THE INVESTOR RELATIONS OFFICER

Perspectives on a changing role

SpencerStuart

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In 2007 Spencer Stuart interviewed over twenty investor relations officers (IROs) from major UK businesses, the majority from FTSE 100 companies. Our aim was to test the hypothesis that with investor relations still in its infancy it is only recently that CEOs, CFOs and the City have started to see the real value of having a high-quality investor relations officer. We wanted to discover what the UK's leading IROs feel are the key pressures and opportunities presented by their role, and where the future of investor relations lies.

Businesses approach investor relations with different levels of expectation and sophistication. However, several key themes emerged from our interviews.

> The growing importance of investor relations means that the most effective IROs prefer to operate within clear line of sight of the main board.

> Technical demands and governance issues have been a concern, but after the initial preoccupation over IFRS/SOX there has been a change of perspective for IROs, who are now more focused on strategy, new markets and competitive pressures.

> The change of focus for many investor relations officers can be summed up as "driving value". What opportunities does that present to CEOs and CFOs?

> The IRO's role in managing the share register is a contentious issue, giving rise to a diverse set of views.

> The emergence of the specialist investor relations professional has forced executive teams to reconsider the profile of their next IRO.

Where do IROs come from?

IROs come from a variety of backgrounds, but are most likely to belong to one of the following groups: dedicated IRO specialists; buy or sell-side analysts; brokers; or individuals on a high trajectory who are plucked from finance or general management.

To a certain extent, the background of the IRO will be driven by the specific nature of the business. For example, in highly regulated sectors such as banking and pharmaceuticals the individual will need to demonstrate a high level of sector expertise.

As the IRO of one pharmaceutical business remarked: "Our sector probably contains the brightest of any sell-side analysts. Many have PhDs and I need to be able to speak their language. The same can be said for the really good hedge funds that require a high level of detail. I would be fairly rapidly exposed in my role if I did not have a good understanding of the business."

"...the investor relations professional of the future needs to have *real flair*."

KEITH WILLIAMS, BRITISH AIRWAYS

Prospective employers require their investor relations professionals to demonstrate an ever-higher degree of financial competence. Most IRO position specifications will state that a financial qualification is highly desirable and that financial literacy is a *sine qua non*.

“In my role as IRO I have a good deal of input into the financial shape and strategy of the group. Arguably, I have more input into the financial direction and the presentation of the numbers now than I did when I was group controller.”

There have been a number of examples of high quality finance executives being promoted into the IRO role. If this trend towards internal promotion continues, it will clearly have an impact on the number of IRO searches in the market.

From our perspective, there is no doubt that investor relations experience is helpful for those looking to take on main board finance roles. The IRO role gives access to the City and the board, and presupposes a certain degree of eloquence and presentational competence.

However, Keith Williams, CFO of British Airways, observed: “Investor relations is really becoming its own profession now. It is not just a role for someone with a good knowledge of the business; the investor relations professional of the future needs to have real flair.”

The UK market is now witnessing the development of the career IRO.

Relationships and reporting lines

Andy Halford, CFO of Vodafone, commented: "It is absolutely vital that the IRO sits in the bloodstream of our financials, strategy and decision making". This sentiment is shared by brokers, analysts and shareholders; there is no doubt that in order to operate effectively as an IRO proximity to the board and management is essential. If this is not the case IROs will be ill-equipped to fulfil their external responsibilities.

In larger companies corporate communications and investor relations roles are invariably split. A number of IROs commentated that the ownership of technical, financial and business issues sits with investor relations, whereas corporate communications manages the message.

"...it is absolutely vital that the IRO sits in the bloodstream of our financials, strategy and decision making"

ANDY HALFORD, VODAFONE

However, this distinction is sometimes blurred as audiences become more sophisticated. Journalists talking to corporate communications often demand more technical information which needs the input of investor relations. For example, news agencies such as Bloomberg are placing greater emphasis on the financial dynamics of a business. The two functions often sit next to each other and this degree of physical proximity and interdependence is essential to ensure the construction and delivery of consistent messaging.

The increasing demands placed on the CEO and CFO, combined with the wider spread of shareholders, means that it is unrealistic for external stakeholders to have contact only with the chairman, CEO and CFO. This has raised the visibility of IROs and increased the demands placed on their time. Richard O'Connor, IRO at Royal Bank of Scotland, commented: "If investors continue to proliferate I believe IROs will have more face-to-face meetings with shareholders because the CEO and CFO won't have time."

The IRO should, and invariably does, report to the CFO. In businesses of extreme scale (FTSE 20), investor relations may sit within a broad-based corporate affairs department. This is not necessarily an impediment to success, however it is clear that the most effective IROs enjoy full access to senior divisional management and to the board.

