the agent is more risk averse than the principal). These conflicts, characterized by adverse selection and moral hazard problems, result in investors incurring various agency costs to monitor the relationship (information systems, incentives, sell-side analysts, board of directors, among others) with management. To minimize the conflicts and the costs while maximizing the benefits for both, the two parties enter a metaphorical 'contract' for the agency relationship (Akerlof, 1970, Jensen and Meckling, 1976, Eisenhardt, 1989a, Laffont and Martimort, 2002, Sung, 2005).

The agency theory literature takes the viewpoint that the investor (principal) is at an informational disadvantage to management (agent) in the relationship. Through adverse selection and moral hazard, the investor must question the motives and actions of management. Informational asymmetries exist between the parties, with management believed by the neoclassical economist to have perfect information. These same economists also assume that management has a complete understanding of the market and fully understands how investors broadly operate and behave in valuing the company. This allows management to adjust actions to their benefit and the investor's detriment. In this situation, the informational disadvantage makes it difficult for the investor to determine if management's motives and actions are aligned with their interests. Any misalignment in interests between the parties creates agency costs and a view that management is maximizing benefits at the investor's expense.

Looking at the three agency theory conflicts discussed earlier: different goals, different risk tolerance, and different levels of information; each of these conflicts is dynamic and varied. A main driver of the variability is the heterogeneous nature of investors, discussed in Section 5.3, and the scale and speed of investor turnover in a firm's shares.

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With a changing investor base, the alignment in goals, risk tolerance and information asymmetries between the investors and management is also constantly changing. These dynamic agency conflicts introduce complexity for both management and the investor, compared to a static system.

The dynamic conflicts create difficulty for either party in understanding the information being generated from the other. The complexity in understanding creates gaps or misalignment between management and investors. The scale of these gaps is also variable depending on the ownership structure of a firm. In a closely held private entity, there are few investors that are likely to change infrequently, allowing management sufficient time to gain the desired understanding of the investors and the relevant gaps related to the three agency conflicts. In a widely held public entity however, the vast number of investors and the speed at which they can turnover augments difficulties for management to recognize and fully appreciate informational gaps and misalignments between themselves and the investor base. Husky falls closer to the private entity with its principal shareholder controlling approximately 70 percent of the outstanding shares and the remaining 30 percent being widely held.

In addition to the dynamic nature of the conflicts, the regulatory environment introduces further barriers and costs that compound the complexity faced by management in understanding the markets and the investors. These barriers turn the tables on certain aspects of informational asymmetry, putting management at a greater disadvantage to the investor. I believe that the structure of the public markets and regulatory environment in Canada partially shift the informational advantage from management, as indicated above, back to the investor. Regulatory areas that place management at a disadvantage to identifying investors include shareholder structure, institutional investor reporting and trade reporting, as described further in Section 5.2.1.

These barriers, identified in Section 5.2.1, increase costs for management and the firm to act in the shareholders' best interests, especially if management wishes to try to overcome those barriers to obtain more accurate information. In Section 5.2.2, I expand the detail around the costs facing management and the firm to identify those investors.

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The main costs facing management are the financial and time costs for acquiring, processing and verifying any information gathered in identifying the investors and their associated heterogeneity factors, a topic discussed in more detail in Section 5.3.

5.2.1 Regulatory barriers enhancing information asymmetry

In this section, I explain several regulatory barriers that, at least relative to the Canadian securities markets, increase the information asymmetry faced by Husky management in trying to identify investors. These regulatory barriers make it more difficult for companies like Husky to understand who is invested in Husky at any point in time, what drives these investors with respect to their goals, risk tolerances and information levels and how best to communicate with these investors. If investors are at an informational disadvantage to management and management is to act on behalf of investors, it is difficult to understand why there would be barriers in place for management to gain access to and identify shareholders, the very one's management is supposed to serve. The barriers to be discussed focus on a hierarchical ownership structure, differences between classes of institutional investors, purpose of trades and short-selling.

Figure 5-1 provides a breakdown of the ownership hierarchy of shareholders and the number of Husky shares held in 2011. By ownership hierarchy, I'm referring to the visibility of holders of Husky's common shares, not a difference in the rights or classes of those shares. There are three broad levels of ownership visibility for Husky's shares, with the first being the principal shareholder and minority shareholders. The minority shareholders represent the shares that are freely traded on the open market, called the public float, approximately 30 percent of Husky's outstanding shares. Within the minority shareholders, there are registered and beneficial shareholders. The beneficial owners constitute the clear majority of the minority shareholders. The last distinction is for the beneficial owners, which are broken into non-objecting and objecting owners. Each layer down in the hierarchy reduces the transparency of the investor identity, and I will discuss the layers in more detail below.

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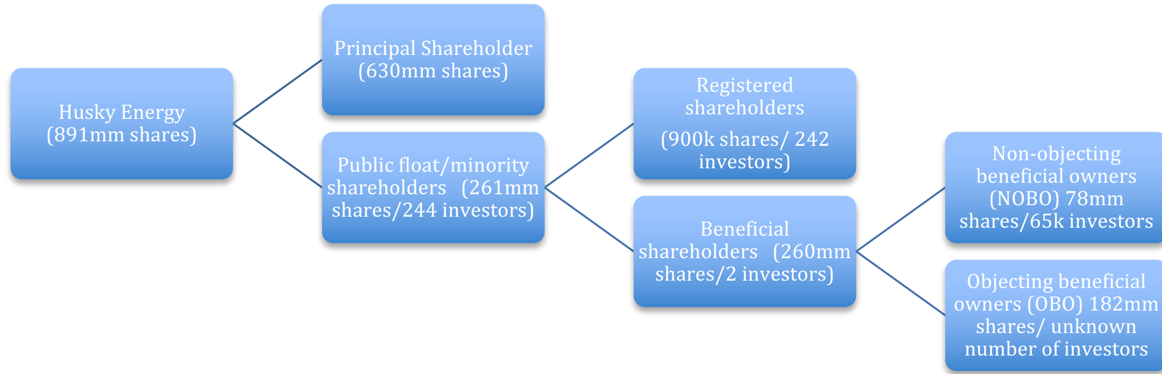

Figure 5-1: Shareholder hierarchy of share ownership for Husky's entire shares outstanding in 2011 (Source: internal company reports)

Canadian securities law allows for two classifications of equity investors in a publicly listed company. The first classification is a registered shareholder and the second is a beneficial shareholder. The main difference between the two classes is that registered shareholders hold shares physically registered in their name, usually with a physical share certificate, while a beneficial share is held through a brokerage on behalf of the shareholder. A list of registered shareholders is maintained and held by transfer agents engaged by Husky for a fee. These lists are fully accessible to Husky, and show the investor's name, address and number of shares held at that time. These lists make it relatively easy for the company to send materials to the investor and for the investor to vote at the annual meetings. The registered list follows what is expected through agency theory, and for practical purposes the registered share is a representation of the contract between the principal and the agent. Unfortunately, as can be seen in Figure 5-1, very few investors and shares are held as registered shares, about 0.3 percent of the public float, with the clear majority (99.7% of public float) holding beneficial shares.

In Figure 5-1, under beneficial shareholders, there are only two names listed. These names aren't actual investors, but depository services, one for Canada (owned by the Toronto Stock Exchange) and one for the United States. The depository services act like a bank for all the shares deposited by brokerage firms and trust companies, and the shares listed for that depository service represents the total shares held by all brokerages at that depository service. In December 2011, there were 71 different brokerages and trust companies listed as holding Husky shares through the Canadian depository service. As these shares are traded on the exchange, they are just transferred

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between the various accounts within the depository service. Husky can access lists from the depository services, but only see the brokerage or trust companies and their balances, creating the first layer of obscurity in relation to the end shareholder.

Brokerage firms, while shown as the owners of the shares, hold the shares beneficially for their clients in the brokerage's name – otherwise known as street name. These shares are the second class of owners as mentioned above, or beneficial owners. The shares are maintained in the brokerage's name to help facilitate the ease of transacting with other brokerages for the buying and selling of shares on behalf of the brokerage's institutional and retail clients. Shares that are beneficially held can typically exchange ownership in three days, while shares that are registered can take weeks to get a physical certificate issued by Husky's transfer agent, mailed to the investor, then delivered to the brokerage firm where it is transferred into the broker's name and then sold on the market. The market mechanisms that facilitate beneficially held shares also helps facilitate liquidity for buying and selling of shares. Monthly, Husky can see the net changes in share positions between brokerages but cannot see any share transactions that took place between clients in a brokerage, creating an additional layer of obscurity for management.

Within the category of beneficial owners there is another level of ownership opacity, again allowed through the Canadian securities regulations, allowing for objecting and non-objecting beneficial owners. The first is identified as a non-objecting beneficial owner, or NOBO. These shareholders do not object to their identifying information being passed on to Husky. The second is an objecting beneficial owner, or OBO. For publicly listed companies in Canada, a beneficial owner can instruct their brokerage to withhold their identifying information from the company and become an OBO. Any materials, such as voting materials, sent by Husky are sent to the brokerage and the brokerage then forwards the materials on to OBOs for action. As seen in Figure 5-1, approximately 30 percent are classified as non-objecting and 70 percent as objecting beneficial owners. For NOBO investors, in 2011, this 30 percent of Husky shares were held by 65,500 different investors, while the 70 percent of shares were held by an undetermined number of investors. This leaves most of the outstanding shares held by investors intentionally electing to remain anonymous to Husky. If 70 percent of the

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investing share base do not want the firm to know of their existence or position, how is the firm supposed to act in the best interests of these shareholders, or understand these shareholders' goals, risk tolerances or information asymmetries? It is believed by the IR team that most OBO investors and shares held are institutional investors. This belief is generated from the fact that most of the mutual fund investments discussed below are not contained in the list of registered and NOBO shareholders and therefore must be OBO investors.

Thankfully for management, there is an option open to Canadian listed firms to gain further insight into their institutional, but not retail, shareholder base. Canadian and U.S. mutual fund companies are required to file a quarterly listing of their holdings by fund with regulators and these listings are then made publicly available. The holdings listed are aggregated by fund and can be a mix of registered, OBO or NOBO holdings, making it difficult for Husky to reconcile the position of a specific investor or the individual funds managed by that investor with the other information obtained through the registered and NOBO shareholder lists. Additionally, there is also a time delay between the filings impacting the accuracy of data within the filing. The investor may adjust its holdings in Husky between the last day of the quarter and the date the filing has been made publicly available. Husky can either search for these listings itself or engage an external service to do this. Based on the time required to sift through all the filings on a fund by fund basis, Husky uses a third party to collect and reconcile the various investor lists and produce an overall shareholder list, as shown in Figure 5-2 below. With the NOBO investors and the mutual fund filings, Husky and its third-party provider can determine approximately 60 percent of the outstanding shareholder base, but only four times a year. This still leaves 40 percent of that investor base unaccounted for by management. The required filing of mutual fund holdings is one regulation that benefits companies in reducing the information asymmetry between management and investors.

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Rank	% of S/O	Institution	Cost Basis	31-Dec-2013 Position	30-Nov-2013 Position	Change	Investment Style	Orientation	Turnover	Location
1	2.3%		$ 31.75	22,382,446	22,382,446	0	Yield	Active	Low	Winnipeg, MB
2	2.0%		$ 28.69	19,220,188	19,470,188	-250,000	Yield	Active	Low	Toronto, ON
3	0.9%		$ 24.85	8,850,000	8,750,000	100,000	Yield	Active	Medium	Toronto, ON
4	0.7%		$ 28.45	7,106,800	7,106,800	0	GARP	Active	Low	Los Angeles, CA
5	0.6%		$ 27.31	5,691,898	5,691,898	0	Value	Active	Low	Montreal, QC
6	0.6%		$ 27.76	5,632,500	5,332,500	300,000	GARP	Active	Medium	Santa Fe, NM
7	0.6%		$ -	5,530,859	5,330,859	200,000	Index	Passive	Low	San Francisco, CA
8	0.5%		$ 27.32	5,379,348	5,879,348	-500,000	Yield	Active	Low	Montreal, QC
9	0.5%		$ 26.98	5,025,230	5,025,230	0	Yield	Active	Low	London
10	0.4%		$ 29.75	4,004,750	1,004,750	3,000,000	Value	Active	Medium	Toronto, ON
11	0.3%		$ 28.43	3,151,919	2,901,919	250,000	Yield	Active	Low	Toronto, ON
12	0.3%		$ 25.35	2,996,000	5,777,500	-2,781,500	Value	Active	Low	Los Angeles, CA
13	0.3%		$ 26.72	2,672,792	2,672,792	0	GARP	Active	Low	London, ON
14	0.3%		$ 27.02	2,468,364	1,968,364	500,000	Index	Passive	Low	Malvern, PA
15	0.2%		$ 25.71	2,431,537	2,431,537	0	Value	Active	Low	Oslo
16	0.2%		$ -	2,315,867	2,252,867	63,000	Value	Active	Low	Montreal, QC
17	0.2%		$ 28.79	2,279,820	2,329,820	-50,000	Growth	Active	Medium	Regina, SK
18	0.2%		$ 26.89	2,231,920	2,231,920	0	Index	Passive	Low	Toronto, ON
19	0.2%		$ 27.45	2,020,321	2,020,321	0	Value	Passive	Low	Austin, TX
20	0.2%	Investment Firm Names Covered to Protect Sensitive Corporate Information	$ 23.32	1,867,011	1,867,011	0	Index	Passive	Low	Victoria, BC
21	0.2%		$ 31.22	1,732,800	1,432,800	300,000	Yield	Active	Medium	Montreal, QC
22	0.2%		$ 30.07	1,677,315	1,677,315	0	Externally Managed	Passive	Medium	Merrimack, NH
23	0.2%		$ 28.73	1,577,208	1,577,208	0	GARP	Active	Medium	Montreal, QC
24	0.2%		$ 25.32	1,576,000	1,576,000	0	Index	Passive	Medium	Toronto, ON
25	0.2%		$ -	1,531,271	1,761,271	-230,000	Growth	Active	Medium	Des Moines, IA
26	0.1%		$ 28.11	1,284,303	1,284,303	0	Index	Passive	Low	New York, NY
27	0.1%		$ 25.56	1,250,175	1,250,175	0	Yield	Active	Low	Calgary, AB
28	0.1%		$ 28.24	1,151,001	1,111,001	40,000	Growth	Active	Medium	Vancouver, BC
29	0.1%		$ 28.67	1,100,646	1,100,646	0	Deep Value	Active	Medium	Toronto, ON
30	0.1%		$ -	1,089,865	1,089,865	0	Yield	Active	Low	Amsterdam
31	0.1%		$ 27.31	1,069,654	1,069,654	0	Index	Passive	Low	London
32	0.1%		$ 24.60	1,042,198	1,042,198	0	Growth	Active	Very active	Toronto, ON
33	0.1%		$ 24.51	997,700	997,700	0	Growth	Active	Medium	Toronto, ON
34	0.1%		$ 25.89	968,600	968,600	0	Value	Passive	Low	Boston, MA
35	0.1%		$ 24.27	963,520	1,020,976	-57,456	Value	Active	Very active	Boston, MA
36	0.1%		$ 23.26	949,918	949,918	0	Other	N/A	NA	Tacoma, WA
37	0.1%		$ 25.14	901,353	901,353	0	Value	Active	Low	San Mateo, CA
38	0.1%		$ 30.14	830,000	650,000	180,000	Value	Active	Medium	Winnipeg, MB
39	0.1%		$ 29.32	770,700	770,700	0	Growth	Active	Medium	Boston, MA
40	0.1%		$ 26.37	695,450	695,450	0	Value	Active	Low	Toronto, ON

Figure 5-2: Husky's top 40 shareholders beyond the principal shareholder, December 2013 (Source: internal company reports)

While mutual funds are required to file with regulators and their information is publicly available, registered pension funds do not file public holdings documents like the mutual funds. This is important, as the size of Canadian assets under management is roughly equal between mutual funds and pension funds (Sadakova, 2015) at $800-$900 billion each. When looking at Husky's OBO list, a large portion could contain pension funds that are not required to file their holdings with regulators, so Husky is unable to determine those investors at all. In Canada, hedge funds are another investor not required to file holdings and can hide under the OBO election. In one way, this is less relevant as hedge funds only control approximately $30 billion of assets in Canada (Alternative IQ, 2016), so a small piece of total investable funds in Canada. Separately, this can be a problem as an activist shareholder can also come in through hedge funds and the non-reporting guidelines, and management may only become aware of their presence once the various demands are made. At this point it is too late for management to understand and act on the different goals, risk tolerances and information asymmetries of these investors.

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The only other investor filings required in Canada relates to an ownership stake threshold in the company. Even if an investor desires to be an OBO investor, that investor still must publicly file a holding position in any publicly listed firm where they hold 10 percent or more of the outstanding shares in that firm. This threshold is higher in Canada then other countries, so can vary by jurisdiction. If the position of that shareholder moves by more than two percent, either up or down, then the investor must refile their position, as they are classified as an insider to the company, once they are above the 10 percent threshold. Even though they are classified as an insider, the company does not need to treat them as an insider. For Husky, no investors other than its principal investor hold more than 10 percent of Husky's shares.

Management's clearest view of the investor base is only available once a quarter. Between the quarterly reporting periods, the investor bases begin to shift every trading day, and the trades registered are only required to show the brokerages and not the investors behind the trades, who remain invisible to Husky until the various reporting lists are published. The daily volume of Husky shares traded through 10,000 to 20,000 separate transactions is approximately 1 million shares a day. This equates to roughly 0.3 percent of the 300 million share public float changing hands every day. If a trade of 100,000 shares or more takes place, the IR team would contact a brokerage(s) as the brokers involved in the trade are usually available[8] to see what further information about the trade can be gleaned. Often, the brokerage will only provide high level, non-identifying information. Over a three-month period about 18 percent of the shares change hands. With approximately 250 trading days a year around 75 percent of the available public float changes hands on an annual basis. That means every year Husky can have up to 75 percent of its public float in the hands of new investors with new goals, risk tolerances and information asymmetries. Management needs to constantly try to understand the shifting conflicts between itself and the evolving investor base, with this much change.

[8] It is possible for a broker to list themselves as anonymous for certain trades and then the exchange publishes a filing at the end of the month detailing the total volume of anonymous trades by broker in the company shares.

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When investigating daily market information, the IR team has difficulty determining which trades are fundamentally based and which support a different trading strategy, such as derivative trades. There is no indication of strategy provided when the trade is reported, only that a trade has occurred. By fundamental basis, I'm referring to a trade where there are two investors whose views about Husky have changed such that one investor feels there isn't enough upside to continue holding the shares and is now willing to sell at the current market price to a second investor that believes the stock has enough upside to purchase the shares at the current market price. The IR team has regularly become aware of transactions that are deemed derivative type transactions, where the shares are held as support or collateral for other trading strategies of the investor and the investor doesn't have an investment view on Husky shares. This is a strategy that is seen for leveraged exchange traded funds[9], where the shares held are related to an index strategy that focuses on movements in various indexes that may not relate in any manner to Husky, such as a gold index for example.

Another information bias that complicates management's view of investors is around short-selling. The outstanding short-sell positions by company are only made available by the exchange twice a month, and the only information available is the absolute open position of stock sold short. Husky has no view into how many or which investors may be selling short, how many transactions occurred or why investors may be selling Husky shares short. Husky also can't identify when certain positions are closed out providing very little visibility into its shareholders. Section 5.4 presents a more detailed review of a Husky short-selling example, highlighting numerous difficulties faced by management as outlined in this chapter in understanding the motives of investors and interacting with the financial markets.

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[9] Extracted from the U.S. Securities and Exchange Commission website https://www.sec.gov/investor/pubs/leveragedetfs-alert.htm, on April 23, 2017: "*Leveraged ETFs seek to deliver multiples of the performance of the index or benchmark they track. Inverse ETFs (also called "short" funds) seek to deliver the opposite of the performance of the index or benchmark they track. Like traditional ETFs, some leveraged and inverse ETFs track broad indices, some are sector-specific, and others are linked to commodities, currencies, or some other benchmark. Inverse ETFs often are marketed as a way for investors to profit from, or at least hedge their exposure to, downward moving markets.*

Leveraged inverse ETFs (also known as "ultra-short" funds) seek to achieve a return that is a multiple of the inverse performance of the underlying index. An inverse ETF that tracks an index, for example, seeks to deliver the inverse of the performance of that index, while a 2x (two times) leveraged inverse ETF seeks to deliver double the opposite of that index's performance. To accomplish their objectives, leveraged and inverse ETFs pursue a range of investment strategies using swaps, futures contracts, and other derivative instruments."

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As discussed in this sub-section, there are several different Canadian securities regulations in place that increase the difficulty of management identifying investors. The first barrier mentioned is the creation of beneficial shareholders, specifically OBOs, from a share ownership hierarchy. While mutual funds are required to report their holdings quarterly, pension funds and other investors, such as hedge funds, have no obligation to report holdings to management. A large portion of Husky's minority investor base regularly changes hands, and management is further hampered by the lack of visibility of the investors involved in the daily trades, and whether the trade is fundamental or derivative based. Lastly, there is complete obscurity around short-selling of shares, only allowing management to speculate why short positions are shifting on a semi-monthly basis. These barriers enhance the dynamic nature of the goals, risk tolerances and information asymmetries management faces in trying to understand the firm's investors and the information that is relevant to disclose.

5.2.2 Cost of information

The regulatory barriers to obtaining investor information by the firm, discussed previously in Section 5.2.1, create information asymmetries for management. In attempting to close those information asymmetries between management and investors, there are several different costs incurred by the firm, countering some neoclassical economic assumptions that information can be acquired costlessly. These costs are necessary for management to acquire, analyse and verify any information obtained about investors. The two main types of costs borne by management to undertake these activities are the financial expenses and the associated time to gather, analyse and verify the information obtained. Most of the financial and time costs are associated with establishing the IR team and program, but there is also significant management time required as well.

The first element I'm considering is the financial expenses. At Husky, the annual budget for the IR team and program ranged between $1.1 and $1.2 million for the years 2011 through 2013. Approximately half of the budget was used to cover the team's salary and

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benefits for the three staff. The travel budget to attend various investor conferences and visit investors in financial centres globally took about a quarter of the funds. The remaining 25 percent of the budget was split between major information sharing events, such as investor day, investor facilities tours, subscriptions for near real-time market data, investor surveillance[10] and other miscellaneous information. All the disclosure costs for press releases, annual reports, and regulatory filings were contained in separate budgets by other departments at Husky, such as media relations, external financial reporting and legal. These costs varied year to year but were in the range of another $1 million per year. Most of the IR budget was spent on activities related to the acquisition, analysis and verification of information related to investors.

The acquisition of information from the market is the most time-consuming and financially costly aspect for Husky. Of all the effort spent in identifying and understanding investors, information acquisition takes the greatest percentage of IR and management time, before it can be analysed or verified. A great deal of the information gathering, and time commitment occurs during two-way communication activities with financial market participants, which I expand on in the next chapter. These two-way communication activities always require at least one executive and one IR team member. Every meeting with investors typically requires an hour each of management and IR time, plus another 0.5 to one hour of preparation time in advance of the meeting and 0.25 to 0.5 hours of review time after the meetings. Between management and IR, if 200 meetings are held in a year, that requires 400 to 500 hours of effort from the organization. Those are hours that can't be used by management to create additional value for shareholders.

In addition to the two-way communication activities above, the IR team monitors the daily trading in Husky shares and its peers, for any movements out of the ordinary. Management also frequently checks the share price, price movement and volume of shares traded. The trading hours are between 9:30 AM and 4 PM Eastern time every business day, requiring multiple team members to check regularly throughout the work day, usually on an hourly basis. Activity within the tens of thousands of daily

[10] Investor surveillance is a third-party service that reviews all mutual fund filings, broker share movements and other data sources to develop a shareholder list

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transactions involving Husky shares trading on numerous exchanges[11] are more closely inspected when material information is released into the market to discern any unusual trading patterns. By material information, I mean information that either Husky has released, such as a quarterly report, strategic update or external information from a third party, such as a government or peer. Movements out of the ordinary include share price movements greater than two percent in the day, any one transaction greater than 100,000 shares[12], and overall total shares traded for the day greater than one million shares. The one million share level is higher than Husky's average daily liquidity level for the prior 12 months of trading activity. Figure 5-3 shows the activity in December 2013 with both Husky material information updates and third-party material information disclosures. The green coloured boxes represent days that the share price finished up and red boxes are days the share price closed down from the prior day. In this month alone, the daily share volume ranged from 0.5 million shares to over 5 million shares and four significant news events, assisting in increasing share price from $30 to almost $34.

[11] Husky mainly traded on the Toronto Stock Exchange but shares also traded on smaller electronic exchanges such as Chi-X and Alpha and over the counter in the United States.
[12] A trade of 100,000 shares or more is known as a block trade and block trades are identified and tracked by the exchange and easily searchable by the company.

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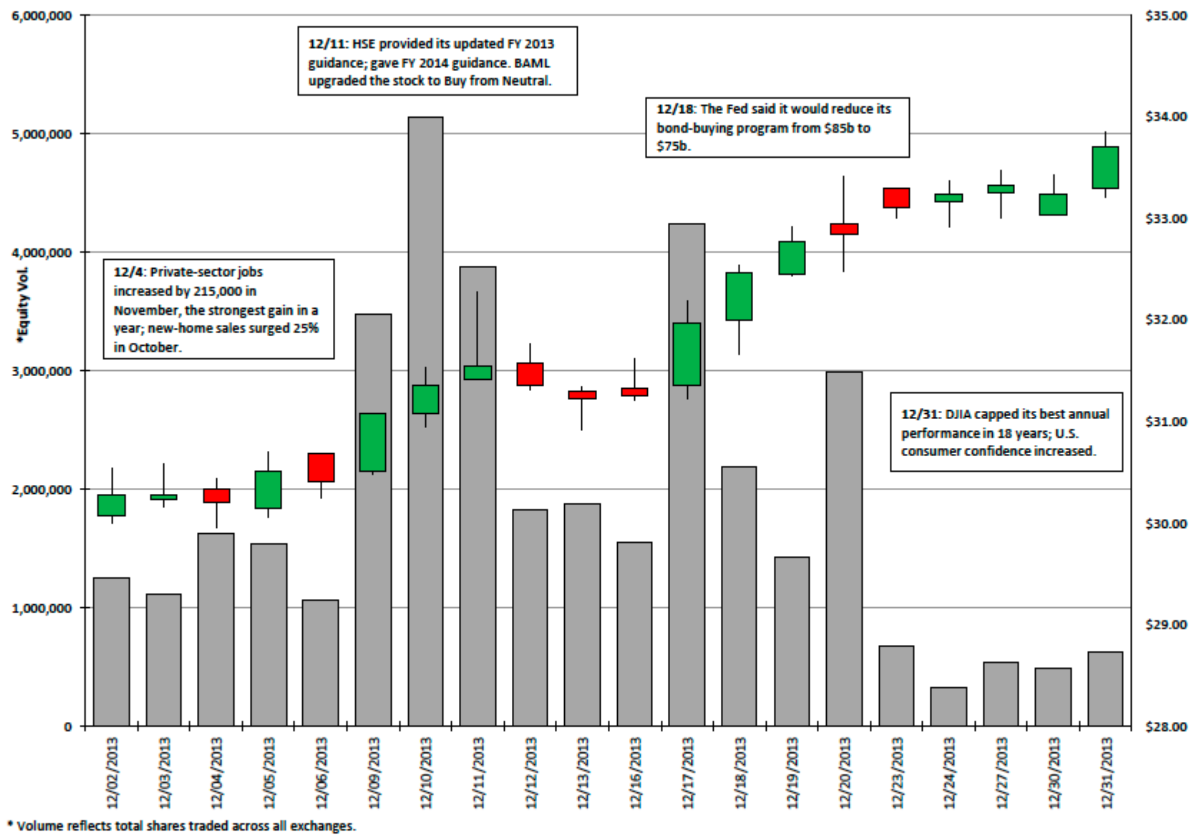

Figure 5-3: Husky share volume and share price range by day, December 2013, with major news events (Source: internal company reports) (Box plots are the share price movements of the day and colour represents whether the closing price finished up or down from the prior day).

Once information is gathered, whether through two-way communication or analysing the market transactions, then the IR team and management start exerting effort to analyse this new information and provide relevant and actionable meaning to the information. The information gathered is often vague or contradictory to other information previously obtained, and the IR team spends a substantial amount of time deciphering the meaning of the new information. This could include the acquisition by the IR team of further information in the same area to help triangulate the meaning. Depending on the interpretation, this may direct management actions in future voluntary disclosure, the institutional investors to visit, or other actions. The analysis of information takes many forms, whether it is daily trading data as discussed above or the result of many repeated questions to the IR team on a certain topic.

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As an example, in early 2013, one of the sell-side analysts published a report on RINs[13], or renewable identification numbers, and the associated costs for companies with refineries in the U.S. to obtain the necessary credits. The cost of purchasing RINs was immaterial from a market and a company perspective prior to 2013, with no questions asked during 2011 and 2012. Changing market dynamics and a price increase from $0.20/RIN to over $1/RIN in a matter of months brought the issue to the forefront for the industry, not just Husky. Based on the quantity of questions from analysts and investors, sell-side research reports now mentioning the topic and new disclosure by peers, management felt it important to voluntarily disclose the information to the market. Previously, management had never referenced the cost of RINs, but in the second quarterly report in July 2013, management began disclosing RINs costs as a factor of operations and Husky's strategies around RINs acquisition and management. This action clearly resulted from gathering and analysing newly created investor needs.

Verifying information about investors is often a difficult proposition. There is a secretiveness from institutional investors about the companies they hold, the size of their position in that company, and when and why they change their position. This secretiveness hampers the efforts of management to verify information about investors. The IR team has a program for senior management to visit the top 25 institutional investors annually to gain a better understanding of those investor's drivers. Unfortunately, verifying the accuracy of any investor's share position and standing within the top 25, at a point in time, is extremely difficult for a company to undertake as highlighted in Section 5.2.1. Husky relies on external surveillance services to provide a clearer picture into who the largest shareholders are at any point in time (see Figure 5-2). This external service provides the lists with many assumptions built in, as they too have difficulty accessing detailed investor information. The difficulty in verification allows many of management's information asymmetries to remain.

While management and the IR team focus on acquiring, analysing and verifying information about the firm's investors, these activities are undertaken with both a

[13] RINs (renewable identification numbers) are a regulatory impact managed by the Environmental Protection Agency of the U.S. government. It establishes certain requirements to blend renewable fuels into transportation fuels such as gasoline and diesel.

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sizable financial and time related expense. Even with the effort and costs expended, management is still left assuming a great number of factors about the investors they interact with regularly. These assumptions can hamper management's interaction with the market, placing additional costs on the firm as management invests additional time in gathering, reviewing and verifying the information it has collected to remove any information asymmetries.

5.3 Investor heterogeneity

Homo economicus, or 'economic man' is a term that has been in existence since the late 1800s, with roots tracing back to Adam Smith himself, considered the father of economics. This economic man is entirely focused on utility, making perfectly rational decisions every time. *Homo economicus,* and his perfect rationality, is embraced by neoclassical economic theory as it relates to the modern investor, implying that each investor is the same or homogeneous in making decisions regarding investment. The homogenous investor, while embraced by neoclassical economic thought, does not match my personal experience, where a heterogeneous investor view appears more appropriate. There are different drivers amongst different investors and these different drivers can create different trading strategies and different classification of investors from Husky's perspective.

Based on this personal experience, it would be irrational, if not detrimental or damaging to management's career, for management to consider and treat all investors as equals or the same. This isn't a question about sharing different information with various investors, rather the amount of attention and the level of influence that various investors have on management's decisions and actions. As can be seen in Figure 5-2, even amongst the top 40 minority shareholders, the shareholder equity positions range from 22 million shares, or total investment of $700 million, down to 695,000 shares with a total investment of $18 million based on the share price at the time. The investor holding 22 million shares is going to, and should, receive more attention from management and the IR team than the shareholder with only three percent of that position, or 695,000 shares. This large investor should receive more of management's

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attention, because management should attempt to be more closely aligned with the goals, risk tolerances and information asymmetries of the largest equity positions.

With the recent rise in activism amongst shareholders, management would be wise to be aware of those most influential amongst other investors as well, and the equity positions that an activist holds in the firm before the activist attempts to exert pressure on management. That is why a list like Figure 5-2 is maintained and reviewed monthly by the IR team using a third-party aggregation service. While not specific to Husky during the period considered, these activist shareholders can cause management and the firm significant tangible and intangible costs, especially when the activist publicly wants changes to a company, whether new directors, strategies or even new management that focus on different goals, risk tolerances or information asymmetries. Considering Husky specifically, with approximately 70 percent of the shares controlled indirectly by one individual, management would be prudent to treat the principal shareholder with a higher level of attention and influence than the other minority shareholders combined, as the principal shareholder can unilaterally decide management's direction and tenure at Husky, in addition to the goals, risk tolerances and information asymmetries of management.

Reviewing investors more closely, I'm going to highlight a few different drivers that Husky viewed between investors, such as geography, sophistication, valuation methodology, trading strategies and views around ownership structures and how these lead into six different classifications that Husky places investors in. Within each area, I will provide information that the IR team gathers and maintains monthly about Husky's investors and reviews with management and the board. Through these drivers and classifications, the extent of diversity of Husky's shareholders should be apparent.

5.3.1 Different interests/drivers

Husky's Chief Operating Officer suggests "*there are many types (classes) of investors, each with their own agenda and we need to sort out what type (class) each investor is.*" When interviewed, a business unit head explains how he is "*always shifting the story based on the audience, emphasizing different parts of the story,*" while the Treasurer

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states that "*messages need to be shaped for different audiences*." These executives believe that investors are different from each other and need to be interacted with differently. The differences that will be highlighted here include geography, investor sophistication, investor valuation methodologies, trading strategies and investor views around ownership structures. Undoubtedly, there are other drivers that would further increase the heterogeneity of investors, but those other drivers are not explored here.

The first stop when looking at different attributes of investors is geography. As Husky is a Canadian company listed on the Toronto Stock Exchange, Canada's largest exchange, it is only natural that Canadian investors play an active role in owning and trading Husky's shares. In a global sense, Canada's financial markets are tiny compared to the those in the US, Europe and Asia, so there is a need and desire by management to attract investors from these other regions and diversify the ownership of the company geographically. As shown in Figure 5-4 and Figure 5-5, Husky's shareholders are spread across different geographies and shift differently for buyers and sellers amongst the various regions. Please note that the chart has the most current quarter first followed by historical quarters. Looking closer at Canada and the U.S. throughout 2013, there was a decrease in share purchase activity by U.S. investors and an increase by Canadian investors, and the inverse seen with sellers over the same 12-month period. Husky uses this information to target new investors in different regions of the world, especially compared to investor shareholder positions in peer companies.

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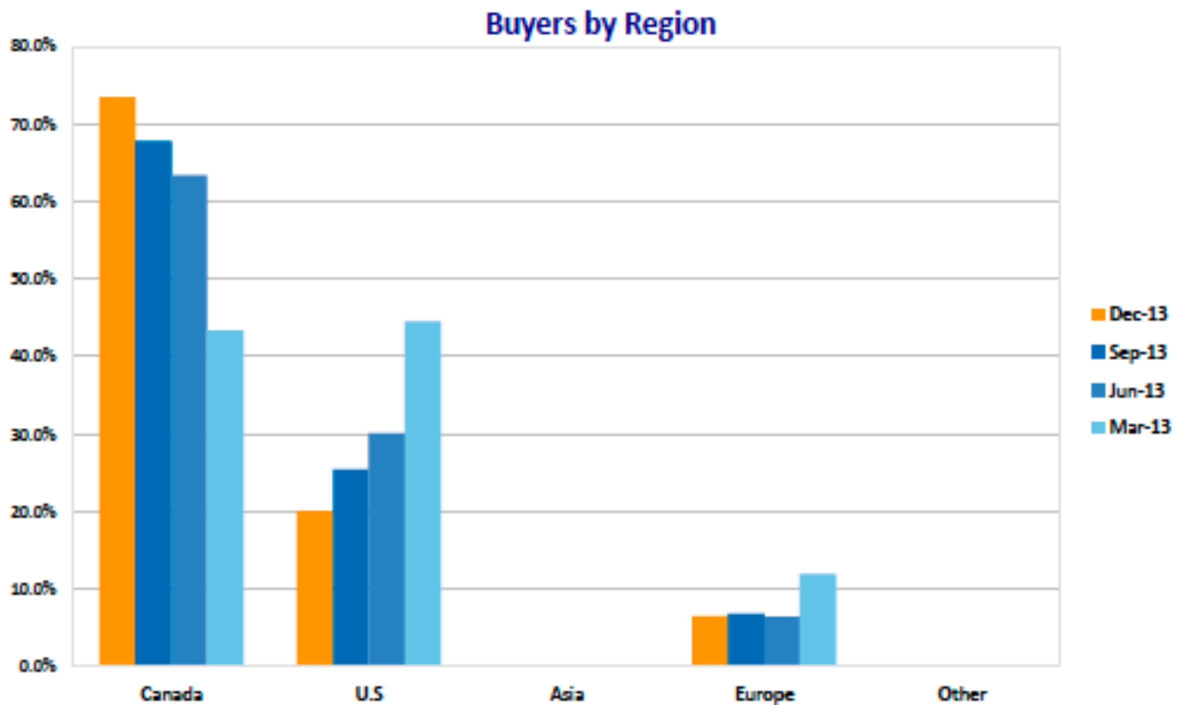

Figure 5-4: Buyers by region of Husky shares through 2013 (Source: internal company reports)

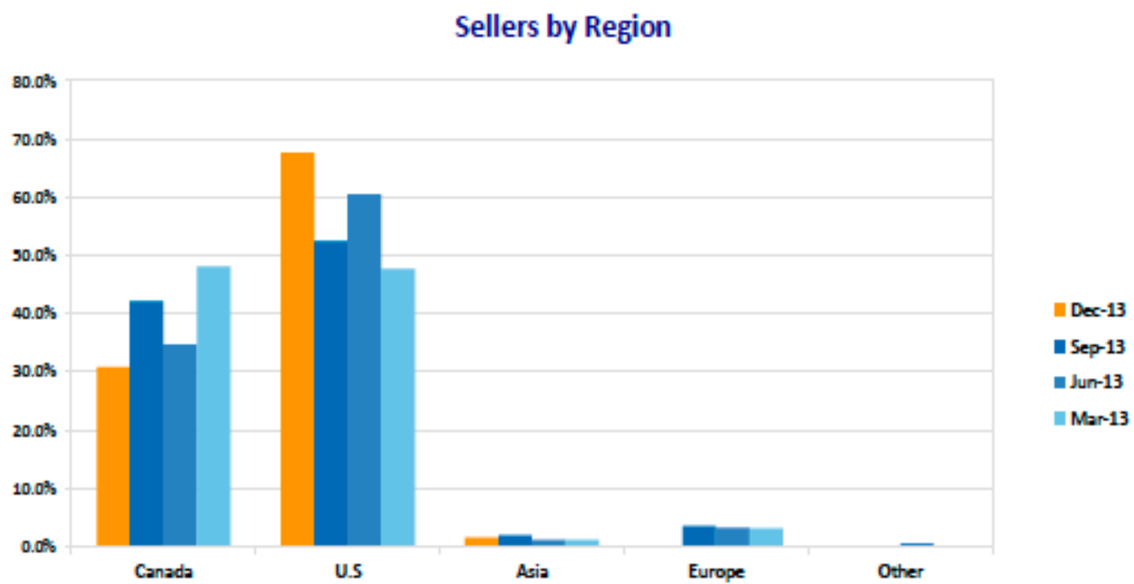

Figure 5-5: Sellers by region of Husky shares through 2013 (Source: internal company reports)

The geography can even be broken down into country regions or cities within a country and used to try attracting new shareholders to the firm. When Husky visited investors in a city, it would regularly review the investor activity from that city, compared to other cities, after a visit and would see differences amongst comparable financial

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centres. Husky always seemed to receive a better reception in Toronto or London, than New York. Even in the US, investors in Los Angeles and San Francisco were more open to Husky as an investment opportunity and held a greater percentage of shares than investors in New York even though New York is the major financial centre in the United States. Figure 5-2 shows two Los Angeles investors in the top 12 investors and one San Francisco investor in the top 10, while the highest placing New York investor is 26th on the list, a third of the holding of the 12th place Los Angeles investor. Yet, when you review the total assets under management of each city, New York is substantially larger than Los Angeles and San Francisco combined.

