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**INVESTOR RELATIONS:
DEFENDER OF THE FAITH AT COMMERCE BANCORP**

by
Paul H. Welitzkin

A Thesis

**Submitted in partial fulfillment of the requirements of the
Master of Science Degree
of
The Graduate School
at
Rowan University**

Approved by
Professor

Date Approved 6/1/05

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ABSTRACT

Paul H. Welitzkin
Investor Relations: Defender of the Faith at Commerce Bancorp
2004/05
Dr. Suzanne Sparks FitzGerald
Master of Science in Public Relations

The study's results will show that the investor relations department at Commerce Bancorp Inc. helped to minimize damage to the company following the indictments of two of its officials in a Philadelphia corruption probe.

Primary and secondary research will show that Commerce's IR department helped the company during its crisis after June 30, 2004. Interviews with Commerce's IR director and two Wall Street analysts reveal that Commerce minimized the damage to its reputation and brand by communicating effectively with the financial community, a major constituency.

A content analysis shows that Commerce conducted successful crisis communication despite an unusual amount of negative publicity for a company its size.

Acknowledgements

This project is part of a personal journey that began nearly four years ago. My lovely wife, Barbara, inspired me to go back to school after a 25-year absence and obtain a master's degree in hopes of forging a new career. Thanks to Barbara's encouragement, I will soon graduate. I dedicate this thesis to her.

However, I would be remiss if I didn't mention the others who have contributed to this project and helped me in my pursuit of an advanced degree. I will always be indebted to my adviser and thesis mentor, Dr. Suzanne Sparks FitzGerald. Her support and guidance allowed me to achieve a goal I once thought was beyond my reach.

I also want to mention Dr. Donald Bagin, the head of the public relations department at Rowan. The man is already a legend in the field so there is nothing I can add to an already stellar list of achievements. I am so happy he took the time one day to convince an aging baby boomer that he could go back to school and succeed.

I thank the entire faculty of Rowan's P.R. department. You were all excellent instructors and I feel privileged to have shared in your knowledge. I also want to mention my study group at Rowan – Christina Bates, Christine DiBlasi, and Eileen Harduk. We made a great team and thanks for the help.

Mom and Dad, I wish you were here to see this. I know you would be very proud of what I've accomplished.

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CHAPTER 1 INTRODUCTION

Over 50 years ago, General Electric Co. created a function within the company's public relations division and called it investor relations to communicate with investors. Two pieces of legislation helped to lay the foundation for investor relations, or IR. One was the Securities and Exchange Act of 1934 that included filing requirements for annual and quarterly reports and the Securities Act of 1933, which requires that information released to investors be truthful and not misleading.

IR developed over the next 30 years, largely within the corporate communications departments of publicly-held companies or as a consulting arm of public relations firms. The main function of IR is to communicate relevant information to investors and potential investors so the market can determine a company's value relative to its peers.

Due mainly to the stock market boom of the 1990s, the ranks of investors grew significantly. That expansion forced those who work in IR to change their perception of one of their core publics - investors.

Once the domain of Wall Street analysts and fund managers, the market mania of the 1990s -- enhanced by the Internet -- expanded the definition of investor, according to Jason McDonald (*Marketing Magazine*, 2002).

When speaking to the investment community, investor-relations professionals should understand that the term investor applies to everyone from pension-fund managers who control millions of dollars to an individual who owns one share in a company, MacDonald said.

The expansion of the investor class also helped to further break down the divide that sometimes existed between a company's public relations and investor relations departments. Spurred by regulatory and business considerations, more companies began to consider the benefits of a combined investor relations and public relations approach to corporate communications.

The convergence of IR and PR picked up steam in the '90s as all corporate communications – IR, PR, employee communications, and marketing – were designed to support the enhancement of corporate value (*PR News*, July 15, 2002). Whether the consolidation of IR and PR is a good idea is open to debate, however, some combination between the two departments and other communication functions is a reality.

There is no better test of an organization's communication apparatus than a crisis. All companies run the risk of a crisis developing. How a company responds to that crisis and how its publics interpret the response is often as important as the triggering event (Christopher Wailes, *Business and Economic Review*, Oct.-Dec., 2003). A crisis provides the ideal backdrop for a study on how investor relations can help a company at a decisive moment.

Kathleen Fearn-Banks defines a crisis as a major occurrence with a potentially negative outcome that affects a company or organization and its publics (*Crisis Communications: A Casebook Approach*, 1996). Fearn-Banks notes that crisis communication is the communication between the company and its publics before, during, and after the negative occurrence. The communication is designed to control or lessen damage to a company.

On June 29, 2004, two officers of a subsidiary of Commerce Bancorp Inc. were among a dozen people indicted by a federal grand jury in a corruption probe involving the city government of Philadelphia, Pa. The two Commerce officers were indicted on charges they made otherwise unavailable loans to the Philadelphia city treasurer to help the bank obtain city business. Within 10 days after the indictments, Commerce's stock price fell 17%. Meanwhile, a lawsuit was filed on behalf of Commerce shareholders alleging that the founder and chief executive of the bank made over \$6 million by selling Commerce stock between December, 2003 and June, 2004, even as he knew the company was being investigated in the Philadelphia corruption case.

The crisis at Commerce caused by the indictments affected several of the bank's core publics, investors, customers and regulators. This researcher will attempt to determine if Commerce's response answered the concerns of those groups and minimized the damage to the company.

The Problem Statement

A crisis calls on communications professionals to craft a company's response to concerns among its publics. In *Managing Public Relations* (1984), James E. Grunig and Todd Hunt identify four groups of financial publics: current and prospective shareholders, the financial community, and financial media like *The Wall Street Journal* or *Fortune*. The four groups will likely focus on a company's financial status.

Because of its fiduciary and financial responsibilities, a bank must always be concerned about its financial status. The bank's publics will also try to gauge how a crisis affects a bank's financial condition.

Despite the almost constant threat from a crisis, many companies fail to adequately plan for one. Analysts are concerned that Investor Relations Officers, or IROs, aren't adequately equipped to handle their questions in a crisis situation, according to Bill Katz, director of Equity Research at Putnam Lovell NBF Securities Inc. (*Investor Relations Business*, May 26, 2003). IROs need to develop a plan to counter internal and external crises such as unexpected financial troubles, according to Ashton Partners Principal Elizabeth Saunders (*Investor Relations Business*, June 17, 2002). She urges IROs to figure out probable crisis scenarios and decide on which shareholders are most important and then develop a plan for immediate response and ongoing communications with them.

Once a crisis has developed, the communications process involves identifying the key groups involved that could be affected by the event and developing messages for them; selecting spokespeople; and managing the distribution of information, according to Steven C. Davis and Andrew D. Gilman (*Risk Management*, August 2002).

This researcher will investigate the role of the investor relations department at Commerce Bank in a case study and how it communicated with key audiences during the crisis.

Purpose of the Study

This researcher conducted a case study based on personal interviews to determine if investor relations helped Commerce Bancorp through its crisis. One interview was with C. Edward Jordan Jr., director of investor relations at Commerce. The researcher will attempt to see if the response from the investor relations department at Commerce answered the concerns of investment professionals and helped the bank manage or control the damage from the crisis. Secondary objectives include determining if Commerce's crisis communications plan (if it had one) was effective and what the IRO learned that could be applied to future crisis situations.

The researcher also interviewed a "sell side" analyst who has a stake in Commerce and a "buy side" analyst that had a position in Commerce stock. This researcher will determine if the analysts reduced, added, or maintained their investment in the bank in order to gauge the effectiveness of Commerce's response.

This researcher also conducted a content analysis of news reports on Commerce approximately one month before and one month after the indictments of the Commerce executives. Articles from the *Philadelphia Inquirer* and *Courier-Post* daily newspapers and *Philadelphia Business Journal* were coded to determine if they were neutral, positive or negative towards the bank. Objectives include determining the scope and negativity of the incident as it was portrayed in the local media and how Commerce handled the crisis from a public relations perspective.

Benefits of the Study

Examining the role the investor relations department at Commerce played in its crisis in a case study will help other IR professionals when a crisis occurs at their companies. Conducting a critical look at how Commerce's IR department handled the concerns of its key publics - investment professionals and individual investors – will provide an insight into crisis communications management that other IR officers can refer to when a crisis strikes. It will also offer an opportunity for those in the field to obtain an understanding of the concerns and questions from investors and investment professionals in a crisis. IR officers will also be better prepared for communicating with these groups when a crisis happens.

An examination of media reports concerning Commerce a month before and a month after the crisis will offer insights into the amount of negative publicity the company dealt with and provide public relations professionals with knowledge of how Commerce's PR plan was perceived by the general public. The public is another key constituency companies must answer to when a crisis develops. The public can include investors and customers, so a timely and adequate response is needed to help protect a company's brand and market share.

Hypothesis #1: It is expected that the investor relations department at Commerce Bank helped the company to maintain key relationships during its crisis.