Managing the city and the share register

A highly visible trend within major corporates is the geographical diversity of shareholders, with US investors in particular continuing to grow their exposure to UK stocks.

To what extent is this proliferation a corollary of globalisation and to what extent has it been managed proactively? The answer is a combination of the two. The old model is now obsolete, as one FTSE 50 IRO remarked: "Historically, we never really reached out to investors. The old attitude was: if you look after the customers you'll look after the shareholders."

"It is a key part of any IRO's brief to manage the share register proactively. The IRO can drive REAL SHAREHOLDER VALUE."

KEVIN O'BYRNE, DSG INTERNATIONAL

As the number of shareholders has increased, so has the demand for a different type of IRO. There is a trend towards the proactive management of shareholders, but not exclusively so. Some corporates rely more heavily on their brokers and some take a more reactive approach. Kevin O'Byrne, group finance director of DSG International, commented: "It is a key part of any IRO's brief to manage the share register proactively. The IRO can drive real shareholder value."

However, not everyone holds this view: "I don't really care about my register that much. We focus on getting the story right; the rest will follow." Another IRO added: "I don't think our share register is worth managing proactively. There is a clear connection between who I talk to and the shape of the register, but as an IRO you can never have complete control of the share register."

While there may be some causality between marketing efforts in the US and the rise in US shareholders, for example, it is difficult to prove this definitively. Having discussed the share register issue with many IROs, our view is that IROs cannot necessarily control their investor base, but they can access, inform and to some extent manage it.

We have also detected a shift in the perception of the sell side, ostensibly because it increasingly struggles to drive measurable value in the investment banks and, in the view of some, it is no longer a destination for City 'high-flyers'. Hedge funds, on the other hand, continue their inexorable rise onto the registers of major corporates, increasingly as longer holders.

What approach do IROs take with this newer class of investor? In the vast majority of cases the approach is consistent. IROs and senior management recognise that they can't afford to treat the hedge funds differently from any other class of investors. Hedge funds have attracted some of the smartest talent from the City. They are hugely well informed and have a thirst for detailed information and transparency, although it is widely acknowledged that this desire for transparency rarely extends to their own businesses.

Douwe Cosijn, corporate affairs director of 3i commented: "We meet hedge funds because they buy and sell our stock; liquidity isn't always a bad thing." Charles Butterworth, group investor relations director of Vodafone went further: "There are ten thought leaders on our stock in the City and five are in hedge funds. Management must see them even if they don't hold stock."

Despite the rise of hedge funds it has become clear that companies must not be distracted from pursuing a long-term strategy by short-term holders. We see little or no distinction emerging in the way different investor classes are treated in the future, even if this is not reflected in how they are perceived; the commercial imperative is too powerful to ignore.

Risk and governance

The legacy of IFRS and Sarbanes Oxley is still being felt, however CFOs feel that the burden of legislative accounting change is beginning to ease and that shareholders want to engage investor relations in a debate on results, strategy, management, and quality of information.

The technical pressures in financial services are particularly strong. Mark Merson, head of investor relations at Barclays plc commented: "Knowledge of our space is paramount. I must be able to discuss the key dynamics of the sector and the economy with my audience, rather than diving into the IR listing and governance rules. The breadth of incidental technical knowledge that you need to routinely employ in this role is substantial."

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MARK MERSON, BARCLAYS PLC

Indeed, it is unusual within the financial services sector for IROs to be appointed who do not have broad financial backgrounds. Charles Barrows, group investor relations director at Aviva, remarked: "In this sector it's almost essential to have a financial background; without understanding the financial business drivers you will be in deep water."

However, using investor relations as a tool to explain the impact of accounting regulatory changes is both a waste of resource and opportunity. Some IROs do not regard the minutiae of governance issues as core to their role: “I don’t regard governance as an investor relations officer’s skill base. I let the company secretary deal with it; that is his job and it’s what he gets paid to deliver.”

In other sectors, for instance pharmaceuticals, governance is less critical than other commercial issues in terms of risk profile: “Corporate governance pales into significance against the patent issues that we have to deal with. We have to give the City visibility on a ten-year life cycle for drug development. And in a business where the fundamental value driver is the product not the financials, that can have a huge impact on our share price.”

Managing risk is key, but the shape and structure of that risk is changing and is not always technically focused. The IRO has to step back from the detail when communicating the message, as Mark Merson of Barclays pointed out: “In many ways the IRO has to moderate technical excesses within the group. It’s interesting to come from a financial background and realise that technical accuracy alone cannot put across the whole message.”