Even though Canada and the U.S. are considered two very similar countries, their geography may embody differences in culture, language, currency, economic or geopolitical factors, just to name a few. In the example above, the exchange rate between the U.S. and Canadian dollar may have been a factor. There could have been positive trends that Canadian investors became aware of earlier due to their proximity rather than U.S. investors. Perhaps, Canadian investors were more risk accepting towards the energy industry over that time frame and U.S. investors saw this as an opportunity to sell down their positions in Husky. Canadian investors may have retreated from the energy sector in 2012 and felt this was a good time to re-enter the Canadian energy sector. It is difficult to understand what drove these trends and it could be a combination of the reasons above or completely different reasons than those stated, or different reasons for different Canadian or U.S. investors. These are questions that would require information to be gathered, analysed and verified as discussed previously. What is clear is that there were significant differences in attitude about Husky shares by geography throughout 2013 and management needs to try and understand what may be behind these drivers and must expend effort to answer the questions.

Another defining element around investors is their sophistication from a financial view and a technical or industry-based view. When considering financial sophistication, there is the full spectrum from the retail investor to the professional portfolio manager. Even within the professional investor ranks, there are obvious degrees of sophistication, whether within the individual themselves or the mandates established by the funds

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they manage. The fund mandates may dictate a buy and hold strategy, so the portfolio manager might utilize simpler robust valuation models for these strategies, while other funds may employ advanced derivatives and quantitative modelling techniques to determine the stocks to buy and hold. According to Husky's Chief Financial Officer, "*some investors have limited time to get into the depths of the business.*" These depths can include comprehension of Husky's financial and accounting drivers and why certain decisions are made by management. The financial depth that the investor is at, may dictate the types of questions asked by the investor and where the IR team needs to spend time educating the investor, as this is a regular function of the investor relations team.

Beyond the financial comprehension is the technical sophistication. While the products produced are familiar to all, the way they are explored, developed, produced and transported involves many extremely complex and sophisticated techniques and processes, easily beyond the reach of the lay person. Many professional investors will hire petroleum engineers or geologists to help make sense of the companies they are investing in, particularly if the fund is an energy industry focused fund. These technical specialists can help identify energy companies with problem assets that the investor should avoid, or energy companies that have a new and unique technology that may allow a significant benefit to that company, which other companies may not be able to realize. If the fund is more of a general, or country specific fund, the fund managers are more likely to be financial experts and sector generalists, causing management to have a completely different conversation than they would with the engineer or geologist, who happens to manage money now. Like the financial depth above, the IR team may need to spend more or less time with investors to bring them to a certain education level. In 2012, Husky contemplated a secondary listing on the Hong Kong stock exchange. Since there were very few oil and gas companies listed on that exchange, in conversation with the investment bank's lawyers and potential investors from the region, it was clear that significant education on Husky and the Canadian energy industry was required prior to investments being made.

Another driver that can differentiate investors is valuation methodology. Different investors place different levels of importance on valuation methodologies centred on

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production growth, cash flow multiples compared to peers, return on equity or assets, net asset value of the organization, dividend value and growth rate. The importance of these valuation methodologies by investor classes are discussed more in Section 5.3.2 below. Management will try to provide information for investors to compute these valuation methodologies but will focus on certain methodologies as management's drivers for improving the business. With its focus on certain drivers, management will try to seek out investors that are also focused on the same drivers or goals to better align the interests of both.

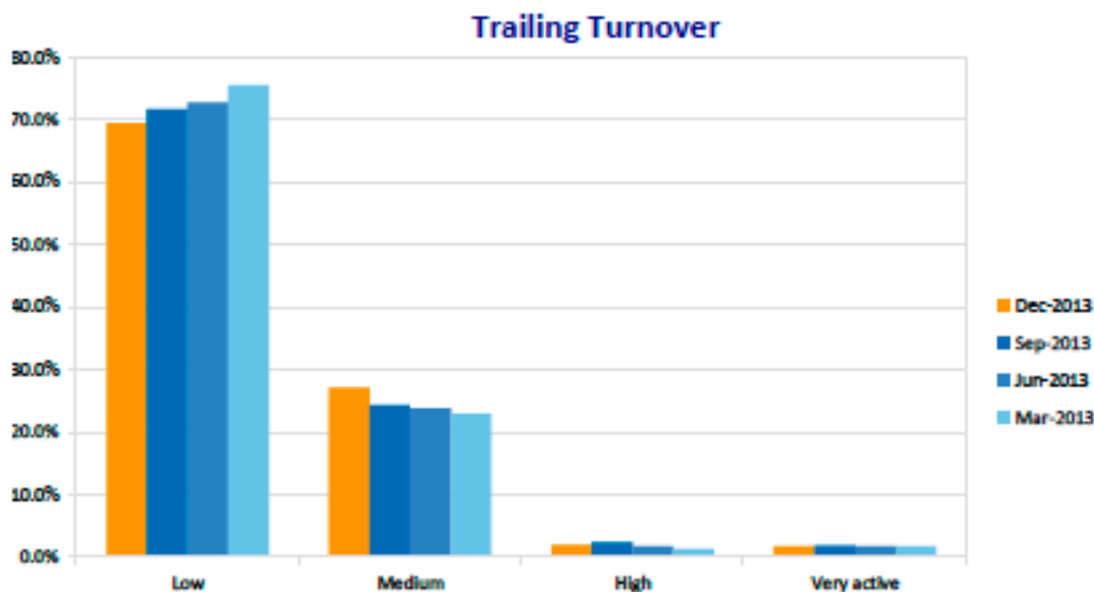

Figure 5-6: Trailing 12-month position of investor class in Husky shares by trading activity turnover, December 2013 (Source: internal company reports)

The trading strategies employed by investors are another point of differentiation that Husky experiences. As shown in Figure 5-6, Husky views investors on four different levels of trading activity, translating into the typical holding period of shares by that investor. These categories are described as low, medium, high and very active, with low being a holding period of 12 or more months, down to very active being less than a month. Management prefers investors that are going to support the company through the good times and bad, as the energy industry can be quite volatile based on the commodity prices of oil and natural gas. The low turnover investors are more attractive to management as management can build a relationship over time and gain a greater understanding of the goals, risk tolerances and information asymmetries for these lower turnover investors, compared to a high or very active investor. If you look at

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Husky's principal shareholder, his position in the company hasn't materially changed in 30 years, so he could be classified as an ultra-low turnover investor.

Even within the same organization, different investors will value the same parts of the organization or strategy differently. As Husky is a fully integrated energy company, having both an upstream segment that explores for and develops the resource and a downstream segment that refines and sells the commodities to the market, different investors have viewed these segments as providing different value for the company, and use different valuation methodologies accordingly. The fully integrated firm provides physical hedging against some of the commodity market and operational risks. Numerous investors with different risk tolerances may prefer Husky split into purer play assets (an upstream company and a separate downstream company) as that investor feels they are better able to diversify the risk. Other investors appreciate the integrated nature of the company and the diversification of risk that this provides for their investment, especially Husky's principal shareholder, whose only energy investment is Husky. As Husky is integrated and diversified and would be difficult to split into separate upstream and downstream asset companies, management is more aligned on risk and goals with those investors that prefer a more diversified approach and will expend more effort on seeking out the diversified investor.

Investors also hold differing opinions around the ownership structure of the company, since Husky is majority owned by one principal shareholder. This principal shareholder has positively impacted many investors over time through their investments in other firms controlled by Husky's principal investor and are more aligned with the principal shareholder's investment philosophy. Separately, other investors view the strong control of the firm by the principal investor as a negative risk to their shareholdings and voice within the company. The minority shareholder needs to determine if their goals and risk tolerances are aligned with that of the principal shareholder and the direction the principal shareholder is going to push management. Again, management seeks out investors that are more closely aligned with the principal shareholder. Attracting the wrong investors who are opposed to Husky's ownership structure, which management can't control, is an inefficient use of management's time.

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In trying to attract investors to Husky, management and the IR team gather, analyse and verify information around the investor's geography, financial and technical sophistication, trading strategies, valuation methodologies, and ownership alignment. As management has limited amounts of time to attract and educate investors on Husky, management targets its effort towards investors that display compatible attributes in hopes of making the most efficient use of time. If there are widely differing views between the shareholder base, these views can increase the conflict between the goals and risk tolerances that management must align with. The conflicted goals and risk tolerances add additional complexity in management's interaction with the market, requiring greater effort by management to sort through and understand. To further focus management's time, the various attributes described in this section help the IR team to classify investors into different categories or classes, which are discussed in the next section.

5.3.2 Investor classes

At Husky, the firm groups investors into several different equity investor classes, each with their own individual characteristics. The characteristics of these classes can be derived from the attributes presented in Section 5.3.1 and Husky has further sub-divided institutional investors into six categories as shown in Figure 5-7, Figure 5-8 and Figure 5-9. These classes are labelled yield, value, GARP, index, growth and other. It is important to note that within each of these classes you can have activist or socially responsible style investors as well. Even within an individual institutional investor, they may have different funds requiring a portfolio manager to follow a different style than other portfolio managers, the difference illustrated between Figure 5-7 at the investment firm level and Figure 5-8 at the individual mutual fund level. The main benefit for grouping into investor classes is to prioritize management's efforts into searching for and interacting with one group of investors over another. Husky used these classes to target certain investors as potential new investors, or investors that could hold a larger position in the company.

As seen in the three figures below, yield investors were the most significant investor class and mutual fund class holding Husky shares, while activity in the buying and

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selling of Husky shares in December 2013 was focused around value investors. Activity by investor class for Husky differed from that seen by its peers. First, I will go through a categorization of each of the investor classes and then discuss more on the targeting of certain investors by management and the IR team.

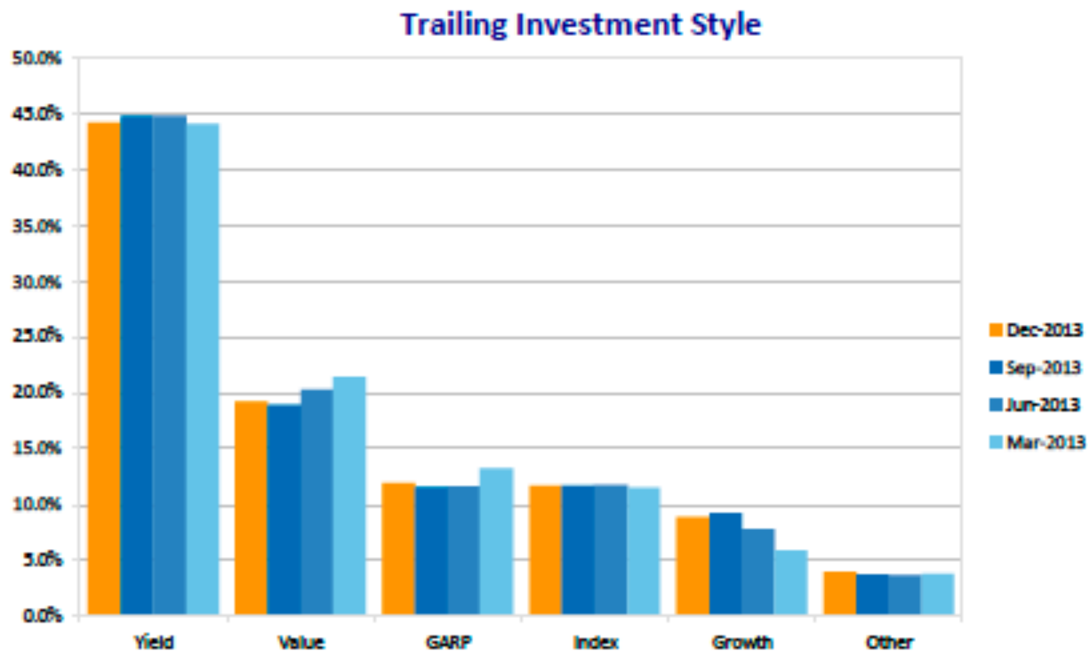

Figure 5-7: Trailing 12-month investment style in Husky shares by investor class, December 2013 (Source: internal company reports)

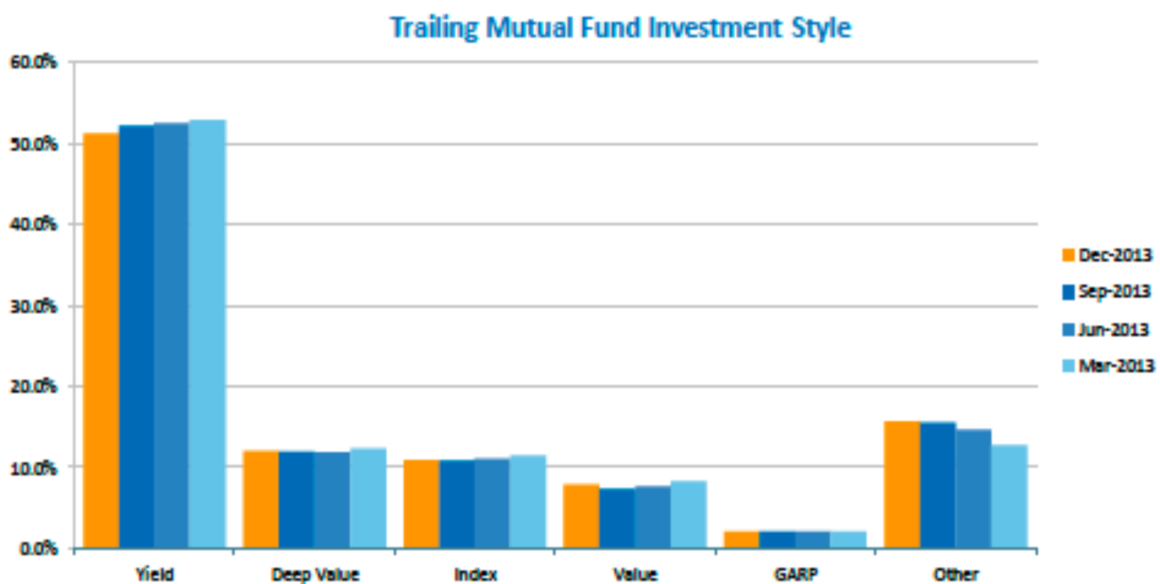

Figure 5-8: Trailing 12-month investment style in Husky shares by mutual fund class, December 2013 (Source: internal company reports)

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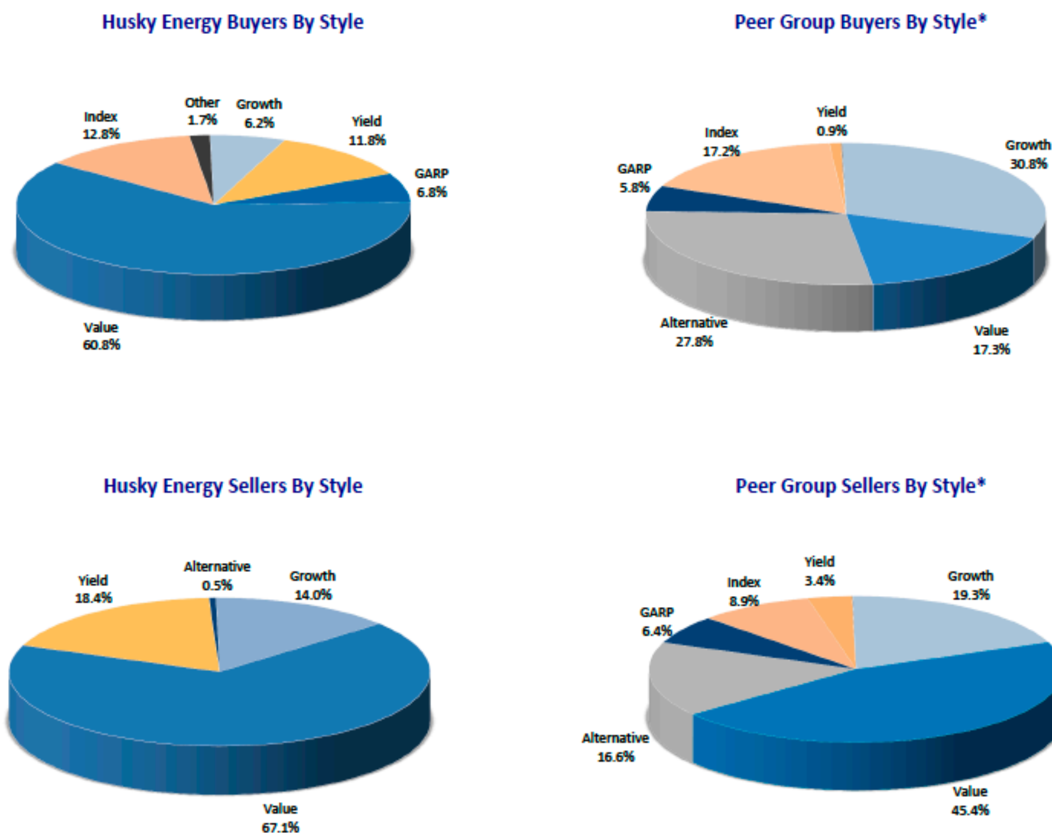

Figure 5-9: Buyers and sellers of Husky and peer shares by style, December 2013 (Source: internal company reports)

The first and most important class in the view of Husky management is the yield investor. This investor is focused on the regular income generating aspects of the shares such as the dividend payment. Husky believes that this investor is more likely to value the company and shares using a dividend valuation methodology and is more interested in information that positively or negatively impacts future Husky dividend payments. These investors are also considered by the IR team to be the most risk-averse but are willing to take larger positions in companies. Generally, these investors are lower turnover investors when compared to other classes. Husky's principal shareholder is considered a yield investor along with most pension funds, as they require a steady stream of income to support their members that are drawing pensions. Management continues to try to attract this class of investor with the repeated strategic and public proposition of "growth with a dividend."

Next comes the value investor, viewed internally as an investor that believes the company is undervalued from a total return view (capital growth and dividend payment) compared to peers of the company. This investor is believed to be interested

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in information that would influence the relative valuation of the company compared to peers, such as price to earnings or price to cash flow multiples. As the valuation can change somewhat quickly, these investors are viewed as having a shorter time horizon than a yield investor. Management evaluates the cash flow multiples of Husky compared to Husky's peers, with Husky usually 1 times or greater behind that of its peers. By highlighting Husky's multiples compared to peers, along with plans to make the company less risky or volatile, management interacts with this class of investor to help close the multiple gap. These investors could be lower turnover, but in a more volatile stock market they may also exit more quickly.

The GARP, or growth at a reasonable price, investor is looking for a more growth-oriented stock, but not willing to pay the high multiples associated with a high-growth company. They appreciate the dividend while waiting for the growth but are more focused on capital gains growth. The growth in production for Husky is an important valuation methodology for these investors. The other part of Husky's strategic proposition is "balanced growth." This proposition was used to make the firm attractive to these and the next group of investors, the growth investor. The dividend was used to pay for the short term wait while the growth to come through increased oil and gas production. These investors were also a lower turnover investor.

The growth investor is looking for the company to rapidly grow through reinvestment of all funds generated back into the business or through acquisition. Capital appreciation is the main driver for these investors who are willing to pay higher multiples for the investments on the belief that future earnings and cash-flow will materialize. Production growth is a material driver for this investor in valuing the company. These investors are the most risk-accepting investor but will take smaller positions in firms to expand the number of firms they are involved in, to help further diversify their risk. With Husky's diversified assets and slower growth, the company was less attractive to these investors and management spent less time or effort trying to interact with them. These investors were generally higher turnover investors and at the first signs of growth in the company slowing down, they would exit more quickly than other investors.

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Index investors are those that invest with the stock exchange indices. The two most important indexes that Husky is a member of are the TSX 300, comprised of the 300 largest companies on the TSX, and the TSX Capped Energy Index, comprised of the largest energy companies on the TSX. These investors tend to be more passive and only adjust their positions based on the moving share valuations within a specific index. There are some investors in this category who are more active in their management style, but still must hold all the shares contained in the index, and actively under- or over-weight their positions in various stocks relative to the index holding. Their decisions to under- or over-weight will be driven by one of the other styles such as value, growth, yield, etc. Based on the mostly passive nature of these investors, management spends very little time engaging with them, even though they are very long-term investors. The IR team believes there is little these investors can change about their positions in Husky, other than the weighting in the index, which is determined through the decisions of the other groups of investors that impact the overall share price.

The last category, or other/alternative, comprises all the remaining classes of investors that Husky would interact with. These investors can include classes such as hedge, arbitrage, sovereign wealth funds or momentum focused, among other smaller classifications. These funds tend to operate at the fringes of the investor base and have many different drivers and risk tolerances that would influence each fund's valuation methodology, holding period or other attributes. As can be seen in Figure 5-7, Figure 5-8 and Figure 5-9, this category of investor played a relatively small role in Husky's shares compared to that of peers. As such, management tried to avoid spending time with these investors and views the interactions as contrary to the best interests of management and the principal shareholder.

With an understanding of these classifications, the IR team regularly reviews the list of investors to see which are most likely to hold Husky shares or increase their position in Husky shares. The IR team spends the most time evaluating investors classified as yield or value. These investors are the most attractive investors to spend time with and the most closely aligned with management's strategic goals, risk tolerances and information asymmetries. These investors are also the most closely aligned with the principal

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shareholder's interests and direction for the company. When taking meetings at investor conferences or visiting a city to meet with investors, the IR team instructs the bank organizing the meetings that hedge funds are to be avoided to meet in the city, either existing shareholders or potential shareholders. The class an investor falls in, can and does determine the amount of effort that management will expend on interactions and the seniority of management that investor is allowed to interact with.

5.4 Husky Short-selling case

In the prior sections, I discussed the regulatory barriers to gathering information, cost of information, different investor interests and investor classifications. In a case of Husky stock being sold short, I hope to demonstrate these various attributes as furthering the position that management is faced with an information asymmetry and investors are heterogeneous.

Stock trading literature (Dechow et al., 2001, Boehmer and Wu, 2013) usually suggests that investors should short a company if those investors believe that the firm's share price will fall more in the future to offset the margin cost of short-selling based on a negative view of the company's prospects. There may also be other reasons to short a company based on advanced trading or portfolio strategies. Investors and the company can interpret a substantial short interest increase to represent a broad negative sentiment towards that firm.

Husky was placed in the above situation at the end of 2010 when its short interest increased four-fold over a two-week period. Management and the IR team didn't fully realize or understand the magnitude of the short position until late 2012/early 2013 after implementation of a new IR program over the prior two years led to regular monitoring of various market indicators (acquiring and analysing information). In reviewing the records from institutional investor meetings held with Husky, management's view of the large short position was sought on multiple occasions in 2013 by these sophisticated investors—a clear signal that some investors monitor a company's short position (investor heterogeneity) and even they may not understand fully what is going on. Seeing a sizable short position increase may cause concern for

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any company, especially when that company is one of the top 10 shorted companies on the TSX. This was the case for Husky at the end of 2010 as seen in Figure 5-10, taken from a presentation prepared by investment bankers at management's request.

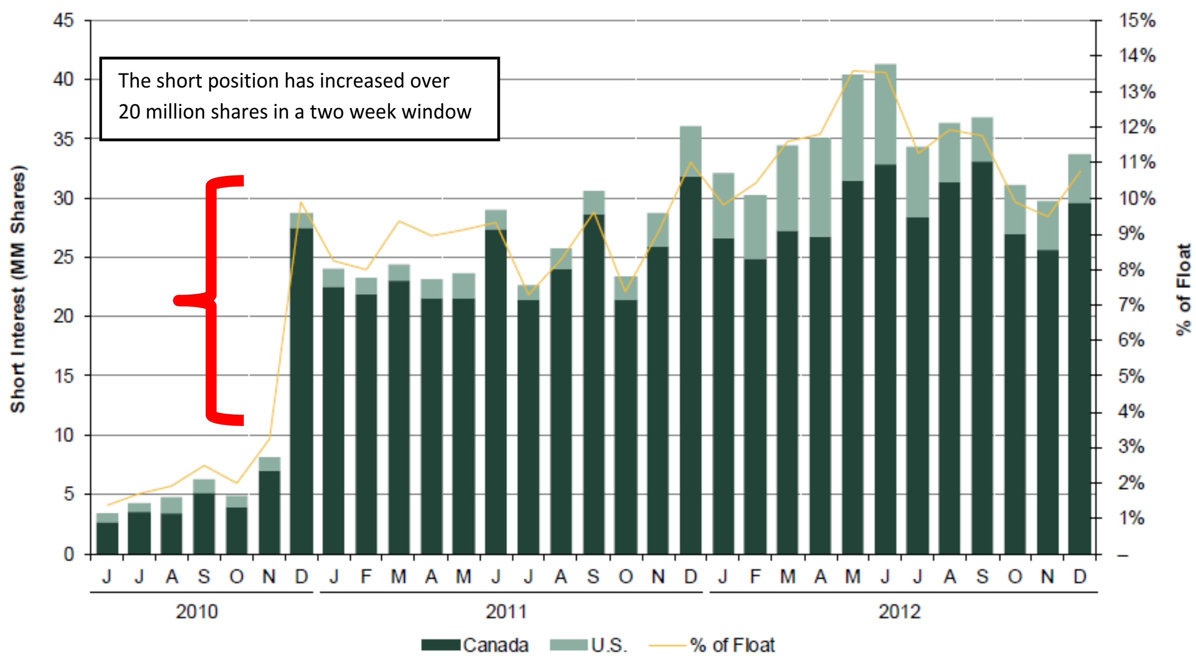

Figure 5-10: Husky short interest position, June 2010 through December 2012 (Source: internal company reports)

What is interesting about Husky's case, as shown in Figure 5-11, is the share price didn't drop amid a large negative sentiment but climbed from the $25 range prior to the year-end ($24.47 on November 30, 2010), increasing to a peak of almost $30 per share a few months later ($29.60 on April 29, 2011). This suggests the market held a positive view on the company, confirmed in later discussions with equity trading desks at some of Canada's large banks. During this period, Husky also issued $1 billion of new equity in late November, early December 2010, usually an event that produces negative sentiment in investors as described by Myers and Majluf (1984). There was also no precipitous drop in share price for the months prior to the change in short positions to suggest any sort of negative momentum type strategy that was building up in Husky's shares. In the last two weeks of December when the share price would most likely be under pressure based on Husky's increased short position, the shares rose four percent, shown in the circle in Figure 5-11.

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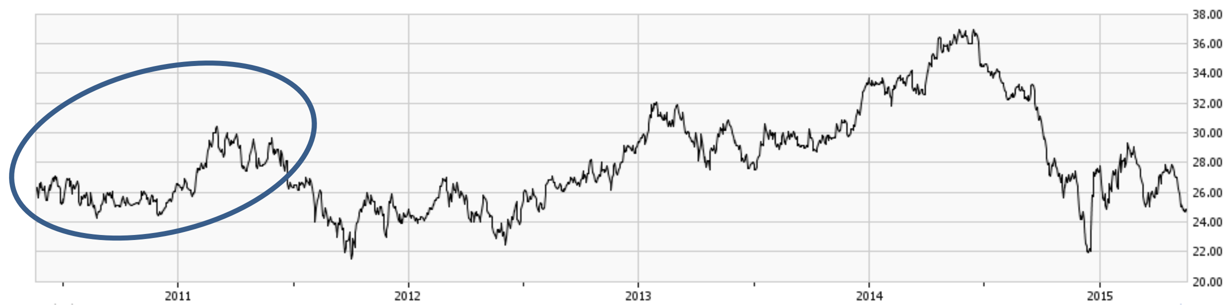

Figure 5-11: Husky closing share price from June 2010 to May 2015 (Source: internal company reports)

In Canada, the various brokers only register short positions with the exchange twice monthly and these volumes are aggregated before being made publicly available (regulatory barriers). There is no publicly available information to determine which brokers hold short positions, let alone which investors are shorting the stock (regulatory barriers). Monitoring the general short position by Husky really began later in 2011 as the IR program became more sophisticated and the IR team engaged an external surveillance service to help review and monitor (informational cost). The large positions and large swings in positions in the middle of 2012 started raising questions internally within the IR team, with an in-depth review initiated at the end of 2012 (informational costs). In reviewing the data, the IR team uncovered a curious pattern to the position volatility. This pattern seemed to coincide with ex-dividend and dividend payment dates. Immediately prior to the ex-dividend date the short position would spike, then drop immediately after the payment date as seen in Figure 5-12.

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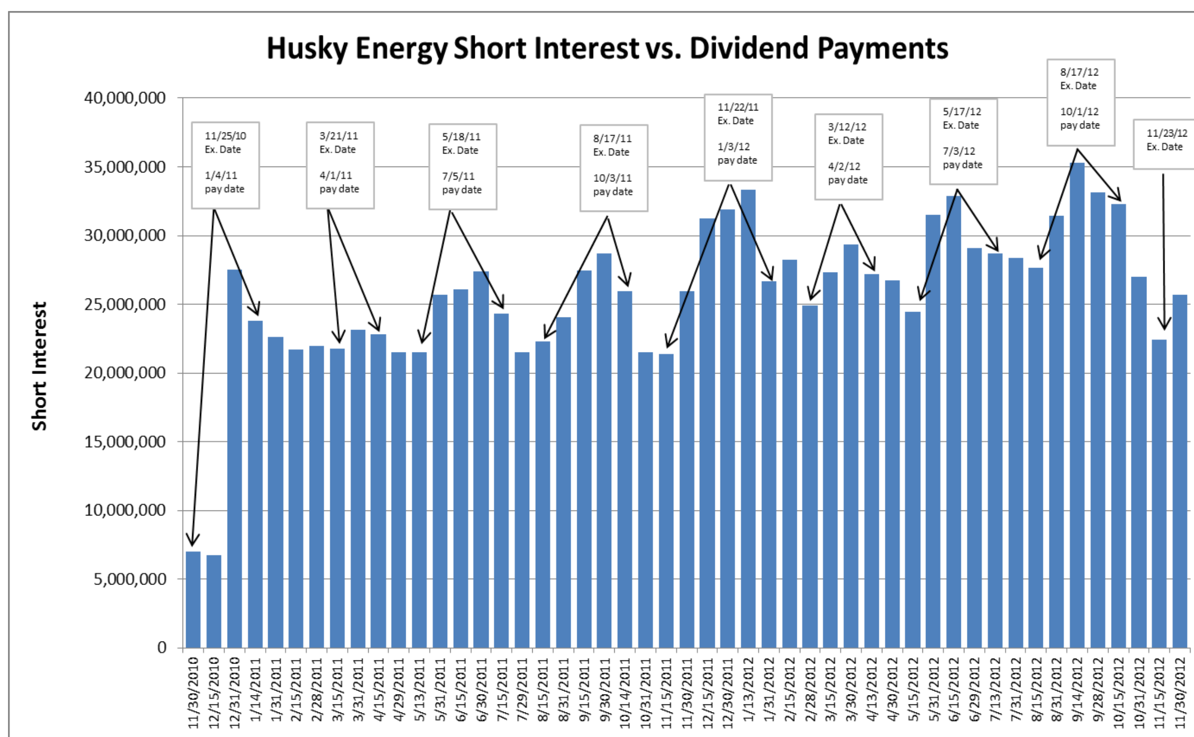

Figure 5-12: Husky short interest levels versus Husky dividend payments (Source: internal company reports)

While the pattern was recognizable, the intent behind the pattern was not obvious to the IR team or to management. To better understand the situation, the IR team and the Treasurer, who managed the firm's relationships with the various bankers, spoke with two separate trading desk contacts at banks highly active in Husky's share transactions, both for retail and institutional investors (informational costs). From these conversations, many interesting points surfaced around the short position that challenged management's previous thoughts and actions, summarized to senior management by IR.

The first point is Husky is not a natural stock for shorting. With its high dividend yield and low volatility, it is too expensive to short for purely economic reasons, especially over any ex-dividend dates where the investor shorting the stock would have to pay the lender the dividend. An investor needs to believe there will be a quick value change, so they don't have to pay the dividend in addition to the borrowing costs. With the volatile markets at the time and Husky's strong operational performance as perceived by the market and sell-side analysts, some investors have been very attracted to the stock

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(investor drivers). There has been minimal interest in shorting the stock for negative sentiment reasons.

The next interesting point is that the reporting requirements for short-selling has recently changed (regulatory barriers). The definition of what is a short sell was expanded by the TSX, capturing more transactions that previously would not have been classified as a short sell, such as swap agreements. Unfortunately, management was not able to gather any information as to which short positions related to swap agreements or similar transactions compared to an actual short or negative sentiment towards the stock (regulatory barriers).

As Husky is one of the largest companies in the Canadian market, its shares are added to many different stock indices. Investors participating or following the various stock indices will hold a basket of stocks and enter different positions within those various baskets (investor classes). The way those positions are structured may also be classified as shorting the stock based on the new TSX rules. Again, management is unable to determine what percentage of the short position is related to investor positions in indices (regulatory barriers).

Offshore investors and Canadian financial institutions may now use short selling as a tax strategy (investor drivers). The offshore investors may hold shares in swap agreements, which can show up as shorts, as a tax strategy to avoid incurring withholding taxes on the dividends paid out. Separately, Canadian financial institutions don't pay any income tax on dividends from Canadian companies. Some of the bank's various internal mutual funds are structured to be held offshore, lending the stock back to the Canadian bank, triggering a short, with the dividends paid to the offshore mutual fund in a tax-free strategy. It is this strategy that is believed to have accounted for the large increases seen between Dec. 2010 and Jan. 2011 of Husky and a few large liquid high-yielding companies.

Lastly, in the final two weeks of 2010, 20.7 million shorts were added, but the actual trading volume on the TSX was only 10.8 million shares. The short position had increased by double the actual shares traded during the period (regulatory barriers).

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Had there been economic shorts, they would have put significant pressure on the share price, yet the stock moved from $25.44 to $26.55, an increase of 4.3 percent during the period. These shorts were structural and would have to be allowed to be done off exchange, meaning that there weren't any transactions recorded and visible to the public or management (regulatory barriers).

From these conversations between the IR team and the bank's equity desks, the IR team understood that there was a recent change (July 2010 through the *Jobs and Economic Growth Act)* in the withholding tax laws around the payment of dividends. Foreign investors could now set up various trading strategies with the Canadian banks as described above, which did not pay tax on dividends, acting as intermediaries to take advantage of the tax change, allowing the foreign investor to bypass withholding tax (investor drivers). Under new stock exchange rules, this transaction created a short sale order from a reporting standpoint, but the actual control and company view for the share position never changed.

Based on the increased size of the short position, it would be easy to assume that management believed there was a substantial gap in risk tolerance, strategies or information asymmetries between the company and the investor. The increasing share price confused the situation and management was not sure how to respond to the volatile changes in the share positions (investor drivers). Only through conversations with market intermediaries was management able to understand one of the views and goals of some of the investors holding the company's shares (informational costs). Unfortunately, management is not able to determine what proportion of the short position increase relates to the tax strategy and what proportion relates to a truly negative sentiment or some other reason for shorting the company's shares (regulatory barriers). Even though there is a better understanding of the situation, there are still many assumptions involved and the complete answer is never likely to be revealed to management.

As the above case demonstrates, management was faced with many instances of regulatory barriers that increased the informational costs faced by management and the firm in trying to understand the reasons for the short positions. Various investor drivers

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were behind the changing short positions and certain investors were more likely to take advantage of the regulatory barriers for their financial gain.