The collapse among technology stocks after the Nasdaq Stock Market peaked in March 2000 started a series of events that rattled investor confidence. Corporate scandals at high-flying companies like Enron and WorldCom also placed a strain on the relationship these groups have with the companies they invest in.

According to Karen Vahouny (*Communication World*, May/June 2004), these events elevated the importance of investor relations. IR officers help to serve as a guardian of corporate credibility. Because of this, IR professionals are no longer just accountants and “financial types.” By using skills in media relations and crisis communication, IR officers have seen their role at companies expand into areas that were once confined to PR and marketing officials.

The expanded duties come as research by the International Association of Business Communicators (IABC) shows that companies may want to value their communications as an intangible asset on the balance sheet (Howard Stock, *Investor Relations Business*, Sept. 15, 2003). While actual monetary measurement remains elusive, the report noted an anecdotal link between a company’s ability to leverage its communications with a strong market evaluation.

“Being known as a communicating organization gives a company a competitive advantage. It’s about creating that image and then spreading the knowledge. The result is improved relationships, which in turn leads to better returns,” said Norwegian School of Management Associate Professor of Communications Peggy Bronn, who coauthored the report for the IABC (*Investor Relations Business*, Sept. 15, 2003, p. 1).

Also making the connection between reputation and profit was the late Patrick Jackson of Jackson, Jackson & Wagner of Exeter, N.H., and author of the “Double Bottom Line Theory.” Jackson said the first bottom line is an organization’s successful efforts to please its publics before and during business transactions. The second bottom line is the sale from the fruit of the relationship in the first bottom line leads to profit (M. Larry Litwin, *The Public Relations Practitioner’s Playbook*, 2003).

Hypothesis #2: It is expected that Commerce Bank applied certain successful public relations techniques to its crisis communication.

According to Kathleen Fearn-Banks (1996), the public perceives truth to be whatever public opinion says. An organization in a crisis must prove to the public that the prevailing opinion isn't factual.

A bank in a crisis must resolve the concerns of the public. Due to its financial role, Commerce had to address the public's concerns. The bank's media relations not only included daily newspapers but also the financial press as well. By examining news reports about the crisis, the researcher will determine if Commerce's use of public relations techniques were successful in containing the crisis and protecting the bank's reputation among the public.

According to Marjorie Kravand (*Public Relations Strategist*, 2002), companies are recognizing that PR plays a unique role in bringing the voice of stakeholders to the table and helping to resolve a crisis quickly.

Hypothesis #3: It is expected that Commerce's corporate communication demonstrated successful convergence of IR and PR.

The prolonged stock market downturn of the early 2000s and several high-profile cases of corporate malfeasance renewed talk of the consolidation of IR and PR.

IR and PR are concerned with a company's communication, credibility and reputation. The market's decline along with new rules like Regulation Fair Disclosure from the Securities and Exchange Commission made companies take another look at combining their IR and PR functions (Grace Delpit, *Communication World*, Dec. 2001/Jan. 2002).

Because of the scope of Regulation Fair Disclosure, it's time that companies started consolidating IR and PR, according to National Investor Relations Institute President Lou Thomson (*Investor Relations Business*, March 5, 2001, p. 1).

"Companies have to begin putting the communications functions under one umbrella. They are moving in that direction, but it's not happening fast enough," said Thomson.

Still some are hesitant to embrace convergence. Although consolidation may seem like a worthy goal, some IROs say it isn't always possible. PR departments are product related and have a different mission, noted VerticalNet Inc. Director of IR Muriel Lange (*Investor Relations Business*, March 5, 2001).

When it comes to restoring public or investor confidence such as in the aftermath of a crisis, there seems ample opportunity for IR and PR to work together. This researcher will show that Commerce's IR and PR departments developed strategies and communicated messages to key publics after the crisis developed to avert further damage to the company.

Procedure

This researcher will conduct a personal interview with the chief investor relations officer at Commerce Bancorp. The researcher will question the IRO on whether the investor relations department at Commerce had a crisis communications plan prior to June 29, 2004.

Commerce's IRO will also be queried on the key publics he and his department communicated with after June 29. What were the publics' main concerns and how were they addressed? The IRO will be asked if he felt he was successful in answering the key concerns. The IRO will be asked to take a look back and explain if he would do anything differently now.

This researcher will also conduct personal interviews with a "buy-side" analyst and a "sell-side" analyst. The analysts will be questioned on their concerns after June 29 and if Commerce's response was adequate in addressing the concerns. The analysts will also be asked to list their main concerns after a crisis hits a company in which they have a stake. Do IR departments play a prominent role in communications after a crisis develops?

The researcher will also conduct a content analysis of news reports approximately one month before and one month after June 29, 2004 from the following publications: *Philadelphia Inquirer* and *Courier-Post* daily newspapers, and the *Philadelphia Business Journal*. Articles will be coded to determine whether they maintained a positive, neutral, or negative tone.

Assumptions

The researcher assumes readers are familiar with investor relations, crisis communications, and public relations techniques.

Study Delimitations

This researcher will not examine other financial institutions, every media outlet that covered Commerce Bancorp, and other crises Commerce has faced.

Summary

On June 29, 2004, two executives with Commerce Bancorp were indicted as part of a corruption probe of Philadelphia city government. Commerce's stock price sank following public disclosure of the indictments.

The main goal of this study is to evaluate how Commerce's investor relations department responded to the crisis and helped the bank with two of its major publics – investment professionals and individual investors. This will benefit IR professionals who have seen their duties expanded to include public relations and crisis communications techniques.

A secondary goal is to determine the scope of negative publicity about Commerce from the incident and examine the public relations techniques Commerce employed in its crisis communications. The bank's response plan will also be evaluated to see if the IR and PR departments worked together to answer concerns from investment professionals and the public.

After deciding on a topic and research question, secondary research was conducted to provide background on investor relations, crisis communication, and the convergence of IR and PR. This research forms the basis for Chapter II.

Terminology

1. **Buy-Side Analyst:** An investment professional who works in-house for institutions such as mutual funds or pension funds. He or she studies investments and then offers recommendations.
2. **Crisis:** A major occurrence with a potentially negative outcome affecting an organization, company, or industry as well as its publics, products, services or good name.
3. **Crisis Communication:** The communication between the organization and its publics before, during, and after a negative occurrence. The communication is designed to minimize damage to the image of the organization.
4. **Commerce Bancorp:** Founded in 1973, Cherry Hill, N.J.-based Commerce has evolved into a regional financial services company with five banking subsidiaries controlling \$28 billion in assets. Commerce became a publicly-traded company in 1984 and is currently listed on the New York Stock Exchange under the ticker symbol "CBH."
5. **Consolidation of IR and PR:** A trend in which companies and PR firms combine the functions of investor relations and public relations.

6. **Investor Relations:** A strategic management responsibility that integrates finance, communications, marketing and securities law compliance to enable effective two-way communication between a company, the financial community and other constituencies.

7. **Regulation Fair Disclosure:** Adopted by the Securities and Exchange Commission in 2000 for fair and equal disclosure of companies' financial information by requiring public companies to disclose all material information to the general public at the same time as to analysts and other selected parties.

8. **Sell-Side Analyst:** Investment professionals who traditionally work for brokerages, trying to sell their ideas to institutions. The research of sell-side analysts also makes its way to individual investors.

CHAPTER II LITERATURE REVIEW

This chapter will present the highlights of available related research during the past decade. To locate relevant information about crisis communication and investor relations, this researcher used the World Wide Web, Rowan University Library, the online library catalog system and databases ProQuest, ABI/Inform, and Lexis Nexis.

The author used the key words, “crisis communication,” “investor relations,” and “crisis communication and investor relations” to conduct the search.

Crisis communication

Because of the Internet and other technological innovations, business is conducted on a much faster pace than 20 years ago. Transactions, contracts, and other paper functions can be completed in a matter of seconds to help businesses to operate more efficiently. It also means that when things go wrong, or a crisis develops, business must respond quickly to contain the damage and protect its brand, assets, and reputation.

James E. Lukaszewski noted that the market today is increasingly demanding real-time communication, especially when the news is adverse (*Executive Speeches*, Aug./Sept. 2001). This creates a scenario where instant response and instant explanations are now expected. Because of this, companies must have a crisis communications plan available to implement.

Lukaszewski describes four types of crises: operating, non-operating, a combination of the two, and virtual. Operating crises result from what the organization does as a matter of its day-to-day business relations. He believes that more than 90 percent of all organizational crises are operational in nature.

Non-operating crises, which represent approximately five to 10 percent of corporate crisis situations, tend to cause most of the damage to reputation and other aspects of a company's relationship with its constituencies. Examples include crime, malfeasance or environmental threats. Lukaszewski said that a crisis could be a combination of operating and non-operating events. He points to the environmental problems caused by a rail car of chlorine spilling outside of a plant, necessitating communication with citizens, governmental agencies, and the media as an example.