In the aftermath of Sarbanes-Oxley and IFRS, the focus of the IRO’s attention was on corporate governance and accounting standards. Today, strategy, maintaining reputation and resisting complacency are much higher on the risk agenda. Douwe Cosijn of 3i agreed: “Now that IFRS and SOX have settled down we field many fewer requests for deep technical accounting issues. A greater potential worry for us is UK sellers looking abroad for diversification or making a call on where we may be in the cycle. It is for this reason that we continue to focus on internationalising our share register looking particularly to the US, where private equity is a well understood asset class, but also increasingly across Europe and Asia. Being able to deliver this strategy may present my key risk looking forward.”

Shifting perceptions of investor relations

Investor relations as a function is continuing to evolve at pace. If it stands still it quickly risks becoming obsolete. Catherine James, head of investor relations at Diageo commented: “IROs need to be more vigilant than ever. We can never afford to rest on our laurels and think that the current model will suffice in the future.”

At the core of the IRO’s remit is a deep understanding of the broader market context. Charles Barrows of Aviva commented: “You need total knowledge of the big picture and a team around you who can get into the granular detail on a regular basis. With analysts on both the sell side and the buy side it is important to put Aviva’s actions in the context of our competitors. Positioning your business in the market is as critical as the timing and content of your message.”

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CHARLES BARROWS, AVIVA

There is an emerging trend for IROs to benchmark their company’s performance against their competitors. However, Catherine James of Diageo remarked: “We can no longer afford to simply track ourselves against competitors in our sector. Instead we must benchmark Diageo against the alpha businesses of the world markets; why should investors buy us as opposed to BP, BSkyB or WalMart?”

Forward-thinking members of the IR community are also giving more detailed information to the City about divisional performance and strategy: “Investor relations lead what I call an air traffic control process, giving us forward visibility on key divisional issues.”

Steve Webb, director of investor relations for Tesco, has taken interaction between management and the City to the next level: “We have mobilised the business and got much more of the senior management population — including those not on the main board — directly involved in investor relations. This has really created momentum for us and senior managers are now keen to be involved in our investor product. As a result, this has delivered great feedback for Tesco; investors and analysts felt that they could really see the strength and depth of our team, and management felt they could help make a difference to the value of the business in a different way. It is a win-win situation for everyone.”

Contributors to this study consistently commented that having an in-depth understanding of the operational issues of the business was critical to building long-term credibility with the City. Ed Byers, managing director at JP Morgan Cazenove, commented: “I would say that a company communicating its business strategy and business performance poorly will have a real effect on the quality of the share register — and vice versa.” John Dawson, ICI’s VP investor relations and corporate communications, said: “City confidence is directly linked to transparency and the quality of information you provide regarding management, business performance and the strategic direction of your Group.”

The role and perception of investor relations is constantly changing. Many regard the IRO role as a quasi-marketing and sales position, no longer a core finance role. Customer insight, service and empathy are all essential. In addition, CEOs and CFOs now expect their investor relations team to contribute to strategic debate.

Phil Moses, group controller and director of investor relations at British Telecom, commented: "Investor relations is a key part of strategy here. We are shaping not only how we tell the story, but what the story is. We are not just the bag carriers — the CEO and CFO expect much more of us."

Charles Butterworth of Vodafone commented: "In my view there are many areas where IR can contribute to the business. However, you must be capable of participating fully in each area of interaction, whether that be finance, strategy, M&A, operations or business development. Being a fully rounded investor relations director is about being able to extrapolate that knowledge and apply it externally."

"...you need some *humility* to do this job well."

CITY COMMENTATOR

However, despite this move towards a broader and more commercial role there is a word of caution from the City audience. One seasoned City commentator remarked: "The IRO who thinks investors want to see him instead of the CFO and the CEO is a total nightmare. The IRO must recognise that, ultimately, he or she is not the chosen one — you need some humility to do this job well."

Despite some centres of excellence in UK plc, many IROs are still not sharing best practice or networking effectively. For a candidate population that should be aware of market forces, investor relations professionals still have ground to make up. Aarti Singhal, head of investor relations at International Power, commented: "The external world will shape your career as much as your boss will. You have to be very aware that you are constantly under review."

Conclusion

The convergence in the City of business and trading models means corporates face increasingly complex and diverse challenges. This has had a corresponding impact on the demands placed on IROs — their profile and skill set are evolving rapidly to keep pace.

The modern IRO requires a broader base of skills then ever before, encompassing strategy, technical knowledge, financial literacy, communication and presentation skills and a highly proactive, energetic approach. We have seen employers placing an increased premium on the function and we believe this trend will continue. There is, however, no blueprint for success. IROs will continue to come from a variety of backgrounds but will need to demonstrate, more than ever, the qualities required to operate in a constantly changing environment.

The IRO market, like many young sectors, is dynamic, fast moving and highly competitive. In our view the pool of talent currently operating at the cutting edge of investor relations is small. With the profile and importance of investor relations growing all the time, the requirement for highly professional and sophisticated IROs is only likely to increase.

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