5.5 Conclusions

Moving towards the goal of becoming more attractive in the eyes of investors, management needs to understand who the investors are. This understanding of investors is complex for multiple reasons, particularly the informational disadvantage that management is placed in and the heterogeneous nature of the investor. In the search for this understanding, management is at an informational disadvantage to the investor, a disadvantage at the hands of regulatory barriers put in place and the financial and time expenses to gather, analyse and verify information about the investors. With the information that is gathered, a heterogeneous investor begins to be revealed, instead of the homogeneous investor assumed by neoclassical economics. This heterogeneous investor has different drivers, including geography, financial and technical sophistication, trading strategies, valuation methodologies, and ownership alignment. These various drivers have helped Husky IR to create general classes of investors for management. The classes of investors are then used by management and the IR team to prioritize the effort to attract and interact with investors, placing certain classes of investors at a higher priority than other investors.

The short selling case clearly highlights some of the regulatory barriers encountered and the cost to overcome the informational asymmetries around investor drivers. As was also demonstrated in the short selling case, it was interaction between management and various market participants that begins to reveal the true situation. It is the interaction with these investors and various market participants that is critical for management to start understanding the investors' risk tolerances, goals and information asymmetries. Within these interactions comes two-way communication with the investors. Management can only learn very little about the investor when only pushing information out to the investors, management also needs to listen to the investor. This form of two-way communication will be explored in depth in the next chapter.

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6 Two-way Communication between the Firm and the Market

There are divergent economic views on the rationality of the individual as applied to management, focused on perfect or bounded rationality. One difference in management's rationality, from an academic perspective, focuses on the amount of knowledge that management has about financial market participants. Underlying these divergent views of rationality, are many subordinate assumptions. While Stocken (2013) highlights many assumptions relating to accounting specific disclosures and those related to voluntary and mandatory disclosures, the subordinate assumptions that I am interested in focus on the information asymmetries between management and investors and management's knowledge of investors' needs.

The first subordinate assumption implies that management is fully aware of who the firm's investors are (A1). By this, I refer to the actual identity of investors, not just an investor's risk appetite, investment time horizon, dividend preference, valuation methodology or any other investment perspective considered in the prior chapter around heterogeneous investors. Next is an assumption suggesting that management fully knows the information that investors are looking for (A2). When management wishes to communicate to the financial public, management is not fully aware of what information will be useful or price-sensitive to the financial community. It is also possible for information to be useful, but not price-sensitive. A third subordinate assumption (A3) is centred on management knowing how investors will use the information that management provides. Building on A2, the relative degree to which a piece of information will be useful or price-sensitive to the investment community can differ amongst individual investors, as those investors may have a different understanding or view of the company or the industry. Lastly, there is an assumption (A4) that management has nothing to learn from investors and the financial community. This is the belief that management cannot gain any knowledge about information needs, company and industry perspectives, investor mandates, competitive information about peers, and general market intelligence, to identify but a few things. By challenging these four assumptions (A1 through A4), I help to demonstrate that management does not have perfect knowledge of the financial markets and the players involved.

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The above four assumptions rely on the fact that markets are both relatively simplistic and perfectly efficient. Yet, two major market complexities that management faces both near- and longer-term are the market's ability to adapt over time to new information and the dynamic nature of the market. It is prudent for management to be aware of any market adaptations or shifting priorities or interests, so they can adjust any strategies or minimize risk as appropriate. In my experience, management spends significant time engaged in two-way communication with the financial market to understand this adaptation and market dynamics. I believe that information asymmetries are not just from management to investors but occur in both directions. In fact, I believe that management can and does learn material information from the financial markets and utilizes this information in decisions about the firm going forward. Management's information asymmetries revolve around the assumptions stated above about knowledge of investor identities, intentions and knowledge.

Moving beyond the generally held neoclassical view that information flows unilaterally from the firm to the market, Dye and Sridhar (2002) suggest information, or feedback, can also flow from the capital markets to a firm. Any basic communication model supports this newer view, with a sending channel (one-way communication), a feedback channel (two-way communication), participants (markets and the firm) and recipients decoding or interpreting the message or 'feedback' before generating a new message, and restarting the cycle (Lahey et al., 2005). Dye and Sridhar (2002) focus on the indirect feedback that a change in share price following the announcement of strategy provides to that firm. I expand on the view that management completes the communication model by directly and intentionally seeking information and feedback from the market using multiple approaches focused on two-way communication, a mechanism that inherently provides feedback to all participants. With that feedback comes new knowledge for participants that they would not or could not have known. Management not only seeks this information or feedback through different communication channels but seeks different types of information from the market as well, beyond the market value of strategic changes.

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The neoclassical view supports the belief and need for only one-way communication – with only the company pushing information to financial market participants. If it was true that management holds all the information and investors hold none, then there would appear to be no need for two-way communication. It would be inefficient and an unnecessary cost for management to expend the time, energy and resources to engage with financial market participants since management would have little to learn from the interaction. By examining the various aspects of two-way communication, a divide between the current literature around one-way communication and the relevance, need and frequency of two-way communication by all market participants begins to emerge. This widening divide should set the stage for further exploration, including empirical research or additional case studies, into quantifying the value of two-way communication for both market participants and management.

In the remainder of this chapter I expand on Dye and Sridhar (2002), by broadly exploring two-way communication from management's perspective by detailing Husky's interactions with the financial markets to enhance two-way communication and various forms of feedback. By applying a case study approach focused on Husky, I will illustrate how management gathers information and feedback and how these assumptions (A1-A4) do not really hold-up under a real-world experience and example. I will focus the case study around the two-way communication process and tools that Husky uses to interact with financial market participants, challenging the four subordinate assumptions and the overall neoclassical view of perfect rationality as it applies to management and the financial markets.

As part of understanding the two-way communication process at Husky, it is helpful to understand why the communication is necessary and who the participants are and the roles they play in relation to the four assumptions above. Appendix 3 – Internal and external participants in financial market discussions illustrates the different external market audiences that Husky interacts with in more detail, but most of the discussion in this chapter focuses around institutional investors and sell-side analysts, the two audiences with whom Husky has the greatest interaction and focus. After identifying the participants, I consider the need for two-way communication and the tools most

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relevant to the different audiences for two-way communication, along with the generation of information and evaluation of communication effectiveness.

In the first section, I establish the need for two-way communication between management and financial market participants. Of the various participants involved, management finds that sell-side analysts and institutional investors provide the richest information, the main point of the second section. The description and use of a variety of tools to gather this information is the subject of the third section. I then explore in the fourth section the types of information generated for management and how that information is utilized to challenge the four assumptions (A1 through A4). There are four main tools used by the firm to evaluate the effectiveness of communication, and lack of coordination can derail effective communication as I point out in section five. Together, these five sections help to support the overall notion of bounded rationality, by challenging the four sub-assumptions.

6.1 The need for two-way communication

In this section, I demonstrate how management needs two-way communication, contradicting the four assumptions. In a theoretical world with only one-way communication by management to the market, it is easy to see how the problems of adverse selection and moral hazard, explicit in agency theory (Eisenhardt, 1989a), come to the forefront. There is limited possibility of information sharing around risk-taking or strategic choice between management and investors. There is also only a one-way discourse of management disseminating information to the market. This one-way discourse creates information asymmetries between the parties. With the informational asymmetries, a vacuum of information is created which has the potential for increasing the mistrust or misunderstanding of either party's intentions. In this theoretical environment, management would always be ahead of other market participants, as management receives access to information before the market. In this situation, with management controlling the information, management holds the power in the relationship. If assumptions A1–A4 are inaccurate, then there is the opportunity for a shift in this power relationship, with investors holding some power over management relative to information. Eventually, management must disclose material information to

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the market as market participants will likely uncover that information in different ways, but in this theoretical world the firm will already know how the market will react to the information and can position it appropriately. In this one-way communication world, management does not need to engage with the market, as market participants never have information that management desires or warrants the effort by management for the engagement.

If management holds the information and the balance of power in the relationship, then there would be little reason for management to undertake any two-way communication activities, yet my personal experience shows the opposite to be the case. Management spends a considerable amount of time engaged in two-way communication with financial market participants. What could be worth the effort by management for two-way communication, other than to learn?

Different players outside the firm have access to insights and information that management does not have, yet desires. If management wants access to these insights, then it must interact with the other market participants. This takes us back to the argument between bounded and perfect rationality. In a perfectly rational world, management has little to learn because they already know or have thought through everything and therefore one-way communication seems appropriate. In a bounded rationality world, management does not know everything and is unable to think through every possible step, so learning new information may create a new opportunity or minimize a risk that management otherwise would not have known existed.

Enter two-way communication – presenting the opportunity for Husky and market participants to learn about each other. This is the tie to challenging the four assumptions, whereby management can attempt to learn who its shareholders are (A1), the information that market participants require (A2) and how market participants will use that information (A3). Management acquires information through the first three assumptions, but there may be the opportunity to learn additional useful information as well (A4) through two-way communication. If management wants to gain any of this information, then it needs to interact with the market rather than just push information out to the market.

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As previously mentioned, there is an assumption that management has nothing to learn from interactions with the market (A4). Contrary to this view, I have located different emails from senior management at Husky that supports the view that they can, and do, learn from the market. Due to space constraints, I focus on one example from an email dated Nov. 18, 2011, from the COO to the CFO highlighting industry operating cost inflation compared to Husky's operating cost inflation. The information came from an investment bank industry analysis. The CFO's comment was "*Interesting stuff in here. We should try to emphasize how we stack up against what they think is important in the MD&A and investor presentations. Our op-cost inflation does not actually look too bad compared to others!"* while the COO's comment was *"Some interesting costs data in the attachments."* The email comments help illustrate intelligence gained from reviewing sell-side analyst information and how Husky is positively positioned against several peers in a metric. Management then intended to emphasize this newfound knowledge in public disclosures to the market, in the Management's Discussion and Analysis (MD&A), a quarterly financial reporting document.

As I argue in the prior chapter around complexity, the financial environment that management faces is complex, dynamic and adaptive over time. The voluntary disclosure decisions management faces on a regular basis suggest that a more appropriate approach by a firm is one focused on adaptability to the continually shifting views of the market. Two-way communication helps management understand this changing environment. This allows management to obtain new information as the market shifts, and present information relevant to the market's needs at a particular time. To gain the information necessary to assist in making disclosure decisions, management needs to interact directly with financial market participants.

In the prior chapter, I argued that it is more appropriate to view market participants as heterogeneous rather than homogeneous. Based on this view, it is likely that different participants will look for different types or levels of information around different aspects of the organization (A2). The needs of the sell-side analyst differ from the needs of the buy-side investor. The needs of the equity investor differ from those of a debt investor, and the needs of an institutional investor likely differ from those of a retail

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investor. A growth-focused investor has different needs than a yield focused or pension fund class investor. Management is unable to understand all of these, and other different needs and drivers, if it does not interact in two-way communication forums with a variety of market participants in which the various participants pose questions to management. The questions may be around aspects of the business that both management and the financial markets previously considered unimportant, but due to changes in the external environment are now relevant.

In taking the position that investors are heterogeneous rather than homogeneous, management needs to understand the spectrum of investors that currently invest in Husky (A1). If management does not understand the interests of those invested in Husky, then it is difficult for it to know what level of risk these investors are willing to accept and what type of return they expect for that level of risk. As mentioned previously, Husky is a majority-owned company, with the principal shareholder controlling approximately 70 percent of the company. While management is very knowledgeable about the interests and risk tolerances of this shareholder, there is another 30 percent of the company held by other shareholders.

Before 2011, management had minimal awareness of the investors that comprise this remaining 30 percent. In 2010, management started developing the need to know Husky's other large shareholders, as these are the shareholders that trade shares regularly on the stock exchange and move Husky's share price daily. It is the minority shareholders that set the value of the company through their trading of shares. Without this knowledge, Husky management would have minimal insight into what causes share price movements, as in the last 20 years the principal shareholder has never traded his shares.

Beginning in late 2010, Husky embarked on a program to start identifying the various demographics of the investors, including their shareholding positions. Some investors can be quite secretive about their holdings, so this is a difficult task for any company. Only at this point did the company begin to understand the nature of its investors, including their identity and their share position. Even then, there were many investors and millions of shares that Husky could not account for (A1). Husky was aware of the

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identity of its largest minority shareholder, but this program helped identify the next 10 largest minority shareholders – various institutions that held between two million and 27 million Husky shares as previously mentioned in Chapter 5. Many times, the IR team would face the following question, such as found in an email from the CFO in August 2011 in response to a meeting request from two asset managers: "*Are they invested in us? Are they on the list for the London or NY meetings?*" To help avoid these types of questions, the IR team began preparing an investor profile in advance of any meeting or meeting request. A sample of this profile appears in Appendix 8 – Sample Investor Meeting Profile.

The dynamic needs of financial market participants shift the relative importance of any piece of information at a particular time. Under existing agency theory, there is no mechanism in place for disclosure to adapt to the ever-changing needs of the market. In a neoclassical economic view, what is important to the investor today should also be important tomorrow. What I have experienced is the importance of a single piece of information to the market changes day to day with new additional information, both external and internal to the participants. Management understanding the need for or importance of information (A2) from the financial markets would not occur in a one-way communication environment and would thus be another driver for two-way communication.

In setting and maintaining expectations with the financial markets, management needs to be prepared, as exemplified in the following email from the CFO – Oct 2011. This email is about a quarterly survey of estimates from analysts: "*We need to talk to them (sell-side analysts) to see where the miss (in quarterly cash flow and earnings estimates) is so we can be prepared*." In this case, the IR team approached the analysts to gain a better understanding of what was driving the estimates and identify any perceptual gaps between the analysts and Husky's performance.

Building on the dynamic nature of the markets, there is also adaptation, where the market is constantly learning and building on past knowledge (A3). Over time, an investor's perception about the current market situation and the firm's position within that situation is subject to change and can adapt after learning additional information

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from internal and external sources about that situation. As a company or an industry matures, so does the market's knowledge about that industry. Situations that may have previously elicited a volatile response by the market are muted as financial market participants and management increasingly understand the implications of various actions. For example, in 2013, there arose an issue with United States government mandated renewable fuel additions to refined products (specifically gasoline and diesel). As the mandated renewable fuel amounts hit an initial level, the market reacted severely as participants did not fully understand the consequences, nor for that matter did most companies, including Husky. As further information and explanations from the government, investors and companies were made public, the next time the issue arose, the market reacted with much less interest and severity.

There are several different needs for two-way communication by management with the financial markets, particularly to understand who its investors are, what information they need and how they intend to use the information provided. These needs all have learning as a basis, helping to create a pull by management to engage with various market participants, whether to learn something completely new or better understand the expectations or perceptions that currently exist in the marketplace about Husky. These needs typically focus around either investors or sell-side analysts, as discussed in more detail in the next section.

6.2 The two-way communication process focuses on institutional investors and sell-side analysts

Building from the need for two-way communication above, in this section I illustrate how management focuses on sell-side analysts and institutional investors to infer their information needs in response to challenging assumptions A1 through A4. As Appendix 3 – Internal and external participants in financial market discussions—shows, there are many different external and internal participants involved in the communication process with the financial markets. Many of the internal groups are involved indirectly, with IR acting as the main liaison between Husky and the market. Usually the IR team reaches into the organization to help answer questions that sell-side analysts or investors raise, providing indirect exposure to market participants and their needs for

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those internal groups. The focus of this chapter is on management and IR's interaction with the market and not the other internal groups.

Husky regularly interacts as part of the communication process with three main external groups. I refer to these groups as institutional investors, the banks (mostly sell-side analysts, investment bankers and equity sales teams) and other. Institutional investors invest on behalf of another person or entity and typically represent mutual funds, pension funds or hedge funds, which invest in both debt and equity securities. Significant financial resources usually back these investors, in the billions of dollars or in a few cases over a trillion dollars, and these investors have more sophisticated market knowledge than the average investor, as investing is their full-time employment and business. Husky focuses on interacting with these individuals as they have the greatest means for investing and the largest opportunity for impacting Husky's share price. Within this class, more of the interaction takes place with the buy-side analyst who makes stock recommendations, and to a lesser extent with the portfolio manager who makes the investment decision, but this is not always the case.

The banks play an intermediary role between the financial markets and Husky or investors. There are several different individuals involved in fulfilling this overall role, but it also breaks down into sub-roles, such as initial offerings of securities, secondary trading of securities, sell-side investment analysis (debt and equity), and investment banking. The sell-side bank analyst makes recommendations on companies and tries to persuade investors to buy or sell shares based on their recommendation. The bank's sales team builds relationships with investors and takes orders from investors, while the traders execute the actual trades on behalf of the investors. The investment bankers work with the company on a few different types of transactions, and for the purposes of this chapter I focus on placing new debt or equity into the market as the relevant transaction involving the investment bankers. This category receives the second most attention from the company overall.

The last category, "Other," comprises all the other constituents that Husky interacts with in the financial markets. The Other grouping receives the least amount of management and overall company attention. Retail investors are in this group, along

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with the financial media and credit ratings agencies. At Husky, the IR team interacts directly with debt investors while the treasury team is responsible for interacting directly with the credit rating agencies and investment and commercial bankers. The media relations team interacts directly with the financial media. In both cases, the IR team may assist the treasury or media teams in interactions with their respective audiences. Within the other category, the credit rating agencies have the highest priority focus for management.

The company does not view all interactions with the markets as having the same level of importance, and Husky has consistently tracked and recorded all instances of two-way communication with its two main audiences, institutional investors and sell-side analysts. It is through interaction with these two groups that management feels it can connect most closely with the financial market and really understand what market participants are interested in from the industry and company. In management's view, these audiences have the most valuable information to communicate to the company, and any time that management commits to interacting with the market will likely focus on these groups.

Table 6-1 shows the number of participants, from institutional investors, sell-side analysts and the company, which have been involved in direct two-way communication. Husky's IR team tracks all interactions with these groups and records every external email, phone conversation or personal meeting with either an institutional investor or sell-side analyst. Over the three-year study period, six different Husky IR professionals have been involved in phone, email or personal meetings. As Appendix 1 – Corporate Organization Structure shows, the IR team comprises only three members at any point, so there has been a complete turnover of IR team members during this period.

Table 6-1: Different participants involved in direct two-way communication (Source: internal company data)

Participants	Unique Total	2011	2012	2013
IR	6	4	4	3
Senior Management	13	10	13	10
Sell-side	69	36	48	48
Buy-side	538	127	277	250

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Senior management (senior vice-presidents, CFO, COO and CEO), mostly interacts with sell-side analysts and institutional investors. The senior management team has 15 different individuals, and at least two-thirds are involved in two-way communication, with the CEO, COO and CFO always included. Of the senior management total, the only individuals typically not involved are those representing corporate services such as human resources, procurement, and safety. While these are important functions for the operation of Husky, they are not functions that market participants seem to be interested in hearing from unless that corporate function has created a unique differentiation from its peers or there is a unique issue faced by the company around that function. From personal experience, investors and sell-side analysts in the oil and gas industry appear to have the greatest interest in the business leaders and those setting corporate and financial strategy.

The sell-side participants in Table 6-1 are primarily the sell-side analysts and their junior staff (associates) who assist with modelling from each of the banks that cover Husky. The remaining individuals are sell-side analysts that do not officially cover Husky and the sales equity teams that interact with Husky directly. Few sales equity members asked questions of the Husky team, but some did. The number of banks covering Husky ranged between 12 and 17 Canadian, U.S. and European banks over the three-year study period. The company was always trying to encourage new analysts from the major banks to pick up coverage. Each equity analyst has a following of investors, and the more analysts, the greater the potential number of investors the company can reach. If an analyst left a bank, that bank dropped coverage until it found a new analyst. Each analyst had either one or two associates, depending on the size of the analyst's total coverage. The larger the number of companies an analyst covered, the more likely they would have two associates.

The buy-side or investor participants are predominantly comprised of equity investors and very few debt investors. The equity side would be a mix of buy-side analysts and portfolio managers. Based on the data, it was difficult to determine which role many investors played, but from personal interaction, I believe that the interactions were roughly two-thirds buy-side analysts and one-third decision makers regardless of title. Different institutions place different levels of influence and responsibility on the analyst

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and portfolio manager roles, making it more difficult to judge the roles of the participants. Lastly, there was a variety of titles used or no title provided, making it most difficult for Husky to determine the level of importance of the individual involved. Over the entire period, there were 538 different individuals involved, but based on the annual involvement, Husky's IR team interacted with 116 of those individuals in at least two different years. The 538 individuals were a mix of current investors, previous investors and potential investors. In most meetings with institutional investors, there were one or two participants from the same institution at a time. These participants might have represented the same investment firm but could represent more than one mutual fund or security class offered by the investment firm.

The 538 individuals described above represented institutions that either do or may invest in Husky, yet according to shareholder filings from the company, there were approximately 59,000 different shareholders of record. The 59,000 shareholders do not include those that legally have the right to hide their name from the company, or OBOs. The 59,000 shareholders holdings represent approximately 75 percent of the total shares outstanding, including the majority shareholder. Excluding the majority shareholder, this covers approximately 20 percent of the free float of shares or five percent of the overall shares. This means that individuals or institutions that have elected to have their name withheld from Husky held 80 percent of the free float of shares or 20 percent of the overall shares. This fact clearly indicates that management is not aware of a material portion of the shareholders or their holdings (A1).

The three main methods of communication between Husky and the 'market' tracked by the IR team were email, phone and in-person meetings. These items were specifically tracked as the participant could typically be identified by Husky with little difficulty. This is not the case for news releases, annual reports, website visits, or other one-way communication tools where Husky has very limited visibility into who is accessing them.

As Table 6-2 shows, the majority of the tracked two-way communication occurred through in-person meetings, then phone conversations and email. In 2012 and 2013, the number of in-person meetings was roughly the same as phone and email

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conversations combined. Most of the email and phone conversations were initiated by the market participants (Husky IR regularly initiated calls with the sell-side immediately after every quarterly release), while many in-person meetings were initiated through Husky marketing trips or investors requesting directly to Husky. On the marketing trips, Husky would recommend to the bank organizing the trip who it would like to see in each market, but the meetings Husky allocated as part of the marketing trip usually took half the slots available. The equity sales team would canvas potentially interested parties to see who might be interested in meeting with management.

Table 6-2: Types of two-way communication by volume (Source: internal company data)

Type of Encounter	Total	2011	2012	2013
Email	280	84	117	79
Phone	408	144	138	126
Meeting	568	118	232	218
Total Encounters	1,256	346	487	423

Management and the Board received the information in Table 6-2 below, along with other IR activity summaries, in an annual report tracking the level of interaction with the financial markets. Management wanted to maintain the number of meetings at approximately the 2012 levels. The number of phone and email conversations was outside of Husky's control as they were typically initiated by the external party.

Taking the volume of communications in Table 6-2 one-step further, Table 6-3 breaks this down into the communication method of choice for sell-side and buy-side participants. There are some interesting results in the split between sell-side and buy-side. In the use of email, 81 percent were conducted with the sell-side and only 19 percent with the buy-side. Buy-side participants are more likely to use the phone rather than email, with the percentage growing to 29 percent versus the sell-side's 71 percent. One possible reason for the higher phone use may be an inclination for investors not to leave physical records of their interest or intentions. Another reason may be the richer information from verbal cues beyond just words gained by investors through these communication channels.

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Things flip completely with in-person meetings, with Husky meeting in person with the buy-side 93 percent of the time and the sell-side only seven percent of the time. Just as investors are looking for additional meaning in conversations (Barker *et al*., 2012), management is looking for information as well and this may explain their willingness to participate in so many meetings with investors. This provides an opportunity for management to explore the information that investors are interested in and how investors intend to use that information (A2 and A3). Investors are more willing to divulge these details in a private setting so as not to expose their investing ideas to their competition. In many of these meetings, any participants from the banks (either sell-side analysts or equity sales) are asked to leave the meeting, as the investors feel that the bank representatives will take what they learn and pass it along to the investor's competitors, as the banks are incentivized to increase trading opportunities. While personal meetings can never completely rule out the possibility of selective disclosure of price sensitive information, or that some investors are only taking the meeting in the hope of hearing price sensitive information, there are substantial regulatory consequences for both the investor and management that limit the chance of this disclosure. From a Husky perspective, and personal experience, most investors respect the regulations, but not all, while management is thoroughly trained prior to the interaction about what information is price sensitive and cannot be disclosed. IR attending the meeting acts as an additional safeguard to possible disclosure.

Table 6-3: Breakdown of communication by sell-side or buy-side (Source: internal company data)

Breakdown of Encounters	**Complete**	**2011**	**2012**	**2013**
Sell-side email	226	64	98	64
Sell-side phone	290	108	98	84
Sell-side meeting	41	14	15	12
Total encounters	557	186	211	160
Buy-side email	54	20	19	15
Buy-side phone	118	36	40	42
Buy-side meeting	527	104	217	206
Total encounters	699	160	276	263

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There are a couple of factors that may partially explain these results. The sell-side is typically looking for answers to specific modelling questions and the easiest way to get a quick response is through a phone call or email to the IR team. When looking at the total number of interactions (Table 6-3) and compared with the total number of participants in Table 6-1, it is clear that the number of encounters per individual is much greater for the sell-side than for the buy-side (557 sell-side total encounters against 69 unique individuals versus 699 buy-side total encounters against 538 unique individuals). Most of this difference is driven by the many short, pointed questions that sell-side analysts require for modelling or research report purposes on a quarterly basis. This is contrasted with the necessary planning for in-person meetings with management and the buy-side may need to be arranged months in advance and investors may be willing to wait to have the opportunity to speak with the most senior levels of Husky management to obtain a view on strategic elements. Just as Husky gains the most information from in-person interactions, investors are also likely to benefit from non-verbal cues provided by management during an in-person meeting. These are details that cannot be obtained through email or phone interactions and increase the richness of the feedback. Overall, interaction with investors is valued by management above that with sell-side analysts, and management would rather spend its limited time in the perceived highest value activity. As seen above, the company only tracks interactions with market participants through email, phone and one-on-one meetings, but these are not the only opportunities for two-way communication. In the next section, I explore some of the more relevant tools for gaining valuable information from market participants.

6.3 Two-way communication tools

In challenging the validity of the four assumptions, I have so far described how management needs to obtain information from market participants by focusing on institutional investors and sell-side analysts as its main source of information. In this section, I continue to build on the more relevant tools that management uses to gather information.

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Gleick (2011, p.48) states that "print offers a narrow channel of communication" and "by contrast – in the primal case, face-to-face human intercourse, alive with gesture and touch – engages all the senses, not just hearing." Gleick (2011) further presents the view that as more and more senses are involved in the communication, there is a greater chance of sending the most reliable signal of the sender's intent. What these two points help demonstrate is that personal two-way communication is a much richer medium for transferring information between individuals compared to the printed word. A company has several different tools available to pass varying degrees of richer information to market participants. Husky has a spectrum of choice on how it conducts two-way communication with the market, and on occasion will make a conscious decision of the medium to communicate a message. This is not a single choice either, rather the firm chooses one or more communication channels at any time to convey a message.

Table 6-4 identifies the different types of two-way communication between the firm and market participants, along with the main market participants involved. The most relevant tools used by Husky are described in more detail below. The company does use additional tools, such as the annual general meeting and proxy solicitation, but these are not the most useful tools for two-way communication in Husky's view. From a company perspective, the IR team participates in all events, management in some events and members of the board in just a few events. Each event is directed at a range of different market participants allowing for interaction with different individuals in different forums.

Table 6-4: Types of two-way communication and participants (Source: internal company data)

Forms of Two-Way Communication	IR Team	Management	Board	Sell-Side Analyst	Sell-Side Equity Sales	Institutional Investor	Retail Investor	Debt Investor
Quarterly Conference Call - Q&A	X	X		X		X		X
Investor Conference	X	X		X	X	X		X
One-on-One Meeting - Buy Side	X	X		X	X	X		X
One-on-One Meeting - Sell Side	X	X		X				
Email	X			X	X	X	X	X
Phone Calls - Sell-Side	X			X	X			
Phone Calls - Buy-Side	X					X	X	X
AGM	X	X	X	X			X	
Investor Day	X	X	X	X		X		X
Facility Tours	X	X		X		X		X
Website/General IR email	X						X	

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To provide more context around the information in the quarterly financial and operational results, Husky's management conducts a conference call and webcast open to all stakeholders roughly four to six hours after each quarterly release[14]. The conference call is broken up into three different sections: prepared remarks, market questions limited to sell-side analysts and institutional investors, and media questions. A conference call usually lasts between 45 and 60 minutes with 20 minutes for prepared remarks and the remainder for the question and answer sessions. Management wants to ensure that market participants have sufficient time to ask any clarifying questions and they are provided the first opportunity to ask such questions. The CEO, CFO and COO each deliver prepared remarks, in that order. Other management in the room at the time of the call are: SVP of Downstream and SVP of Western Canada, general counsel, head of IR, Controller, and SVP of Corporate Affairs. While the market question session is open to both the buy-side and sell-side, retail investors are not allowed to ask a question and over the three-year period referenced, there have only been a handful of buy-side questions asked. All the questions come from the sell-side analyst community, predominantly equity. A small proportion of questions have come from the debt community. More time is provided for the market questions and limited time is given for media questions as the former are more valued by management and are usually more sophisticated.

The conference call provides a quick confirmation for management, only hours after the initial material information disclosure, of how well the market understood the material information and key messages presented. The type of questions received during the call assist management in gauging what information in the press release was unclear or what information market participants are focused on (A2). Based on the content of any flash notes[15] issued between the press release and the time of the conference call, management may adjust messaging or potential responses to anticipated questions to reduce any confusion or concern in the market (A3). The conference call is the first real opportunity for management and the IR team to gather feedback on the results, identify

[14] The timing is typically dependent on when peers have scheduled their conference calls if releasing on the same day, so market participants are not forced to choose which calls to listen to if they are interested in both companies. Conference call time may be coordinated between IR teams of the various peer companies so there is no overlap.
[15] These are sell-side analyst notes issued quickly after a company communicates material information prior to a full comprehensive analysis conducted by the sell-side analyst.

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missing information (A2) for the participants and determine how the participants might be using the information (A3). After the call, there is a quick discussion about any surprise comments or questions. In such cases, the IR team may then follow-up with certain analysts or investors to clarify any additional points, or the feedback will be stored to be used in future communications, either press releases, presentations or speaking notes for one-on-one meetings.

With the substantial amount of information released each quarter,[16] the IR team proactively reaches out to all the sell-side analysts covering Husky to ensure they have complete information, or any explanation required for preparing their analyst reports and gather initial impressions of the information released (A2 and A3). These calls take place after the conference call and are focused on understanding the lacking information that the sell-side analysts require to publish their quarterly research reports. Many times, these calls answer short modelling type questions or provide a little more background detail on the information presented in the release. If more material concerns arise, they are tracked with all the other meeting data and assembled for further analysis by the IR team for future communications. Analysts appreciate the calls, demonstrating an interest in the sell-side's view and provide quick feedback on the information released by Husky.

Husky's marquee investor event is the investor day, a three-hour group meeting held in Toronto every 12 to 18 months, with all analysts, institutional investors (equity and debt), key investment bankers and credit rating agencies invited. Management views this as the marquee event because of the large number of in-person attendance from the buy-side and sell-side, the in-depth nature of discussion, the duration of the event at three hours (compared to other face-to-face meetings of 30 to 60-minutes), along with the substantial research and media coverage generated in a non-earnings period. Invitations are sent to all institutional investors Husky has previously met with, who are maintained in a database, all current sell-side analysts and those analysts who cover peer companies but do not cover Husky, the investment bankers Husky has the strongest relationships with, the firm's commercial banking partners and the credit

[16] Quarterly press releases, financial statements and management's discussion and analysis, which numbered just over 30,000 words for the Q4 2013 results.

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rating analysts that currently cover the company. The in-person attendance at the meeting for the three years' ranges between 65 and 90 people, with another 200–300 listening-in via webcast. The investor day is an opportunity for Husky to highlight in sufficient detail any new strategies and operational details. The content for the event culminates from management's attempt to provide the financial community with the information that management believes the investment community is seeking (A2). As an example, the financial participants have regularly asked for more detailed information around Husky's unconventional oil and gas resources, and at Husky's 2012 investor day, extensive information was provided around these resources to feed the market's appetite for such information.

The investor day provides the forum for Husky's management team (the entire senior leadership of 15 individuals team attends) to display its knowledge and acumen and interact for an extended period with the financial community. After each presentation, there are formal question and answer sessions to encourage dialogue around the material just presented. Additionally, management informally discusses the material in more personal settings with investors and sell-side analysts to determine if it covered what the market is looking for (A2). These informal conversations occur during breaks or over lunch, allowing management to connect with those in attendance. A survey is also provided to all attendees to gather feedback on the event (A4) and is coordinated with a broader perception survey which I describe in more detail below. After the event ends, a quick debrief between management and IR takes place to capture all the knowledge gained from interacting with investors and sell-side analysts and around overall execution in anticipation of the next event (A1–A4). Sell-side analysts typically publish research in the days following the event. The IR team analyses the research for completeness, accuracy and gaps in understanding, before summarizing and distributing to the senior leadership team (A3 and A4).

In the CFO interview, his view was that one-on-one meetings provide the greatest amount of feedback for Husky. It is in these meetings that the investors are most willing to share their views and expectations of the company (A3 and A4). He further finds that: *"it is much more of a two-way dialogue going on, rather than I am sitting here telling you (the investor) my stuff, or you asked me a bunch of questions for your model. It is more*

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about, 'What do you think of X? Our views would be X, Y, Z. That is interesting. If you are thinking that, then maybe I need to answer this way or go back and think about how we need to reposition our messages around X." Typically, these meetings are planned and held during marketing trips or as part of an investor conference. At conferences, the usual duration of these meetings would be 30 minutes, while on a marketing-trip the usual duration would be approximately an hour. Occasionally there are requests to meet with management in Husky's offices on an ad-hoc basis. It is Husky policy that there are always at least two Husky members at a meeting to provide complete information and to confer after the meeting whether there were any selective disclosure concerns that should be immediately addressed according to securities regulations. It was also policy to avoid these meetings within two weeks of reporting any quarterly results for fear of selective disclosure to the investor or sell-side analyst.

These meetings generate substantial feedback (A1–A4) and information for the company, as it allows management to engage in direct conversation with the investor or sell-side analyst and address any specific concerns or misunderstandings that they might have around operational, tactical, financial or strategic (labelled as o, t, f or s) issues, based on the questioning as Table 6-5 shows. As the different lines of questioning from the analyst against the portfolio manager show, the analyst's questions are more operationally focused, while the portfolio manager is looking at longer-term strategic type questions.

Table 6-5: Select questions from meetings, Q4 – 2013 (Source: internal company data)

Participant	Questions/Topics covered
Sell-side analyst (Email)	Flemish Pass (Offshore Canada – Atlantic Ocean, exploration): • Can you provide any timing on when Husky intends to announce a development timeline for the Flemish Pass discoveries? (o) • Is there a goal to discover a certain amount of resources before outlining a development plan? if so, would you be able to share that target? (t) • We recognize it might be a little early, but how should we think about the capital efficiencies for an offshore development like this? (f) • Should we compare this to Hebron? (o) South White Rose Extension (Offshore Canada – Atlantic Ocean, field development):

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	• How much production is added from the South White Rose Extension Project? (o) • How much of the $800 million (net) was spent? (On the development) (f) • How much 2P was booked? We were only to track down a 3P number. (relates to certainty of reserves – proven, probable and possible categories) (o) • Just to be sure, are these fields aimed at sustaining production levels at ~40-45,000 bbl/d net to Husky? (t) • What is the natural (production) decline rate at the White Rose main field? (o)
Top 3 Portfolio Manager (1-hour, one-on-one meeting)	• Update on 29-1 sales contract. (Offshore China gas field) (o) • What does the next 3 years look like in Asia? (business growth) (t) • Any more discussion of spinning out Asia? (Offshore China gas field) (s) • Would you look at buying something? (M&A activity) (s) • How much running room does Ansell have? (Western Canada gas field) (t) • Would you ever spin out midstream/downstream (assets)? (s) • What is the plan for Rainbow? (Western Canada oil and gas field) (t) • Will you have type curves on Rainbow and Duvernay? (typical well production histories) (o) • What is the abandonment liability for Western Canada? (abandoning old well bores) (f) • Downstream strategy? (s) • Good shape on labour in Lima? (Ohio based refinery) (o) • Heavy oil update? (Thermal production properties) (o) • True up payment update? (Element of deal with BP for Toledo refinery) (f) • Atlantic Canada update? (Exploration drilling offshore) (o) • Would you harvest your portfolio more? (s)

In addition to being questioned by the analyst or investor, management uses these conversations to ask the market participant questions, particularly when meeting the individual for the first time. Some regular questions asked are whether an investor holds Husky shares and how many, to gain an understanding of whether they are an investor and their importance relative to other investors (A1). For analysts and investors, often their opinion is sought on current economic or market factors, of the industry or of peer strategies. Management uses these individuals to broaden its understanding and gain a different perspective on the market and peers (A4). In addition to the questions asked by the investor or management, management gains further information from the participants' tone, body language, who is asking the questions (the portfolio manager or the buy-side analyst) and the number of

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participants in a meeting (A4). As suggested by the CFO above, this information is used to see if any of the messaging needs to be repositioned or perceptions adjusted (A3).

After a marketing trip by the company, the IR team requests the bank's sales team to obtain any feedback from the various investors that management meets with (A2, A3 and A4). The comments received are not attributed to any specific investor but based on the notes taken and the questions asked in each individual meeting, most comments are identified to a specific investor by the IR team. A better example of this type of feedback from an email excerpt is in Table 6-6. Again, this information is tracked in the database maintained by IR and where possible the feedback is attributed to specific investors. All the tracked information is referred to in advance of any upcoming meetings with investors to keep management informed of general market concerns and any concerns specific to that investor or sell-side analyst. These notes are summarized in the profile reports the IR team provides to management in advance of the meeting with a copy in Appendix 8 – Sample Investor Meeting Profile.

Table 6-6: Bank sales team feedback from Toronto roadshow December 2013 (Source: internal company data)

I wanted to follow up on our trip to Toronto together. We have gathered feedback from each investor, and it was quite positive. I think this is being reflected in your share price—we still have a lot of follow-up / continued dialogue to keep working with the non-owners to move them towards initiating a position… I have compiled the most pertinent feedback below, which I hope you will pass along to your colleagues.