The fourth type of crisis – virtual – involves a Web-based attack on a company's reputation, products, or even its executives.

According to Peter Smudde, some companies have a difficult time determining whether it's a crisis or issue that it faces (*Public Relations Quarterly*, Winter 2001). Whether it's a crisis or issue, the event represents an interruption that could harm a company's image, brand, or credibility. Smudde said it's not necessary at the outset to decide whether you are dealing with a crisis or issue, it's more important to make good sense of what is happening and figure out a response.

Companies that have overcome crises with most of their reputation or market share intact were the ones with predetermined crisis response teams, according to Christopher Wailes (*Business and Economic Review*, Oct.-Dec. 2003). Wailes said a crisis plan, along with a well-rehearsed crisis communications team, prevents a crisis from turning into a catastrophe.

Jim Nelson said a key element of a mature business continuity program is a plan for crisis communications coordination (*Security*, July 2004). Nelson said the purpose of a

crisis communications plan is to develop procedures for effective communication between internal and external stakeholders and the media during a crisis.

Writing in *Public Relations Quarterly* (Summer, 2002), Peter V. Stanton said a crisis communications plan is more than a system for responding to circumstances. It's a method used to plan for situations in day-to-day operations, business, and company communities and preparing company personnel to respond to the special demands of crisis conditions.

Stanton adds that a crisis communication plan allows corporate communicators to contribute to the resolution of the event, interact with key publics, and maintain normal business activities.

The best way to manage a crisis that requires communication with stakeholders is to plan for a variety of emergencies. Loretta Ucelli said that in some cases, anticipating a crisis goes a long way towards preventing one (*Strategy & Leadership*, 2002). Being prepared to communicate quickly, adroitly and regularly rehearsing is a company's best defense against miscommunication.

Once a crisis has developed, the communication process involves identifying key groups that will be affected and developing appropriate messages; selecting spokespeople to deliver the messages; and managing the distribution of information, according to Steven C. Davis and Andrew D. Gilman (*Risk Management*, Aug. 2002). Communicating effectively with employees, customers, suppliers, shareholders, and the media can help an organization manage the crisis.

A key component of any crisis communications plan is a section dealing with responses that protect a company's brand or reputation. According to Linda S. Ashcroft,

an organization's reputation is as important as other corporate assets (*Journal of Managerial Psychology*, 1997). Many companies have some kind of a crisis plan that is designed to protect the firm's reputation if something goes wrong.

A situational crisis communication theory, or SCCT, articulates the variables, assumptions, and relationships that should be considered in selecting crisis response strategies to protect an organization's reputation. W. Timothy Coombs and Sherry J. Holladay conducted a study to test a situational theory of crisis communication, (*Management Communication Quarterly*, Nov. 2002). SCCT is premised on matching the crisis response to the level of crisis responsibility attributed to a crisis. Coombs and Holladay's study explores one of the basic assumptions of SCCT by assessing whether the predicted relationship between crisis responsibility and organizational reputation occurs across a range of crisis types.

The research found that crisis responsibility-reputation relationships occurred across a variety of crises. SCCT offers a way to explain and practice organizational reputation protection during a crisis. Coombs and Holladay said crisis managers should make protecting the organization's reputation a central part of their work.

Crises that affect a company's reputation can also have ethical considerations. A company's policy can become a focal point of a crisis communication plan when it involves ethics, according to *PR News* (Aug. 4, 2003).

In an alleged crisis of ethics, "the policy manual is your best ally," said Tim O'Brien, principal of Pittsburgh-based O'Brien Communications (*PR News*, Aug. 4, 2003, p. 1). "The key issue is: Is it systemic? That is the most critical issue in the whole process,"

according to O'Brien. The proper communication strategy is to demonstrate that the alleged action, if true, was an aberration from standard procedure and is being dealt with.

Good crisis management is a critical tool for running a business, notes Steve Wilson (*Chemical Engineering Progress*, Sept. 2003). Wilson said a good starting point for formulating an effective plan is to review some communications basics for responses during a crisis.

When communicating with the public during a crisis, be open and honest. If bad information is going to come out, it's better for you to be the messenger than someone else, Wilson said. Less is better. The less you say, the better off you will be, according to Wilson. If you say too much, your message may be lost.

Take the lead and take control. Taking the lead early - even if you don't have all of the answers - is better than if you wait, Wilson argues, because in waiting you will be reacting to someone else's agenda.

Speak with one voice. Mixed messages can result from too many spokespeople. When circumstances dictate more than one spokesperson, make sure all of them are delivering the same message, Wilson said.

Because a crisis can develop quickly, it's important to be prepared and develop consistent messages that will address the concerns of targeted audiences. For a publicly-held company, the investor relations department will play a key role in crisis response.

Investor Relations

According to the National Investor Relations Institute, investor relations is a strategic management responsibility that integrates finance, communication, marketing and securities law compliance to enable the most effective two-way communication between a company, the financial community, and other constituencies, which ultimately contributes to a company's securities achieving fair valuation.

For a long time the major objective of most investor relations programs at companies was to report financial statements in accordance with regulations set by the Securities and Exchange Commission. That placed investor relations, or IR, mainly in the hands of chief financial officers. An effective IR program must include information about company performance to favorably influence shareholders, the media, and the public (Douglas V. Austin, *Independent Banker*, April 1991).

However, a company's investor relations department is also responsible for communicating its financial status to Wall Street. The financial community wants to hear about a company's earnings, growth prospects, and strategy. In the case of banks, analysts are concerned about asset quality, risk in the underwriting process, and sources of non-interest income.

Starting in the 1990s, issues that had previously been the domain of Wall Street began to draw interest from other groups. As the stock market began to take off, the ranks of investors expanded. Millions were enrolled in 401(k) programs in which they determined how their money for retirement would be invested. Under the old defined benefit plans, the company handled investing in return for a set payment that was dependent on the employee's length of service and job status.

Suddenly a new audience was reading company financial statements. Although lacking the financial sophistication of analysts, they still had a vested interest in the data. Business news was moving from *The Wall Street Journal* to the front pages of many newspapers. A cable television channel, CNBC - devoted to business news - covered the stock market and companies with an approach that was similar to all-news channels.

Then came corporate scandals involving companies like Enron and WorldCom along with the stock market meltdown in 2000. All contributed to increased investor and public awareness of issues like corporate governance and ethics and combined to extend the reach of financial news that would eventually alter the mission of investor relations.

According to Karen Kahler Holliday (*Bank Marketing*, Aug. 1992), the 1990s saw a growing interdependence between IR and other disciplines, notably corporate communications, as technological advances began to change the role of IR in an era that saw increasing financial scrutiny and rising investor activism.

In his book, *The New Investor Relations – Expert Perspectives on the State of the Art* (2004), Benjamin Mark Cole said there was a reshaping of the separation and exclusivity of IR as it moved back into the broader and more influential public relations arena.

Laura Petrecca said in the post-Enron environment, public relations professionals saw financial communications expertise as an invaluable asset (*Advertising Age*, Sept. 30, 2002). A corporate spokesman not only must remain in close contact with a company's investor relations arm, but also has to be able to communicate its finances to the general public.

“It has become increasingly important for PR representatives to have a deeper understanding of investor relations,” said Adrienne Scordato, PR practice leader at

executive search company Gunderson Partners (*Advertising Age*, Sept. 30, 2002, p. 1).

“Companies are now under the microscope as a result of these scandals. A good PR person now has to not only be a skilled media spokesperson but also needs to be cognizant of all financial aspects of the business.”

Industry experts note that while IR and PR don't always overlap in terms of their audience, as investor relations deals mainly with analysts and institutional investors and PR focuses on a broader constituency, these two components of corporate communications should try to work together.

In a speech in 2002 after accepting the Public Relations Society of America's PR Professional of the Year award, IR veteran Ted Pincus advocated greater responsibility for corporate communicators. Pincus said investor relations officers and corporate communication officers should report to their company's board of directors (*Investor Relations Business*, May 6, 2002, p. 1).

“Hopefully, internal and external communicators will start having more access to the boardroom in order to provide better feedback to directors and give them a better idea about how the public will respond to various strategies,” he said.

As the ranks of investors grew in the 1990s, so did the responsibilities of IR departments. This led to a trend of consolidation in which IR and PR worked together to get a company's message out.

Consolidation of IR and PR

The opinions of analysts can send a stock price up or down and that's why they have been a key audience for investor relations professionals, who are always seeking an audience for news about their company. Big institutional investors, like pension and

mutual funds, have also been apart of the select group of people IR professionals need to reach.

Starting in the 1990s, things began to change. While analysts and fund managers remain a critical audience group for IR personnel, the stock market boom, aided by the increased ease with which the Internet allows individuals to play the market, enlarged the definition of “investor” (Jason MacDonald, *Marketing Magazine*, Jan. 28, 2002).

Now, anyone can be an analyst. MacDonald said there is a new breed of investor that demands information. And with securities regulators mandating that all investors have equal access to information, the practice of IR is changing to satisfy the needs of this growing and increasingly savvy audience.