- We are big, long-term holders, and happy. We are sticking to it after our meeting with management. It was also nice to see a move from the marketing trip. I was happy to hear about the increased emphasis on the East Coast. I really like the company, but there is a challenge in getting new investors to recognize the attractions insofar as HSE (*Husky ticker symbol*) does not give a lot of details externally on their business. Hopefully other investors will have a chance to see the same positive outlook with stable dividend and growth---I think this is one of the things that makes HSE attractive.
- I like "real earnings", not EBITDA or adjusted earnings. HSE is a good example of a company that is run for real returns (ABC is another one). This is different from other firms like XYZ where a good chunk of their earnings has been coming from hedging, etc. I like to invest where billionaires invest. Billionaires do not look to dilute themselves or play games. I own it, and I will continue to own it.
- I like HSE's progress in places like Liwan, Sunrise and East Coast. Do not change your approach. Sure, there is been a bit of luck, but HSE has paid investors along the way, and stuck to their guns. Keep the long-term focus.
- The meeting went very well. I liked the CFO. He is quite realistic and presents a solid, grounded approach to the business. I really like the dividend and the defensive spending outlook. I want low risk stocks. I am looking at selling more ABC and XYZ and HSE is a top contender in Energy (better yield than DEF, GHI, and better valuation than JKL. My only concern is that on a proportional basis, owning HSE does not replace the lost gas exposure in my portfolio…what if gas prices rise? Ansell is not enough gas growth to matter. I am inclined

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to own it in a bigger size. I am going to think about it. I came away more positive, because their conservative approach is a great fit for my low-volatility mandate.

- I cannot invest in the company because the growth rate is not sufficiently high to compete with the best firms in North America. Yes, it is cheap. However, it is not differentiated…I respect that it is defensive. I invest in energy for outperformance. I want a management team that walks in, explains how they are going to materially grow their business beyond the peer group, and then tells me how they will fund the growth. HSE gave a great presentation, but ultimately, they are not aggressive enough for my fund.

Our whole team believes that face-to-face meetings are the most effective means to communicate your story to the investment community. We welcome any opportunity to host Husky meetings in the future and will continue to give you relevant colour on the buying activity following this trip.

[*Outside of Husky, all other company symbols have been changed from the actual symbols*]

Infrequently, Husky conducts facility tours with market participants, allowing them to physically inspect the assets and operations of the company. These tours are the greatest amount of time that management will spend in direct contact with both investors and sell-side analysts. During the three-year period study, Husky only held one investor tour due to the time, effort and resources required. This tour occurred over one and a half days, touring approximately 30 individuals around Husky's physical upstream and downstream assets in Lloydminster, Alberta/Saskatchewan and Husky's Tucker Lake oil sands project in Alberta. These assets were selected for the tour as they are Husky's main strategic focus and a substantial piece of the business that management believes is often underappreciated in valuation terms by the market.

These tours help Husky showcase the quality of its assets, the skill and capability of local management and Husky's operational abilities to both the buy-side and the sell-side. The tour provides many opportunities for interaction between management and the market participants in formal and informal settings over a 36-hour period. Significant feedback is generated during the tour, which is constantly provided to management by the IR team in the form of discussion items and questions relayed. While there were several formal presentations during this period, informal conversations also took place as all attendees gathered at the airport, flew together to the site, rode buses together for an hour or more at a time and ate four meals together. This formal and informal interaction allowed for considerable discussion, questioning and deeper probing of issues, concerns or events by both management and investors (A2, A3 and A4). At the conclusion of the tour, surveys were distributed by the IR team to all participants. The results of the surveys were collected, analysed and summarized

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by the IR team to be incorporated into the planning for future events and communications, not just facility tours. Again, after the event the IR team examines any sell-side research published for accuracy, and to identify any gaps in understanding or missing information (A2 and A3). If such gaps are found, the IR team will reach out to the analyst and discuss the gap further until it is clarified on both sides.

In addition to constantly pushing out messages to market participants, Husky also intentionally solicits information directly from market participants to learn several different things. The first is a quarterly estimates survey (A2 and A3) and the second is a perception study (A2, A3, and A4). On a quarterly basis, Husky will approach all sell-side analysts about two weeks in advance of the quarter to obtain the analysts' current estimates on many metrics that have not recently been published by the analysts. Requesting the most recent estimates will typically cause the analysts to update their models to account for the most recent publicly available market information and revise their estimates as necessary. In the example provided in Table 6-7 below, 15 of 17 analysts provided their numbers to all the sections where possible. The consensus results were provided to the analysts about a week prior to the release. Management uses the survey results to identify and understand any gaps between analyst expectations and actual results. This allows management an opportunity to adjust messaging in the quarterly results press release or conference call and address the most material gaps providing appropriate explanation of any surprises that may have occurred. When the analysts publish any pre-quarter estimates and expectations, they will often reference the consensus survey conducted by Husky and how close the analyst is tracking to consensus. Having the analyst publish the results close to the quarterly release helps potentially reset any investor expectations with updated information by the analysts. If an analyst does have estimates that are widely different from consensus, they often explain the rationale for their difference in the published research note.

As can be seen in Table 6-7, Husky is requesting updated estimates not only for the quarter, but for the full year and next year's results as well. The information requested is broken down into production volumes and financial data, which in management's view are the main valuation techniques for investors in oil and gas companies. The

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production volumes are broken down to the major operating groups at Husky and the financial data is focused around net asset value (NAV), earnings and cash flow. Based on these numbers, the IR team will attempt to see which analyst assumptions differ from the actual results and may be driving the analyst's current estimates. There may be a few reasons to account for this, some public and others that the company has not disclosed yet. A public reason would be a refinery disruption that was disclosed by the company, where there may need to be a deeper communication about the extent of impacts than previously communicated, while the undisclosed reasons will only come out in the quarterly results.

Table 6-7: Sample quarterly analyst survey and consensus results (Source: internal company data)

Husky Analyst Survey - Q3 2013, Full Year 2013 & 2014	
Q3 2013	
Net Volumes	**Consensus**
Heavy Oil, Including Tucker (bbl/d)	**120,262**
Western Canada Oil and Liquids (Excluding Heavy Oil and Oil Sands) (boe/d)	**53,288**
Western Canada Gas (Excluding Heavy Oil) (mcf/d)	**480**
Atlantic Region (bbl/d)	**42,211**
Asia Pacific Oil and Liquids(bbl/d)	**7,574**
Asia Pacific Gas (mcf/d)	**0**
Company Total Oil and Liquids (bbl/d)	**223,401**
Company Total Dry Gas (mcf/d)	**510**
Total Upstream Production (boe/d)	**308,404**
Financial Data	
Current NAV/Share ($/share)	**$31.30**
Corporate Earnings - Overhead - ($million)	**$(50.67)**
I & M Earnings ($ million)	**$75.90**
Operating Earnings - Upstream	**$415.31**
Operating Earnings - Downstream	**$133.52**
Operating cash flow - Upstream	**$997.12**
Operating cash flow - Downstream	**$228.32**
Total Earnings ($ million)	**$529.27**
EPS ($/share)	**$ 0.54**
Total Cash Flow ($ million)	**$1,289.12**
CFPS ($/share)	**$1.31**

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FY 2013 Estimates	
Net Volumes	**Consensus**
Heavy Oil, Including Tucker (bbl/d)	**121,391**
Western Canada Oil and Liquids (Excluding Heavy Oil and Oil Sands) (boe/d)	**53,326**
Western Canada Gas (Excluding Heavy Oil) (mcf/d)	**513**
Atlantic Region (bbl/d)	**44,917**
Asia Pacific Oil and Liquids(bbl/d)	**7,679**
Asia Pacific Gas (mcf/d)	**0**
Company Total Oil and Liquids (bbl/d)	**227,298**
Company Total Dry Gas (mcf/d)	**517**
Total Upstream Production (boe/d)	**307,427**
Financial Data	
Corporate Earnings - Overhead - ($million)	**-$196.07**
I & M Earnings ($ billion)	**$362.12**
Operating Earnings - Upstream	**$1,238.44**
Operating Earnings - Downstream	**$882.18**
Operating cash flow - Upstream	**$3,596.37**
Operating cash flow - Downstream	**$1,368.07**
Total Earnings ($ million)	**$2,182.90**
EPS ($/share)	**$2.22**
Total Cash Flow ($ million)	**$5,255.32**
CFPS ($/share)	**$5.32**

FY 2014 Estimates	
Net Volumes	**Consensus**
Heavy Oil, Including Tucker (bbl/d)	**126,856**
Western Canada Oil and Liquids (Excluding Heavy Oil and Oil Sands) (boe/d)	**54,511**
Western Canada Gas (Excluding Heavy Oil) (mcf/d)	**37,300**
Atlantic Region (bbl/d)	**46,990**
Asia Pacific Oil and Liquids(bbl/d)	**7,919**
Asia Pacific Gas (mcf/d)	**151**

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Company Total Oil and Liquids (bbl/d)	**236,197**
Company Total Dry Gas (mcf/d)	**632**
Total Upstream Production (boe/d)	**341,565**
Financial Data	
Corporate Earnings - Overhead - ($million)	**$ (174.39)**
I & M Earnings ($ million)	**$305.48**
Earnings - Upstream	**$1,841.99**
Earnings - Downstream	**$650.91**
Operating cash flow - Upstream	**$4,408.55**
Operating cash flow - Downstream	**$925.51**
Total Earnings ($ million)	**$2,218.34**
EPS ($/share)	**$2.43**
Total Cash Flow ($ million)	**$5,653.02**
CFPS ($/share)	**$5.77**

The second method, and more influential for management, that Husky uses to solicit information from financial market participants is through perception studies. These studies are primarily used to capture positive and negative market perceptions of Husky, its management and the IR team (A4). Participants surveyed include sell-side analysts, current shareholders, prospective and past investors and the media to provide as broad a view as possible. Husky uses an independent third party to conduct the study on a confidential basis, as those being surveyed are generally more comfortable speaking freely with a neutral third party when assured of anonymity. The results from the perception study provide Husky with a baseline for the current IR program and management effectiveness. The survey indicates improvement areas, with future perception studies evaluating effectiveness of IR program changes. Specifically, the perception study can be used to identify misconceptions, test assumptions and plan new initiatives. Husky conducted a perception study at each of its investor day events.[17] Feedback is gathered from the attendees, institutional investors who listened on the webcast and others who may have listened to the webcast through another channel that

[17] An example of the questions from Husky's 2013 perception study where feedback was solicited is in Appendix 7 – Sample Perception Study Conducted in 2013.

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the Husky IR team was unable to track, such as Bloomberg.

The detailed results of the perception survey were gathered, analysed and distributed to management outlining areas for improvement and areas that were resonating well with investors and sell-side analysts. The key takeaways from the survey are provided in Table 6-8. The results of these studies would influence future disclosure that Husky provided to the market participants.

Table 6-8: Key Takeaways from 2011 Perception Study (Source: internal company data)

- Overall, Husky's re-focused IR communication efforts have positively influenced the investors' view about the company.
- While Husky Energy's key messages scored in line with the key message recall benchmark, they scored much lower than the benchmark on credibility parameter.
- Overall, "Production Growth" was voted as Husky Energy's most important valuation driver.
- Husky Energy's near-term strengths were mainly identified as "Canadian Oil Assets/Heavy Oil" and the "Sunrise Project".
- "Execution Risk" and "Lack of Near-Term Growth" were identified as the two main threats to Husky's performance in the near term.
- The main components of Husky Energy's strategy which warrant further clarity are "Chinese Assets' Spin Off" and "Issue of Equity".
- The respondents outlined "Higher Level of Investor Outreach", "Better Timing of Quarterly Results' Releases" and "Communication of Growth Strategy" as ways by which Husky management team can improve its communications.

Taking the results of this perception study as shown in Table 6-8, the following email in Table 6-9 was sent to the senior management group by the SVP of Corporate Affairs. The email contains a few action items resulting from the comments of the perception study under the section: Opportunities for Continuous Improvement. This email clearly demonstrates that management has learned from the perception study (A4) and is acting on that information. Market participants have highlighted the information they are looking for, lack of short-term production and value catalysts, and Husky is going to fill that gap going forward.

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Table 6-9: Action email from perception study results (Source: internal company records)

Please find attached the results of a recent perception study commenting on the impact of the increased investor relations focus since July 2010.

Methodology
The results are obtained from a sample of 10 sell and 20 buy-side individuals, for a total of 30 responses. Some key points coming out of the study are as follows:

- The refocused IR efforts have positively influenced investors' perceptions about the company
- There is recognized significant improvement particularly relating to news releases, executive visibility and accessibility

Communications Progress
Survey participants rated the quality of Husky's revitalized communications approach as comparable or exceeding that of its peers.

The market generally views a company's most important communications medium as the quarterly press release. The restructuring of the quarterly news release last July was identified as a vast improvement ranking very effective from those who participated in the survey scoring a 5.36 out of 7 (scale of 1-7, with 1 being very ineffective and 7 very effective).

Other areas where we received acknowledgement for the changes to approach and strategy include the focus being brought to the analyst / investor one-on-one meetings, financial statements and annual information form. These strategies all received a strong rating of 5 or higher.

While none of our communications efforts was ranked below 4.41 out of 7 (neutral to positive ranking), we do plan to further improve investor outreach by enhancing the website, participating in a few more strategic conferences, and improving our preparation work to ensure senior managers are fully prepared to deliver key messages.

Opportunities for continuous improvement
- Continued disciplined approach to communications and consistency in telling the Husky story
  - Scheduled dry-runs and Q&A sessions prior to all conference presentations so as to support key message delivery.
  - More communications / message delivery training for key senior managers through 2012
- Strategic marketing / conference participation
  - While substantially increasing our participation compared to past years, there is an interest from the market to hear more from deeper in the organization. We are finalizing our 2012 calendar by high grading conferences and targeting markets where we can bolt on marketing to complement the conference to make the best use of your time. The draft calendar, with proposed participants, will soon be sent around so we are able to confirm attendance and participation - thus securing preferred time slots.

Key challenges still remaining
- Credibility of key messages for growth and demonstration of excellence through execution
- Lack of short-term production and value catalysts

As discussed above, management uses a wide variety of communication channels at a variety of times to gain information from market participants, whether around who the investors are (A1), the information they require (A2), how they will use the information (A3) or to learn about peers (A4). Based on how the information is obtained, there is varying degrees of richness in the information, whether because the respondent has ample time to provide information (perception study) or there is a combination of verbal and non-verbal communication (one-on-one meetings), and elements in-

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between. Management values this information for use in future communications with investors and sell-side analysts, but also for views around the strategic direction that the company is pursuing. To build on this value, it is important to understand the full informational extent generated and usefulness for management, which will be discussed in the next section.

6.4 Generation and use of information

With management's need for two-way communication established and sell-side analysts and institutional investors providing the richest information through a variety of tools, I now explore the types of information generated and how that information is utilized challenging the four assumptions. The greatest amount of information (A2, A3 and A4) generated comes through analyst research reports and the various two-way communication channels highlighted in the prior section with investors and sell-side analysts. Market participants, including sell-side analysts, sales teams and investment bankers, along with equity investors on the buy-side, are great resources for competitive information (A4) and useful third-party insight into the organization's performance and strategies relative to peers (A4). The commentary produced provides a different perspective of Husky than that found inside the company, and in relation to the competition or the industry. This different perspective is incorporated by the IR team into the disclosure disseminated in the future and management uses it to refine Husky's strategy but does not necessarily change it.

Just as the market is inundated with information about companies (Barker, *et al.*, 2012), helpful and less helpful, Husky has also become awash in information of varying degrees of usefulness from the multiple interactions with market participants. To help keep track of the information generated from one-on-one or group meetings with investors and sell-side analysts, all questions or themes from the conversations are captured in a database maintained by the IR team. Additionally, all analyst reports on Husky, major industry studies, perception studies and feedback gathered from various marketing trips are also retained by the IR team for future reference. The team is tasked with maintaining and understanding the market's view on major issues at Husky, its peers and in the industry based on all the input channels and consolidating this feedback for

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management. Two examples of tracking comments from a conversation were shown previously in Table 6-5 above.

In looking at the two examples in Table 6-5, taken only one month apart, the focus and depth of questioning is apparent between the sell-side analyst and the portfolio manager. The sell-side analyst is clearly looking for information (A2) to put in their model and produce metrics that can be placed into their research reports. The questions are tactical and operational rather than strategic in focus. Questions from the analyst are also of a nearer-term focus. Compared to the portfolio manager's questions, there is a clear difference, as the portfolio manager's questions can be viewed as more strategic, attempting to gain a deeper understanding of where the company is going over the next few years (A3). Their questions also take a longer-term view of the company. Between these two examples, management can be prepared with the relevant focus and depth of questions that are likely to come from each participant the next time management meets and compared with the other times that management has met with them over the past three years. By tracking all the questions and topics covered in meetings, the IR team can identify themes in the questions market participants are asking. If management knew what information investors required (A2), there would be no need to track conversations and determine where there are consistent gaps in the information presented to investors or analysts.

Each quarter, the IR team references this database of interactions to obtain a sense of the areas of confusion or concern from the various market participants to help prepare new messaging for management interactions with the markets. The top anticipated questions for a meeting with investors are based on the IR team perspective, industry focus and the volume and emphasis of recent investor questions received by the IR team, (A2) prior to going to meet with investors in that market. The questions are anticipated, because the IR team and management are never certain where any line of questioning may go in any specific meeting (A2 and A3). The example below in Table 6-10 highlights a broad set of anticipated questions developed by the investor relations team in advance of a roadshow trip to Toronto and Montreal in Q1 – 2012. The development of these questions is based completely on the questions that have been received from prior meetings or conversations, focus of industry sell-side research and

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anticipation of the questions management are likely to encounter based on the depth of information disclosed compared to peers. These anticipated questions are further supplemented by the type of questions usually asked by market participants when previously met with, which are retained in the IR database and placed into specific profiles for the meetings as shown in Appendix 8 – Sample Investor Meeting Profile. From the list of questions below, you will see a balance of financial, strategic and operational type questions across all facets of Husky's business to help prepare management for most interactions with investors and analysts.

Table 6-10: Toronto-Montreal Marketing: Top Anticipated Questions (Source: internal company report)

Finance / Strategy

- When will your principal shareholder begin taking their dividends as cash again?
- Please tell me about your recent bond issue?
- After you payback the maturing debt, what are you plans for the surplus funds?
- Do you have plans for any major acquisitions?
- Do you think that the principal shareholder would take the company private?
- Or do you think they would sell their interest?

Oil Sands

- Are you worried about inflationary pressures?
- Please provide an update on Sunrise (oil sands development project)
- Please provide an update on Tucker (oil sands project)
- Why do you think that an SOR (steam oil ratio) of 3.0 is realistic at Sunrise?

Atlantic Canada

- Why are you performing the off station(s) this year?
- Please tell me about Greenland (exploration acreage)
- What have you learned at Mizzen? (offshore Canada new discovery)
- What is the status of the fixed well head platform? (new development infrastructure)
- Why is the Atlantic Region considered a growth platform?
- What exploration is planned for the Atlantic Region in 2012?
- How are we going to monetize the gas at White Rose? (oil and gas field)
- What is the cost of the off stations? (offshore production facility maintenance)
- What are the biggest risks faced with the off stations?
- What are your White Rose (oil and gas field) tie-back opportunities?

Asia Pacific

- What is the status of Liwan? (gas field in South China Sea)
- How is the PSC (production sharing contract) structured?

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- What is the price you will receive from your Liwan production? Madura (Offshore Indonesia gas field)?
- Are you still considering spinning this business off or an Asia listing?

Western Canada

- What is the status of the JV (joint venture) at Ansell (gas field)?
- Will you proceed if a partner is not found (for Ansell)?
- Why do you plan on keeping production relatively flat?
- How will you achieve this given the decline rates?
- Do you plan on shutting-in any material volumes of dry gas?
- What are your plans this year for the Northwest Territories? (exploration acreage)
- Would you consider acquisitions to increase landholdings?

Heavy Oil

- Why do you plan on keeping production relatively flat?
- How will you achieve this given the decline rates?
- Status of Pikes Peak South and Paradise Hill thermal projects? (oil fields)
- How can netbacks be improved in this area?

Midstream / Downstream

- What is Husky's stance of Keystone XL? (a pipeline from Canada to the US)
- What impact will the Seaway reversal (pipeline) have on prices at Lima? (Husky owned refinery)
- What do you think will happen with differentials in the near-term, mid-term, longer-term?
- Are you planning on adding any more refineries or considering selling off this piece of the business?

In interviewing both the IR and senior management teams, there were a number of different themes that emerged from the information generated by two-way communication. While both party's perspective contained the market's view on the company's strategy and performance, there were some differences that IR and management separately pulled out of the feedback. Summarized from interviews of management and IR, Table 6-11 highlights that from an investor relations perspective, the IR team takes information around how the investor would manage the company differently or take different strategic decisions than management (A3), activist agendas and general investment trends. From management's perspective, they focus more on gaining competitive information (A4) on peers and information on individual performance. As an example, there are two main strategies for oil and gas companies in Canada, one strategy focused on exploring and producing (E&P) the resource and a second that takes the produced resource and refines it into end-use products such as

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gasoline, diesel and jet fuel (integrated). Husky has taken the integrated approach. Management is always keen to understand how market participants view the value of their integrated approach compared to other integrated companies and compared to those companies that have only focused on E&P strategies. The same can be said for the choice of geographic location Husky operates in or the main hydrocarbon (oil versus natural gas) that Husky seeks to find compared to similar peers.

Table 6-11: Types of feedback generated from two-way communication (Source: Interviews)

Investor Relations	Senior Management
• How the investor would manage the company • Feedback on investing trends and Husky's fit • Lack of clarity or detail in company strategy, operations or financial details • Market sentiment about Husky • Frequency of repeated feedback by different participants • Market expectations, particularly the analyst quarterly survey in Table 6-7 • Understanding activist agendas • What the market liked and did not like about the company	• Better understanding of the market view of Husky • Identify information gaps • Understand how competitors and their strategies are viewed by the market • Feedback on Husky's strategy or overall performance • Through share activity, you can see how investors are responding to the messages • Information on individual management performance • Challenges frankness of internal feedback mechanisms

In the interviews, both management and the IR team outlined how they placed different weight on the feedback depending on who provided the commentary. This was true for feedback from both sell-side analysts and investors. On the sell-side, not all analysts are deemed equal and views from certain analysts were treated with a higher level of credibility than other analysts. This difference in view typically depended on the analyst's perceived level of understanding of both the company and the industry, plus the financial institution that they represented. In personal conversations with investors, it was clear that they have varying views on the quality of sell-side analysts and banks. Analysts from the largest Canadian banks typically held the most sway with management and investors. Regarding investors, those with the most influence are usually those with larger positions in Husky, but also those representing large institutional investors even though they might not hold a large position in Husky. Husky also found that there are some investors that do not necessarily fall into either category

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but are well respected in the financial community and considered by management and other investors as thought leaders in the energy industry. Through conversations with investors, it can become clear that a specific investor may hold a much larger share position than originally thought and the weight of that investor's opinion is increased. Husky will then make a greater effort to see that investor on a more regular basis (A1). As an example, a Toronto based investor that was believed to hold less than two million shares, informed management that it held close to 12 million shares. Previously the company would try to see the investor at least annually, but now made sure to reach out to that investor every time they were in Toronto, usually three to four times a year.

Both management and IR said that the feedback obtained was used primarily for the shaping of future communication to the market. If there was any confusion around the messaging or lack of clarity in the messaging (A3), the feedback would be incorporated into all types of future communications including press releases, conference calls, presentations and meetings. The feedback would also be used to help refine strategy, but it was never used to adjust strategy. As an example, in late-2010 and 2011, there was a substantial amount of strong feedback received from some investors around the downstream (refining) business, specifically that Husky should sell this business and focus only on the E&P business. At that time, oil prices were in the US$80 to US$100 per barrel range and upstream was extremely profitable, the downstream business less so. Yet 2012 and 2013 were two record years for downstream profitability. Management highlighted in future communications that they were glad they ignored this short-term focused feedback and retained downstream for the benefit of shareholders, as the company would have been worse off had it listened. When new investors or shareholdings were identified (A1), this information was also gathered to refine the class and scale of investors holding Husky shares. With this information, the IR team would target new investors that held a similar investment philosophy for a greater chance to convert the investors into purchasing Husky shares.

6.5 Most effective forms and evaluation of communication

Management's time is highly valued and focused on the most productive activities providing the greatest utility to management and the firm. When it comes to

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communication, the value is evaluated, and effort is focused on the four most effective activities in management's view, the focus of this section. From the interviews, one-on-one meetings are seen by management as the most effective form of communication. As repeated from one of Husky's business unit heads in the interview, "*I think overall I would just say nothing beats one-on-one communication. The ability in those interactions to tailor the message to the audience and instantly react to feedback*." This same executive likens one-way communications to an "*avalanche*" of information hitting the desks of investors and sell-side analysts, where they become buried under all the published information. This business unit head believes that "*the meetings allow the nuances of the information to come to the forefront of the discussion, so the important aspects are more likely captured*". The CFO differentiated the messaging initiatives into two different categories. "*Non-contentious messages should go through press releases and conference calls as it provides the market an opportunity to ask questions immediately of the management. For strategic/contentious issues, then an investor day presentation. For regular ongoing items, the one-on-one meetings are the best form of communications.*" This helps establish that different types of communication can have different purposes, as further described by an IR team member, "*press releases provide clarity, detail and transparency. Having one-on-one conversations allows the opportunity to see what the financial community is missing*."

It is believed by management and the IR team that the sell-side and investors have different periods of interest, with the sell-side having a shorter time horizon, essentially focused on the next quarter or next year at most. Having shorter time horizons also sees the sell-side analyst desire greater clarity of detail in the information provided and the masses of information contained in the one-way communications are often sufficient for modelling purposes. That said, there is a range of time horizons that investors hold, as different investors have different investment mandates. A growth or value investor will have a longer-term view than a momentum style investor and are more likely to accept ambiguity in the long-term strategic type information. One IR team member suggested that Husky was seeing a general trend where the investor is relying less on sell-side analysts and wants to hear directly from management for company plans, activities and risks. Both management and IR commented that the sell-side is looking for a different angle or trying to sell a story to investors, and therefore tries to obtain as much detail to

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strengthen that story about the company. These different time perspectives generate different needs for the type and accuracy of information (A2), along with how the piece of information may be used (A3). With the variety of conversations that take place, Husky is always trying to gauge the relevance of each information request.

Not all investors contact or interact with Husky directly but are willing to interact with sell-side analysts to maintain some anonymity (A1). In these situations, Husky uses the analyst as another communication channel to help provide the nuances of Husky's messaging to investors. So, while management may not spend a lot of time with sell-side analysts, IR will make sure the sell-side analysts understand the story and can effectively communicate it to investors in a reasonably unbiased fashion. This is the main reason that sell-side analyst research is thoroughly reviewed by the IR team to correct any inconsistencies and misunderstandings, which could then be passed along to investors (A2 and A3). This usually involves the IR team spending a substantial amount of time with the analyst prior to them initiating coverage on Husky and responding to analyst questions and queries as they come into the IR team.

As the CFO stated, "*The effectiveness (of communication) comes through building trust and credibility to get to understand management as an individual. It is important to coordinate messages with the market as contradictory messages will confuse the market*." This sentiment about coordinating the message was echoed by all in IR and the management team. Husky's perception is that confusing the market reduces its credibility and differing messages adds risk to the stock, reducing the valuation the market is willing to give the company. Further, as an IR team member states, "*a simple consistent message allows that message to more easily spread amongst the market participants*." There is also a concern among management that differing messages to the market may attract the attention of securities regulators, creating a potential drain on company resources that easily could have been avoided.

It was clear from the various company interviews, with management and the IR team, that share price was not an indicator of communication effectiveness, as that involves many factors outside of management's control. There are four main approaches to evaluating the quality of communication to the market. The first, is seeing Husky's

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intended messages repeated back in analyst reports, media articles and conversations with investors. After each quarter and other important events, sell-side analysts and media publish research reports or articles on the results and any new information. These reports and articles are reviewed by the IR team for two main reasons: to ensure factual accuracy and to see if the sell-side and media community understand and are repeating the messages that management desires (A3). Analysts and the media help push the story out to investors and the company wants to be certain that they are distributing the correct story and company assumptions. These reports are summarized for management and any changes to ratings or targets are highlighted, along with general themes and areas of concern. If errors are identified in the research reports or articles, the IR team follows-up with the individual sell-side analyst, and media relations with the reporters to correct the information and point out where additional information could be found. The greater the repeatability of the messages by external participants, the greater the success in the message communication. As mentioned above, the analyst research is scrutinized for accuracy and misunderstandings, but the research is also reviewed to see what messages the sell-side analysts are picking up and incorporating into their own story. As the analyst retells the message to investors, Husky gains feedback that the message or information provided has resonated with members of the financial market (A3). If all the analysts are repeating that message, then clearly that is an effective message.

While share price is not considered a good indicator of communication effectiveness, the second evaluation approach considers cash flow multiples of the stock compared to peers. The IR team believes that the financial market views Husky as a riskier stock and will not provide the same level of cash flow multiples as its peers. As Husky's communications become more effective, there would be greater understanding of the company, its management, assets and operations. This greater understanding or clarity would minimize the amount of risk or uncertainty around the company and the cash flow multiples would move closer to those of Husky's peers. As first shown back in Table 2-3 in Chapter 2, the gap between Husky and its peers began tightening from 2011 through to 2013 as the communication effort became substantially more focused on the market. Management and the IR team extrapolated that more effective

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communication was occurring with the financial market participants, resulting in closing the gap.

The third evaluation mechanism considers the spread of sell-side analyst quarterly estimate consensus compared to actual results. The belief is that the more effective the communication, the tighter the spread should become over time, as there a better understanding of Husky's business and less surprise. Figure 6-1 shows the consensus estimates from analysts moving closer together over time, highlighting that Husky's increased communication effort is translating into analysts more accurately being able to predict Husky's quarterly results. With reduced variability, the analysts also become more credible in the eyes of investors and are a more effective intermediary on behalf of Husky when speaking to the investment community.

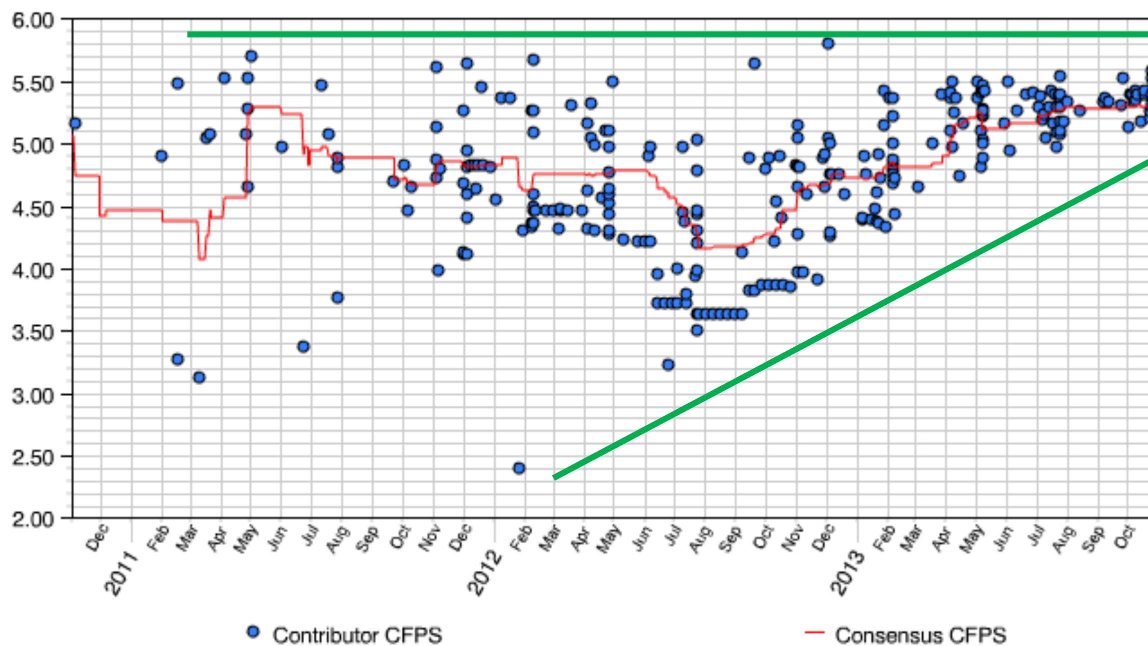

Figure 6-1: Variability of analyst annual cash flow per share estimates over time (Source: internal company report)

The final mechanism to evaluate communication effectiveness is the use of perception studies, as discussed in greater depth in Section 6.3, and collected through the survey as shown in Appendix 7 – Sample Perception Study Conducted in 2013. The perception study asks for direct feedback on Husky's strategies, management's messages and Husky's interactions with the market (A4). With the study conducted anonymously, management and the IR team believe that the opinions are candid and honest and

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provides insight into the type of information that the financial market is looking for. While the prior three mechanisms are more objective measures, the feedback gathered from the perception study is more subjective and open to personal bias based on who replies. Further, the other three measures use the basis of the population, either all investors or all sell-side analysts that cover Husky, while the perception study only accounts for a smaller group of each that actually participate in the study.

To help avoid confusion in the financial markets, Husky uses different mechanisms to ensure the coordination of messages to the market. The first is the overall communications group structure as illustrated in Appendix 1 – Corporate Organization Structure. This structure was devised to have all communication functions, except the treasury group, report into one senior vice-president, the SVP of Corporate Affairs. By having investor, media, government, aboriginal and employee relations sitting together and reporting together, the messages to all Husky's major stakeholder groups are more easily coordinated and therefore more consistent. From a financial market perspective, Husky has a corporate policy in place that only authorized individuals can speak to the market. These individuals include the IR team, treasury, all senior vice-presidents, the CEO, COO, CFO and any board of directors. No other individuals in the organization are allowed to communicate with market participants. As a matter of practice, for any interaction with the financial community, apart from the credit rating agencies, a member of the IR team is in attendance to ensure there are no deviations from the corporate messages and no selective disclosure of information.

6.6 Conclusion

While the literature tends to focus on one-way communication by management to the market, along with management being omniscient about the market's needs, the sections above clearly demonstrate that this is not the case. Bounded rationality is supported by the facts above that management does not always know who the investors are challenging A1, what information financial participants require challenging A2, how financial participants will use the information provided by the company challenging A3 and what management can learn from interactions with financial market participants challenging A4. Management gathers valuable information and feedback from various

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interactions with market participants by using a variety of two-way communication approaches. An examination of the different elements of the approach demonstrates a variety of information is gathered and that this information helps management understand the adaptive and continually changing nature of investors and is applied in future communications and company strategies.

To conduct the two-way communication, there is a variety of channels at Husky's disposal, from conference calls, post quarter analyst calls, one-on-one meetings, investor days, facility tours and direct feedback tools, such as a quarterly analyst survey and perception studies. The highest quality interaction and feedback generated is through face-to-face meetings and the perception study results. The quality of one-on-one meetings results from the richness of feedback obtained through verbal and non-verbal communication, with the candid, anonymous results gained through the perception studies.

In looking at the two-way communication methods of phone, email and in-person meetings, about half are conducted by phone and email and the other half are in-person meetings. What is interesting is that the sell-side analysts usually interact through the phone and email while the buy-side mainly interacts through in-person meetings. Management places higher value on the meetings with investors than with analysts, and in-person meetings are a greater use of management's time, therefore they wish to spend more time with investors.

Management uses several different mechanisms to help gauge the effectiveness of its communication, but stock price is explicitly avoided as a measure of communication. One-on-one meetings provide the most direct and immediate feedback to management and are seen as the most effective method of two-way communication to the market. To aid in the effectiveness of the communication, all messages to major stakeholder groups are coordinated and from a market perspective, the IR team is always involved in the communication, except with credit rating agencies.

Two-way communication is seen by management as the most effective form of communication with financial market participants. Management invests a considerable

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amount of time in conducting two-way communication to better understand the market and what investors are looking for. This helps overcome the complexity that management faces in understanding the market and overcoming the limitations of bounded rationality. Husky uses four different approaches to evaluate the effectiveness of communication, including repeating messages, cash flow multiples compared to peers, variability of analyst estimates and perception study results.

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7 Trust and Reputation

7.1 Introduction

In January 2012, a sell-side analyst new to covering the Husky story initiated his coverage with a report entitled "Too soon to play transformational theme" (Skolnick, 2012). This initiation report highlights the beginning of a shifting market sentiment around Husky towards the positive. Supporting this overarching theme is the statement "*there are signs that HSE (Husky) is improving on its history of disappointment and lack of excitement … visible results post strategic changes can take years*." Further in the report, there is a section titled "*Has/Can the Company improve on…?*" with the following sub-sections:

> "A) History of missing guidance? *On average Husky has exhibited the worst record since 2004 of meeting production guidance amongst the Canadian Senior E&Ps (exploration and production)."*
> B) History of below-average production growth? *Husky has delivered some of the lowest production growth over the past three years."*
> C) Overcome its mishap at Tucker? *Higher than assumed steam oil ratio*[18]*, a lower than assumed oil production rate, a lower than assumed oil production rate per well, a slower than assumed reservoir response to the steam and an incorrect assumption that the Tucker reservoir will perform like other oil sands reservoirs."*
> E)[19] Prove itself on Sunrise? *We believe risk around Sunrise is that Husky is not giving itself room for error."*
> F) Improve on its below-average reserve replacement results going forward? *In 2010 and over the last three years Husky's reserve replacement results have been largely below average (*of its Canadian peers)."
> G) Improve on its ROE (return on equity) and ROCE (return on capital employed) results vs. peers? *We do see visible improvements here. In 2011 Husky delivered a below-average ROE."*

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[18] Steam oil ratio – is the ratio of steam injected into a heavy oil reservoir to heat the reservoir and aid in extracting a barrel of oil. It is a commonplace production technique in the oil sands of Northern Alberta.
[19] Sub-section D was skipped in the report

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It is clear from the analyst's statements above that prior to the study period beginning in 2011, Husky repeatedly missed multiple expectations held by the market and faced credibility issues from a sell-side perspective. It doesn't take much to infer that investors probably also had little trust in the validity or accuracy of management's forward-looking statements. This example begins to demonstrate the link between trust (beliefs about possible future improvements) and reputation (a history of meeting or missing expectations) within the financial markets. This link between trust and reputation was identified by (Dasgupta, 2000) "*trust is linked with reputation, and reputation has to be acquired*."

So, what are reputation and trust and how do they relate to each other? First, a definition of each. Reputation "*refers to the position one occupies or the standing that one has in the opinion of others, in respect to attainments, integrity, and the like: a fine reputation; a reputation for honesty*" (Dictionary.com, 2017). Defining trust isn't as easy, as various academic fields view trust differently (Blomqvist, 1997). For this chapter, I use the commonly accepted definition provided by Bottazzi et al. (2011), "*the subjective probability with which an agent assesses that another agent or group of agents will perform a particular action*." From the two definitions, reputation appears to be a culmination of past actions, while trust is the probability of performing future actions. An analogy may be helpful to highlight the link between the two. If I use a bank account, reputation can be considered the balance held in the account, a history of all the deposits and withdrawals that led to that balance. If the future performance of the account is consistent with a positive expectation, or inconsistent with a negative expectation, this would add to the reputational balance. The inverse situations would remove from the reputational balance. You can see how the deposits and withdrawals relate to the end balance at any point in time.

If I now jump to December 2013, Husky issued a press release on its capital plans for 2014 along with certain performance guidance for 2014. This press release was well received by the sell-side community. Below are direct quotes from multiple sell-side analyst reports published because of the guidance press release. I have added bolding and underlining to the key commentary.

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Raymond James *Headline: 2014 Budget Provides Hints at Longer-Term Growth Plans* Commentary*: We believe there is a lot to like with the Husky story right now. The company has made solid progress at renewing its Western Canadian production base, stabilizing declines in the base assets while adding new and compelling growth opportunities. Furthermore, the execution issues of the past now appear to be exactly that – a thing of the past.*

BAML *Headline: Upgrading to Buy; Breaking out in 2014*
Commentary*: 2014 catalysts are piling up, providing near-term momentum. We are upgrading Husky to Buy. Outperformance of small thermal projects, evolving unconventional development, recent East Coast discoveries, a fully-funded 4.0% yield and potential for dividend growth in 2015 round out our upgrade rationale.*

RBC Capital Markets *Headline: 2014 Budget – Liwan on Deck*
Commentary*: Husky continues to make sure and steady progress with its major growth initiatives. In our view, successful execution remains the driving force behind Husky's transition from a yield to a yield + growth model.*

Macquarie *Headline: Growth Transition confirmed with 2014 budget*
Commentary*: Husky remains our top large-cap Canadian energy pick. The company's North American integration (heavy upgrader, US refining) largely shelters the company from volatile Canadian light and heavy crude differentials.*

BMO Capital Markets *Headline: 2014 Production* *Guidance Above Expectations Along with Spending*
Commentary*: First production from Liwan early in 2014 should help ameliorate investor concern regarding execution risk and cost control of the large-scale project.*

Peters & Co. *Headline: Liwan Boosts Growth Profile; WCSB Natural Gas Production Continues to Decline*
Commentary*: Husky continues to rank well in the Large Caps and compared to many of the higher dividend paying E & P companies in our coverage universe from*

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an overall sustainability perspective. The company will still need to demonstrate that it can execute on some of the larger projects it is working on in order for us to gain further confidence in the outlook.

The headlines and tone of commentary are markedly different from that presented at the start of this chapter. There is a clear shift from the prior negative sentiment to a more positive view of the firm, highlighting the continuing transition in trust and reputation of the firm and management's ability. Listed below are contrasting headlines following Husky's release in early 2010 of the 2009 fourth quarter results, a list of negative views on the company. These headlines of only four years earlier, took place just prior to the CEO change and the study period:

BMO: Q4 results Below Consensus
Canaccord: Reports Disappointing Fourth Quarter Results
Credit Suisse: Trimming target and estimates on Q409 results
Macquarie: 4Q09 results uninspiring
BAML: Weak 4Q09 results
Peters & Co: North Amethyst Volumes Delayed to Q2 2010
UBS: Downstream Squeezes Q4 Results

In the span of four years, from 2010 to the end of 2013, Husky completely shifted its reputation from one that was lacklustre at best to considerably more positive. In the remainder of this chapter, I delve deeper into the conscious actions that management undertook to help shift the perception of the financial community from a negative reputation and mistrust around future actions towards a more positive reputation and greater trust in the firm and management. Improved expectation setting, and related actions and disclosure were the deposits that increased the bank account balance (reputation) gradually over the period.

The neoclassical economic view focuses entirely on rationality, not allowing any opportunity for emotions to play a part. While mainstream game theory has produced models of reputation in repeated games, such models assume perfect rationality on the part of all players, and remove any role for emotions and character (Taffler et al., 2017).

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This view doesn't allow for good or bad people, only those that want to maximize their personal interest. Later in this chapter, I will discuss some emotional trust elements and their impact. When it comes to trust, emotion is a key constituent in the decisions made by the participants involved. I believe that trust and reputation are a set of signals that adjust an investor's view of a firm's value. As the investor's trust in, or view of, a firm's reputation shifts, the investor's view of the firm's value will shift accordingly.

A proxy for the shift of view in the value of a firm can be seen through sell-side analyst ratings of the firm. As the view shifts to more buy ratings, this can be interpreted as a positive view of the firm's value, and the inverse with more sell ratings. Looking specifically at Husky, in the last 12 months of the study period there was a sizeable shift in the sell-side rating view of the stock as shown in Figure 7-1, as the average rating improved from between hold and sell (3.1-3.2) towards buy (2.5-2.6). This shift in positive views of the firm helps demonstrate the impact positive actions have on the firm, even as the share price held reasonably constant over the two-year window.

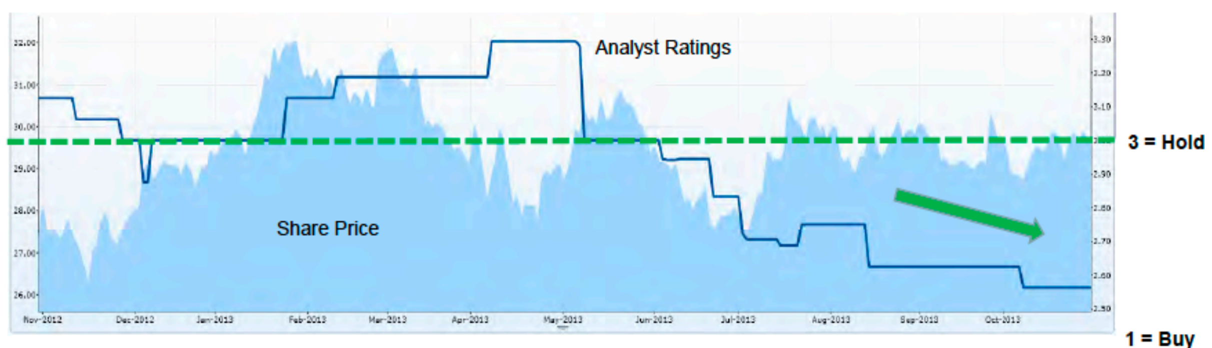

Figure 7-1: Average analyst ratings of Husky stock between November 2012 and November 2013 (Source: internal company report)

In exploring reputational improvement and trust focus by management actions in the remainder of this chapter, I will first consider the different types and bases of trust, and how management focused on enhancing each of these with a variety of actions. Once management understands what is required to shift the state of trust of market participants, it then needs to build relationships with market participants and engage the IR team to own the relationship with minority investors to continue building this relationship and the various activities used to help prioritize and improve the

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relationships. This shifting trust and reputation further challenges the neoclassical view of the market and that all participants have perfect information about the market.

The responses in Section 7.2 and Section 7.3 are responses to questions asked in the interviews of Husky management and its IR team, and outlined in Appendix 5 – Interview questions for IR, Management, Sell-side, Buy-side. Not all responses to a specific question were included, as I selected those responses which appeared to be the clearest or most informative for this discussion.

7.2 Trust and reputation

As mentioned above, there is a link between trust and reputation that is mostly differentiated by a time dimension. Reputation is a compilation of past performances as the evidence either against or for prior trust expectations, while trust looks ahead to set and adjust future expectations to perform against. A reputation for meeting (missing) expectations increases (decreases) trust, adjusting the market's beliefs about management.

Additionally, there are two other links that impact trust, relationships and setting new commitments. Like reputation, there is a feedback loop between trust and relationships. The details of the interactions between trust and relationships will be discussed later in section 7.3.

We can regard trust as a set of beliefs that external investors form about the firm's competence and integrity. An evolving reputation is a significant factor that will cause investors to revise their beliefs about the firm. Based on this significance, it is important to understand what causes investors to revise their beliefs. For example, the delivery of a new oil field, on time and on budget, serves to increase investors' trust in the competence of the firm. The announcement that a specific project is not going well potentially has two reputation effects. The firm's reputation for competence may decrease, but the firm's reputation for honesty may increase.

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The links between reputation, new commitments and relationships together with trust are shown in Figure 7-2 below. There is a general feedback loop between trust and reputation and trust and relationships. New commitments are fed into the trust loop which then serve to enhance both reputation and relationships.

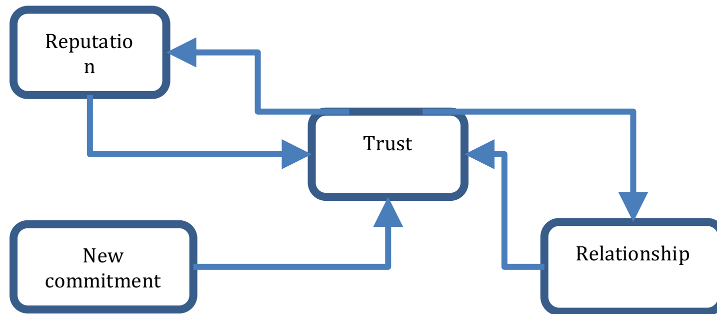

Figure 7-2: The interaction between trust, relationships and new commitments

These feedback loops can be shown separately for the type of trust and the basis of trust that they fall in, as highlighted in Figure 7-3 below. The types of trust are formed around capability or competence, or around integrity, which will be described in more detail in section 7.2.1. The basis of trust will be formed either cognitively (rationally), or affectively (emotionally) and will be described in more detail in section 7.2.2. The relationship elements will be described in more detail in Section 7.3.

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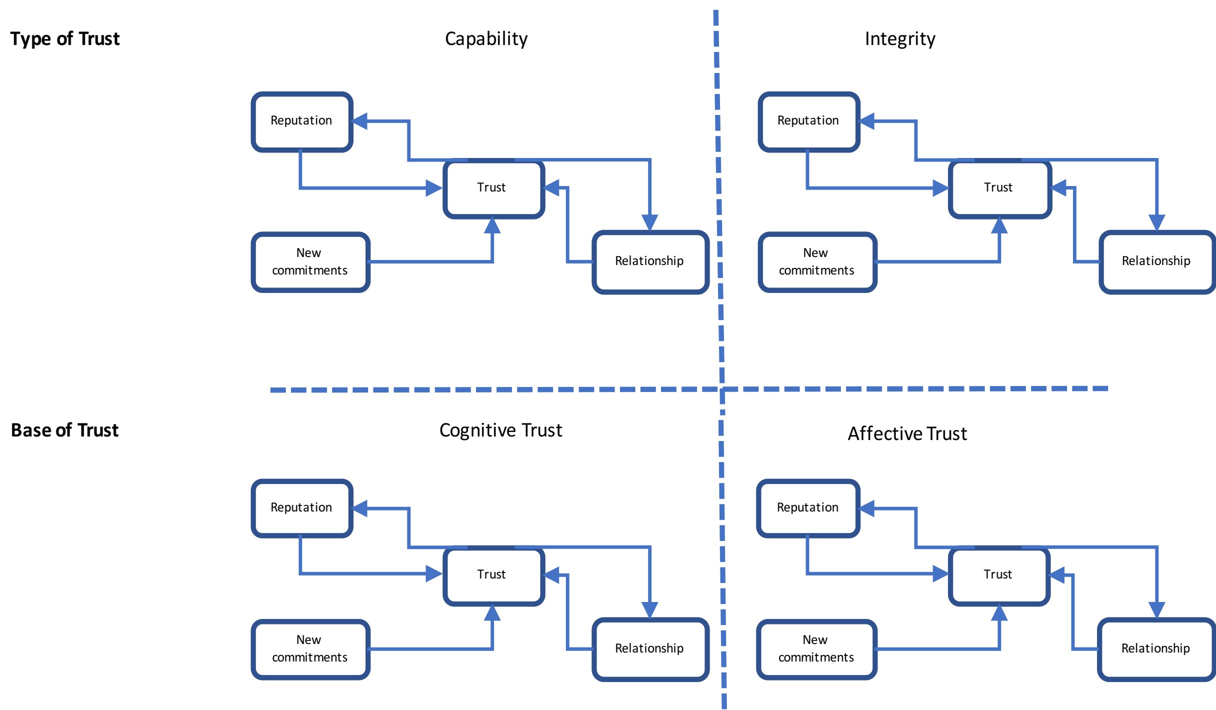

Figure 7-3: The trust relationships shown for bases and types of trust

To help improve the firm's reputation with the financial market, one approach is for management to increase the market's trust in management along one of the three paths explained below. Based on the links shown in Figure 7-2, there are three main ways that management can increase trust, each has its own inherent costs built in:

1. Signalling reliability and capability by building a reputation over time for delivering on expectations. The concerning conceptual issue here is why should investors believe that good behaviour in the past increases probability of good behaviour in the future? There must be a cost to damaging your reputation.

2. Other forms of signalling behaviour that establish new and valued commitments, including new forms of voluntary disclosure or legally binding and enforceable contracts. Trust will be increased if the commitments are met, and there should be a cost of not meeting the commitments that are established.

3. Building and strengthening relationships directly with investors or with those that investors already trust and rely on. The strength of a relationship is based on the willingness to undertake actions for others at a cost to yourself.

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As part of the interviews conducted, both management and the IR team were asked to define a good reputation, demonstrating links between increasing trust and reputation identified above. A selection of the responses received is listed below:

"Good reputation is being open and transparent with the information, whether it's good or bad, and on a timely basis. If you deliver against your commitments, and you're available to meet with them." – Chief Financial Officer

"A reputation of management that delivers on what it promises" – Chief Operating Officer

"Making predictable decent returns against the peer group. Being open to a conversation that gives the market information so that within the rules of disclosure they get some good insight so that they are less likely to get big operational surprises. Accessibility of senior management allows the people to talk to, that all helps the company's reputation. Answering questions quickly in your IR group." – Business division head

"Having a good reputation in the market would be similar to having a lot of credibility. When we set targets for ourselves the market genuinely expects that we will deliver on those targets." – Treasurer

"A good reputation company is one that does what it says it is going to do and does it with a high degree of integrity." – IR team member

"A good reputation is where the company gets the benefit of the doubt. The market still handles negative news in that the company is doing what will be best for the shareholders in the long run." – IR team member

"You have to be able to trust what the company tells you." – IR team member

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"The reputable company has a disciplined strategy, continues to execute on what they say they want to execute on, that has continuous strategic acquisitions, and there are not a lot of surprises. It gives the impression that the management team is effectively accountable to shareholders." – IR team member

Out of these quotes, some consistent messages are apparent. The first is Husky needs to deliver (evidence for reputation) on what it has promised (trust expectations) to shareholders. It can't miss the expectations that have been set in the market. A second message that comes through is accessibility. It is difficult to have a good reputation if management is not accessible to the market to help explain the evidence of past actions (reputation) or put the appropriate context on future expectations (trust). Another theme that comes through is a need to be transparent or honest about what is going on (reputational evidence) with the company. These and other items will be explored further throughout this section.

The introduction to this chapter highlighted the improving view of Husky that sell-side analysts held through the study period, which I believe can be translated into reputation and trust. When management and the IR team were asked about the firm's reputation, there was a consistent response that Husky's reputation before 2010 was very poor and improved through the study period. The company was certainly aware of the reputation held by the financial markets based on the firm's history and understood the reasons why this reputation existed as demonstrated in the interview quotes below:

"Husky's reputation before 2010 was very poor, not just poor, it was negative. We essentially had to shut down the IR program because it was no point. We didn't have a strong message to go to the market. We had complete uncertainty with our CEO transition. Whenever the CEO did go out, it was a very negative impression of the company. We were unwilling to acknowledge what everybody knew about our projects." - Chief Financial Officer

"*Reputations are coloured by delivery, but delivery is coloured by what you've set out to deliver. In the case of the previous CEO, targets tended to be quite fuzzy and they were fluid. So, it wasn't that we missed many targets. It's just that people*

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didn't know what the targets were, and then they didn't really understand how to measure us against those targets as well. We had a large offshore field in decline and were not clearly forecasting that with the market as well." – Chief Operating Officer

"*I wasn't a member of Husky at that time, but I was in the industry and worked a lot with Husky. I would say that under the previous CEO, the reputation that Husky had in the industry, not the market, was one of a very inwardly focused company, not particularly reliable in terms of providing clarity of direction, even the internal environment was on the abusive side, people being expected to do what they were told and not really have much input beyond that. Now that I'm here, I realize it was even worse that I thought it was.*" – Business division head

"I*n 2009, the market didn't understand the strategy. We didn't have any performance targets. We weren't reporting against targets or results to be held accountable. We had a terrible IR reputation as compared to where we are today. If that too is an input to company reputation, it was lost opportunity*." – Corporate Affairs head

"Prior to 2010, Husky's reputation was poor." - Treasurer

"Prior to 2010 we had seven years of missing guidance which created a cash flow trading multiple two times below that of our integrated peer group." – IR team member

"Prior to 2010 our reputation was not positive. Husky was barely talked about and we were not out talking to the market." – IR team member

There was a strong internal awareness around the company's reputation in the financial market. From the above, Husky was not meeting expectations that were not clearly set (the evidence) and it was difficult to judge Husky on the expectations, as they were not clearly established, making it difficult for the market to know what to expect (trust). Husky also wasn't accessible to the market or providing clarity to the market,

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exacerbating an already poor reputation. This inaccessibility created a lack of transparency around why the firm was missing expectations (explain the evidence) or how (trust) it was rectifying those missed expectations.

With the change in CEO in mid-2010, the new CEO re-focused efforts on repairing Husky's reputation and trust with the market. The CEO believed that Husky's poor reputation and lack of trust was partly responsible for holding back the firm's valuation. One early action was the search for a new head of IR with considerable market experience, culminating in my hiring in October 2010. The prior head of IR didn't have a background in IR and wasn't allowed to implement most IR activities under the previous CEO. As the CFO stated above, "*we essentially had to shut down the IR program*," until the new CEO arrived. A change in IR leadership helped revitalize the IR program, both internally and externally. This revitalization had the full support of the executive team.

> *"In 2013, we were completely different. Now we are engaged with the market, we have credibility, we've delivered. We set out clear targets, were delivering against most of them, and explaining why we are not delivering against the rest. We're accessible, we're helpful. We broadened out the team* (management team that interfaces with the market) *and the market likes to see that it's more than the CEO."* – Chief Financial Officer

> *"We set out a very deliberate pattern of setting out clear objectives in the near-term and then achieving them. So, I would actually say that, well, we were able to rebuild credibility with the market over a four-year period. The first two years of that was actually almost – probably in the initial couple of years that was almost to take it on the chin and probably initially go in a downward path with credibility with the market before we could actually get all that behind us and then start building on that in a very deliberate way*." – Chief Operating Officer

> *"It's* (reputation) *been fundamentally changed, but it's coming up five years now. The CEO wants cooperation. He wants one Husky, communicating with the market,*

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communicating with stakeholders. It's a broader expectation than it used to be, so the reputation then to now is night and day" – Business division head

"From 2010 onwards, it's been 10 consecutive quarters of meeting or beating expectations. The trading multiple difference from our peers got close to zero at the beginning of 2013." - IR team member

"After 2010, we became more transparent and finally told the market what went wrong with some issues. The market views management as changed to be a lot more transparent, a lot more out there, a lot more willing to communicate with the market, and value any opinion of the market a lot more." - IR team member

Through the revitalization efforts, it was felt internally that the reputation and market trust had improved materially, and this was also seen in the analyst reports and recommendations. As mentioned in the quotes above, setting clear targets or expectations (improved trust) and consistently meeting those targets (evidence for reputation) were a significant factor in re-establishing the lost trust and negative reputation of the firm. Another key element was being more transparent about past failures of the business and rectifying those failures going forward. Eccles and Mavrinac (1995) also show that increased credibility is the highest result of increased disclosure by management. Other factors involved in this change are being more accessible to market participants and disclosing more information to the market as further elaborated in Section 7.2.2.

In all the interviews conducted, a common theme arose around execution, or delivering (providing the evidence) on the expectations put forward (trust beliefs). Initially, management was not meeting expectations leading to poor reputation, and then meeting expectations during the study period, aiding greatly in improving reputation. Any forward-looking statements were scrutinized by management and the IR team prior to being publicly disseminated. Management was very careful to only place a target or expectation in the public domain that they had a very high probability of meeting. If there was too much uncertainty around meeting the expectation, any forward-looking information around that wouldn't be included. Slowly, over the study

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period, the number of expectations or forward-looking information placed in the public domain increased as an attempt to improve the overall trust in management.

In the remainder of this section, I will take a closer look at the actions that management undertook through the three-year study period to improve trust, with the aim of increasing the reputation of the firm and management in the eyes of the financial market as perceived by management. In Section 7.2.1, I will discuss the two types of trust – competence and intentional – that management focused on to try to build trust with the market. In Section 7.2.2, I will then look at the bases of rational and emotional trust, which helped improve the market's view of Husky.

7.2.1 Types of trust

Nooteboom (2006) identifies two different forms or types of trust, competence and intentional:

> *Competence trust refers to technical, cognitive, and communicative competencies. On the firm level it includes technological, innovative, commercial, organizational and managerial competence. Intentional trust refers to the intentions of a partner towards the relationship, particularly in the presence of opportunism.*

We can take the term competence and interchange it with ability or capability, which I will use for the remainder of this section. Also, I can take the term intentional trust and switch it with integrity. Again, I will use the term integrity through the remainder of this chapter. Interchanging these terms, helps connect the Nooteboom (2006) definition with two Mayer et al. (1995) elements for organizational trust, that being ability and integrity, and build on these elements as outlined in Mayer et al. (1995). First, I will go into a more detailed explanation, with examples, for capability and then move to integrity.

Husky focused on building all five characteristics of capability (Nooteboom, 2006) for the organization: technological, innovative, commercial, organizational and managerial,. Taking the first characteristic – technological – Husky was faced with a major project failure at its Tucker Lake oil sands project, generating a poor reputation, as mentioned

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in the report from Skolnick (2012). Management needed to shift market belief that Husky's second oil sand project was different and wouldn't experience the same problems and was going to perform to new expectations (improve the trust in management). The first action was to bring in an experienced and proven oil sands executive in the fall of 2010 and create a separate oil sands division to move the project forward (producing evidence to improve reputation). This recently appointed executive was included in marketing trips to investors and played a prominent role at Husky's first investor day in 2010. Messages were established about what was going to be different to shift beliefs, particularly around proximity to other successful oil sands projects by competent peers and determining reservoir quality.

Moving to innovative capability, the management team used Husky's Heavy Oil business in Western Canada to demonstrate innovation. Husky has a substantial position in Canada's heavy oil area in central Alberta and Saskatchewan. Up to 2011, Husky's Heavy Oil business was viewed as tired and no longer profitable by the market. At this point, Husky didn't have a significant reputation in the financial market as an innovator. Leveraging internal and industry experience from the oil sands in northern Alberta, Husky applied this project experience and eliminated many of the pitfalls of those massive projects and their associated cost overruns and underperformance, scaling down the heavy oil projects. In the oil sands, the project sizes are typically 30,000 barrels per day and larger, costing billions of dollars and taking years to develop. By moving the technology to the heavy oil area, Husky scaled the projects down to 5,000 or 10,000 barrels per day, taking the project from concept to completion in months instead of years and having the projects meet both schedule and budget. Additionally, the projects have all outperformed initial expectations for production levels, operating costs and volume of opportunities available. In 2012, Husky hosted an investor tour focused on these new projects and what they meant for the company. While Husky didn't set out to intentionally build trust as an innovator, these actions indirectly built trust and enhanced its reputation as an innovator in heavy oil thermal projects.

Commercial capability was demonstrated to the market through new natural gas projects in the Asia Pacific region, complementing a prior reputation for being commercially astute and counter-cyclical to industry trends. Natural gas prices in

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Western Canada were approximately $8 per gigajoule (GJ) in 2008. Between 2011 and 2013, both the North American price and supply became volatile, with this price dropping to $2-3 per GJ, losing upwards of 75 percent of its value. During this time, Husky was moving forward with two significant gas projects in the Asia Pacific region, further evidence to support its commercial capability reputation. Both projects had fixed gas prices, with the larger of the two (Liwan, offshore China) having a fixed price of approximately $14 per GJ or seven times greater than what Husky was receiving for gas in North America. The second project was in Indonesia and had fixed gas prices of approximately $9 per GJ or three to four times the North American price. The market didn't understand how the gas sales worked in these countries or appreciate the price Husky was likely to achieve for the natural gas, so significant effort was put into explaining how these agreements worked to provide the market with the confidence or increased trust that the substantial cash flow would be realized.

Organizational capability was shown to the market through consistent quarterly production levels through the study period. As Skolnick (2012) pointed out, Husky had a history of missing production guidance for seven years, creating a poor reputation of organizational capability. As stated in one of the quotes earlier, "*From 2010 onwards it's been 10 consecutive quarters of meeting or beating expectations.*" This is two and half years of consistent organizational performance coming together to meet the expectations put forward to the market, reflecting on the whole organization.

Lastly, there is management capability and its improvement at Husky. Prior to the study period, Husky had a management reputation focused only around the then-CEO. As mentioned in an earlier CFO quote, "*We broadened out the team and the market likes to see that it's more than the CEO.*" Husky hired three new divisional heads within eight months of the new CEO coming in. Two of these were for new divisions, with the third filling a vacancy in Husky's largest division. The new management team wanted to increase the market's trust in Husky's organizational capability by shifting the view away from just the CEO and getting the new team in front of investors. Making the new management team accessible, these new individuals, along with the CFO, COO and CEO, began meeting with sell-side analysts and investors more frequently than historically, as discussed in the prior chapter. Particularly through the newly established investor

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days, the market could interact with Husky's entire senior leadership team and understand the skills and capabilities brought by all members, instead of relying entirely on the previous CEO's skills. The direct interaction with the market allowed for the shift in reputation away from the CEO and to the whole team.

Moving on to integrity, which differs from capability or the ability to act, integrity is focused on knowing the correct action to take and willingness to take that action. Returning back to the Nooteboom (2006) definition for intentional trust at the start of this sub-section, "*Intentional trust refers to the intentions of a partner towards the relationship, particularly in the presence of opportunism,*" I need to explore what is meant by the term opportunism as it relates to the correct action to take.

I believe that when a trustee is presented with an opportunity for their benefit, how the trustee behaves with respect to the opportunity relative to the trustor represents opportunism as meant by Nooteboom (2006). This behaviour by the trustee can range along an opportunistic spectrum from passive to active. This spectrum, I believe, is parabolic in nature, not linear, like a marginal utility curve with maximizing personal interest of the trustor lying somewhere in the middle of the curve and maximizing personal interest of the trustee at either end of the curve. When I look at the passive form of opportunism, the trustee either doesn't know what the correct action is (perhaps what to communicate to investors), or is unwilling to take that action (withhold disclosure, similar to Dye (1985)), demonstrating a lack of integrity in the eyes of the trustor. In the active form (mislead, lie to investors or criminal actions), the trustee knows what the correct action is and actively chooses to pursue a different action, again demonstrating a lack of integrity in the view of the trustor. Only when the trustee is perceived to know the correct action (disclose negative information) and is seen to be acting upon it (communicate with transparency) with their full capability, which lies between the two ends of the spectrum, will the trustor begin to see the trustee as having integrity. I believe it is the range of capability employed by the trustee and the level of correctness of the action that moves the perceived integrity view by the trustor.

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In reviewing the types of trust that management focused on building through the brief examples highlighted earlier, management concentrated on demonstrating capability through technological, innovative, commercial, organizational and managerial elements. When considering how management acts regarding integrity, this becomes more difficult, like agency problems. The market can't really determine that management is using their full level of capability, thus avoiding passive opportunism completely. Also, the market is unable to determine when management is acting more for management's benefit than for the market, to demonstrate that management isn't actively pursuing opportunism. With the absence of any scandals during the period, one can interpret that management was likely acting, partially if not fully, in the interests of shareholders. Of course, this could also mean that management just didn't get caught exploiting opportunities.

Management demonstrated a dedication to performance that hadn't been previously displayed to the market, helping to avoid a market view that management was acting passively towards opportunities. Near the end of the prior CEO's tenure, as explained above, there wasn't a clear view to his transition or the prior CEO's intentions, thus clouding the market's trust in the then-CEO. The board understood that the market's trust in the company needed to be improved, especially as the company had a reputation focused only on the CEO. The prior CEO revealed that Husky's Asia Pacific business was going to be internally evaluated as a potential spin-off into a separate company, again with a lack of clarity around intentions and who would benefit from the transaction, impairing Husky's reputation. Trust in this area needed to be reinstated. Having the new CEO installed removed one market concern, and within six months the business spin-off was cancelled, removing a second concern around lack of intention. These actions supported an improved reputation of acting in the shareholders' interests.

I will now consider a more detailed example of capability and integrity reputation actions on the part of Husky's management. From the capability perspective, management wishes to demonstrate to investors it can do the right thing, while for intentional trust to occur, management needs to be seen by investors as knowing what the right thing is (integrity) and wanting to do the right thing (benevolence). I will use

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the example of the failed Tucker Lake oil sands project that Skolnick (2012) described in this chapter's introduction and provide greater detail around this example.

As the COO stated, "*in the initial couple of years that was almost to take it on the chin and probably initially go in a downward path with credibility with the market before we could get all that behind us and then start building on that in a very deliberate way.*" One item that Husky management needed to take responsibility for from a market perspective was Tucker Lake's lack of performance and the reasons why. The CFO reiterated this: "*We were unwilling to acknowledge what everybody knew about our projects.*" After the CEO change, the CFO explained that Husky began "*explaining why we are not delivering against the rest of expectations.*"

Tucker Lake was an oil sands project that management publicly communicated would produce 30,000 barrels per day of bitumen and cost $500 million to build. The company announced that it was built under budget and on time in October 2006, enhancing technical and organizational capability. Three years after the project came online it was only producing 3,000 barrels per day, or 10 percent of expected capacity. By mid-2011, or five years later, the production level increased to 6,600 barrels per day, still only 20 percent of original expectations. These later production results severely injured Husky's reputation and the market's trust in future organizational and technical capability.

This lack of performance at Tucker Lake was creating mistrust in Husky's capability to deliver the much larger and just being built oil sands project, called Sunrise. Under the prior CEO, the message was focused around Tucker Lake being constructed on time and under budget. Management avoided mentioning the actual oil sands production levels from Tucker, the very numbers the market was most interested in. To try to remove this doubt and improve the trust in Husky's ability; management and the IR team organized Husky's first-ever facilities tour split between the company's new heavy oil projects and a visit to Tucker to finally explain in-depth what went wrong and what management was doing to fix the problems.

As mentioned above, management must show integrity through knowing what the right thing is. Before investors trust that management can effectively and ably spend $2.5

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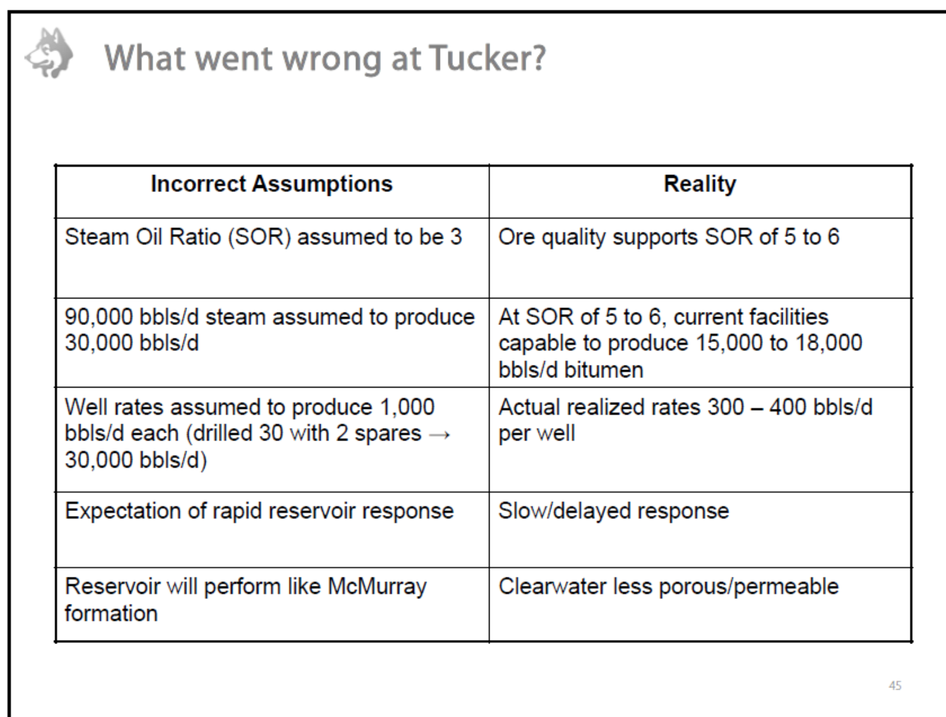
billion developing the Sunrise project, they needed to understand why Tucker Lake didn't work. Through early feedback from the enhanced interaction with investors and analysts it was clear to management that they needed to accept responsibility for the problems at Tucker Lake. Management also needed to demonstrate they had a plan to improve Tucker Lake's performance, and the formation of this plan is partially provided in Figure 7-5, which needed to be applied to future development at Tucker Lake and other projects.

For five years, management had avoided answering the questions around Tucker Lake and the market was asking for an explanation. With the new CEO in place, Husky management now felt the market was owed an explanation for Tucker Lake's poor performance. Management believed it was necessary to communicate to the market that the lessons learned from Tucker Lake would be applied to the Sunrise project, so those mistakes wouldn't occur again. As part of the facilities tour, management presented the following slides in Figure 7-4 and Figure 7-5, explaining what went wrong and the lessons learned that will be applied to Sunrise.


What went wrong at Tucker?

Incorrect Assumptions	Reality
Steam Oil Ratio (SOR) assumed to be 3	Ore quality supports SOR of 5 to 6
90,000 bbls/d steam assumed to produce 30,000 bbls/d	At SOR of 5 to 6, current facilities capable to produce 15,000 to 18,000 bbls/d bitumen
Well rates assumed to produce 1,000 bbls/d each (drilled 30 with 2 spares → 30,000 bbls/d)	Actual realized rates 300 – 400 bbls/d per well
Expectation of rapid reservoir response	Slow/delayed response
Reservoir will perform like McMurray formation	Clearwater less porous/permeable

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Figure 7-4: 2011 Investor facility tour slide "What went wrong at Tucker" (Source: company presentation)

In Figure 7-4 above, management decided it was best to highlight incorrect operational

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and reservoir assumptions made about Tucker Lake against what was experienced. These incorrect assumptions significantly impaired the 30,000 bbl/d production estimates that were put forward by management. The reality column helps to explain why the assumptions were wrong and why Tucker Lake achieved the poor production rates seen. This slide helped to differentiate Tucker Lake from the Sunrise project to remove potential doubt that Sunrise would fall victim to the same incorrect assumptions.

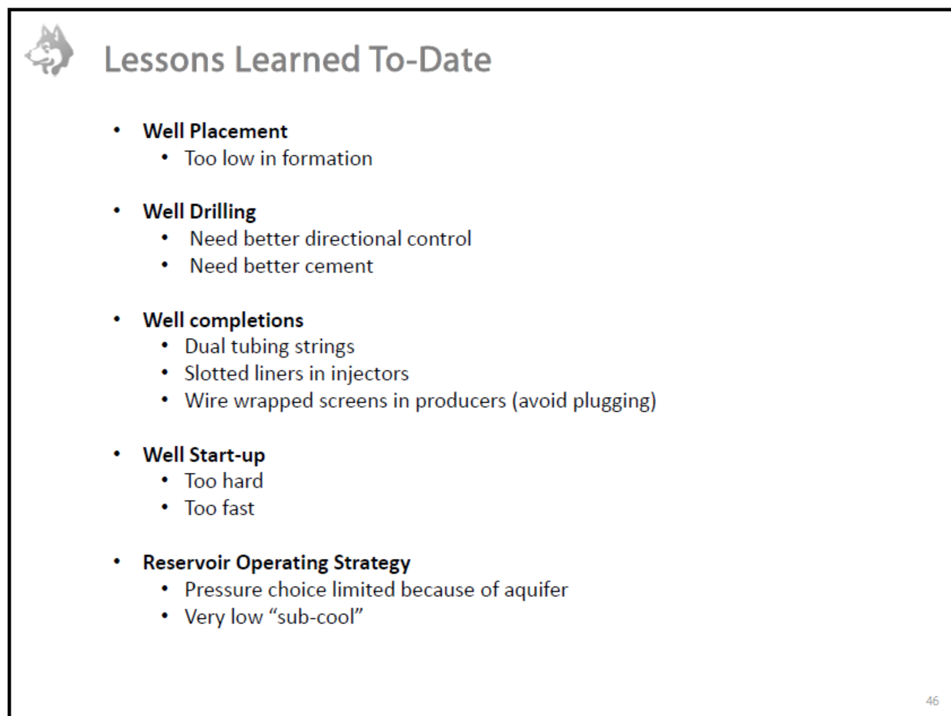

Figure 7-5: 2011 Investor facility tour slide "Lessons Learned To-Date" (Source: company presentation)

Lastly, management wished to exhibit that they had the ability to build Sunrise and make it a success. Two items really helped build trust with investors that Husky now had the ability to deliver Sunrise as expected. The first, was the hiring of a new experienced division head, as previously mentioned. Second, was a clear communication of how things were different for the Sunrise project compared to Tucker Lake. This communication highlighted analogous successful peer projects to Sunrise and the substantially greater amount of work undertaken to understand the Sunrise reservoir compared to what had been done at Tucker Lake.