This expansion has also helped fuel growth for public relations firms. In 1999, the number of public relations agencies increased by 32%, with much of that growth fueled by technology firms and Internet PR, according to the Council of Public Relations Firms. This growth had led to a further cementing of IR and PR, according to CPRA President Jack Bergen (*Investor Relations Business*, April 3, 2000, p. 1).

“The dotcom sector has used primarily IR and PR agencies to reach out to the financial community and potential investors,” Bergen said.

Investor relations is probably the fastest growing part of the public relations industry, according to Donna Stein, chairwoman of the financial communication section of the Public Relations Society of America. Also fueling that growth is Regulation FD, which the Securities and Exchange Commission implemented in 2000 to prevent public companies from disclosing information to certain investors or analysts, but not the general public.

This has helped to spur the convergence of IR and PR. All corporate communication, IR, PR, employee communication, corporate branding, etc., support the enhancement of corporate value. Professor Baruch Lev of the Stern School of Business at New York University said about 80% of the average Standard & Poor's 500 company's market value is due to non-financial factors or intangible assets - factors that can't be found in a company's financial statement (*PR News*, July 15, 2002).

This also suggests that the company should try to speak with one voice and with consistency in corporate messaging. In many large corporations, IR and PR operate in separate departments. Investor relations officials talk willingly with analysts, but some companies won't let them communicate with the media, even though there's little difference between the role of analysts and reporters.

If IR and PR have historically seen both synergies and tensions, the time may be right for the two to join forces in demonstrating to top management how integrated communication benefits the bottom line (Madeline Turnock, *Public Relations Strategist*, Spring, 2002). Coordination between IR and PR has the potential to produce unified messaging that benefits corporate value while enhancing the credibility of communicators, according to Turnock.

Turnock said one impediment to IR-PR collaboration has been the segregation of financial audiences from all others. The Internet facilitates greater overlap of audiences viewing the same communication materials. If an organization doesn't speak with one voice, there is a greater chance for inconsistency to develop.

The stock market downturn combined with corporate scandals that shook investors' faith in the credibility of corporate communications forced them to work together to

create a unified message (Howard Stock, *Investor Relations Business*, Dec. 16, 2002). All stakeholders - individual investors, institutions, employees - have to hear the same message from a company's communications team.

"I know in the past IR has been on one side of the hall and PR is traditionally on the other side. But now we all realize that it's in the best interest of the company to make sure we come together and support each other and understand the significance of what we're trying to do," said Public Relations Society of America President JoAnn Killeen (Howard Stock, *Investors Relations Business*, Dec. 16, 2002, p. 1).

One company that changed its communication organization was Corning Inc. According to Richard B. Klein, senior vice president of external reporting and communications, Corning merged the PR and IR departments in an effort to communicate more effectively (*Executive Speeches*, Feb./March 1997). The new department is led by a person with a background in finance and accounting and still carries out traditional PR activities such as writing news releases, handling inquiries from the media, and managing crisis communication. But the emphasis, according to Klein, is on communicating business and financial performance.

Still, there remains some reluctance to consolidate IR and PR. Even as PR firms began to wade into IR and corporate governance, some believe PR personnel lack sufficient expertise to add value.

"The IR department is speaking on behalf of the company, and both departments review materials that are going out. We have a coordinated flow of information, but Tiffany is not planning to consolidate the departments," said Mark Aaron, vice president

of IR at the jewelry retailer (Grace Delpit, *Communication World*, Dec. 2001/Jan. 2002, p. 30).

IR and Crisis Communication

Crisis is an intense, unstable state that produces change (David J. Umansky, *Public Relations Quarterly*, Winter, 1993-94). Whether that change becomes a prolonged problem or enhanced opportunity depends upon the decisions a company makes in the crisis situation.

The stakes are high when a financial institution like a bank becomes embroiled in a crisis. The perception of fraud, mismanagement, or corruption - even if unsupported by the facts - can cripple the image of a financial institution (Andrew C. Goldberg, *The American Banker*, Dec. 3, 1990). Goldberg said that consumers and investors tend to respond to a news report on alleged fiduciary impropriety or scandalous behavior by selling their stock or moving their money. They tend to worry about explanations later.

Investor relations officers need to develop a plan to counter crises such as unexpected financial trouble or mismanagement, Ashton Partners Principal Elizabeth Saunders said (*Investor Relations Business*, June 17, 2002). Saunders said investor relations officers should alert a company's executive ranks to the need for crisis planning. When bad news breaks, companies should focus on the audience most influential in determining the future of their business and brief them on the situation. That way, analysts and investors will give the company the benefit of the doubt when they hear about the crisis from another source. IROs should also update their crisis plans.

IR officials must have a thorough understanding of a company and its financial statements as well as access to senior management to be effective in a crisis situation (Thomas K. Brown, *ABA Banking Journal*, Jan., 1992). Bill Katz, Putnam Lovell NBF Securities director of equity research, said many analysts don't feel that IROs are adequately informed to handle their questions in a crisis situation (Howard Stock, *Investor Relations Business*, May, 26, 2003, p. 1).

"I would go directly to the CEO or CFO (Chief Financial Officer), not the IRO," Katz said. Further, he said it seems like the analyst is the last to know when something is happening in a company, underscoring a perceived communication breakdown between the sell side and IR.

Some companies suffer through a series of crises. One example was the graphite electrode maker UCAR International Inc. In 1998, the company paid a \$110 million fine for price fixing, appointed a new chief executive officer and president, and began a restructuring plan. The manager of UCAR's IR program, Juna Rowland, worked hard to keep the financial community updated and by the end of the year, the company's stock price began climbing (*Investor Relations Business*, Nov. 23, 1998, p. 1).

Before the fine was levied against UCAR, Rowland's department had focused on attracting new investors.

"After pleading guilty to price fixing, we had to shift our strategy to rebuilding confidence and credibility with the Street because they thought everything we did was suspect," she said.

Unveiling the restructuring program helped to soothe Wall Street. Rowland and management talked to UCAR's institutional investors, who held more than 90 percent of

the company's stock, to clarify how the plan would help the company's earnings and business strategy.

Rowland also came up with a new strategy of targeting many of UCAR's former investors. When the company went public in 1995 after being spun off by Union Carbide Corp., its investors were mainly value-oriented institutions. When the price-fixing probe began, UCAR's shareholder base shifted to momentum investors and hedge funds. When the government investigation was completed, Rowland worked to lure back the value investors.

Rowland's work showed the promise of a crisis management plan for IR. She had access to senior management and developed communication strategies that answered the concerns of key constituencies.

According to James J. Roop, companies that view restoring credibility with the investment community as something that goes with a return to fiscal health will often find themselves relatively undamaged on Wall Street once a turnaround takes hold (James J. Roop, *Public Relations Quarterly*, Winter, 1995-96).

Roop listed several initiatives that investor relations officials and company management can use for a turnaround. The top initiative was a warning not to release positive messages too soon. It's best to wait until the turnaround is achieved before saying there is one.

Roop also noted how important it is to address the financial aspects. If a stock has fallen and the latest results are below where they should be, don't hesitate to say the company is dealing with the problem. He also said if an unusual event produced a good quarter before a long-term fix is in place, tell the whole story.

The other initiatives involve courting a segment of the investment community, setting achievable objectives, getting the story out on positive earnings, separating issues that are within the company's control, gauging the interest of Wall Street, knowledge of stock activity, and a good attitude.

Summary

The literature review shows the importance of responding quickly to a crisis and the use of a crisis communication plan. It also reveals how investor relations evolved, from basically releasing required financial information to a limited audience, to handling crisis communication on a much larger stage.

By developing a plan to counter a crisis and having it ready to implement, investor relations is following a similar path traveled by public relations. That is one reason why companies and PR firms are combining their PR and IR functions.

This information serves as a foundation for the researcher's three hypotheses:

Hypothesis #1: It is expected that the investor relations department at Commerce Bank helped the company to maintain key relationships during its crisis.

Hypothesis #2: It is expected that Commerce Bank applied certain public relations techniques to its crisis communication.

Hypothesis #3: It is expected that Commerce's corporate communication demonstrated successful convergence of IR and PR.

Taking this background a step farther, the researcher will conduct a case study and content analysis in an attempt to validate these theories. The next chapter will outline the methodology of the research options.

Chapter III

METHODOLOGY

Findings from the Chapter II literature review support the need for primary research on how investor relations helped Commerce Bank through its crisis, if Commerce applied successful public relations techniques to its crisis communication, and whether Commerce's corporate communication demonstrated successful convergence of investor relations and public relations.

The researcher will conduct in-depth interviews - a primary research method - with C. Edward Jordan Jr., director of investor relations at Commerce Bank, Richard P. Cervone, a buy-side analyst who covers Commerce, and David C. Stumpf, a sell-side analyst who follows the bank.

The interview with Jordan will focus on the main groups with whom he communicates with as director of IR, the goals of his communication, Commerce's crisis communication, and the events before, during and after the June 29 crisis.

By questioning how Commerce handles a crisis, this researcher hopes to obtain detailed information on how the bank plans, reacts and communicates in a crisis. This is important because it offers a guide to the bank's strategy in dealing with a crisis. The strategy may reveal which members of top management were involved, the director's access to top managers during the crisis, and how a response to the crisis was formed.

Answers will be scrutinized to see if the bank employs any of the techniques discussed in the Chapter II review that other companies employ in crisis communications.

Examples include coordination of communication in a crisis, identifying key groups and developing appropriate messages for target audiences.

Almost all of the literature on crisis communication emphasizes the importance of developing a crisis communication plan before a crisis occurs. Jordan will be asked about Commerce's pre- and post-crisis plans.

Questions on the response to the June 29 crisis will focus on the groups with whom the bank sought to communicate with when the officials were indicted and how Commerce determined what issues would be a top concern with each of the groups. Additional questioning will center on how the bank responded to the issues and how it determined if the response was adequate.

The answers will provide clues as to whether Commerce's investor relations department played a key role in responding to the crisis and help measure the effectiveness of the response in protecting the company's brand and reputation.

Interviews with the analysts will focus on the information they use in determining an investment opinion of a company, what they focus on when a crisis strikes a company they are following, the issues that need to be addressed in a crisis, and their reaction to the events of June 29 and Commerce's response. The analysts will be urged to reveal their investment recommendation on Commerce after it responded to the crisis.

The analysts are a key group Commerce communicated with after the June 29 crisis. This researcher will examine the analysts' interpretation of Commerce's handling of the crisis to help determine the role Commerce's investor relations department played in the bank's response. By questioning the analysts on the issues they deem most important in a company's response to a crisis, this researcher will be able to determine if Commerce was adequately prepared to answer the concerns of a key constituency.

This researcher will ask the analysts how Commerce addressed the major issues that surfaced after the crisis occurred and if the bank's response addressed the ethical and financial questions that needed to be answered in the financial community. Further questioning will attempt to ascertain the analysts' confidence level in Commerce's corporate governance before and after the crisis.

Finally, the analysts will be asked if their firms added, reduced or maintained their stake in Commerce after the crisis. The response is critical in determining how effectively Commerce handled the crisis. If the investment was reduced, was it a short-term strategy to hedge the existing stake in the bank, or did it indicate that Commerce failed to answer their key concerns? If the firms added to their stake, it would indicate confidence in Commerce's management and long-term business strategy. If the firms maintained their stake, how does this reflect on the bank's handling of the crisis?

Content Analysis

The quantitative research method employed by the researcher will be a content analysis of news reports from the *Philadelphia Inquirer* and *Courier-Post* newspapers and the *Philadelphia Business Journal*. By looking at this data, this researcher will be able to determine how negative, positive, or neutral the coverage about Commerce was during the crisis. The results will also reveal if the bank used any PR techniques in its response and gauge how the public was informed about the company's response.

The content analysis will use the following criteria:

- Search terms in article full text will include Commerce Bank and June 29, 2004.

- Articles from approximately May 29, 2004 through June 29, 2004 will be analyzed. This represents about one month before the indictment of the Commerce officials.
- Articles from approximately June 30, 2004 until July 30, 2004 will be analyzed. This represents about one month after the indictment was revealed.
- In total, using the search terms, 36 articles will be reviewed.
- The researcher will code all of the articles.
- Articles will be categorized as positive, negative, or neutral in coverage tone.
- Headlines from the articles will also be categorized as positive, negative, or neutral in coverage tone.
- The articles will be coded in March 2005.
- Results will be tabulated in March 2005.

For intercoder reliability, a colleague will review the articles to determine the tone and techniques in each article. Using this option will enable the researcher to apply some balance to the results when measured for partiality. While the colleague selected for the task has heard of Commerce Bank and observed its branch offices, she is not keenly aware of the bank's business model or the events before and after June 29, 2004. This researcher is very knowledgeable about Commerce Bank's business model and the events before and after June 29, 2004.

Collecting and analyzing the research data will enable the researcher to determine the effectiveness of Commerce's investor relations department in the crisis, the response of the analysts, and measure the tone of the media coverage on the incident. Results will be reported in Chapter 4.

CHAPTER IV DATA ANALYSIS

Having established the research needs (Chapter 3), and delimitations of the study (Chapter 1), the researcher conducted personal interviews and a content analysis. Before divulging the results, more background is provided in order to provide the proper context.

On June 29, 2004, U.S. Attorney Patrick L. Meehan charged Glenn K. Holck, president of Commerce's Pennsylvania unit and Stephen M. Umbrell, regional vice president, with fraud and conspiracy for allegedly giving favors and loans the bank wouldn't have otherwise granted to former Philadelphia Treasurer Corey Kemp in exchange for city business. Kemp and Philadelphia lawyer Ronald A. White also faced other charges in connection with the "pay-to-play" arrangement.

Two former J.P. Morgan Chase & Co. bankers were also indicted while a senior vice president of the Philadelphia securities firm Janney Montgomery Scott, was accused of making false statements to the Federal Bureau of Investigation.

Although Holck and Umbrell were the only Commerce executives indicted in the probe, Chief Executive Officer Vernon Hill was mentioned in the indictment documents by title in descriptions of his e-mail and telephone contacts with White, Holck and Umbrell about city business. Hill wasn't charged with any wrongdoing.

Holck and Umbrell denied the charges and both men later entered not guilty pleas and are scheduled to stand trial in 2005. Commerce suspended Umbrell and Holck with pay and also paid for their legal bills.

In a June 29, 2004 filing with the Securities and Exchange Commission and a news release, Commerce said it was cooperating with the investigation and "confirmed" that

the company isn't a target in the investigation. The bank also hired a lawyer to conduct an internal investigation.

Before the indictments, Commerce had drawn some media attention for both the aggressive way it does business and its close political connections, particularly in New Jersey and Philadelphia. Amid criticism, the company then decided its political action committee would no longer make donations to candidates. Activities of its individual officers, however, weren't affected.

On July 13, nearly two weeks after the indictments, Commerce held a conference call with analysts to release second-quarter earnings and unveil a plan to improve its image. Hill promised to institute new policies to increase oversight of the bank's dealings with government officials. The bank said it would exit the municipal-bond business and stop bidding on negotiated bond deals while pursuing deals that are awarded by sealed bids. Approximately 25 employees in the municipal-bond business lost their jobs. According to news reports, municipal bonds account for less than one percent of sales and profit at Commerce.

The bank also hired a Washington attorney, Robert F. Bauer, to review how it deals with government officials. Bauer, who was national counsel to Democratic presidential nominee John F. Kerry in 2004, is considered to be a veteran observer of campaign contributions. Hill said Bauer would help Commerce develop a "gold standard for the banking industry."

Hill and the attorney hired to conduct the internal probe concluded that the company hadn't broken any laws. Both said they knew of no pending government action against the company or any other officers or employees.

As for second-quarter earnings, Commerce reported that net income rose 46 percent to \$66.2 million, or 79 cents a share, from \$45.3 million, or 63 cents a share, a year earlier.

Against this backdrop, the researcher conducted personal interviews with the head of investor relations at Commerce, and two analysts who follow the bank.

HYPOTHESIS 1

It is expected that the investor relations department at Commerce Bank helped the company to maintain key relationships during the crisis.

On June 29, 2004, when news of the indictments were announced, C. Edward Jordan, director of investor relations at Commerce, was anticipating what kind of information analysts were going to want from the bank.

“They basically were going to ask what the short-term and long-term effect of this was going to be on our earnings and our business model,” Jordan said.

The analysts were also going to ask just how deep the investigation into Commerce was going or if any other officers or employees were involved, said Jordan. The financial community also was going to ask if this was an isolated incident or systemic in nature.

Richard P. Cervone is managing director and portfolio manager for Putnam Investments, a Boston-based mutual fund company. He is a portfolio member on Putnam’s Investors Fund, Tax Smart Equity Fund and Capital Appreciation Fund. A buy-side analyst who has followed Commerce for about three years, Cervone was looking for Jordan and the bank to disclose as much information as he and the company could about the situation.

Because legal proceedings were involved, Cervone knew the company probably wouldn't be able to answer all of his questions. Still, he wanted to learn about key details such as whether the investigation was still ongoing, how many Commerce officers and employees were involved, and if there were any potential problems with regulators like the Office of the Comptroller of the Currency. Cervone wanted to obtain enough information to make a judgment on how widespread the problem was and if it could possibly affect the bank's business strategy. He was looking for the company to address these issues in a clear and forthright manner.

Cervone said Jordan and the company did provide information that enabled him to gain a better understanding of the incident, who was and wasn't involved, and if it would seriously affect the bank's business model. In his opinion, Cervone said Jordan's response helped the bank to successfully navigate the crisis caused by the indictments.