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Table 7-1 below describes a timeline of disclosure activities that Husky management undertook around the Tucker Lake and Sunrise oil sands projects. The negative events of Tucker Lake, I believe, had a future negative trust and reputational belief impact for the Sunrise project. Where possible, management tried to counteract these negative beliefs with disclosure focused on success and a different approach to avoid the problems found at Tucker Lake. I believe these approaches were successful until the Sunrise project began experiencing different delivery problems in 2013, both from cost escalation and schedule delays.

Table 7-1: Reputational impacts of Tucker Lake on Sunrise Oil Sands project

Event	Date	Likely trust impact	Likely reputational impact
Sanction of Tucker Lake project press release	July 2004	Multiple production estimates put forward	No previous oil sands experience
Tucker Lake construction completed	Oct. 2006	Construction completed on time, on budget, highlighting cost control going forward	Reputation for project execution enhanced
Tucker Lake production levels a fraction of estimates	2006-2011	Production estimates can't be believed going forward	Reputation for oil sands value is severely harmed
New SVP, Oil Sands hired	Oct. 2010	Increases believability of future announcements around oil sands	Past successful history enhances reputation of meeting production estimates
Sunrise project sanctioned	Nov. 2010	Announces substantial production growth capabilities at $2.5 billion cost using proven technologies	Cost and schedule delivery believed, but production levels questioned
Investor day presentation	Dec. 2010	Put forth project milestone schedule	Build from Tucker schedule success
Investor facility tour, highlighting Tucker Lake causes and action plan	Sep. 2011	Management estimates becomes more believable and attainable	Management owning that Tucker Lake wasn't successful
Investor day presentation	Dec. 2012	Cost estimate increased $200 million, increasing uncertainty in project execution	Highlighting that all milestones have been met as announced
Q3 2013 report – announce that Sunrise construction is 80% complete	Oct. 2013	Delays in construction hinder future believability of project milestone delivery	Less confidence in management's ability to deliver project cost effectively
Investor day presentation	June 2014	Cost estimate increased another $100 million, increasing uncertainty in future project phases	View of management capability diminishes
Operations begin at Sunrise	Dec. 2014	Greater risk levels around future oil sands milestones	One-year delay in operations start-up hinders reputation for successful project delivery

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In 2017, Tucker Lake is no longer discussed as a failure, since the project has now been producing over 23,000 barrels per day, almost a fourfold increase since 2011 with a credible plan to get to its originally expected 30,000 barrels per day over the next few years. By displaying the integrity, benevolence and ability to be more transparent around the problems Husky faced at Tucker Lake, management has been able to restore trust that management has the capability to develop significant oil sands projects.

As can be seen from the sub-sections above, Husky management focused on building capability and indirectly enhancing integrity with market participants. The basis of this trust was predominantly geared towards cognitive or rational trust, while beginning to establish more emotional or affective trust in forming relationships with the sell-side and the buy-side. In particular situations, management attempted to display the necessary ability, integrity and benevolence to enhance the newly forming trust. As shown in each of the above sub-sections, there is more than one party involved in the trust equation. Building of relationships with market participants is a key aspect of building trust and improving the market's reputation of the firm. Trust and relationships will be explored further in Section 7.3.

7.2.2 Bases of trust

Trust can arise from one of two bases of the trust; either from a cognitive or affective based trust, or more simply from the mind or the heart. As defined by Chua et al. (2008), cognitive based trust "*is judgement based on evidence of another's competence and reliability. It is an instrumental inference that one makes from information about the other's behaviour under specific circumstances*." This is trust that is based on rationality and linked to the types of trust explored in neoclassical game-theoretic models of reputation (see, for example, Mailath and Samuelson (2006)).

Affective based trust is "*a bond that arises from one's own emotions and sense of the other's feelings and motives. Individuals express care and concern for the welfare of their partners and believe in the intrinsic virtue of such relationships*."(Chua et al., 2008). This emotionally formed trust is assumed away in game theory models of reputation, but it

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can be important under some circumstances. This begins to move the trust from a rational view into more of a psychological view. This begins to demonstrate the links between cognition and emotion within the financial markets as well (Taffler, 2014). Further, Nooteboom (2012) explains that emotional or affective trust is related to vulnerability, risk, fear and hope while rational or cognitive based trust relates to motives and conditions to be reliable. As Taffler et al. (2017) highlight, fund managers often encounter anxiety in their decisions and use face-to-face meetings with management to shift the responsibility of above average returns from the fund manager to the firm. Through the study period, management mostly focused on cognitive based trust, but did try to establish some affective based trust, which tends to be more enduring than cognition based trust (Lewicki and Bunker, 1996). In this section, I review four different ways management attempts to enhance trust for management and the firm through cognitive and affective approaches.

The first approach used by management is the willingness to create more opportunities to deliver on expectations through publicly announcing more forward-looking information. This approach would fall under a cognitive basis by disclosing additional information to keep the market as informed possible. Post the CEO change Husky management increased their willingness to put more information into the public domain. The first material example was demonstrated at Husky's 2012 investor day. As part of the presentation, Husky disclosed the potential well characteristics and drilling plans for each of the seven different resource plays it had developed. Management also put forward new five-year growth targets for production, reserve replacement ratios, return on capital employed, return on capital in use and cash flow from operations, all as shown in Figure 7-6.

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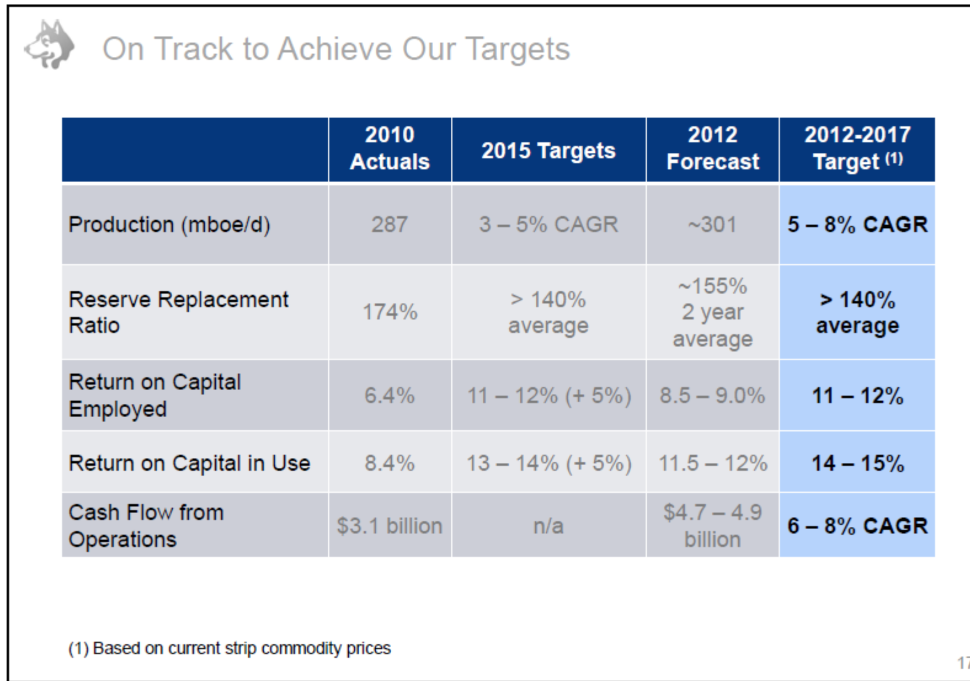
On Track to Achieve Our Targets

	2010 Actuals	2015 Targets	2012 Forecast	2012-2017 Target (1)
Production (mboe/d)	287	3 – 5% CAGR	~301	**5 – 8% CAGR**
Reserve Replacement Ratio	174%	> 140% average	~155% 2 year average	**> 140% average**
Return on Capital Employed	6.4%	11 – 12% (+ 5%)	8.5 – 9.0%	**11 – 12%**
Return on Capital in Use	8.4%	13 – 14% (+ 5%)	11.5 – 12%	**14 – 15%**
Cash Flow from Operations	$3.1 billion	n/a	$4.7 – 4.9 billion	**6 – 8% CAGR**

(1) Based on current strip commodity prices

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Figure 7-6: 2012 Investor Day slide, "On Track to Achieve Our Targets" (Source: company presentation)

As illustrated in Chapter 6, the second approach shown by management is a willingness to be more accessible to analysts and investors. The accessibility of management demonstrates an approach based on both cognitive and affective trust. While predominantly cognitive based and, like the above, helping to disclose more information to the market, the affective base is focused on developing a personal relationship between management and the sell-side or buy-side. In 2010, there were only 64 encounters between management and the market, and this increased to 487 in 2012, as shown in Table 6-2 in Chapter 6. This willingness means talking to investors and analysts directly through email, phone calls or one-on-one meetings. With management making themselves accessible, it opens management up to being asked questions and having to explain their actions, especially for those parts of the business that haven't gone well, such as Tucker Lake, or aren't fully formed, such as new business developments. In these situations, management can't hide behind the one-way disclosure of press releases, presentation material and annual reports.

The third approach lies in getting multiple members of management into the public spotlight, risking that different executives won't communicate the same message, own their parts of the message or be as polished as the CFO, COO or CEO. This approach is

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also cognitively based, showing the cohesiveness, alignment and quality of the broader management team. Again, referring to Chapter 6, in Table 6-1, in 2010 only three members of management (CEO, CFO and COO) met with analysts or investors, while in 2012 this expanded to 13 executive members.

The final approach identified is the willingness to be open, unbiased and transparent when something is not going right, including why it isn't going well and what the company is doing to fix it. This vulnerability is concentrated on a cognitive basis of trust. A good example relates to the poor performance of Husky's Tucker Lake oil sands project and management explaining what went wrong and how they intended to improve performance. The details of this example were described previously in sub-Section 7.2.1.

Returning to the start of Section 7.2, three significant links to trust were identified; reputation, new commitments and relationships. Most of the reputational and trust improvement activities highlighted in this section were cognitively based and focused on various capabilities, including these four approaches just described. The one approach highlighted, increasing accessibility, begins the transition by management into building emotional trust and improving integrity through strengthening relationships with market participants. The linkages between trust and relationships will be explored in greater detail in the next section.

7.3 Trust and relationships

In the previous section, I explored capability and integrity as types of trust and investigated cognitive and affective trust as bases of trust, relating to reputation. Diving deeper into integrity and affective trust led to the connections between trust and relationships, which are examined in this section. To begin to understand these connections, I will first look at how the company defines a good relationship. Husky hasn't always had a positive relationship with the financial markets and management focused on shifting the firm's relationship from a negative to a more positive one as there is value in positive relationships with the market. Relationship quality is difficult to measure and not as objective as some capability measures in the prior section. As

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Husky began paying attention to the quality of relationships, management were able to determine the most impactful activities to improve the relationship.

In plotting the interactions for the impactful activities, one finds that relationships between Husky and the market are, understandably, complex. To help sort through the complexity, management and IR have developed a hierarchy, prioritizing certain relationships above others. To add to this complexity, certain internal groups own the relationships with various external stakeholders and are responsible for maintaining and improving those relationships.

7.3.1 The role of trust in relationships

As part of the interviews conducted, both management and the IR team were asked to define what they believed to be a good relationship. Only through defining a good relationship can management and IR begin to review the relationships and determine if they meet the criteria of a good relationship or whether the relationship needs to be improved. Some of these definitions are listed below (I've added the underlining for emphasis):

> *"A good relationship with the market means they are understanding and giving you feedback. You're willing to listen to negative feedback, and then do something about it."* – Chief Financial Officer

> *"A good relationship is trust. It's not a foregone conclusion. You truly have to work at it. With the [financial] market, it's so funny because if I look at our department, all we do is manage relationships."* - SVP of Corporate Affairs

> *"I think a good relationship is about trust and, if you like, mutual respect. A good relationship is that the company understands what the market needs to do, and the market understands what the company needs to do, and both are then playing their roles appropriately. Then it becomes – the performance is the performance, but when the relationship with a major investor is about – they don't push the places they know you can't go and equally, you provide them everything you can. The*

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perspective from both sides is that we're each playing our roles within the rules. Then there's a relationship with an investor who's continuously pushing into areas that you can't go, I would say is not a good relationship." – Business Unit Head

"A good relationship is one in which we are as transparent as we can reasonably be, and similarly the market participants are willing to be transparent with us. They are candid in terms of telling us what they like and don't like, what they expect and don't expect from us." - Treasurer

"A good relationship is based on honesty and trust and transparency and that's how you build credibility. Even if things are going poorly and you're transparent about it you can still get credibility for that." - IR Analyst 1

"A good relationship is one that is fair, it's transparent, and the expectations are realistic. You could have a realistic conversation and investors have realistic expectations." - IR Analyst 3

In looking at the quotes above from management and IR, consistent themes come through. There is a theme around integrity by all participants, not just management or IR. In the previous section, reputation viewed by management and investor relations focused on the company's capabilities and less so on integrity, with many comments describing setting and meeting targets. In the definitions above for a good relationship, several integrity[20] related words, or words related to principles, are suggested including fair, trust, transparent, honesty, and understanding. It is apparent that the Husky team sees integrity as a key ingredient in having a good relationship with the market.

Trust and good relationships with the market were not always enjoyed by Husky. According to the responses to the question "What were Husky's relationships previously and have these changed?" – under the prior CEO, it appears that

[20] The quality of being honest and having strong moral principle as defined by SOANES, C. & STEVENSON, A. (eds.) 2003. *Oxford Dictionary of English*, Toronto, Canada: Oxford University Press.

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management and the company had a poor relationship with the market. This view was recognized by both the management and IR teams from the interview responses below.

> *"I would say that Husky as a company had [in 2009/10] a better relationship with the market than the CEO did the market. In that circumstance, the CEO was the face of Husky, therefore the negativity impacted Husky, the corporate image. Now [in 2014] I think the market views Husky pretty positively, and it doesn't view Husky as having one individual running it."* – Chief Financial Officer

> *"Well, I think there's no question the relationship before the new CEO came here was problematic is probably the best way to say it. So, I think you could only characterize the relationship as reasonably poor. It took a while to readjust when the new CEO came in because there were some changes that we had to make and doing a lot more communication with the kind of revamping of the IR group and a lot more focus on messaging, I think we've seen an improvement in the relationship."* - Chief Operating Officer

> *"I think it's materially better today. I think if you go back to my definition of a good relationship about trust and each knowing the rules and each playing by them, I would say the previous CEO was viewed as not playing by the rules. Things were said that we were never even close to being able to do, and as a result the market was always very leery of what we said. So, the relationship was bad."* – Business Unit Head

> *"Poor [old CEO], and then in terms of the quality of the relationship post [new CEO], at least good and hopefully approaching very good."* - Treasurer

> *"It was terrible [old CEO]. This isn't even coming from inside the company. This is coming from the bankers themselves and it is coming from the buy-side guys. So, it really was harmful. Whereas the new CEO came from an environment where he's much more attune to that whole public company aspect and that these stakeholders are important. Just to put some clarification around that, the mentality with the prior CEO was there was one stakeholder that was important.*

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The rest were unimportant. That evolved under the new CEO into the minority shareholders affect the value of the one shareholder's holdings, so they're all important." - IR Analyst 3

"I would get lots of casual, offhand comments about how much better Husky had become with the new CEO coming in." – IR Analyst 4

Much of this poor relationship is arguably driven by the prior CEO, as he was viewed by the interviewees as the main voice of the company, the one that the market interacted with. During the CFO and COO interviews, each suggested that they interacted very little with market participants under the previous CEO and had little opportunity to really build a relationship with those participants at that time. Some of the reasons for the improvement highlighted above, are: beginning to play by the rules (demonstrate integrity by knowing what the correct action is), increasing the amount of communication and making sure that the minority shareholders feel more important than previously. The statements above are very broad and subjective when describing the state of relationships over the study period and difficult to measure. So how does the firm measure the quality of its relationships?

Unlike building capability-based trust, which can be measured on the grounds of whether or not you met expectations; when it comes to building integrity with the market, measurability is less than clear. As the quotes below explain, when asked "how do you evaluate the quality of the relationship," most of the evidence of a better relationship is based on anecdotal evidence or gut feel by the participants. Husky didn't employ or conduct any formal evaluations, as the team believed a fitting version didn't exist. The measurement is based on the reactions in the meetings or indirect feedback received after the meetings. This may suggest that management is seeking an affective confirmation on the quality of the relationship in addition to any rational cues that are provided.

"There's no formal evaluation you can do. It comes down to, how do you feel that the meetings are going? When you're sitting in those meetings, you get a sense as to whether there is a relationship there." – Chief Financial Officer

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"I don't think we sit there with tables and try to measure who likes us and who doesn't. You get a sense of it, but not in the same granular way as we look at who are buying and selling and the effectiveness of messages." – Chief Operating Officer

"So, it's really feedback from the market participants in term of what they want to see more of, what they are fine to see less of, how often they want to meet and that kind of thing." - Treasurer

"You test their comfort. You test the conversations that you have with them, their willingness to attend I think are some of it." – Business Unit Head

"I would just rate it anecdotally as who I feel most comfortable with. It would probably be no real formal ranking. I think just out of sheer circumstance that relationships have improved just from having these haphazard opportunities to spend a lot more time with the analysts over the last couple of years." – IR Analyst 1

"There's surveys that go out that are normally fairly candid, for the bigger events, at least. I think on a day to day basis it's, 'Do they keep asking?' Okay, so they've come and met with you and they found it valuable, so now they want to make sure that they come by quarterly, or they come by annually, and that they get to talk to a range of different people within the organization to learn about it better." - IR Analyst 2

"You got direct feedback on it. People were quite willing to say, 'This is much better than what we've seen before'." - IR Analyst 4

One theme that came consistently through the responses mentioned above is a greater need for access and greater communication in helping to build the trust and relationships with the market. There appears to be a need for IR to coordinate the interactions and messaging with the market while being accessible. This need for

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coordination is best expressed by Husky's COO below in his response to the question, "How would you define a good relationship with the market?"

> *"Well, I think a good relationship with the market is where you have a good message, and you're getting the message out. Questions are being asked, and answers are being provided, and those answers are consistent with your message. So, I think it does come down to that consistency more than anything else. The fact that you are willing to communicate with the market – and again, you can do that when you've got a well-coordinated messaging plan. If you don't have a lot of confidence that you've got your message really clear and that multiple different outlets will speak with one voice on that, then the alternative is clamping down sort of on the messaging channels, in which case then, the relationship with the market can suffer because they just phone and get no answers to their questions. They can't talk to people. They don't have access to management. So then, you get suspicion building up in the relationship, just like any relationship. So, your performance in that case may still be, in an underlying way, quite good, and in fact, the market may still reward you for that, but your relationship with the market won't be that good."*
> – Chief Operating Officer

The above quote further highlights that performance or capability is separate from relationships, again tying back to integrity. Accessibility is a key factor in maintaining that relationship, because if there is no two-way communication, then suspicion builds in the relationship. The suspicion is usually related to integrity issues, rather than issues around capabilities. Both IR and management need to be constantly looking to remove the suspicion or doubt, as this leads to questions about the integrity of the company and the individuals.

Even though interactions and messages are coordinated, as described above, face-to-face interactions, as explained in Chapter 6 on two-way communication, are considered the most valued and impactful way to improve relationships, both by internal and external participants, a view also expressed in Barker et al. (2012). In building relationships with the market, these interactions were explained to be the best, as illustrated in the quotes below, when asked "what activities are the best at building

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relationships?" Beyond just the face-to-face interaction, it demonstrates the attempt by the Husky team to get to know the market participants on a more personal level, rather than just discuss the company. The personal conversations, even if brief, bring a more human element to the relationship, building on the affective base of trust. Not only is management trying to get to know the market participants better, but those participants are trying to better understand management.

> *"It's the one-on-ones that's the more powerful interaction through the dinners. I think just having, maybe being a bit more general in your conversations with somebody. Developing more of a personal relationship, even if it's just talking about the football results or the hockey results, so that they know it's not just all business, there's another side to you and they have another side. It just takes you to a different level. I think knowing who they are and thereby being able to talk to some of that is good too."* - Chief Financial Officer

> *"I just think the whole suite of activities we do in order to develop and continuously communicate in a consistent way and making that a deliberate effort."* – Chief Operating Officer

> *"Well, I think in terms of overall relationship and providing access to the largest group with access to a lot of senior management, the Investor Days were, particularly at the beginning when there had never been access to a larger group to that extent, most effective in terms of providing one place for a senior group. If you look at the attendance at the last Investor Day, a lot of very senior members, very senior groups, so I think that would suggest that they saw that as valuable. That's probably the top of the list."* – Business Unit Head

> *"Yes, quite a bit actually. We ensure that all information that is publicly available is provided immediately to, say, the credit rating agencies. We have a good dialogue with at least a few pretty key fixed-income analysts at the banks. We try and schedule regular meetings with the ratings agencies and we've tried to become much more transparent in terms of showing them non-public information, even though they can't publish it. But much more transparent in terms of showing them*

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non-public information so that they will truly understand us. Because one tough lesson that we learned back in 2010 is that if we don't provide them the information — if we're not transparent, they will assume the worst, and on the credit side, that is clearly not a very good outcome. So being more transparent has helped us out substantially with the rating agencies." - Treasurer

"There are a number of things, there's a casual thing where we'll go for coffee or go for lunch. We build a lot of relationships on the road, but that's only for a group of analysts that we select to take on the road with us. Day to day interactions go a long way. It's amazing how well you can get to know someone just over the phone when you talk a lot with them. So, it's really about having personal time with an analyst. Maybe not on a purely business, that you start to develop more trust." – IR Analyst 1

"I think it's those sorts of activities where people get to see people face to face. If you're just press releases and you're just financial statements, then it's really hard to build a relationship. I think it's answering the phone, being responsive, being willing to get your executives in front of the key people they want you to get them in front of. I think the one-on-one meetings can be very valuable, especially if it's something that's truly trying to get a better understanding of a particular business unit, or operation." – IR Analyst 2

"In terms of the buy-side, it was really direct contact, so either meetings at those conferences or private lunches or if they were in town, an invite to come in and meet with management. That was the most important aspect for a buy-side relationship - was to have those face-to-face relationships." - IR Analyst 3

"I think you want your relationships to be regular, you want them to be a little bit personal. You know a little bit about their personal lives. Because it just sort of smooths conversations, I think. And then the rest of it is just regular contact. Yeah, I think that's about it. I don't know if I'm answering your question. You don't want to be going over there for dinner, but you do want to be able to connect to them on a personal level because that builds trust. Things like going out for dinner or having

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a less structured environment always breeds trust. Anything where you could have a casual conversation and get to know somebody a little bit better just helped." – IR Analyst 4

In the questions explored above, it was found that management believed integrity to be a key element of a good relationship. Husky was able to shift market relationships from the negative to the positive through accessibility and transparency. That said, the company finds it difficult to measure the quality of relationships as Husky doesn't employ any formal tools and relies on 'gut feel'. Having IR coordinate messages and interactions with the market is beneficial to improving relationships, but the key to success is face-to-face meetings, where the internal and external participants can start to relate to each other on a personal or emotional level. While interactions are good for trust and relationships, they do add complexity to the situation, which will be investigated in the next sub-section.

7.3.2 Relationship complexity

The building of relationships and trust is partially dependent on having a network of interactions between the firm and the market. Without the interactions, it would be difficult to suggest a relationship even exists. As shown in the three figures below, Figure 7-7, Figure 7-8, and Figure 7-9, a large amount of interactions between management, the IR team and market participants were tracked. In each of the figures, the thickness of lines (edges) represents the number of interactions between two parties, the size of the circle (nodes) represents the number of different interactions that were held with unique parties. All the statistics for these three figures are provided in Table 7-2 below. What is interesting to note is that the Head of IR is found at the centre of each network diagram, representing the largest number of interactions and frequency of interactions. While the detail in the graphs doesn't allow for it, not all the connections originate from the Head of IR. There will be lines that originate from different executives or different members of the IR team as well. The years 2012 and 2013 also show a significant increase in the interactions between Husky and the market. The number of interactions between Husky and the market in all three years (2011 –

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2013) were much greater than the historical levels prior to 2011, as previously discussed in Chapter 6.

Figure 7-7: Network connections in 2011

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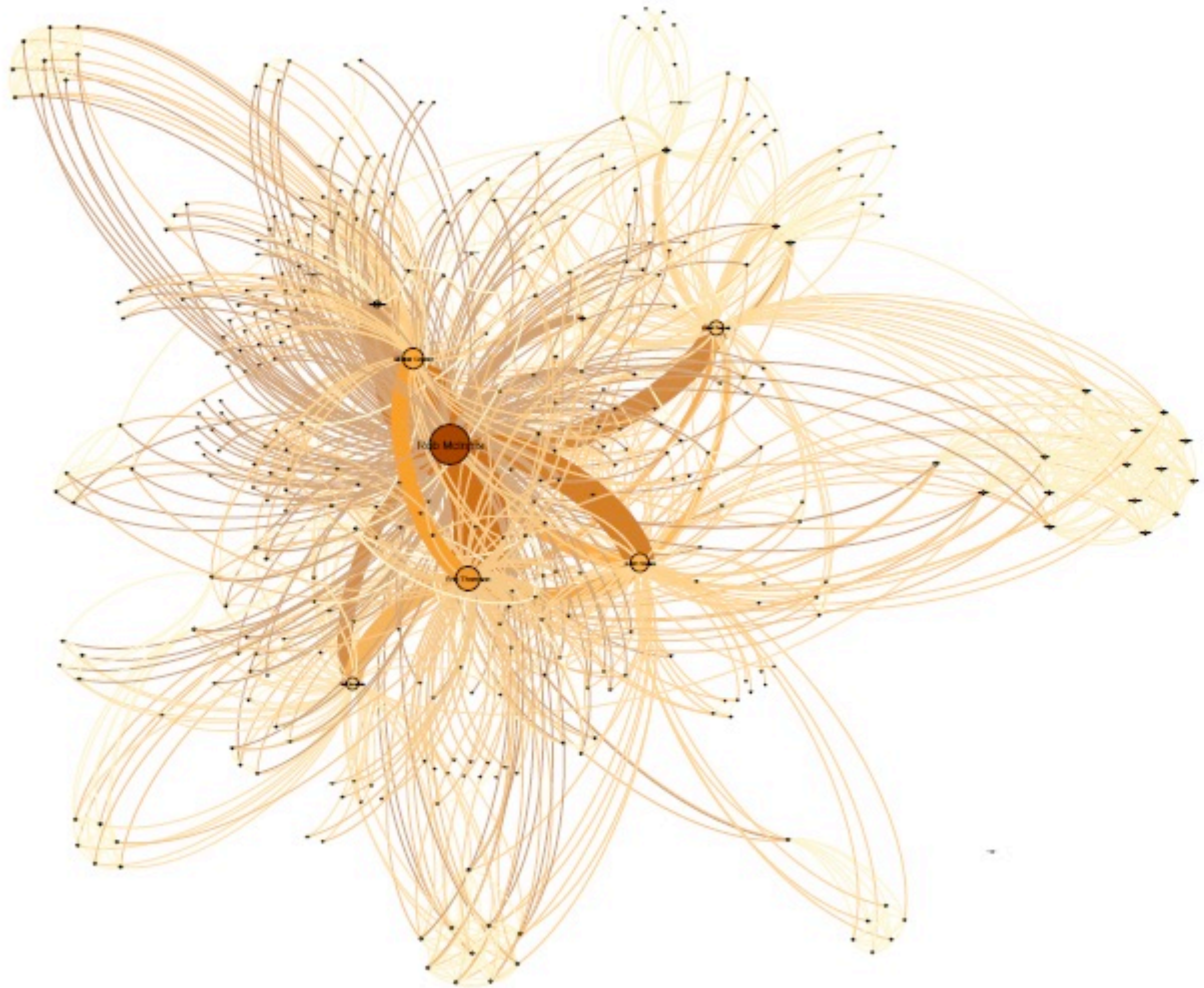

Figure 7-8: Network connections in 2012

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Figure 7-9: Network connections in 2013

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Table 7-2: Network connection statistics

Graph	Complete	2011	2012	2013
Network Analysis Stats				
Nodes[1]	660	192	359	312
Edges[2]	2774	509	1275	946
Average Degree[3]	7.497	5.302	7.103	6.064
Network Diameter[4]	5	3	4	4
Graph Density[5]	0.011	0.028	0.020	0.019
Connected Components[6]	8	6	3	1
Avg. Clustering Coefficient[7]	0.910	0.908	0.935	0.923
Avg. Path Length[8]	2.322	2.279	2.264	2.270

[1] Number of unique individuals in the graphs, represented by the dots and circles
[2] Number of separate connections between the individuals, the lines in the graphs
[3] The average degree of a node is the average number of relations (edges) it has
[4] The average graph-distance between all pairs of nodes. Connected nodes have graph distance 1. The diameter is the longest graph distance between any two nodes in the network (i.e. how far apart are the two most distant nodes)
[5] Measures how close the network is to complete. A complete graph has all possible edges and density equal to 1.
[6] Determines the number of connected components in the network
[7] The clustering coefficient, along with the mean shortest path, can indicate a "small-world" effect. It indicates how nodes are embedded in their neighbourhood. The average gives an overall indication of the clustering in the network
[8] The diameter is the longest graph distance between any two nodes in the network. (i.e. How far apart are the two most distant nodes)

As the above figures show, there is a great deal of complexity in the number of interactions between the firm and the market. This complexity can be seen as a cost, whether financially or in time, and needs to be managed to minimize these costs. One way the firm manages this complexity is by ascribing ownership of the relationship between various internal groups and external stakeholders in the market. Another way of managing the complexity is through creating a hierarchy for interaction priority. Part of the prioritization focuses around those elements that can either do the most good or the most harm to the firm in relation to the financial markets. Both ways will be explored in this section.

Before embarking on building a relationship with the market, you need to understand who owns the relationship. As explained by the SVP of Corporate Affairs below in reply to the question “How would you define a good relationship with the market?” the

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ownership of the financial market relationship seems to present a complex problem. The complexity of the problem lies in the fact that different individuals or groups inside the company have different relationships with different factions of the market participants.

> *"Relationship owners with the [financial] market, it's a heck of a lot more complex and dynamic because you've got, what I consider, a primary owner, which is IR. You've got IR's relationship with the analyst. You've got finance and treasury having relationships with banks and CEO's having a different kind of relationship all together. It's not a straight line. The IR is pretty pivotal, I believe, in deepening that relationship and maintaining it."* – SVP of Corporate Affairs

These many different relationships between Husky and the different financial market participants create difficulties for managing and improving those relationships. The many participants between the firm and the financial markets are highlighted in Appendix 3 – Internal and external participants in financial market discussions. While this appendix describes the participants and the level of interaction between IR and those various participants, it doesn't highlight which internal groups own which relationships. This can vary between companies, but at Husky, the CEO owned the relationship with the principal shareholder, the CFO had the relationship with the investment bankers, IR had the relationship with the minority shareholders/debtholders, sell-side analysts and equity trading desks and the Treasurer owned the relationship with the credit rating agencies. While specific owners of the relationships are identified, the other members of the Husky team typically supported the primary relationship owners. These interactions and support in relationships will be highlighted in Section 7.4 as part of a short case study.

Even though all the relationships were owned by different parties within Husky, not all relationships were deemed to be the same level of importance. It is easy to expect that the principal shareholder was treated differently than the minority shareholders, but beyond that there was also a hierarchy in approach to the other constituents of the financial markets. This is better described in the quotes below from management and investor relations, when asked "What groups do you prioritize in building

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relationships?" Some of the findings coming through these responses are that the sell-side analysts were typically viewed as a lower priority than the minority shareholders in trying to build a relationship, but because the sell-side analysts were more accessible than investors, it was often easier to build a relationship with them. Regarding the hierarchical difference between investors and analysts, management places a higher value on investors as they are more committed and 'invested' in management compared to the analyst.

When looking at the minority shareholders, those with a larger holding in Husky were treated as a higher priority than those with a smaller holding. The debt investors, while considered important, were a lower priority for management than equity investors. This lower priority seems to be based in the fact that debt investors can't as easily sell their position in Husky to other investors in the same way that equity investors can. There is less of a liquid market for the corporate bonds and debt investors are more locked into their position. This creates a hierarchy in the effort that management will expend on trying to build various relationships with market participants.

> *"I'm much more cautious with the sell-side of relationships than I would be on the buy-side, because the buy-side is putting money on you. They're making investment decisions, and they're measuring by their investment decisions on you. That is a different relationship than an analyst who is making some comments, and if he's wrong, oh well. I think we often underwork the debt relationships. They tend to be forgotten about and then we go, 'Oh, we need some debt. We should go talk to a few people,' instead of maybe more nurturing them on a more regular basis. I think you need to keep them as comfortable because they're making an investment."* - Chief Financial Officer

> *"IR's role doesn't stop there. Then they have to facilitate building a good relationship with the entire executive group or the marketing team, if you want to call it that, or four or five very different characters with different skill sets. Fundamentally, I'd say the overriding factor in determining the stability and whether or not it's a good relationship is going to come back to the primary owner because that primary owner will know when to introduce the [market participant]*

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to a particular executive. If [that market participant] is not getting what he needs or expected, then it comes back to the primary owner, IR, to ensure he does." – Head of Corporate Affairs

"I think I attached almost more importance to buy-side relationships than I do with sell-side relationships. On the debt side, although the debt side doesn't appear to want to communicate as much as equity investors, that relationship is highly important as well." - IR Analyst 1

"I think that there's definitely a lot more interaction with the sell-side so that those relationships just build quicker. And equity there's definitely more interactions than on the debt side. So, again, easier to build those."- IR Analyst 2

"Yeah, the equity side for sure. Debt, they're generally locked in. So, you definitely want to keep that open. But there are options in terms of liquidating their position are far more limited than what the equity side is. Like I said, sell-side less so than buy-side obviously. Sell-side are the means to the buy-side. They're all important, but you have to identify a hierarchy of whom the important players are on each side and then deal with those, because those will be bellwethers for the other ones." – IR Analyst 3

"On the sell-side, absolutely. Having a good relationship and having an element of trust. And reputation was really good for getting honest feedback. For buy-side yeah, for the people that have big positions. In your stock, absolutely I think it's important that they have trust. Debt investors for the most part, there's not a huge amount of relationship required. Certainly not in this market." - IR Analyst 4

The quote from the SVP of Corporate Affairs above is interesting, in that it suggests building a strong relationship between the financial market and the company requires the IR team take the first steps and must build a strong relationship with the executive and the market participants separately. Based on these separate relationships, the IR team basically plays matchmaker for the benefit of the firm, determining when a market participant is ready to meet a particular executive. Getting this 'matchmaking' wrong

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may lead to a poor-quality relationship between management and that market participant. Since the relationships can have a material impact on the opportunities available to the company, with an example provided in Section 7.4 as a short case study, it is important for IR to get as many of these relationships between the executive and market participants as correct as possible.

To build trust in the relationship through integrity, the relationship must be prioritized by the internal party. The market participants must be made to feel important and given due respect. As shown in the quotes below to the question "How important are your relationships with the market?" the Husky team consistently felt that working on improving Husky's relationships was a key priority. Even when the Husky team focused on the market, there was still a distinction between the relationship with the minority and the principal shareholder. The principal shareholder was always handled as the highest priority. By prioritizing the market relationships next, it gives management something else to rely on, or an insurance policy, should a situation demonstrate a lack of competence by management, as explained by the COO below.

> *"I think it depends on where you're at. I would say that at Husky it was a very high priority, and I would say that the environmental stakeholders are perhaps lower priority."* - Chief Financial Officer

> *"Once you've got the business running really well, then I think the relationship with investors helps you hopefully by first and foremost matching up your offer to the investment community with the right investors, it allows you to make sure your share price is not undervalued in a way that would potentially make you vulnerable. As we discussed before, it also helps if you do need that insurance policy of being able to have one or two things not really play out and not take an unnecessarily large hit for it."* – Chief Operating Officer

> *"It's definitely a priority, it has to be. The fact that our CEO defines our relationship with our investors as that's our definitive stakeholder group, would suggest that is of paramount importance to the company. In any given situation, you might have someone rise up from time to time, but the prevailing steady state, the view is that*

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the market does get extraordinary and appropriate treatment."- SVP of Corporate Affairs

"I would say it's high and I judge that by the amount of our dialogue internally that focuses on maintaining strong credit ratings, maintaining access to committed bank capital, and debt capital markets, so I would say maintaining strong credit ratings and strong relationships with our banks rates very high." - Treasurer

"There could be a higher priority placed on the [minority shareholder] relationships that we have. We have a unique situation here where, call it 70 percent shareholder, which owns the majority of the company so there's not as much time spent on building the relationships directly with our buy-side investors at the company. There's lots of time spent with analysts, though." – IR Analyst 1

"The market is the most important priority, but I'm a little biased. I think safety is obviously the first priority of any company and keeping you employees, your assets and the environment safe. Second would obviously be the market itself. You're here to make money; you're here to grow investors' confidence and their investment in the company." – IR Analyst 3

Through the quotes above, management and IR place a high, if not the highest, priority on market relationships. There is a strong focus on delivering or improving shareholder value, so it only makes sense that market relationships are placed at such a high priority by the management team above other external stakeholders. As seen above, the high-profile nature of these relationships results in dedicated internal owners based on the type of market participant, which helps establish the hierarchy of relationships that the firm focuses on. An example of how the different ownership of relationships was leveraged by the Husky team to undertake an equity raise of $1.2 billion will be explored in Section 7.4.

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7.4 Equity Issue Case Study on Relationship Categories

In looking through the study period events, there is one event that stands out for illustrating how Husky had to rely on the relationships between management and investor relations with various participants in the financial markets. The event in question was Husky's need in 2011 to raise additional capital from the market to fund two major development projects, the Sunrise oil sands project and an offshore China natural gas development. This culminated in a public equity issuance of $1.2 billion in June 2011.

With the capital required to fund these projects and the current debt levels of the company, if Husky chose to fund these developments with debt, one credit rating agency communicated to management that they were likely to downgrade Husky's rating if additional debt was taken on. This was an outcome that management wasn't going to accept. Consequently, the only option Husky management was willing to consider was to raise capital through additional equity issuance. To make matters more complicated, Husky had just issued $1 billion in new equity in Dec 2010. Having a limited amount of time between equity issues in the general market would also test Husky's relationship with the market. The test is a result of not only having recently entered the capital markets at the end of 2010, but not communicating to investors the total amount of funds that needed to be raised through equity.

Post the December 2010 issuance and prior to the June secondary issuance, Husky also issued equity through two additional activities. The first was holding a special meeting of shareholders in February 2011 to obtain the ability to issue equity to pay for dividends. This ability to issue equity for dividend payment ultimately raised $1.2 billion through 2011 and 2012, as the principal shareholder elected to receive his dividend in shares, instead of cash. The second was the introduction of a new class of preferred shares which Husky went to the public markets with in March 2011 and accessed $300 million. This still left management with a shortfall of approximately $1 billion to fund the capital plans, something that management hadn't explicitly communicated to investors.

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In attempting to fulfil this final $1 billion capital need, management explored multiple options sequentially after each prior option became unfeasible or unsuccessful. These sequential options included a secondary listing on the Hong Kong Stock Exchange, private placements of equity with local and foreign investors and a local public equity issue. In exploring these equity options, Husky utilized all the different relationships between the firm and market participants as previously mentioned in Section 7.3. Four different relationships were used, including IR only, IR primary and executive support, executive primary with IR support and executive only. The combination of relationships with equity options were: 1) exploring local investor private equity placements through the IR relationship, 2) accessing private placements with a foreign investor through an executive only relationship, 3) listing on the Hong Kong Stock Exchange through an executive driven relationship with IR support, and lastly, 4) the $1.2 billion public issue in the local markets, based on the primary IR relationships with executive support. I will explore each of these four situations in greater detail below.

The first option that was explored was a secondary equity listing on the Hong Kong Stock Exchange, to raise approximately $2 billion. This approach relied on the executive's primary relationships with Husky's investment bankers in Hong Kong, supported by IR and its relationships with the analyst community. In February 2011, Husky management began investigating the secondary listing by working closely with Hong Kong-based investment bankers and lawyers. In March, the IR team began developing communication and education material for Asian investors, to better inform them about the Canadian oil and gas industry and Husky's significant Asian ties, including its China and Indonesian operations and significant ownership by the principal shareholder. At this time, the investment bankers began meeting with the Hong Kong regulators and Husky management began discussions with the credit rating agency to avoid a possible ratings downgrade. Initial management meetings with significant regional investors were coordinated between the investment bankers and investor relations in April.

In May 2011, doubt began to arise around the success of a Hong Kong listing based on the meetings with investors. The Asian markets were becoming more volatile at that time, raising management's doubt about the success of this new listing. To help support

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the potential listing, the four investment banks involved each committed to sell-side research. The IR team worked to inform the analysts about Husky as quickly as possible. Additionally, the search for anchor investors for the listing, or as an alternative to the listing, was undertaken, leading to the next two options. At the end of May, it was leaked to the media that Husky was investigating a listing on the Hong Kong Stock Exchange and Husky needed to verify this information through a press release. At the end of June, after the public equity issue was concluded, Husky released that it was no longer pursuing the listing in Hong Kong.

The next option explored, in early May 2011, was a private placement with two local investors using IR's relationships. In this situation, the Head of IR was asked by management to rely on his relationships with two large institutional investors and approach them directly to see what their willingness would be to participate in a private placement of an equity offer. The two investors were selected for relationship quality, size of investor and investment philosophy. Through direct phone conversations between the Head of IR and the portfolio managers, both investors were offered the opportunity to acquire up to $500 million of new equity in Husky. After a few conversations over a week with these investors, both investors determined that they would not participate in a private offering. By contacting the investors directly, they were made insiders of the company relating to the equity issue until it was publicly announced. This put the investors in an uncomfortable position, but they appreciated that they were contacted directly and given the opportunity to participate in advance. One of the investors did purchase $200 million of the public issue in June.

The third option explored, in late May, was accessing Asian investors for a private placement, relying wholly on the Executive Chair's relationship with those investors. The Executive Chair, based in Hong Kong, had strong relationships with several large Asian-based investors. The Executive Chair approached a number of these investors to see if any would be willing to take a substantial portion of the necessary equity raise, either to support the Hong Kong listing or avoid the listing altogether. There were numerous conversations and meetings between the Executive Chair and the investors, including meetings where the CFO flew to Asia to meet with the investors in person. In the end, the investors decided not to proceed with an investment in Husky at that time.

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The IR team was not involved in any of these conversations or meetings, nor did the IR team provide any material to support the conversations.

The final option, in mid-June 2011, was a North American public equity issue, which Husky used to raise $1.2 billion. After the private placements failed, management was completely uncomfortable with a Hong Kong listing and quickly pursued another North American equity issue. The actual issue involved the executive relationships with local investment bankers supported by IR. It was after the issue was announced, but prior to the issue closing, that this equity issue became 'hung.' To be 'hung' means there were not enough buyers of the equity at the price offered, as there was substantial volatility in the oil commodity markets the day it was announced. Of the 37 million shares offered at a price of $27.05 per share, only 23 million where subscribed after two days. To get the remaining 14 million shares 'un-hung,' required IR's primary relationships with support from the executive.

In working with the investment bankers, the IR team coordinated a three-day investment tour with management, visiting four cities, beginning the week following the announcement of the equity issue. IR and management flew to New York and Boston on one day, hosting multiple meetings, to Toronto the following day for additional meetings and on the final day to Montreal for the remaining meetings. At the end of the meetings, management had met with 17 different institutional investors individually and approximately that number again in various group meetings, generating enough interest in the equity to have the remaining 14 million shares subscribed for a discounted price of $26.25 per share, with the discount to be covered by the fees paid to the investment bankers by Husky.

As can be seen above, a variety of different relationships were used by Husky to raise equity from the capital markets. Management and IR were not able to determine which of the relationships would be successful in raising the necessary capital but explored all the different options available until the capital was successfully raised through equity. Had management and IR not cultivated all these relationships, there would have been fewer options available to raise the necessary equity funds, or the costs of doing so would have been even greater.

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It is also interesting to note that the literature around capital raising denotes that management has a choice, with Myers and Majluf (1984) being a classic example of explaining management's choice in deciding to raise capital from the financial markets. This case study highlighted that management may be able to decide the type of capital it raises, debt versus equity, but the options that management must explore to successfully raise the equity may be somewhat outside management's control. More favourable options can be explored, but management might not be successful with those options and need to pursue less favourable options in raising the capital, where the market is completely unaware that these additional options have been tested by management. Moreover, in relation to the academic literature on the choice between alternative equity issue methods, the example of this section shows that the assumption that the firm has a choice between methods may be misleading. Many of the assumed 'choices' may have been ruled out through unseen private negotiations prior to the observed issue.

7.5 Conclusion

Through this chapter, I explored how Husky attempted to improve both its reputation and relationships with the financial markets. The company believed it to be important to improve reputation and relationships with the financial markets. As such, the company took deliberate actions to focus on both, and management believes that they were successful in this regard. Unfortunately, it is difficult to quantify how much of the improvement seen in the analyst ratings first shown in Figure 7-1 in the opening section is attributable to an improvement in relationships versus an improvement in reputation.

For improving reputation, Husky management focused on building capability and indirectly enhancing integrity with market participants. The basis of this trust was predominantly geared towards rational trust, while beginning to establish more emotional trust in forming relationships with the sell-side and the buy-side. In particular situations, management attempted to display the necessary capability and integrity to enhance the newly forming trust. It is important to remember that there is more than one party involved in the trust equation – the market participants need to be

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open to the overtures management is making in trying to improve reputation and relationship.

Affective and cognitive bases of trust were reviewed through a small case study based on Husky trying to shift a negative reputation as an oil sands producer into a more positive reputation. Husky management used four different approaches to shift the reputation. The first approach created opportunities to provide more forward-looking information and voluntary disclosure into the market. This was followed by making the management team more accessible to market participants. Building on the previous approach, next, was broadening the members of the management team available to meet with market participants. The last approach employed was being more transparent and unbiased around negative information.

There was a connection identified between trust and relationships, in which I delved deeper to begin to understand these connections. I started by looking at how the company defined a good relationship with financial market participants. Much of a good relationship, as believed by internal Husky participants, appears to be centred on integrity. Husky hasn't always had a positive relationship with the financial markets due to capability and integrity issues. Management focused on shifting the firm's relationship from negative to more positive as there was value seen in positive relationships with the market. Relationship quality is difficult to measure and not as objective as some capability measures in the prior section. As Husky began paying attention to the quality of relationships, the firm accelerated face-to-face meetings, the most impactful activity to improve the relationship, and by being transparent and getting to know investors on a more personal level, further enhancing external perceptions of management's integrity.

There is a great deal of complexity in the network of relationships between the firm and participants from the financial markets. In Figure 7-7, Figure 7-8 and Figure 7-9, I show the web of connectivity between internal participants, equity and debt investors and sell-side analysts. These figures don't even have all the interactions between the firm and all market participants as specified in Appendix 3 – Internal and external participants in financial market discussions. To help organize and sort through the

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complexity, Husky has centred on two approaches. The first is through specifying ownership of the various relationships to identified internal participants. The second approach is through applying a hierarchy of relationships. The first level of this hierarchy is placing the financial market participants above other stakeholders, and even within market participants, there is a hierarchy of priority employed by Husky management and the IR team, with investors prioritized over analysts.

The ownership of relationships was further investigated through a short case study on how Husky went about trying to raise equity funds from the market. This case study went through two examples of individual relationships held by either management or IR and two other examples where there was a primary and supporting role in the relationship. In addition to the relationship ownership, the case study demonstrates how Husky pursued four different approaches to raising equity, with three of the approaches failing, causing management to pursue the next alternative, which was typically less favourable in the eyes of management.

Through this chapter, it has become clearer that the market is interested in more than just the financial and operational information provided by a company. They are interested in understanding the various capabilities and integrity of members of the firm. They are interested in meeting management and building relationships with the organization to better understand who they are investing their money with. They want to trust that management and IR knows the correct way to act and will act correctly.

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8 Conclusions

In the introduction chapter, I stated the main objective of this research is to explore the limitations of several theoretical models that currently exist in the neoclassical disclosure literature. The generic feature of such theoretical models is that they involve a chain of logic, from the assumptions underlying the model to one or more implications of the model assumptions. The implications are typically detailed in the form of a proposition that states that if the assumptions are true then something will either be true or untrue. For example, the disclosure principle states that, given a set of assumptions, then managers will fully disclose all the information they have to the market.

The purpose of this section is to summarise the potential implications of the empirical insights of chapters five to seven for the theoretical literature. I consider two main questions relating to the assumptions and the propositions to be found in the published theoretical literature. First, I consider which of the assumptions of the theoretical literature seem to be reasonably descriptive of the reality of the investor communications function at Husky over the study period, and which of these assumptions seem to be removed from the reality experienced. Second, I consider the extent that the key theoretical propositions of the published theoretical literature provide an adequate basis on which to build an investor communications strategy for Husky.

Before considering the two questions stated above, I will walk through a brief discussion of the current theoretical propositions and assumptions in the literature. The strength behind the propositions and assumptions is the chain of logic described above. These lists of propositions and assumptions are taken from the theoretical literature identified in the recent surveys produced by Stocken (2013) and Beyer et al. (2010), and other sources, totalling 26 different papers starting in 1981.
Table 8-1 is a collection of the main theoretical propositions in chronological order by author. A total of 15 assumptions from these theory papers have been assembled and placed into Table 8-2.

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While the logic chain is a key strength of these theoretical papers, I also believe the mathematical modelling behind it creates a weakness. The neoclassical disclosure views oversimplify reality by removing substantial detail and insight to allow for the mathematical modelling to be manageable. The insights generated by some of the models can be underwhelming as one needs a significant amount of mathematics to get to the simple outcome. By challenging the simplicity of these assumptions through the lens of practical experience, I have set the stage for further empirical and theoretical investigation into voluntary disclosure, to bridge the demonstrated gaps between theory and practice.

8.1 Theoretical Propositions

When evaluating the theoretical literature, the starting point is that everything is disclosed, (Grossman, 1981, Milgrom, 1981), until something happens that causes management to not disclose. This is what the disclosure principle tells us. Moving beyond the disclosure principle, the literature explores under what circumstances should management disclose or not disclose and how management discloses by relaxing one or more of the assumptions underlying the disclosure principle. The literature attempts to explain management's rationale for the partial and voluntary disclosure. The main theoretical propositions are shown chronologically, beginning in 1981, by author in
Table 8-1 below.

Of the theoretical papers, there are a number of the propositions that tend to stand out more than the others. The first of interest is Crawford and Sobel (1982). In this particular paper, they set the stage for what is known going forward as 'cheap-talk' games. In these games, management is able to disclose information and there is no cost to management for the disclosure since the information cannot be verified by investors or the market at a future point in time. A good example of this type of 'cheap-talk' is when management is willing to disclose a range of values instead of a particular point forecast. As long as the end value lies somewhere within the range, there is no impact on management.

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Table 8-1: Main Theoretical Propositions for Voluntary Disclosure

Year	Author	Findings
1981	Grossman	Monopolist will not be able to mislead rational consumers about quality of his product. If offer is less than full warranty, intent is to mislead.
1981	Milgrom	1) good news about a firm's prospects always causes share price to rise, 2) more favourable evidence about agent's effort leads the principal to pay a larger bonus, 3) buyers expect that product information withheld is unfavourable to the product and 4) bidders figure that low bids by competitors signal a low value for the object
1982	Crawford and Sobel	Direct communication is likely to play a more important role based on relatedness of goals. The closer the goals, the higher the benefit for both parties.
1982	Jovanovic	Whether information is of purely private value or not, more than the socially optimal amount of disclosure takes place
1983	Verrecchia	There are proprietary costs associated with disclosing information. With higher costs, come an increase in the propensity to withhold information.
1985	Dye	incomplete, 2) the non-proprietary information is connected to proprietary information and 3) disclosure may exacerbate principal-agent problems
1985	Narayanan	When management has private information about firm's decisions, incentivized to take short-term gains at expense of long-term value.
1988	Jung and Kwon	In the absence of disclosure, investors revise probability that managers have information. Information acquired from independent source may trigger information release by firm.
1989	Stein	In equilibrium, the market is efficient and not fooled, any earnings inflation by managers is adjusted for.
1990	Darrough and Stoughton	When the proprietary information is favourable or entry cost is low, the information will be disclosed. When the proprietary information in unfavourable or entry cost high, the information will be withheld.
1990	Wagenhofer	The firm faces a trade-off in disclosure as it wants to induce a higher market price, yet avoid proprietary costs from an opponent entering the market or the application of political costs.
1994	Shin	The uncertainty over the quality of the informed party's information is captured by a set of probabilities with which the informed party receives a set of specified signals on the value of a firm.
1994	Gigler	Proprietary costs can actually increase voluntary disclosure by generating credibility for such disclosures
1994	Skinner	The investor may sue with large negative earnings surprises (signaling cost), managers may ruin reputation with large negative surprises, both results incentivsing early voluntary disclosure for negative results.
1995	Dye and Sridhar	One firm's disclosure influences market perceptions on other firms in the same industry have received firm specific, value relevant information that they have not disclosed. Explains herding behaviour. If the firm receives private information, the firm is more inclined to disclose. If information is widely known, then less likely to disclose as the number of firms with the information increases.
2000	Fischer and Verrecchia	Management's reporting bias reduces the value relevance of the manager's report, introducing noise. Information content falls as the private cost to management falls and the uncertainty about management's objective increases.
2000	Stocken	In a repeated game, the information from a manager is always truthful as it is verifiable, provided the manager is patient, the accounting information is sufficient and the disclosure performance is evaluated over a sufficiently long period.
2002	Dutta and Trueman	When prior assessment of firm is favourable, management discloses positive and negative news, when prior assessment unfavourable, management withholds positive and negative news.
2002	Dye and Sridhar	Capital market prices can be used to direct a manager's actions and that information flows from capital markets to firms instead of just firms to capital markets.
2003	Fishman and Hagerty	As more customers may find disclosure difficult to understand, there is an increasing need for mandatory disclosure as firms will find less incentive to disclose information.
2007	Einhorn	The uncertainty of management's reporting objective (whether to lower or increase value) is another opportunity for management to withhold disclosures.
2007	Suijs	A firm may withhold information if it is uncertain of the investor response. If the risk of an unfavourable response is too high, the firm will withhold the information.
2008	Acharya, Demarzo and Kremer	The release of negative information about the market accelerates the release of information by the firm. The release of negative information tends to be clustered.
2008	Einhorn and Ziv	Voluntary disclosures provided in the past enhance a firm's implicit commitment to provide similar disclosures in the future
2009	Arya, Frimor and Mittendorf	While the unravelling result holds at the firm level, firms withhold information at the segment level due to proprietary costs from competition.
2012	Guttman, Kremer and Skrzypacz	The market forms its beliefs on what and when information is revealed, allowing later disclosure to receive a greater reward.

Another key theoretical paper is Verrecchia (1983), where it is shown that there are proprietary costs associated with the private information that is held by management. The proprietary costs cause management to reflect on whether the benefit of disclosing the information is of greater value weighed against the cost of disclosing. If the cost is too great to management or the current shareholders, then management is more inclined to withhold the information. This paper begins exploring the different signaling costs associated with voluntarily disclosing privately held information.

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The theoretical paper from Dye (1985), where he identifies three key reasons as to why management will withhold information, is another interesting development in the theory. The first reason relates to the investor's knowledge of management's information is incomplete – investors just do not know what information management actually has. This reason has expanded theory into creating uncertainty of the investor and uncertainty of the intentions of management. The second reason, is that the non-proprietary information that management has may be connected to proprietary information and in some way, causing management to withhold the non-proprietary information. This reason builds on the initial view from Verrecchia (1983). The last reason is that the disclosure would exacerbate principal-agent problems.

Darrough and Stoughton (1990) introduce the trade-off between the disclosure of positive and negative information against cost of entry into the market. When the cost of entry is low, positive information may be withheld to avoid encouraging competition from entering the particular market. Likewise, negative information may be released to discourage competitors from entering a market. This expands the theory to begin looking at the impacts on competitors, so beyond that of investors.

Stocken (2000) introduces a new element into the voluntary disclosure theory, and that is the impact of the repeated game. The view that the repeated game will present different outcomes than a single game, begins to highlight the importance of reputation and credibility into the disclosure of information. Prior to this point, the theory had been focused on a single play game where there is no reputational cost from management providing misleading information. In the repeated game situation, the prior misleading information by management will be used by the investor to discount future disclosures. In this repeated game case, management is now incentivized to provide credible information each time as the last information will be remembered by the investor and the investor can verify the information.

A feedback loop from the market is established in the theory paper from Dye and Sridhar (2002). In this scenario, management receives information back from the market based on the disclosures that they have provided. The information received

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back is in the form of share price movement relative to strategy, with a positive movement reinforcing management's resolve for the strategy and a negative price movement causing management to rethink the strategy.

Fishman and Hagerty (2003) begin to differentiate between investors in their article. This paper introduces the concept of the sophisticated and unsophisticated investor. The issue with the unsophisticated investors is that they do not understand the information that has been disclosed by management. As such, instead of acting through their own rational thought, they look to more sophisticated investors and therefore follow the actions of the sophisticated investor, mimicking when the sophisticated investor buys and sells the securities. This begins to introduce irrationality into the investor actions along with creating different classes of investors to consider when disclosing.

If management is uncertain of how the investor will respond, this presents another reason for management to withhold information, according to Suijs (2007). Management is faced with the dilemma of determining how investors will react to particular information. While management may believe that the information is positive, it is possible for the market to view the information as negative. In this situation, management must be more convinced that the market will react positively prior to releasing the information.

As shown above, there are many directions that the voluntary disclosure has moved in over the years and more directions for it to explore. The contributions from my empirical chapters five through seven, introduce directions for the theory to further consider and encompass. One way to begin looking in new directions is to consider the assumptions that underlie the existing theory. In the next section, I will provide an overview of the main assumptions that are built into the theory papers above, before returning to the two questions identified at the beginning of this chapter.

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8.2 *Theoretical Assumptions*

In Table 8-2 below, is a listing of the main theoretical assumptions found in the 26 papers identified earlier.

Table 8-2: Theoretical assumptions identified in recent literature surveys

Year	Author	All parties are perfectly rational	There is an equilibrium achieved	Markets are efficient	Number of periods	Only management has private information	Investors are homogenous	One-way communication	Information is understandable by investor	Investor knows management has info, then management will release	Management chooses comm. strategy based on sign of private information signal	Investor is able to verify information	Management understands how investor will use info	Management can't lie	There is a cost to signaling	Number and type of parties involved
1981	Grossman	Y	Y	Y	One	Y	Y	Y	Y	N	Y	Y	N	Y	Y	two
1981	Milgrom	Y	Y	Y	One	Y	Y	Y	Y	N	N	Y	N	Y	N	two
1982	Crawford and Sobel	Y	Y	Y	One	Y	Y	Y	Y	N	Y	N	Y	Y	N	two
1982	Jovanovic	Y	Y	Y	One	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	two
1983	Verrecchia	Y	Y	Y	One	Y	Y	Y	Y	N	Y	N	N	Y	Y	two
1985	Dye	Y	Y	Y	One	Y	Y	Y	Y	Y	Y	N	N	Y	N	two
1985	Narayanan	Y	Y	Y	One	Y	Y	Y	Y	N	Y	N	N	Y	N	two
1988	Jung and Kwon	Y	Y	Y	One	Y	Y	Y	Y	N	Y	N	N	Y	N	three (investors/ other info source)
1989	Stein	Y	Y	Y	One	Y	Y	Y	Y	N	Y	Y	N	Y	Y	two
1990	Darrough and Stoughton	Y	Y	Y	One	Y	Y	Y	Y	N	Y	N	N	Y	Y	three (investors/ firms)
1990	Wagenhofer	Y	Y	Y	One	Y	Y	Y	Y	N	Y	N	N	Y	Y	three
1994	Shin	Y	Y	Y	One	Y	Y	Y	Y	N	Y	N	N	Y	N	two
1994	Gigler	Y	Y	Y	One	Y	Y	Y	Y	N	Y	N	N	Y	Y	three (investors/ firms)
1994	Skinner	Y	Y	Y	One	Y	Y	Y	Y	N	Y	N	N	Y	Y	two
1995	Dye and Sridhar	Y	Y	Y	Two	Y	Y	Y	Y	Y	Y	N	N	Y	N	three (investors/ firms)
2000	Fischer and Verrecchia	Y	Y	Y	One	Y	Y	Y	Y	N	Y	N	N	Y	Y	two
2000	Stocken	Y	Y	Y	Infinite	Y	Y	Y	Y	N	Y	Y	N	Y	Y	two
2002	Dutta and Trueman	Y	Y	Y	One	Y	Y	Y	Y	N	Y	N	N	Y	N	two
2002	Dye and Sridhar	Y	Y	Y	One	N	Y	N	Y	N	N	N	N	Y	N	two
2003	Fishman and Hagerty	Y	Y	Y	One	Y	N	Y	N	N	Y	N	N	Y	Y	Three (informed and uninformed investors)
2007	Einhorn	Y	Y	Y	One	Y	Y	Y	Y	N	Y	N	N	Y	Y	two
2007	Suijs	Y	Y	Y	One	Y	Y	Y	Y	N	Y	N	N	Y	Y	two
2008	Acharya, Demarzo and Kremer	Y	Y	Y	Two	Y	Y	Y	Y	N	Y	N	N	Y	N	two
2008	Einhorn and Ziv	Y	Y	Y	Two	Y	Y	Y	Y	Y	Y	N	N	Y	Y	two
2009	Arya, Frimor and Mittendorf	Y	Y	Y	One	Y	Y	Y	Y	N	Y	N	N	Y	Y	two (competitors)
2012	Guttman, Kremer and Skrzypacz	Y	Y	Y	Two	Y	Y	Y	Y	N	Y	N	N	Y	N	Two

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I have ordered Table 8-2 from top to bottom, again in chronological order of when the papers are written and from left to right with the most common to most varied assumptions through the 26 papers previously identified in
Table 8-1. I will take a number of the most relevant assumptions and provide more detail around that assumption.

It is important to connect the thesis findings back to the assumptions underlying the neoclassical models of financial disclosure to help demonstrate any potential weaknesses. The first assumption that I will walk through is that all parties are perfectly rational, an assumption prevalent in all 26 papers listed. This implies that no irrationality or emotion can influence the disclosure models. This assumption will steer the outcomes of the theory models to a logical and predictable conclusion.

The next assumption that all 26 papers identify is there always being an equilibrium achieved. Moving back to the theory discussion presented earlier, this will have the propositions suggest that there is an optimal outcome that can be achieved under each scenario identified as the theory has evolved. This optimal outcome also is tied to the next assumption, and that is the market operates on an efficient basis. The information that management voluntarily discloses is automatically and instantly integrated into the market price for the firm's securities. By having all information instantly built into the market price, the existing theory proposes that only management's private information is all that is left to impact future share price at that point in time, as all other value relevant information is already incorporated into the market price. This brings another assumption built into the theory papers – only management has private information that is value relevant.

A total of 21 papers listed have developed their models around a single period game, one around an infinite number of periods and four around two periods. I understand that a likely outcome of dealing with single period models is to make the math easier to develop and understand, with infinite periods being the next easiest variable to deal with. Trying to with work with an unknown, but finite

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number of periods would be extremely complex to work through the logic and present a coherent and provable proposition.

Fishman and Hagerty (2003), provide the only model that suggests investors are not homogenous. This assumption is relaxed in their model, more to reflect that there are different levels of understanding amongst investors for the information that is disclosed by a firm. By relaxing this assumption, it also creates some difficulty in the rational view of the investor. Expanding on the assumptions that investors are homogenous and perfectly rational is the implicit assumption that all information is understandable to all investors, which is at the heart of the paper by Fishman and Hagerty (2003). As found in my research and discussed in Chapter 5, there are many different levels of sophistication in the investors. These unsophisticated investors may not be acting rationally, since they cannot come to a perfectly logical conclusion as they do not understand all of the information available to them, compared to other investors who are acting perfectly rational based on the information that they have available.

One-way communication is assumed in all but one paper, Dye and Sridhar (2002), which highlight that information can be gained from the market. With the one-way communication assumptions, none of the models are required to have a feedback loop from the market back to management. Implicitly, this suggests in the theory that management has nothing to learn from investors, either current or prospective investors. This is contrary to my findings, where in Chapter 6, I established the need for two-way communication between management and financial market participants. Of the various participants involved, management finds that sell-side analysts and institutional investors provide the richest information back to management. Management uses a variety of tools to gain information from the market, with the one-on-one meeting being of the greatest value to management. The information would be used to refine communications, gain understanding of existing investors and target new potential investors.

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The majority of theoretical papers have based their models on two parties, the firm and the investor. Some of the papers, such as Jung and Kwon (1988), have expanded beyond to include a third party, such as another information source. When disclosing information, management must be aware of many different stakeholders. These stakeholders can include current and prospective investors, debt versus equity investors, competitors, partners, employees, governments and the communities that the firm operates in, to name just a few. When talking about management withholding information, the reason may not be relevant to the investor, but it may be more important to the community they operate in not to have that information discussed. Another example could be information related to a project the firm is partnered with another company on and the release of information may not have a proprietary cost to the firm, but does to the partner firm, and hence the information is not voluntarily disclosed. None of the models provide for this situation, something that Husky has experienced with its partners on multiple occasions and should be an area that is further explored.

As demonstrated above, there are a number of different assumptions, both explicit and implicit in the theoretical papers examined in
Table 8-1 and Table 8-2. In the next section, I will discuss the theoretical propositions and underlying assumptions in relation to the findings from my three empirical chapters around complexity, two-way communication and trust and reputation.

8.3 Contributions from my research

I believe that the existing theory papers fail to capture important aspects of the disclosure problem. There are limitations to the theory and insufficient attention has been paid to a number of areas, of which I will discuss three in particular. Based on what was shown above, I believe more attention should be given to the complex nature of the market, particularly the assumptions around rationality, multiple periods and the heterogenous nature of investors. Secondly, I believe the assumption around one-way communication needs to be relaxed and two-way

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communication further examined. Lastly, reputation and trust are areas that I believe the current theory has insufficiently examined so far.

I will spend a little time discussing each of these three areas just mentioned while addressing the two questions mentioned at the beginning. First, which of the assumptions of the theoretical literature seem to be reasonably descriptive of the reality of the investor communications function at Husky over the study period, and which of these assumptions seem to be removed from the reality experienced. Second, the extent to which the key theoretical propositions of the published theoretical literature provide an adequate basis on which to build an investor communications strategy for Husky.

Based on the complex nature of the markets, the speed of transactions and the mass of information, an equilibrium may actually not be tenable. If no new information came into the market, then this assumption would push the share price to a stable level and there would be no further liquidity for buyers and sellers of the firm's shares, since all would now value the firm at the same price. With a bid-ask spread constantly moving, and transactions constantly occurring, particularly for larger companies, I believe that an equilibrium will never be reached. There appears to always be someone willing to buy and someone willing to sell, which to me, suggests that the market is dynamic, always learning information, but not everyone is learning the same information at the same time.

The assumptions of a single-period game or an infinite period game, may be fine from a mathematical perspective, but a model that utilizes multiple unknown, but finite number periods, would provide interesting insights into management's disclosure incentives. From the research, the interactions with investors are likely finite, but occur over more than two periods. The reason I say they are finite is for one of four reasons. The first reason is the portfolio manager has left the institutional investor, management has left the firm, the investor has sold his shares, and finally the firm has gone private or bankrupt. In any one of these situations, it is possible that there could have been many interactions or games

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between management and the investor, but those games always go beyond one and never make it to an infinite level. In reality, it is likely impossible to predict just how many interactions there will be with each investor, making the predictions of the outcomes of the games even more difficult.

In treating all investors as one homogenous investor, I believe oversimplifies reality in understanding the decisions that management faces when disclosing information. The models should be further examined in light of heterogenous investors, perhaps there is different costs with different investors, or different value with different types of investors. Within my findings, I have also found situations where the level of technical detail is only understood by certain investors, but beyond that, there are also different drivers amongst the investors. A good example would be the difference between an equity investor and a debt investor. An equity investor would want any excess cash generated by the company to either be paid out as dividends or reinvested into the firm. The debt investor would want the excess funds used to pay down debt and not reinvested in the company or paid as dividends. As another example, information disclosed around a large acquisition may be very attractive to the equity investor and unattractive to the debt investor, especially based on the way that transaction is to be paid for. I believe that this assumption needs to be relaxed to take into account the possibility of differences between investors. This sophistication can range from technical to financial sophistication, and a level of sophistication that is beyond management of the firm as evidenced in the short-selling case presented. With the spectrum of understanding available from the different investors, there is an attempt by management to present the information in a simplified form that is understandable by the least sophisticated investor. With the simplification comes a loss of precision in the actual information, opening up the possibility of nuanced interpretations by different investors. I believe this assumption needs to be further examined empirically and through theoretical models.

The assumption around one-way communication is another area that needs further expansion into two-way communication. The whole basis of the agency problem is

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that management does not have the same goals or risk tolerance as the investors they are working for. For management to effectively operate the firm on behalf of the investors, there needs to be a feedback loop for management to understand the goals and risk appetite of the investors they are representing. Management is then in a position to learn from the investors as to what risk levels and the goals of the investors will be. It also provides management the opportunity to learn what information that investors may find valuable in assessing management's performance.

The theoretical models are relatively light on the areas of trust, reputation and relationships as they relate to voluntary disclosure. There has been some work around credibility and repeated games, but additional work could be considered. As discussed in the relevant empirical chapter (Ch. 7), a good example is the need to disclose bad news to maintain or even enhance a good reputation. While it is clear that the information presented by management needs to be transparent, it also needs to be balanced between positive and negative information. If only positive information is presented to the market, there is the possibility that the market will begin suspecting that negative information is being suppressed, impacting management's reputation and the trust the market has in management.

Ending with rationality, my findings around affective trust and relationships and both of their connections to reputation, one can see that the possibility of irrationality or emotion can easily be involved in the outcomes of the disclosure. Financial communication is difficult and complex, and there are rationality limits both of management and investors. Some types of behaviours cannot be represented by mathematical models that assumes perfect rationality on both sides. There is one form of rational behaviour and an infinite number of irrational behaviours. The rationality assumption from the neoclassical models should also take into account the extensive literature that has developed around behaviour economics and behavioural finance, as there are repercussions on the predicted outcomes. Exploring this area would require a completely different approach beyond the scope of this discussion.

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8.3.1 Additional Contributions

Mentioned earlier in Chapter 3, the literature investigates financial disclosure by a public firm from an external perspective. Through conducting this research, a new perspective around financial disclosure is considered – that from inside the company. This internal view allows new insight into the IR function and disclosure considerations, rather than just disclosure outcomes, for management. Understanding the internal actions by management and IR helps set the framework for new empirical studies into the rationale behind the information produced by the firm. It may direct researchers into further investigations around behavioural economics and finance. These investigations can focus on the behavioural elements of disclosure models and the influence of reputation and trust on a firm's valuation. One can also begin to look deeper into how management and IR try to manage reputation and trust for financial and other stakeholders and the quantitative impacts of these attempts. This begins to demonstrate the very personal nature of the interaction between management and the market.

Another novel contribution of this research is the qualitative methodology employed to gain the insights. While the overall disclosure literature is broad, the qualitative literature in this area is quite limited. The approach utilized here is only the second case study approach in IR that I have come across (the other being de Jong et al. (2007)) and the first case study approach looking specifically at financial disclosure. This approach has provided rich and detailed information into the inner workings of the disclosure process utilized at a large organization and IR's role in that disclosure process.

8.3.2 Final Remarks

This thesis should be of interest to several different audiences, as neoclassical views tend to dominate research in this area. The information and research presented should be of interest to existing and future IR managers in understanding how IR has been performed in another company, industry or country. Academic

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researchers are likely to be interested as this will assist with the understanding of how the flow of information between the firm and the capital markets occurs. Senior management, such as finance directors, CEOs, board members and other executives can see how a significant shift in perception is possible and some of the drivers behind it. Regulators may like to understand how some of the regulations put in place create barriers for management to reduce information asymmetry. Lastly, sell-side analysts and investors can understand that communicating with management may assist with value generation and remove risk.

This thesis presents different implications for the IR practitioner, that should be valuable for their role within the firm. The first implication is that the position will be difficult and nebulous, especially in trying to understand the shareholders that they are to interact with regularly. This is based on the information asymmetry from principal to agent as discussed in Chapter 5, along with the many different drivers behind each investor. A significant part of the role is helping guide management in the needs and wants of the market for information. This moves to the next implication, that of organizing and participating in the many ways to embark in two-way communication and the best ways of managing these different opportunities. Lastly, the IR practitioner plays a central role in managing the firm's reputation and building trust between the firm and the market.

To gain a better understanding of how investors think about the firm's prospects and management's capabilities, management needs to actively participate in the IR activities. They need to make themselves available for direct interactions with investors. Through these interactions, management can attempt to establish a favourable reputation and trust with the investors. This favourable reputation may allow for business benefits, whether in accessibility to capital at a reasonable cost when the firm is in need, or the provision of unique insights to help guide management towards increasing the value of the firm.

High quality two-way communication is the basis of good investors relations between the firm and the main market participants. This is evident in the definition

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of IR presented back in the first chapter. The effective two-way flow of information contributes to a fair and more efficient capital markets. It allows management to be transparent about what is going well and what is not. Even those things not going well, provides management the opportunity to demonstrate its capabilities in developing plans to improve or fix past performance. The two-way communications further allow management to become better aligned with the investor's goals, risk tolerances and informational needs. This alignment with investors should translate into greater value for the firm, due to reputation and trust, and indirectly greater value for management.

In stepping back from the research and commentary, it is important to take away three items. The first, that management faces many information asymmetries with respect to the financial market and investors and tries to close these asymmetries to better perform their responsibilities. Secondly, management relies heavily on two-way communication and uses this to understand investor needs, market complexity and the informational asymmetries they are faced with. Lastly, beyond management sharing information with market participants in a rational manner, personal connection with market participants plays a critical role in aiding management's disclosure duties.

These findings pose a potential problem for financial market regulators. On one hand, close personal relations between major investors and management help to improve understanding and trust, leading to a reduction in the perceived level of risk on the part of investors. On the other, close personal relations between major investors and management runs a risk that small investors may face a significant information disadvantage. Regulators need to think about how best to manage the trade-off between these two considerations.