David C. Stumpf is a vice president at A.G. Edwards & Co. who has followed Commerce since the 1980s. A sell-side analyst, Stumpf knew he couldn't totally rely on Jordan and Commerce to give him all the information he needed when the indictments were revealed.

Stumpf said the most critical information he was seeking from Jordan was a clarification of the facts. Like Cervone, the buy-side analyst, Stumpf was seeking information on how many Commerce officials were involved. He wanted to understand the nature of the accusations against the Commerce employees and how much of a problem this posed for Commerce's government business. What would the impact be on Commerce's strategy and could it limit or hinder the company's growth prospects?

“What does this mean for Commerce’s business and what could it mean for the stock (price),” Stumpf added.

Finally, Stumpf wanted to know how the company was going to address some of the problems that are connected to this incident such as the “pay-to-play” aspect of the allegations.

Stumpf said Jordan’s response answered most of his concerns and helped the bank to reassure the financial community that the bank’s basic business model wouldn’t be seriously harmed by the indictments.

Summary

This hypothesis was supported because both analysts agreed that Mr. Jordan and his department played a critical role in helping Commerce get through the crisis. The comments from the analysts are important because they are a part of “Wall Street” or the financial community. The analysts’ endorsement of Jordan indicates that Commerce was successful in answering the main concerns of one of the company’s most important constituencies. There were other supporting factors for this hypothesis, which will be explored in Chapter 5.

HYPOTHESIS 2

It is expected that Commerce applied certain successful public relations techniques to its crisis communication.

Because of Jordan’s work, Commerce was able to communicate effectively with most members of the financial community. The company did this against a very negative

backdrop. Results from a content analysis show a negative tone for the company's coverage in three local media outlets.

In the study's research timeframe, a total of 36 articles were written in the *Philadelphia Inquirer*, *Courier-Post* and *Philadelphia Business Journal* involving Commerce Bancorp.

Of those 36 articles, 60.5% were judged to be negative in tone, 26.5% were positive, and 13% were considered neutral.

Figure 1: Overall tone of articles concerning Commerce

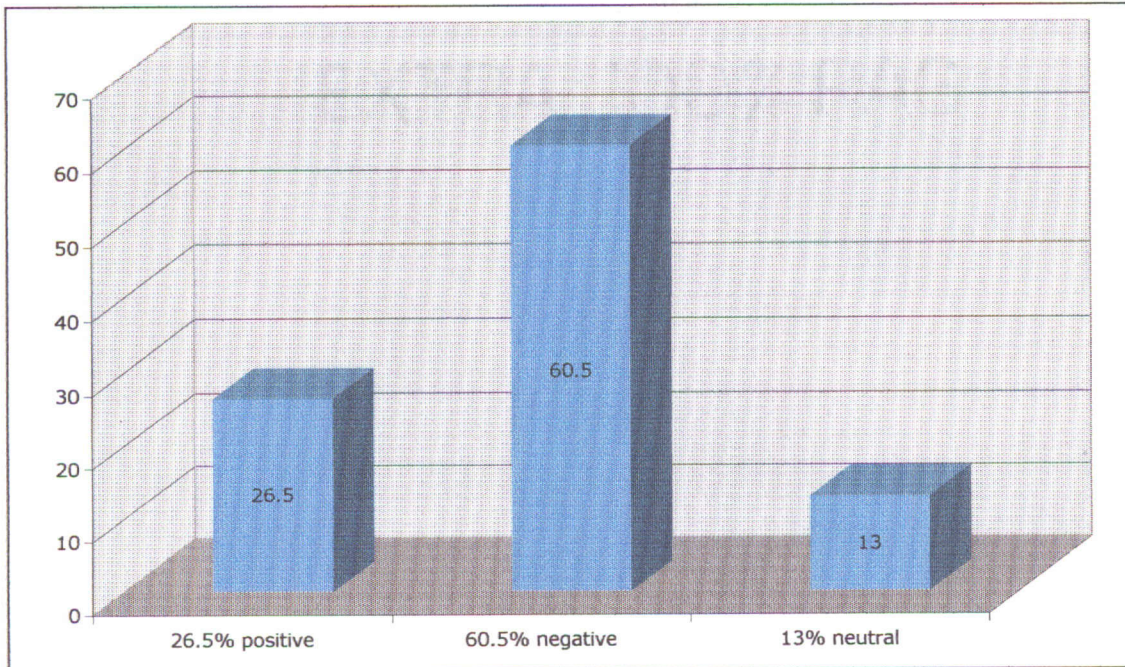
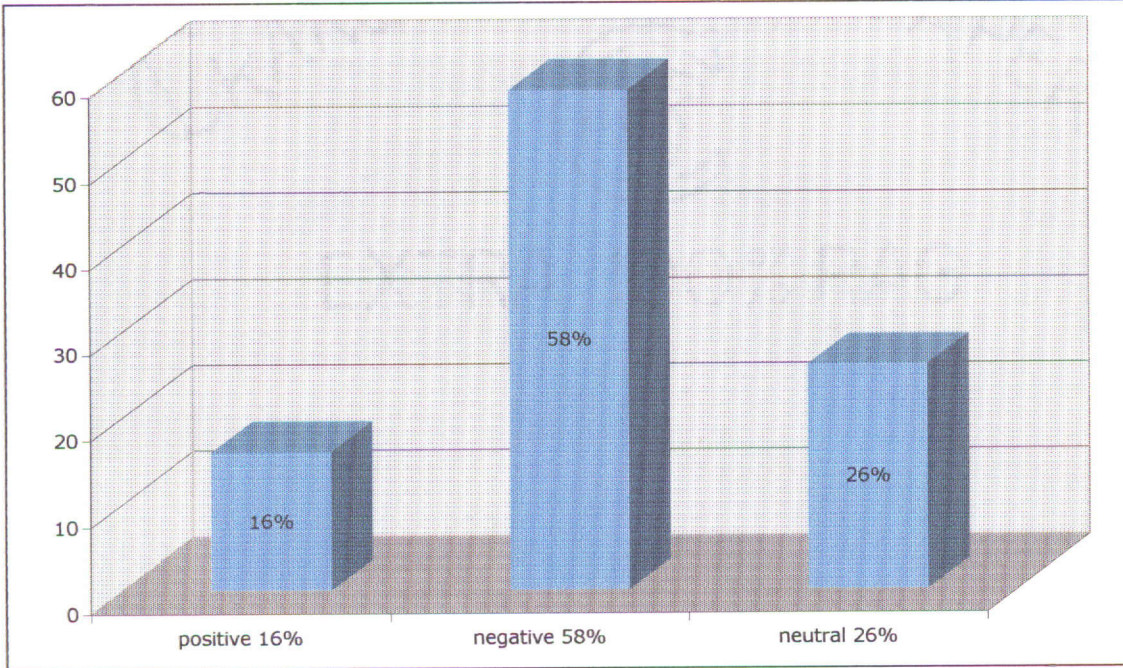


Figure 2: Headline tone of articles concerning Commerce



Of those 36 articles, 58% were judged to be negative in the headline tone, 16% were positive, and 26% were neutral.

Table 1: Tone of Inquirer Articles

Positive	Negative	Neutral
6	12	1
32%	63%	5%

Table 2: Tone of Courier-Post Articles

Positive	Negative	Neutral
2	10	3
13%	67%	20%

Table 3: Tone of Business Journal Articles

Positive	Negative	Neutral
0	1	1
0%	50%	50%

Table 4: Tone of Inquirer Headlines

Positive	Negative	Neutral
3	11	5
16%	58%	26%

Table 5: Tone of Courier-Post Headlines

Positive	Negative	Neutral
4	10	1
27%	67%	7%

Table 6: Tone of Business Journal Headlines

Positive	Negative	Neutral
0	1	1
0%	50%	50%

Analysis of the headline tone in the articles from the three media outlets shows the *Inquirer* and *Courier-Post* to be mostly negative. The headlines in the *Courier-Post*, the daily newspaper that serves Commerce Bank's hometown of Cherry Hill, N.J., were slightly more negative.

Despite the massive negative publicity, Commerce was still able to employ public relations techniques that helped to mitigate the impact and allow Commerce to get its message to two critical groups or audiences.

One audience was the financial community as outlined in the first hypothesis. The other was the public, which consists mainly of the bank's present and potential customers and a small number of its shareholders.

Commerce's July 13 response had all the elements of a successful application of the MAC Triad Plus public relations technique or strategy. It stands for Message, Audience, Channel, Purpose and Timing, as outlined in *The Public Relations Practitioner's Playbook*, (Litwin, 2003).

By waiting until July 13 to answer some of the concerns among its financial and community publics, Commerce took enough time to allow the initial flurry of publicity surrounding the indictments to calm down. This is considered an important strategy in managing the fallout from a crisis. Commerce would have had a hard time getting its message out in the onslaught of publicity right after the indictments were made public. Waiting two weeks allowed the shock from the incident to wear off and yet was close enough to allow most members of its publics to know the bank was responding to incident. The timing helped the company to get its message out.

Commerce's message on July 13 was the bank knows how extensive this problem is, it will take steps to make sure it doesn't happen again, and the bank will not let it interfere with the goal of becoming a bigger and better company.

Commerce said there was no pending government action against the company or any other of its officers or employees. It decided to leave the municipal-bond business, which

will result in some minor job losses, but affect less than one percent of its sales and profit. Commerce also released 2004 second-quarter earnings, which were up 46 percent from a year ago, to demonstrate that it was still committed to achieving its business goals.

Commerce accurately determined that its targeted audiences for these messages were Wall Street, or the financial community, and the general public including current and potential customers. Commerce selected the July 13 conference call and news conference as its preferred channel of communication. The purpose was to reassure an anxious financial community and the general public.

Summary

This hypothesis was supported. By conveying its intended messages to its targeted audiences through a preferred channel of communication with a purpose and sense of timing, Commerce's response on July 13 followed guidelines from the MAC Triad Plus public relations strategy.

HYPOTHESIS 3

It is expected that Commerce's corporate communication demonstrated successful convergence of IR and PR.

This hypothesis wasn't supported. When questioned directly whether Commerce's response to the indictments included instances of the company's public relations and investor relations departments working together, or combining some functions, Jordan said that didn't happen and that the bank believes PR and IR are best served by maintaining a separation of the two departments.

Despite that, Commerce's response on July 13 had the potential for a successful convergence of IR and PR. This will be examined in Chapter 5.

CHAPTER V SUMMARY AND INTERPRETATION

The investor relations department at Commerce helped the company to maintain key relationships when two of the company's executives were indicted in a corruption probe of Philadelphia's city government. Commerce also used several public relations techniques in the crisis to communicate effectively with the financial community, its customers, and employees.

Even though the IR and public relations departments were involved in Commerce's response to the crisis, it didn't reflect convergence of the two departments. However, the crisis and the company's response could have utilized a combined IR-PR approach.

HYPOTHESIS 1 – SUPPORTED

It is expected that the investor relations department at Commerce Bank helped the company to maintain key relationships during the crisis.

Jordan, Commerce's investor relations director, accurately focused the company's message to the investment community in the July conference call. Commerce recognized the problem and said it was an isolated incident. The bank took action to address the situation by leaving the municipal bond business. It hired a lawyer to develop guidelines to make sure this never happened again. Finally, Commerce was still focused on its business plan.

"The passage of time and the fact there was no new negative news helped us," Jordan said. "We continued to perform. That's the one thing any company needs to do when they are under doubt. Don't get distracted by Wall Street or what the public thinks, stick to the things that got you where you are. In the end, performance wins over and over."

Commerce's stock price took a beating from the crisis. On June 28, 2004, the day before the indictments were announced, Commerce's stock settled at \$64.46 (not adjusted for a stock split) in trading on the New York Stock Exchange. On Aug. 9, 2004, the stock had fallen to \$48.24. From that low point, the stock moved higher, closing at \$64.38 on Dec. 29, virtually regaining all of its value from June 28.

Stumpf, the sell-side analyst, saw the decline in Commerce's stock as a chance to buy the stock at a low price. He advised investors at A.G. Edwards to increase their stake in the bank.

"We determined that the market had overreacted," he said. "The odds were that this wasn't going to have a material impact on their business and their ability to grow earnings. While I recognize that none of this was good news and that the company had lost over a billion dollars in market value over this, I determined that this was a buying opportunity."

Cervone, the buy-side analyst, said his employment agreement at Putnam prevented him from revealing whether he had advised Putnam to increase, add or reduce its stake in Commerce. According to data from Bloomberg L.P., Putnam held approximately 9.8 million shares of Commerce as of June 30, 2004. By Sept. 30, Putnam held 12.43 million shares, showing that Putnam added to its investment in Commerce.

Cervone said Commerce did address most of his concerns about the crisis at the July conference call. "I think they did all they could at that point," he said. "This will just have to play out over time. They told everyone the same information. In investing, we are never satisfied. There is information about a company every day. Companies need to

communicate that information and communicate it clearly and not hide anything. That's the most important thing and I think they did that.”

HYPOTHESIS 2 –SUPPORTED

It is expected that Commerce Bank applied certain successful public relations techniques to its crisis communication.

Recognizing the severity of the impact from the crisis, Commerce took steps to minimize the damage by using its July 13 conference call to target two audiences – the investment community and the public. Commerce assured both groups that the incident was isolated and limited to the officials named in the indictment. Commerce then presented a plan of action to address concerns raised by the indictments. As outlined in Chapter IV, the company used the MAC Triad to implement its message, target the audience and utilize the proper channel (the July 13 conference call). Timing was also a critical factor in Commerce's response. The company waited two weeks after the indictments were made public in order to release its strategic message after the initial flurry of negative publicity had faded, yet close enough to the original incident to register with its audiences.

The bank also used other public relations techniques in crafting its response. Jordan said Commerce did have a crisis communication plan before this incident. While refusing to divulge specifics, he admitted that Commerce's plan included coordinating contributions from senior management, IR, and the legal department. Even though it appears that PR was excluded from the decision-making process, having a plan and

implementing it are considered important ingredients of an effective crisis communication response.

In Chapter II, Christopher Wailes noted that a crisis plan helps to prevent a crisis from turning into a catastrophe. Commerce's response appears to have protected the company's brand as its stock price recovered most of the losses incurred right after the incident.

Also referenced in Chapter II according to Peter V. Stanton, a crisis communication plan allows corporate communicators to contribute to the resolution of the event, interact with key publics, and maintain normal business activities. By leaving the municipal bond business and appointing a lawyer to develop guidelines for the future, the bank addressed the issues that were connected to the indictments.

Using the July 13 conference call to disclose this plan allowed Commerce to speak to key publics – the investment community on Wall Street and the public.

Maintaining normal business activity was something Jordan and other senior managers wanted to emphasize. "There were some difficult days in dealing with this," Jordan said. "My biggest concern was reassuring our employees that there was no change in our focus or our performance. We are still focused on our customers. That was very important to maintain that stability here with the troops."

HYPOTHESIS 3 – NOT SUPPORTED

It is expected that Commerce's corporate communication demonstrated successful convergence of IR and PR.

While there was coordination among senior managers, IR and the legal departments in formulating Commerce's response to the crisis, PR was basically left to deal with the media. Jordan sees combining PR and IR as a big mistake.

"It's very important for a financial person to talk to a financial audience," he said. "You can't have a PR guy talking about financial matters. We draw that distinction here." Despite Commerce's reluctance to use convergence in this case, the incident still shows the potential for a successful combination of IR and PR.

In fact, if the PR department had been involved in formulating Commerce's response to this crisis, it would have represented convergence. Many in PR would argue that it was in Commerce's best interest to have the PR department involved in the decision making on the response.

PR could have given senior management *insight* into how certain decisions could affect Commerce's image. That can ultimately influence a company's stock price. Strategic PR counseling would likely have led to the same plan of action Commerce eventually adopted.

Still, effective PR counsel in such a highly-charged situation would have given the company some *insurance* against making a decision that could have further harmed its image. Assume that Commerce's legal department advised the company not to take any action or comment on the situation because of the criminal indictments. Effective PR counsel, backed by research, would show that Commerce was operating in an extremely negative environment for a company its size. By not addressing the concerns raised by the crisis, the company risked even more damage to its reputation. That's an important consideration for a bank that wants customers to trust it with their money.

Apparently Commerce's senior management correctly identified these and other risks and the company response on July 13 assured Wall Street and the public. But what about senior management at other companies that might fail to recognize the risks? That's when PR counsel can step in and fill an important void.

Jordan's point about having financial personnel discuss financial issues with the investment community makes sense to a point and reflects traditional thinking about the role of IR. But there are situations when a company will bypass its IR director even if he or she is perceived to be a financial person.

One example involves a company's earnings statement at a conference call. The company's chief executive will begin by providing a broad overview of a company's quarterly earnings. If there are questions that deal with the intricate details of a company's balance sheet, the CEO will usually ask the chief financial officer, or CFO, to provide additional information.

The CFO may be called on to discuss why a company chose to pay off bonds early or explain how an extension of its credit line will affect future earnings. The reason why the CFO will discuss these matters is because he or she can provide detailed information that investors seek. The questions relate to finances and who better to explain the financial implication of a decision than the person in charge of finances.

Even though the IR director may be perceived as a financial person, the CFO is called on to provide the information in order to lend expertise and more credibility to the company's response. There are limits to an image of being a financial person. In a combined communication function, there is room to call upon a CFO or other qualified personnel when warranted.