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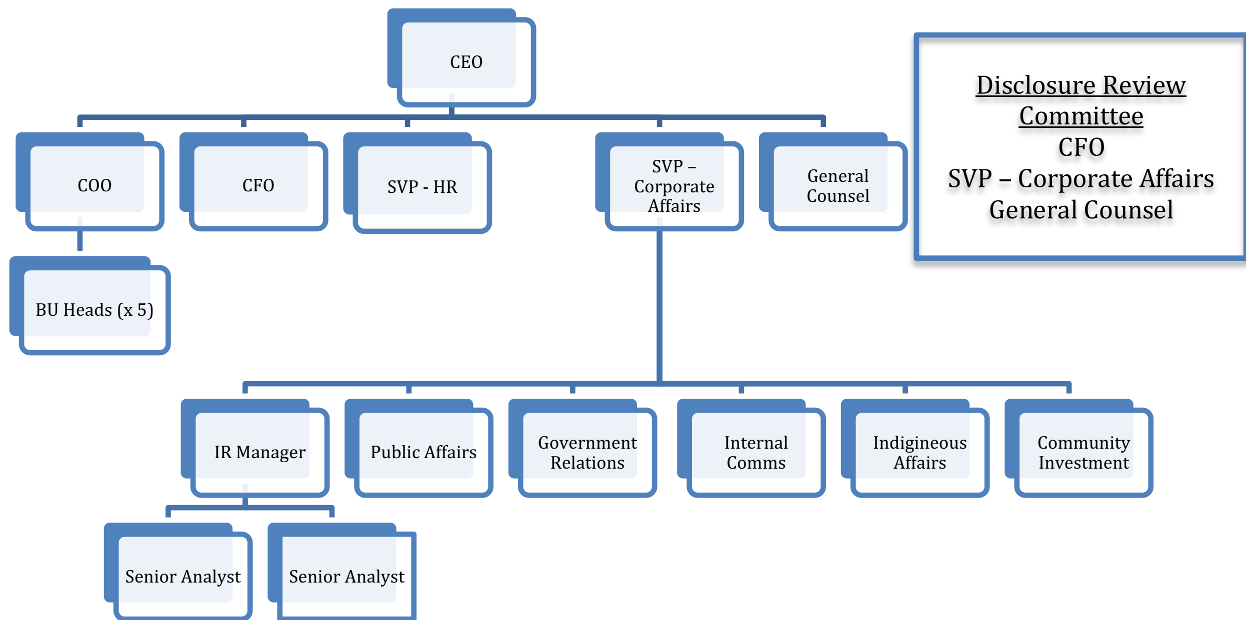
Appendices

Appendix 1 – Corporate Organization Structure



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Appendix 2 – News Timelines

Date (D/M/Y)	Press Release Title	Strategic	Operational	Financial	Advisory
6/Jan/10	Husky Announces New Office Building for Lloydminster		X		
20/Jan/10	Sunrise Oil Sands Project Update		X		
21/Jan/10	Husky Energy to Announce 2009 Annual and Fourth Quarter Results				X
3/Feb/10	Husky Energy Announces 2009 Fourth Quarter Dividend				X
3/Feb/10	Husky Energy Reports 2009 Fourth Quarter and Annual Results		X	X	
8/Feb/10	Husky Energy Announces Third Discovery in South China Sea		X		
18/Feb/10	Husky Energy's President & CEO John C.S. Lau to Retire and Assume Leadership of Husky's Asian Business	X			
1/Mar/10	Husky Energy Files 2009 Disclosure Documents				X
9/Mar/10	Husky Energy Announces a Successful Medium-Term Notes Offering			X	
19/Apr/10	Husky Energy to Announce 2010 First Quarter Results				X
27/Apr/10	Husky Energy Announces 2010 First Quarter Dividend				X
27/Apr/10	Husky Energy Reports 2010 First Quarter Results		X	X	
21/May/10	Husky Energy Appoints New President & Chief Executive Officer	X			
31/May/10	Husky Energy Announces Oil Production from the North Amethyst Field		X		
31/May/10	Husky Announces Results of First Appraisal Well from Liuhua 29-1 Gas Field		X		
14/Jul/10	Husky Energy to Announce 2010 Second Quarter Results				X
27/Jul/10	Husky Energy Announces Board Additions and Executive Appointment	X			
28/Jul/10	Husky Energy Announces a Heightened Focus on Production Growth in Reporting Its Second Quarter 2010 Results		X	X	
28/Jul/10	Husky Energy Announces 2010 Second Quarter Dividend				X
1/Sep/10	Husky Energy Acquires Foothills Natural Gas Properties	X			
21/Oct/10	Husky Energy to Announce 2010 Third Quarter Results				X
27/Oct/10	Husky Announces Results from Second Liuhua 29-1 Appraisal Well		X		
28/Oct/10	Husky Receives Madura Strait Production Sharing Contract Extension		X		
4/Nov/10	Husky Energy Announces Third Quarter Results, Increases Capital Spending for Near Term Growth		X	X	
4/Nov/10	Husky Energy Announces 2010 Third Quarter Dividend				X
24/Nov/10	Husky Energy to Webcast Investor Day 2010	X			X
26/Nov/10	Husky Energy Files Universal Prospectus			X	

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Date (D/M/Y)	Press Release Title	Strategic	Operational	Financial	Advisory
29/Nov/10	Husky Energy Announces Major Strategic Growth Initiatives	X	X	X	
29/Nov/10	Husky Energy Announces Intention to Raise $1.0 Billion in a Common Share Offering	X		X	
30/Nov/10	Husky Energy Announces Terms of Overnight Marketed Public Offering and Concurrent Private Placement			X	
7/Dec/10	Husky Energy Closes $1.0 Billion Common Share Offering				X
7/Dec/10	Husky Announces the Signing of Agreement for Liwan 3-1 Field Development		X		
	2010 - 32 Releases				
10/Jan/11	Husky Energy Announces Date for Special Meeting of Shareholders	X			X
26/Jan/11	Husky Energy to Announce 2010 Fourth Quarter Results				X
1/Feb/11	Husky Energy Files Documents for Special Meeting of Shareholders				X
15/Feb/11	Husky Energy Increases 2010 Cash Flow to $3.5 Billion		X	X	
28/Feb/11	Husky Energy Shareholders Approve Changes to Dividend Policy				X
28/Feb/11	Husky Energy Announces 2010 Fourth Quarter Dividend				X
9/Mar/11	Husky Energy Files 2010 Disclosure Documents				X
9/Mar/11	Husky Energy Announces 174% Reserves Replacement Ratio	X	X	X	
10/Mar/11	Husky Energy Announces Inaugural Preferred Share Issuance	X		X	
18/Mar/11	Husky Energy Closes Successful $300 Million Preferred Share Issuance				X
8/Apr/11	Husky Energy to Announce 2011 First Quarter Results / Webcast Annual General Meeting				X
11/Apr/11	Husky Energy Lloydminster Upgrader Resumes Normal Operations		X		
27/Apr/11	Husky Energy Delivers Strong Earnings and Cash Flow Growth		X	X	
27/Apr/11	Husky Energy Announces 2011 First Quarter Dividend			X	
17/May/11	Husky Energy to Present at UBS Global Oil and Gas Conference				X
20/May/11	Husky Energy Takes Action in Slave Lake Area		X		
24/May/11	Husky Energy Announces Dividend Payable on Preferred Shares				
30/May/11	Husky Energy Explores Potential Hong Kong Secondary Listing	X		X	
3/Jun/11	Husky Energy to Participate at RBC Capital Markets' Global Energy and Power Conference				X
10/Jun/11	Husky Energy to Participate at CAPP Oil & Gas Investment Symposium				X
13/Jun/11	Husky Energy Files Universal Prospectus			X	

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Date (D/M/Y)	Press Release Title	Strategic	Operational	Financial	Advisory
22/Jun/11	Husky Energy Announces Advancement of Key Strategic Initiatives and $1.2 Billion Common Share Offering (Bought Deal and Concurrent Private Placement)	X		X	
29/Jun/11	Husky Energy Closes $1.2 Billion Common Share Offering				X
29/Jun/11	Husky Energy Provides Update on Lima Refinery Operations		X		
30/Jun/11	Husky Energy Updates Hong Kong Secondary Listing Status			X	
13/Jul/11	Husky Energy to Announce 2011 Second Quarter Results				X
19/Jul/11	Mr. John C.S. Lau Retires from Husky Asia Pacific	X			
27/Jul/11	Husky Energy Achieves Strong Results in Second Quarter		X	X	
27/Jul/11	Husky Energy Announces 2011 Second Quarter Dividends for Common and Preferred Shares				X
31/Aug/11	Husky Energy to Present at Barclays Capital Energy and Power Conference				X
8/Sep/11	Husky Energy to Present at the Peters & Co. North American Oil & Gas Conference				X
19/Sep/11	Husky Energy Sanctions Liwan Gas Project	X			
13/Oct/11	Husky Energy to Announce 2011 Third Quarter Results				X
3/Nov/11	Husky Energy Delivers Another Quarter of Strong Earnings and Cash Flow		X	X	
3/Nov/11	Husky Energy Announces 2011 Third Quarter Dividends for Common and Preferred Shares				X
28/Nov/11	Husky Energy to Webcast Investor Day on December 5, 2011				X
1/Dec/11	Husky Energy 2012 Capital Expenditure Program Builds on Established Momentum	X	X	X	
	2011 - 37 Releases				
10/Jan/12	Husky Energy to Present at CIBC Whistler Institution				X
18/Jan/12	Husky Energy to Announce 2011 Fourth Quarter Results				X
2/Feb/12	Husky Energy to Present at Credit Suisse Energy Summit				X
9/Feb/12	Husky Energy Announces 2011 Fourth Quarter Dividends for Common and Preferred Shares				X
9/Feb/12	Husky Energy Increases Net Earnings 135% in 2011 as Production Grows 9%		X	X	
8/Mar/12	Husky Energy Announces 180% Reserves Replacement Ratio		X	X	
19/Mar/12	Husky Energy Announces Senior Unsecured Notes Offering			X	
12/Apr/12	Husky Energy to Announce 2012 First Quarter Results/Webcast Annual General Meeting				X

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Date (D/M/Y)	Press Release Title	Strategic	Operational	Financial	Advisory
25/Apr/12	Husky Energy Announces 2012 First Quarter Dividend				X
25/Apr/12	Husky Energy Continues to Execute in First Quarter 2012		X	X	
10/May/12	Husky Energy to Unveil Lloydminster Heavy Oil Initiatives		X		X
14/May/12	Husky Offers New Retail Loyalty Program	X			
17/May/12	Husky Energy Makes Several Announcements in Lloydminster		X		
22/May/12	Husky Energy to Present at UBS Global Oil and Gas Conference				X
10/Jul/12	Husky Energy to Announce 2012 Second Quarter Results				X
24/Jul/12	Husky Energy Announces 2012 Second Quarter Dividend				X
24/Jul/12	Husky Energy on Track with Key Milestones in Second Quarter		X	X	
29/Aug/12	Husky Energy to Present at Barclays Capital CEO Energy-Power Conference				X
6/Sep/12	Husky Energy to Present at Peters & Co. Limited North American Oil & Gas Conference				X
18/Oct/12	Husky Energy to Announce 2012 Third Quarter Results				X
1/Nov/12	Husky Energy Announces 2012 Third Quarter Dividend				X
1/Nov/12	Husky Energy Delivers in Third Quarter		X	X	
27/Nov/12	Husky Energy to Hold Investor Day on December 4, 2012				X
3/Dec/12	Husky Energy Announces New Initiatives and 2013 Production Guidance/Capital Expenditure Program	X	X	X	
5/Dec/12	Husky Energy to Present at CAPP's Oil & Gas Investment Symposium				X
	2012 - 25 Releases				
4/Jan/13	Husky Energy to Present at BMO Capital Markets Conference				X
16/Jan/13	Husky Energy Enters Its 75th Year				X
17/Jan/13	Husky Energy to Present at CIBC's Institutional Investor Conference				X
23/Jan/13	Husky Energy to Announce 2012 Fourth Quarter Results				X
31/Jan/13	Husky Energy to Present at Credit Suisse Energy Summit				X
6/Feb/13	Husky Energy Announces 2012 Fourth Quarter Dividend				X
6/Feb/13	Focused Integration Continues to Deliver for Husky Energy		X	X	
8/Mar/13	Husky Energy Files 2012 Disclosure Documents				X
8/Mar/13	Husky Energy Reserves Replacement Reflects Consistent Growth		X	X	
23/Apr/13	Husky Energy to Announce 2013 First Quarter Results/Webcast Annual General Meeting				X

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Date (D/M/Y)	Press Release Title	Strategic	Operational	Financial	Advisory
7/May/13	Husky Energy Reports Voting Results from Annual Meeting of Shareholders				X
7/May/13	Husky Energy Announces 2013 First Quarter Dividend				X
7/May/13	Husky Builds Momentum in the First Quarter of 2013		X	X	
15/May/13	Husky Energy to Present at UBS Global Oil and Gas Conference				X
5/Jun/13	Atlantic Region Development Plan Approved		X		
24/Jun/13	Husky Contributes $1 Million to Flood Relief Efforts			X	X
10/Jul/13	Husky Energy to Announce 2013 Second Quarter Results				X
25/Jul/13	Husky Energy Announces 2013 Second Quarter Dividend				X
25/Jul/13	Husky Energy Continues to Deliver Consistent Execution		X	X	
4/Sep/13	Husky Energy to Present at Peters & Co. Oil and Gas Conference				X
5/Sep/13	Husky Energy to Present at Barclays CEO Energy-Power Conference				X
26/Sep/13	Husky Announces Significant Discoveries in Flemish Pass Offshore Newfoundland	X	X		
10/Oct/13	Husky Energy to Announce Third Quarter 2013 Results				X
11/Oct/13	South White Rose Reserves				X
24/Oct/13	Husky Energy Announces 2013 Third Quarter Dividend				X
24/Oct/13	Steady Progress for Husky Energy in Third Quarter		X	X	
14/Nov/13	Husky Energy to Present at Bank of America Merrill Lynch 2013 Global Energy Conference				X
27/Nov/13	Husky Energy to Announce 2014 Spending Plans and Production Outlook				X
11/Dec/13	Consistent Execution Delivers Substantial Growth for Husky Energy	X	X	X	
	2013 - 29 Releases				

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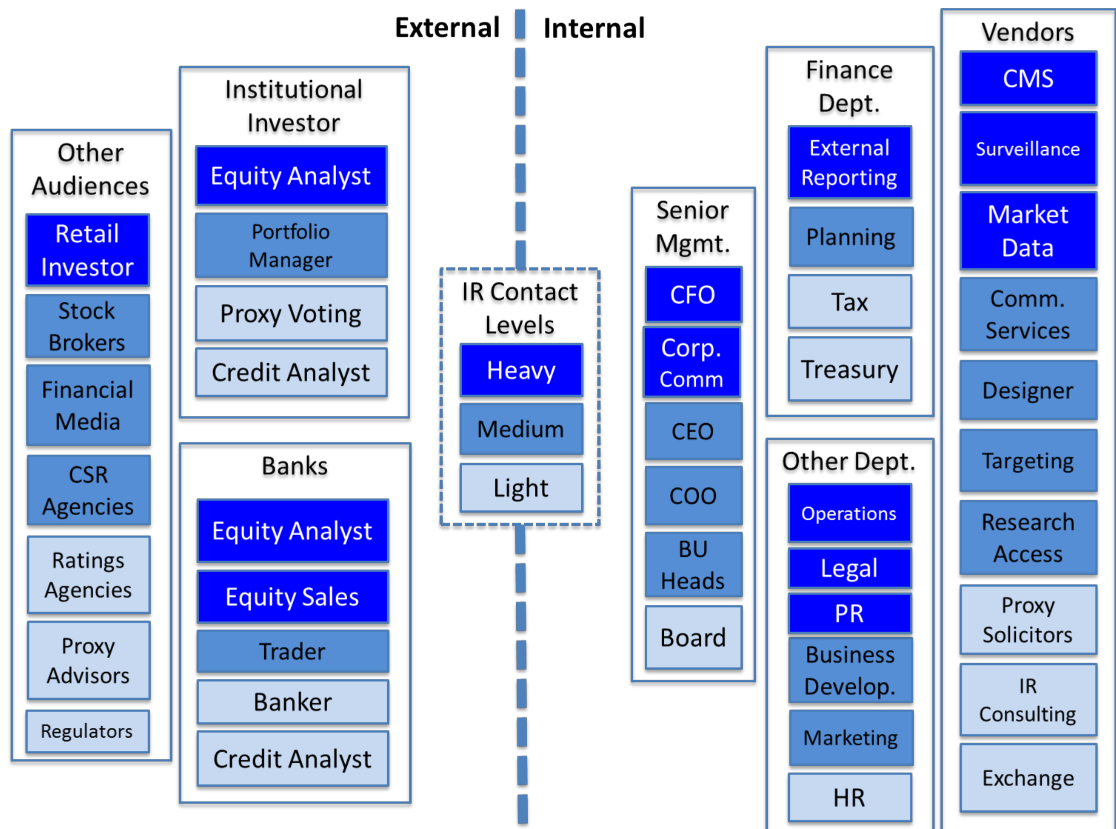
Appendix 3 – Internal and external participants in financial market discussions



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Appendix 4 – IR team job descriptions

Junior Investor Relations Analyst

The overall focus of this position is to establish and implement a financial communications strategy for the company.

- Key message prioritization
  - Develop key messages for disclosure materials
  - Evaluate reception of key messages by investors and analysts
  - Review all analyst reports for accuracy and understanding, summarize and disseminate reports to lead officers
  - Maintain quarterly fact book to aid discussions with analysts and investors
  - Prepare briefing notes for all meetings with analysts and investors
- Competitive analysis
  - Review peer research and identify peer strategies and differentiators
  - Identify share valuation metrics and review against peers to identify any gaps
  - Develop base levels of competitive intelligence of peers
  - Summarize industry research pieces for benefits of business units
- Optimizing disclosure practices
  - Review all peer disclosure practices and recommend necessary changes
  - Review our disclosure guidelines to identify key performance indicators analysts need to accurately assess the company
  - Facilitate approvals of communications material through the Disclosure Review Committee
- Message dissemination events
  - Prepare all presentations to investors
  - Support conference and road show management
  - Manage investor day
  - Manage investor tours
  - Review financial statements and MD&A for clarity and messaging
  - Support AGM
  - Support AIF, annual report and management information circular preparation
  - Develop comprehensive project overviews of significant projects
- Communications channel management
  - Support investor relations section of the website
  - Develop any IR stories for HuskyNet
  - Monitor corporate information on external databases, chat rooms and other areas of web
  - Manage IR email inbox

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Intermediate Investor Relations Analyst

The overall focus of this position is to establish and implement a financial communications strategy for the company.

- Senior Mgmt / Board decision support
  - Develop and maintain regular quarterly board reporting
  - Prepare weekly call reports for senior management
  - Prepare monthly reports for senior management
- Measuring the value of the IR function
  - Develop and implement objective measures
  - Build out IR effectiveness score
  - Build and maintain a financial model based on public information to understand analyst focus
- Internal information gathering
  - Obtain and review all relevant internal reporting (MMRP, tax, treasury, etc.)
  - Liaise with the business as required to obtain information and support for IR
- Regulatory compliance
  - Build and maintain an information source for all associated regulations
- Proactive investor targeting
  - Develop process for regular targeting and evaluation
  - Identify opportunities to target new and existing shareholders to stimulate demand for company stock
  - Review liquidity, styles and other metrics to be most attractive to greatest range of shareholders
  - Identify index qualifications and evaluate attractiveness of being involved in that index
- Sustainability investors
  - Support corporate sustainability report
  - Identify areas for improvement for corporate governance disclosure
  - Identify sustainability investors, their issues and develop key messages for discussion with these investors
- Message dissemination events
  - Prepare all presentations to investors
  - Support conference and road show management
  - Manage investor day and investor tours
  - Review financial statements and MD&A for clarity and messaging
  - Support AGM
  - Support AIF, annual report and management information circular preparation
  - Support corporate sustainability report
  - Support fact sheet development
- Retail Investor

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- Develop and implement a strategy to efficiently attract the retail shareholder

Senior Investor Relations Analyst

The overall focus of this is building a longer-term relationship with the street, both the buy-side and the sell-side. This role will also manage the two seconded roles.

- Market analysis and update
    - Actively monitor trading and liquidity of Husky shares on TSX and alternative trading systems
    - Monitor short position of Husky shares
    - Prepare regular updates on external market activity, including peer stocks, commodities and currencies
    - Make full use of Thomson One product to improve department efficiency and quality of information
- Buy-side investor relationship building
    - Identify existing minority institutional shareholders and track positions, styles and geographic location
    - Manage requests for one-on-one meetings with senior management
    - Improve relationship with existing shareholders to maintain support for the stock
    - Identify investor conferences and non-deal road show locations and dates
    - Maintain contact management database to track investor concerns and issues
- Sell-side analyst relationship management
    - Review all analyst reports for accuracy and understanding, summarize and disseminate reports to lead officers
    - Build and maintain a statistical supplement that can be placed on the external website for analyst and investor use
    - Identify candidates for non-deal road shows
    - Identify optimal quantity of analysts and work with new analysts to help ensure quality of coverage
- Hedge fund management
    - Devise effective strategies to identify appropriate hedge funds to aid liquidity
    - Manage access to investor relations and senior management time
- IR and proxy voting
    - Develop plans to proactively discuss relevant proxy votes with investors
    - Anticipate voting behaviour by leveraging relationships
- Shareholder activism
    - Conduct critical analysis of shareholder and activist concerns
    - Identify potential governance or strategic issues
    - Develop scenario plans and appropriate response strategies
- Fixed-income investor

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  - Develop and implement a strategy to engage and attract the fixed income investor

Investor Relations Manager

- Investor perception analysis
  - Conduct annual perception to identify any misconceptions, test assumptions and plan initiatives
  - Monitor audience absorption of key messages
  - Focus resources to ensure investment community understands key messages
- Dynamic strategic feedback loop
  - Foster ongoing dialog with business unit leaders
  - Market based strategic advice
  - Support financial decision structures
  - Support scenario planning initiatives
- Senior management preparation
  - Crisis communications
  - IR training and coaching for senior management
  - Presentation skill training
- Talent management
  - Skill needs identification and development
- Vendor relationship management
  - Work with IR Roundtable to extract the most value
- Strategic planning and performance feedback
  - IR program development and implementation
  - Continually review new developments and implement best practices

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Appendix 5 – Interview questions for IR, Management, Sell-side, Buy-side

	IR Team	Executives	Sell-side	Buy-side
Two-way communication	• What is the most effective way of communicating with the market and why? • Apart from Husky which firms in your view manage their communications the best? What features characterize their communications strategy? • What is the least effective way of communicating to the market and why? • Can you give examples of poor communication practice? What features characterize poor communications practices? • What are the methods that feedback is generated and captured? • What is done with any feedback received? • Is the feedback treated differently based on who delivers the feedback? • Is there coordination of messages to the market? Why and how is this done? • How do you evaluate that the communication has been effective? • What types of feedback is passed on to management?	• What is the most effective way of communicating with the market and why? • What is the least effective way of communicating to the market and why? • What are the methods that feedback is generated and captured? • What is done with any feedback received? • Is the feedback treated differently based on who delivers the feedback? • Is there coordination of messages to the market? Why and how is this done? • How do you evaluate that the communication has been effective?	• What is the most effective way of communicating with the market and why? Now specifically at Husky? • What is the least effective way of communicating to the market and why? Now, specifically at Husky? • Why do you ask questions of the company in general? At Husky specifically? • Do you ever intentionally provide feedback to the company, and if so what types of feedback? Husky specific examples? • In your investment recommendations, how much weight is given to the information gained through company interactions versus just disclosure materials? Was this different for Husky? • If there are uncoordinated messages received from a company, what does this tell you? Have you seen this from Husky? • How do you evaluate that the communication has been effective?	• What is the most effective way of communicating with the market and why? Now specifically at Husky? • What is the least effective way of communicating to the market and why? Now, specifically at Husky? • Why do you ask questions of the company in general? At Husky specifically? • Do you ever intentionally provide feedback to the company, and if so what types of feedback? Husky specific examples? • In your investment decisions, how much weight is given to the information gained through company interactions versus just disclosure materials? Was this different for Husky • If there are uncoordinated messages received from a company, what does this tell you? Have

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				you seen this from Husky? • How do you evaluate that the communication has been effective?
	IR Team	**Executives**	**Sell-side**	**Buy-side**
Coping with complexity	• Where do you see complexity arising from market interactions? • What is done to cope with complexity of the market? • Do you adjust any of your messages based on complexity encountered? • Are there any learning mechanisms in place to better understand and deal with the complexity going forward? • How do you advise management around the complexities of the market? • How do you evaluate your handling of market complexity? • How confident are you in your ability to predict how the market will react for firm disclosures?	• Where do you see complexity arising from market interactions? • What is done to cope with complexity of the market? • Do you adjust any of your messages based on complexity encountered? • Are there any learning mechanisms in place to better understand and deal with the complexity? • How do you evaluate your handling of market complexity? • How confident are you that you in your ability to predict how the market will react to firm disclosures? • Do you believe that lack of predictability of the market response causes firm to be cautious in the level and types of disclosures they make? Please give examples if possible.	• What complexities of the market does a company need to cope with? Any unique characteristics with Husky? • What tools does the company have to try and understand this complexity? • What proportion of corporate disclosure are • A) very easy to understand • B) understandable with some effort; • C) require considerable effort to understand • D) very difficult to understand. • Do you believe that companies in general have a very good, good, or poor understanding of how their disclosures all affect the market?	• What complexities of the market does a company need to cope with? Any unique characteristics with Husky? • What tools does the company have to try and understand this complexity?
	IR Team	**Executives**	**Sell-side**	**Buy-side**

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Building reputations	• What activities are undertaken to build reputation? • What type of reputation do you want the market to have of you? • How important is your reputation and that of the company to the market? • How do you evaluate your reputation and any changes to the reputation? • What kinds of firms have a good investor relations reputation and why? • What kinds of firm have a poor reputation and why? • At the level of the individual analyst, how do you know that you have a good/satisfactory/poor reputation with them?	• How do you define a good reputation? • How would you characterize your historical and current reputations? • What activities are undertaken to build reputation? • What type of reputation do you want the market to have of you? • How important is your reputation and that of the company to the market? • How do you evaluate your reputation and any changes to the reputation?	• What activities are the most effective at building a positive reputation? A negative reputation? • What type of reputation do you want the market to have of you? • How important is your reputation and that of the company to the market? • How would you characterize the reputation of the firm in 2010, versus 2013? • What are the activities that most created this changed reputation? • In your investment recommendations, how much weight is given to the company reputation? Was this different for Husky? • What kinds of firms have a good investor relations reputation and why? • What kinds of firm have a poor reputation and why?	• What activities are the most effective at building a positive reputation? A negative reputation? • What type of reputation do you want the market to have of you? • How important is your reputation and that of the company to the market? • How would you characterize the reputation of the firm in 2010, versus 2013? • What are the activities that most created this changed reputation? • In your investment decision, how much weight is given to the company reputation? Was this different for Husky? • What kinds of firms have a good investor relations reputation and why? • What kinds of firm have a poor reputation and why?
	IR Team	**Executives**	**Sell-side**	**Buy-side**
Building relationships	• How do you define a good relationship with the market? • What activities are undertaken to build relationships?	• How do you define a good relationship with the market? • What activities are undertaken to	• What activities are the most effective at building a positive relationship? A negative relationship?	• What activities are the most effective at building a positive relationship? A negative relationship?

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	• What type of relationship do you want with the sell-side? • Do you want the same or a different relationship with the buy-side? • Do you focus on building relationships differently with the buy-side versus the sell-side? • How important are your relationships with the market? • How do you evaluate your relationships and any changes to the relationships?	build relationships? • What type of relationship do you want with the sell-side? • Do you want the same or a different relationship with the buy-side? • Do you focus on building relationships differently with the buy-side versus the sell-side? • What groups do you prioritize in building relationships? • How important are your relationships with the market? • How do you evaluate your relationships and any changes to the relationships? • What were Husky's relationships previously and have these changed?	• How important is your relationship with the company's management and the IR team? • How would you characterize your relationships with management and the IR team in 2010, versus 2013? • What are the activities that most changed the relationship? • In your investment recommendations, how much weight is given to the company relationships? Was this different for Husky?	• How important is your relationship with the company's management and the IR team? • How would you characterize your relationships with management and the IR team in 2010, versus 2013? • What are the activities that most changed the relationship? • In your investment decision, how much weight is given to the company relationships? Was this different for Husky?

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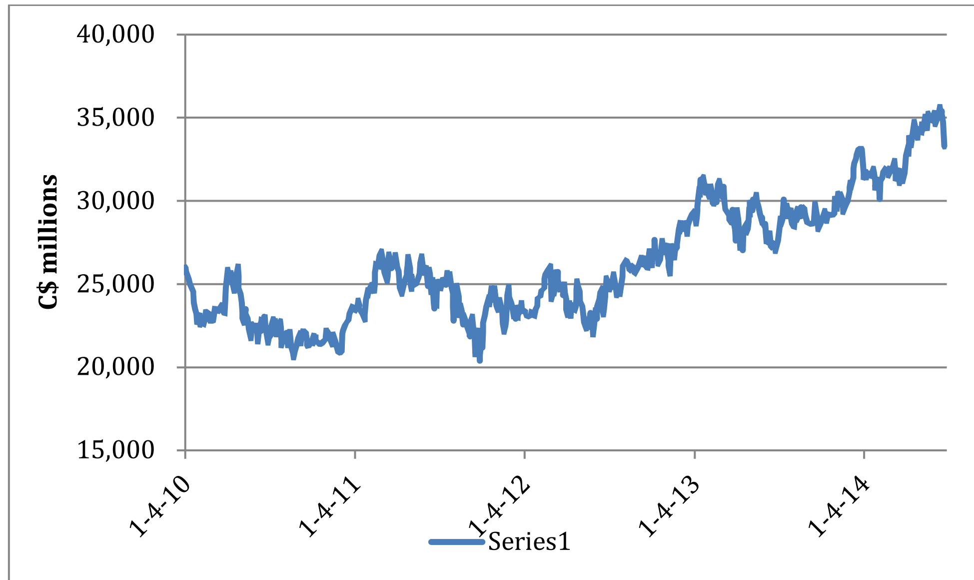
Appendix 6 – Husky Energy Market Capitalization



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Appendix 7 – Sample Perception Study Conducted in 2013

2013 Perception Survey

<**name removed**> is conducting a survey on behalf of **Husky Energy** to solicit feedback on its IR program and strategic messages. Husky's management team welcomes your candid thoughts and feedback. Please be assured individual responses will remain ***completely confidential*** and information will be aggregated and communicated only as averages.

1. How would you categorize your position relative to Husky Energy: (Please mark appropriate responses)

[ ] Buy-Side Analyst
[ ] Sell-Side Analyst
[ ] Portfolio Manager
[ ] Other: ______________________

2. What is the primary basis that you view an investment in Husky?

A AFS Growth	A AFS Value	A AFS Dividend	A AFS Index	A AFS Other	: ____________________

3. What are the weightings on a percentage basis you consider for an investment decision?

[ ] Management team	[ ] Assets	[ ] Financial performance	[ ] Governance	[ ] Other	: ____________________

4. Which of the following do you think are the three key elements of Husky's messaging? (Please mark 3 responses with an "x")

[ ] Husky Energy has the skills and team in place to achieve the targets outlined
[ ] Husky Energy is increasing shareholder value through a deep portfolio of opportunities
[ ] Husky Energy is advancing its three growth pillars
[ ] Husky Energy is transforming the foundation in Western Canada and Heavy Oil
[ ] Husky Energy is continuing to execute consistently
[ ] Husky Energy's business is on course and building momentum

5. On a scale of 1-7, please provide your opinion on the credibility of Husky's messages? (where 1=Not at all Credible and 7=Very Credible)

Husky Energy has the skills and team in place to achieve the targets outlined

A AFS 1	A AFS 2	A AFS 3	A AFS 4	A AFS 5	A AFS 6	A AFS 7

Not At All Credible — Very Credible

Husky Energy is increasing shareholder value through a deep portfolio of opportunities

A AFS 1	A AFS 2	A AFS 3	A AFS 4	A AFS 5	A AFS 6	A AFS 7

Not At All Credible — Very Credible

Husky Energy is advancing its three growth pillars

A AFS 1	A AFS 2	A AFS 3	A AFS 4	A AFS 5	A AFS 6	A AFS 7

Not At All Credible — Very Credible

Husky Energy is transforming the foundation in Western Canada and Heavy Oil

A AFS 1	A AFS 2	A AFS 3	A AFS 4	A AFS 5	A AFS 6	A AFS 7

Not At All Credible — Very Credible

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Husky Energy is continuing to execute consistently

A AFS 1	A AFS 2	A AFS 3	A AFS 4	A AFS 5	A AFS 6	A AFS 7

Not At All Credible Very Credible

Husky Energy's business is on course and building momentum

A AFS 1	A AFS 2	A AFS 3	A AFS 4	A AFS 5	A AFS 6	A AFS 7

Not At All Credible Very Credible

6. Which do you believe are the two most important drivers of Husky's valuation? (Mark only two responses)

[ ] Reserves growth
[ ] Production growth
[ ] Earnings growth
[ ] Finding and development costs and overall cost management
[ ] Cash flow and capital expenditure management
[ ] Sustainable increases in ROCE (return on capital employed)
[ ] Net Asset Value
[ ] Other (please specify):

____

7. What do you see as the biggest strength/opportunity for Husky's performance over the next 12-18 months?

____
____
____

8. What do you see as the largest risk to Husky's performance over the next 12-18 months?

____
____
____

9. Which components of Husky's strategy are unclear to you?

____
____
____

10. Please rate how Husky's management team is delivering on the identified strategy components on a scale of 1-7 (where 1=Greatly underperforming and 7=Greatly exceeding expectations)?

[ ] Liwan Gas Project in South China Sea
[ ] Madura Block gas in Indonesia
[ ] Sunrise Phase 1 in Oil Sands
[ ] White Rose extension in Atlantic Region
[ ] Exploration program in Atlantic Region
[ ] Heavy oil transformation through thermal projects
[ ] Western Canada transformation through resource play development
[ ] Increased flexibility of Downstream

11. Please expand your comments where you believe Husky is underperforming

____
____
_____

12. Please rate the effectiveness of each member of management on a scale of 1-7 according to how effectively each communicates clearly, concisely and credibly. (1=Very Ineffective, 7=Very Effective [

[ ] **<Name Removed>** President & CEO
[ ] **<Name Removed>** CFO
[ ] **<Name Removed>** COO

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[ ] **<Name Removed>** SVP, Western Canada
[ ] **<Name Removed>** SVP, Oil Sands
[ ] **<Name Removed>** SVP, Exploration

13. In your view, how can the Husky management team continue to improve it's the credibility of its communication to the market?

____
____
____

14. Please rate each communication medium on a scale of 1-7 according to how effectively each communicates clearly, concisely and credibly. (1=Very Ineffective, 7=Very Effective)

[ ] **Press releases**
[ ] **Website**
[ ] **Investor Day**
[ ] **Annual Report**
[ ] **Investment Conferences**
[ ] **One on one meetings**

[ ] **Quarterly conference call**
[ ] **MD&A**
[ ] **Financial statements**
[ ] **Annual Information Form (AIF)**
[ ] **Management Information Circular**

____
____
____

15. Please rate the quality of Husky's investor relations program to that of Husky's peers on a scale of 1-7 (where 1=Greatly lacking compared to peers and 7=Greatly exceeds peers)?

[ ] Overall level of quality of Husky Energy's investor program
[ ] Responsiveness of investor relations team
[ ] Helpfulness of investor relations team
[ ] Ability of investor relations team to educate on complex issues
[ ] Knowledge of industry and macro-environment concerns

16. Please provide feedback on the strength of Husky's IR compared to peers.

____
____
____

17. Please provide feedback on any opportunities for improvement of Husky's IR compared to peers.

____
____
____

Thank you for your time in completing this survey.

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Appendix 8 – Sample Investor Meeting Profile

(Source: Company Records)

<Name Removed> Investment Division – <Name Removed>, Buy-side Analyst
Tuesday June 18th, 2013 (1:00pm – 2:00pm)

<Name Removed> reached out to us directly for a meeting, no Bank sponsorship.

<Name Removed> Investment Division Overview

- $14bn pension fund for employees of <Name Removed> based out of Montreal, Quebec
- As a private pension fund, public data on their holdings is limited, however they meet with us frequently enough to suggest they follow and likely hold Husky
- As a mature pension fund, they will naturally be attracted to Husky's high dividend and relatively low-price volatility. Would suggest that they would be a buy and hold type investor, attracted to value before growth
- Balanced growth proposition will have resonance; however, the proposition is getting fairly crowded. Would likely be worth speaking to sustainability and deliverability of the dividend and the 5-8% growth

History of Meetings / Discussions:

Date	Husky	Buy-Side	Questions / Topics
Dec 2012	COO SVP-Downstream IR Member	Name Removed (group luncheon in Montreal)	- what does the cash flow profile look like for Liwan - could LNG and Indonesia gas prices close - how much H_2S are we forecasting at Sunrise - what is the pilot at Saleski going to tell us - how does differential volatility impact strategy - what is our current debt level - would there ever be a divided increase - do we see more focus on the resource plays - how much of the return profile has come from the downstream - what is the rule of thumb to switch between light and heavy at Lima - how should we think about capex through the plan period

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Dec 2011	CFO SVP-Asia IR Member	??? (unknown)	> Acquisitions on the building blocks slide, what are your plans here? > 2012 budget ..... what were your commodity price assumptions? > What is your view on hedging? Plans here > What perception is out there that you would like to change at Husky?

Top Questions that we might be asked

1) Liwan Economics
   How do I model
   Exploration cost recovery mechanism
   Timing of next two fields and costs
   What is next for Asia Pac

2) Sunrise progress
   % complete and critical path items to first oil
   Are you confident you can deliver a 3.0 SOR and is there spare steam capacity
   How should we model cash flow (opex & sustaining capital)?
   When will we hear on phase 2?

3) Differentials
   Are you long refining
   Are you long transportation
   What is the plan for both moving forward - grow or stay the same
   Do you have adequate market access and what are your go forward strategy?

4) Integration
   Describe where the profit and loss moves around your income statement
   What drives the big swings in I&M and why are your field price realizations lower than peers?
   What part of the underlying business cash flows are annuity type cash flow and what parts are differential capture

5) Refining
   BP true up, timing and amount
   Lima projects & ability to take heavy
   Toledo project to take dilbit
   Would you grow to match Sunrise phase 2?

6) Dividend
   In face of cash flow from Liwan would you special, bump the regular or buy back shares

7) Atlantic exploration
   How is it a growth pillar
   Exploration book & who are your partners

8) Resource Plays
   Why not sell off smaller plays?
   Duvernay details - well costs, number of wells, would you pick up more acreage
   Ansell infrastructure, well costs, liquids contents
   When will we hear results from Rainbow Muskwa and plans for the year
   When will we hear results from Slater River and go forward plans

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9) M&A

Plans

10) Company

What did CEO bring to the company/culture change

How are you breaking down silos?

Any trouble attracting talent?

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