Recommendations for Future Research

One subject that could inspire future research is the role of convergence as it relates to a company's size. Commerce is considered a "midcap" company, generally defined as a company with a market value between \$5 billion and \$10 billion. What role does size play in determining the use of convergence? Is combining communication functions best suited for a large, small or midcap company? Does convergence work best in companies with large communication departments? The same questions could also be extended to public relations firms. Is convergence more effective for a small or large firm?

General Findings

- Commerce had and implemented a crisis communication plan.
- At least in this crisis, the plan appeared to minimize the role of public relations.
- Commerce prefers to separate IR and PR.

Conclusion

A crisis can be a very trying time for a company. How a company responds to the situation can be critical for its financial health, future prospects, employees and customers. Senior management, especially those in investor relations and public relations, will be called upon to make important decisions that could affect a company's market value and brand.

There are many who believe that operating under a crisis situation provides a true test of an organization's policies and personnel. A crisis becomes a catalyst for a company. It

can bring out the best, and in some cases, provide a foundation for a turnaround. Or it can overwhelm the organization, and eventually lead to its downfall.

The crisis caused by the indictments of two officials at Commerce Bancorp in 2004 thrust the company into a very negative situation. The initial media coverage of the incident was very intense for a company the size of Commerce. If not the lowest point in the company's history, the situation certainly presented one of the most severe tests this organization ever faced.

Commerce successfully answered the call. The company's response restored Wall Street's confidence, protected its brand, and allowed Commerce to continue its expansion.

Jordan's role as IR director was a critical component. He accurately anticipated questions from the investment community and succeeded in getting the company's message out to a key group. The bank's response also helped to manage the fallout from a public relations perspective. The content of the response, along with its timing, helped to counter a barrage of negative publicity that threatened Commerce's business plan.

While Commerce didn't utilize a combined communication approach to its plan, it contained enough elements of convergence to make it an option for the future.

Lessons that those in IR and PR can take from this situation include the following:

- Know your audience
- Be prepared
- Don't let one event distract you from overall goals

Companies can use Commerce's answer to this situation as a blueprint for turning a crisis into a positive catalyst.

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Appendix A

Questions from telephone interview with Richard P. Cervone, managing director and portfolio manager at Putnam Investments on February 2, 2005.

1. How long have you been in your current position?
2. When did you start covering Commerce?
3. What attracted you to the bank?
4. What are your main concerns when a company you are following becomes involved in a crisis?
5. When a company you are following has a crisis, what information do you seek from the investor relations department?
6. When the Commerce officials in June 2004, what were your main concerns about the company?
7. Were you concerned with how the incident would affect Commerce's municipal and government business?
8. Because a bank deals with regulators and has fiduciary responsibilities, does a crisis affect it more than other companies?
9. Did you try to gauge how the crisis would affect Commerce's retail business?
10. Did the bank adequately respond to your concerns at the conference call on July 13, 2004?
11. Did Mr. Jordan help the bank through this crisis?
12. After the July 13 conference call, did you advise Putnam to add, reduce, or maintain their stake in the bank?

Appendix A

Questions from personal interview with C. Edward Jordan Jr., director of investor relations at Commerce Bancorp on December 2, 2004.

1. How long have you been in investor relations and has it always been at Commerce?
2. Name the groups or individuals that you consider key relationships in your position.
3. Has Commerce ever considered combining its IR and PR functions?
4. Does the bank have a crisis communication plan?
5. In a crisis situation, what questions will analysts ask?
6. After the commerce officials were indicted, what information did analysts seek from you and the bank?
7. Did the bank adequately answer those questions?

Appendix A

Questions from telephone interview with David C. Stumpf, vice president at A.G. Edwards & Co. on February 2, 2005.

1. How long have you been in your current position?
2. When did you start covering Commerce?
3. What attracted you to the bank?
4. What are your main concerns when a company you are following becomes involved in a crisis?
5. When a company you are following has a crisis, what information do you seek from the investor relations department?
6. When the Commerce officials in June 2004, what were your main concerns about the company?
7. Were you concerned with how the incident would affect Commerce's municipal and government business?
8. Because a bank deals with regulators and has fiduciary responsibilities, does a crisis affect it more than other companies?
9. Did you try to gauge how the crisis would affect Commerce's retail business?
10. Did the bank adequately respond to your concerns at the conference call on July 13, 2004?
11. Did Mr. Jordan help the bank through this crisis?
12. After the July 13 conference call, did you advise investors to add, reduce, or maintain their stake in the bank?

Appendix B
Content Analysis Raw Data

Tone				
Philadelphia Inquirer				
Commerce				
	Pos	Neg	Neut	
Title				
Commerce loans part of		1		
Commerce Bancorp cheers	1			
Will rising fuel	1			
We take care of		1		
Indictment: Risk		1		
The Impact		1		
Indictments may open		1		
Commerce Bancorp sued		1		
Bad News Bears		1		
Commerce tries to fix			1	
It's a push	1			
All hands on deck	1			
Shares of bank		1		
Political branches open		1		
Accounts redeemable		1		
Commerce is	1			
Watching insiders		1		
The other Commerce	1			
NASD probes		1		
Total	6	12	1	19
Percentage	32%	63%	5%	

Appendix B
Content Analysis Raw Data

Tone				
Courier-Post				
Commerce				
	Pos	Neg	Neut	
Title				
Report: Businesses			1	
Clinton to speak			1	
12 indicted		1		
Phila. probe		1		
Commerce loans		1		
Commerce execs		1		
Suit: Hill sold		1		
Hill says he			1	
Commerce profits	1			
Hill: Changes		1		
Commerce still		1		
They keep	1			
2 to plead		1		
Lawyer admits		1		
Commerce underwriting		1		
Total	2	10	3	15
Percentage	13%	67%	20%	

Appendix B
Content Analysis Raw Data

Tone				
Philadelphia Business Journal				
	Pos	Neg	Neut	
Title				
Commerce in hotseat		1		
Commerce: Growth plan			1	
Total	0	1	1	2
Percentage	0%	50%	50%	

Appendix B
Content Analysis Raw Data

Tone				
Philadelphia Inquirer				
Commerce				
	Pos	Neg	Neut	
Title				
Commerce loans part of		1		
Commerce Bancorp cheers		1		
Will rising	1			
We ... take care of		1		
Indictment: Risk		1		
The Impact		1		
Indictments may open		1		
Commerce Bancorp sued		1		
Bad News Bears		1		
Commerce tries to fix			1	
It's a push	1			
All hands on deck	1			
Shares of bank			1	
Political branches		1		
Accounts redeemable		1		
Commerce is branching			1	
Watching insiders			1	
The other Commerce	1			
NASD probes		1		
Total	4	11	4	19
Percentage	21%	58%	21%	

Appendix B
Content Analysis Raw Data

Tone				
Courier-Post Commerce				
	Pos	Neg	Neut	
Title				
Report: Businesses			1	
Clinton to speak			1	
12 indicted		1		
Phila. probe		1		
Commerce loans		1		
Commerce execs		1		
Suit: Hill		1		
Hill says he			1	
Commerce profits	1			
Hill: Changes	1			
Commerce still		1		
They keep			1	
2 to plead		1		
Lawyer admits		1		
Commerce underwriting			1	
Total	2	8	5	15
Percentage	13%	53%	33%	

Appendix B
Content Analysis Raw Data

Tone				
Philadelphia Business Journal				
	Pos	Neg	Neut	
Title				
Commerce in hotseat		1		
Commerce: Growth			1	
Total	0	1	1	2
Percentage	0%	50%	50%	

Appendix B
Content Analysis Raw Data

Tone				
Philadelphia Inquirer				
Commerce				
	Pos	Neg	Neut	
Title				
Commerce loans part of		1		
Commerce Bancorp cheers	1			
Will rising fuel			1	
We ... take care		1		
Indictment: Risk brought		1		
The Impact		1		
Indictments may open		1		
Commerce Bancorp sued		1		
Bad News Bears		1		
Commerce tries to fix		1		
It's a push	1			
All hands on deck			1	
Shares of bank in probe		1		
Political branches			1	
Accounts redeemable		1		
Commerce is branching			1	
Watching insiders			1	
The other Commerce	1			
NASD probes		1		
Total	3	11	5	19
Percentage	16%	58%	26%	

Appendix B
Content Analysis Raw Data

Tone				
Courier-Post				
Commerce				
	Pos	Neg	Neut	
Title				
Report: Business		1		
Clinton to speak	1			
12 indicted	1			
Phila. Probe		1		
Commerce loans		1		
Commerce execs		1		
Suit: Hill		1		
Hill says		1		
Commerce profits		1		
Hill: Changes			1	
Commerce still	1			
They keep	1			
2 to plead		1		
Lawyer admits		1		
Commerce underwriting		1		
Total	4	10	1	15
Percentage	27%	67%	7%	

Appendix B
Content Analysis Raw Data

Tone				
Philadelphia Business Journal				
	Pos	Neg	Neut	
Title				
Commerce in hotseat		1		
Commerce: Growth	1			
Total	1	1	0	2
Percentage	50%	50%	0%	

